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Nagorno-Karabakh's Gathering War Clouds

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Preventing War. Shaping Peace.

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Executive Summary

A year after Nagorno-Karabakh's April 2016 violent flare-up, Armenia and Azerbaijan are closer to war than at any point since the 1994 ceasefire. Political and security conditions that prompted the April 2016 escalation have become more acute and both sides claim a new wave of escalation already has begun. Since mid-January 2017, deadly incidents involving the use of heavy artillery and anti-tank weapons have occurred with varying degrees of intensity; May saw a significant increase, including reports of self-guided rockets and missiles used near densely populated areas along the Line of Contact (LoC), the heavily militarised area that divides the Armenian and Azerbaijani sides since the 1994 ceasefire. The settlement process has stalled, making the use of force tempting, at least for tactical purposes; today, both sides – backed by mobilised constituencies – appear ready for confrontation. These tensions could develop into larger-scale conflict, leading to significant civilian casualties and possibly prompting the main regional powers to intervene. Russia, France and the U.S. need to put their differences aside and apply concerted high-level pressure on the parties to unlock the current paralysis and mitigate risks of renewed violence.

This results from an opportunity lost. In the wake of the April 2016 escalation, which claimed at least 200 lives and swept both societies in a frenzy of pro-war sentiment, a new opening presented itself for the conflict settlement process led by the Organisation for Security and Cooperation in Europe (OSCE)'s Minsk Group, co-chaired by the U.S., Russia and France. Although two meetings were held between the Armenian and Azerbaijani presidents in May and June 2016, they produced no tangible result. Instead, since late summer 2016, escalation has ebbed and flowed, claiming dozens of lives. The heads of state have refused calls to restart negotiations, preferring to visit the “front line” and issue threatening public statements.

The past year has exposed the fragility of conflict settlement efforts, now caught in a standoff. Armenia – concerned about Nagorno-Karabakh's security and angered by Baku's increased assertiveness – insists on a lowering of security risks before substantive talks can start. Azerbaijan – frustrated with the longstanding status quo and concerned that additional security measures could further cement it – insists substantive discussions cannot be delayed. In their May and June 2016 talks, the two presidents agreed in principle to strengthen peace monitoring and introduce an investigative mechanism to lower tensions, while committing to substantive talks to address key sticking points in the settlement process. Although these were left unspecified, they would have to include returning some Armenian-controlled lands in the conflict zone to Azerbaijan's direct control, and addressing the status of the rest of the Armenian-populated disputed area as well as security arrangements in the whole conflict region. So far, there has been neither monitoring, nor an investigative mechanism, nor substantive talks.

Armenia and Azerbaijan's leaders view each other with deep mutual distrust, unable to acknowledge each other's interests. Effective channels of communication – whether between them, their respective governments, or military commanders in the conflict zone – are non-existent. The result is a standstill in which any incident is liable to spiral out of control, especially given the shared view in both societies that

another conflict is inevitable, and that a “final solution” to the Nagorno-Karabakh problem is necessary, even if it means a new war.

Basic principles of any viable settlement are well known: variants of a land-for-status formula coupled with strong international security guarantees. But these are predicated on mutual concessions that neither party shows any interest in making. Instead, positions have hardened since April 2016. Baku has become more assertive in emphasising the legal basis of its claims, seeking international acknowledgement that its territories have been annexed and suggesting Western sanctions should be imposed; it also is trying to restrict international actors' engagement with Nagorno-Karabakh, imposing restrictions on economic activity in, or visits to the region. It simultaneously is applying greater force to pressure the Armenian side. For its part, Armenia says it will respond in kind. In the worsening security environment, it has shown no appetite for discussions to unblock the current stalemate, and has launched a new “nation-army” program likely to further increase war rhetoric and societal militarisation. De facto Nagorno-Karabakh has even declared its readiness, if attacked, to advance deeper into Azerbaijan's densely populated territory along the Line of Contact to gain a new security belt and strengthen its hand in future negotiations.

As tensions rise, international mediation stagnates. Russia remains the most influential foreign player, yet its role is complex. It is *prima inter pares* in the Minsk Group, but also chief arms supplier to Azerbaijan and Armenia, both of whom suspect Russia is more interested in expanding its influence in the region than in resolving the conflict. Only when it cannot do enough alone is Russia prepared to share responsibility with the other OSCE Minsk Group co-chairs, France and the U.S., but Paris and Washington have been pre-occupied with domestic political transitions. Neither Baku nor Yerevan trust Russia, the Minsk Group, or the broader international system.

In light of growing threats of confrontation, the mediators' primary task should be to resume regular communication between Armenian and Azerbaijani leaders and insist that Yerevan and Baku soften positions that have calcified over the past 23 years as well as tone down martial rhetoric that fuels their publics' belligerence. They should more pointedly describe to these publics the risks and costs of escalation. And they should push Yerevan and Baku to agree to immediate measures to restore confidence and security, including: increasing the number of OSCE personnel to monitor the conflict zone; establishing an OSCE-led investigative mechanism to hold the two sides accountable, while introducing a degree of transparency regarding their military arrangements in the conflict zone; and establishing regular contacts between their respective field-based militaries. In parallel, Armenia and Azerbaijan should launch substantive discussions on outstanding issues, including the return to Baku's control of territories adjacent to the former Nagorno-Karabakh Autonomous Oblast, Nagorno-Karabakh's status, international security arrangements, and return of displaced persons.

Moving in that direction will require Russia, the U.S. and France to iron out their differences, work in unison and overcome Baku's and Yerevan's distrust. Russia bears special responsibility given its role and the suspicions both sides nurture regarding what motivates Moscow. To assuage concern about the prospect of Russian peacekeepers in the conflict zone, for example, Moscow could invite all OSCE Minsk Group members to explore options for a future multinational peacekeeping force.

Likewise, it also could provide additional transparency on its arms sales to Armenia and Azerbaijan.

With their leaderships' buy-in, the three co-chair countries need to insist that Yerevan and Baku revise their positions. That won't be easy. Both the U.S. and France recently have gone through complicated political transitions, and suspicion of Russian motivations – in Baku, Yerevan and elsewhere – remains high. But diplomatic paralysis would be too risky and costly, and time for effective mediation is running out.

Yerevan/Baku/Stepanakert/Brussels/Vienna, 1 June 2017

Nagorno-Karabakh's Gathering War Clouds

I. Introduction

Even as mediators reiterate the longstanding mantra that there is no military solution to the Nagorno-Karabakh (NK) conflict, both Armenia and Azerbaijan have been seized with a renewed appetite for conflict in the wake of the April 2016 escalation. Bellicose sentiment on the ground is rising, seriously limiting space for compromise.

This report analyses the current military, political, social and diplomatic aspects of the conflict. The next section outlines risks – both humanitarian and in terms of regional spillover – surrounding the possible renewal of active conflict. The third section describes post-April 2016 developments and radical changes in the public mood in all three societies affected by the conflict. The fourth section lays out reasons for the failure of attempts since April 2016 to negotiate a de-escalation of the conflict and broader arrangements for peace.

Although this report takes into account the parties' key legal as well as political narratives and positions, it does not advocate any particular stance in the ongoing dispute. It also acknowledges that the current population of de facto Nagorno-Karabakh – which the report refers to as Nagorno-Karabakh society – does not include ethnic Azerbaijani internally displaced persons (IDPs) who fled the territory during the conflict in the 1990s.¹

¹ Azerbaijan's government estimates the war in NK in the 1990s led to 790,000 internally displaced persons (IDPs) from NK and surrounding territories and around 350,000 refugees from Armenia (data from 2015, at www.stat.gov.az/source/others/aggression.jpg). The Armenian government reports 413,000 ethnic Armenians, mainly from Azerbaijan proper, became refugees and IDPs during the war; Crisis Group Europe Report N°166, *Nagorno-Karabakh: Viewing the Conflict from the Ground*, 14 September 2005, p. 2.

II. Ongoing Risks of War

The relative stability in the Nagorno-Karabakh conflict zone experienced for nearly two decades since the 1994 ceasefire began to significantly deteriorate in 2014. But the April 2016 four day escalation, during which Azerbaijan gained control of two strategically important pieces of land in Nagorno-Karabakh, was a watershed.² Since then, the danger of large-scale confrontation has been constant.

Evidence from both sides suggests that a new wave of escalation already has begun and is accelerating along the Line of Contact. Since mid-January 2017, intense exchange of fire has resumed, with the use of not only small arms, but also grenade launchers and anti-tank missiles. With warmer weather come opportunities to test tactics, including military sorties in the dense mountainous forests and use of heavier military equipment along the region's valleys. Since the April 2016 escalation, the Armenian side has been refurbishing trench structures, and both Armenia and Azerbaijan have procured new weapons and improved surveillance and communication systems.

Both sides see summer-autumn 2017 as a critical period during which the enemy could intensify military actions. The Armenian side cites elevated expectations among the Azerbaijani public coupled with Baku's assertion that it imminently wants to reestablish control over Nagorno-Karabakh.³ Azerbaijan warns that – at the very least – Yerevan might consider provoking a conflict in order to regain control over the two strategic heights lost in April 2016. Leaders refuse to meet and channels for official and even ad hoc exchange between the parties' military commanders have been missing for years.⁴ In an atmosphere of deep mistrust and no dialogue, the sides could misread each other's intentions, interpreting activity along the front line as an attempt to launch a larger-scale operation.

Signs of danger loom. Since the April escalation, the Armenian side has strengthened its positions along the Line of Contact and reinforced its military personnel; these actions have bolstered local military forces' confidence in their ability to counter any attack. Likewise, it has installed video and thermal imaging cameras along Armenian positions, thereby reducing the likelihood of an unexpected Azerbaijani attack. Toward the end of the winter, an internal consensus emerged within the de facto Nagorno-Karabakh leadership that – in the event of an Azerbaijani attack – the Armenian side should not only defend their positions, but also attempt to advance

² For more details of the April escalation, please, see Crisis Group Europe Report N°239, *Nagorno-Karabakh: New Opening, or More Peril?*, 4 July 2016.

³ In the conflict settlement process, de facto Nagorno-Karabakh is represented by Armenian officials. The de facto Nagorno-Karabakh leadership has voiced its full support to Armenia's government in the settlement process. This report will refer to the "Armenian side" when discussing the settlement process and negotiating positions. It will refer to the societies of Azerbaijan, Armenia and Nagorno-Karabakh when discussing public processes.

⁴ During the Vienna meeting between the presidents in May 2016, according to President Sargsyan, Armenia was ready to agree to a meeting of the two countries' militaries only after an increase in the number of OSCE monitors and introduction of an incident-investigative mechanism. See <https://youtu.be/IXlgNPANWps>. It is unclear whether Azerbaijan was ready to give a green light to regular meetings on a military level.

deeper into Azerbaijan.⁵ Preliminary planning by Nagorno-Karabakh-based military suggests advancing 15km beyond the established Line of Contact, which, they believe, would force the enemy to abandon hostilities, or at a minimum establish a new buffer zone that could break the enemy's will to conduct regular attacks and become a new negotiating bargaining tool.

Meanwhile, Azerbaijan's success in the April 2016 escalation cemented confidence in the army and reinforced hopes that Baku could regain control of at least some territory through military means. Since then, Azerbaijan has been further increasing its expenditures on weapons and professionalised its army;⁶ over the past years, it has continued to procure heavy weaponry and military equipment, mainly from Russia but also Israel, Pakistan, Turkey and other countries.⁷ Azerbaijan's army was quick to build new subterranean trenches along the two strategic heights seized during the April escalation, giving it a notable tactical advantage in the event of a larger escalation.⁸ The positions it acquired north-east of the Line of Contact in April 2016 ensure Azerbaijan's control over the village of Talish, previously the biggest settlement in the area, giving it a strategic vantage point over the mountainous gorge leading into Nagorno-Karabakh's densely Armenian-populated Martakert region. Similarly, the southern positions it gained on the Lalatapa mountain provide it with a strategic vantage point over Nagorno-Karabakh's south and parts of the south east, including the Armenian-populated areas of Hadrud and Martuni.

A full-scale war is in neither Armenia's nor Azerbaijan's interests. Both sides possess ballistic missiles with which they could target significant civilian, economic and military infrastructure deep inside each other's territory.⁹ Both sides seem to recognise broader dangers should such escalation occur: engagement of two major regional powers, Russia and Turkey, which have treaties with, respectively, Armenia and Azerbaijan.¹⁰ However, this mutual deterrence does not preclude more limited military operations aiming to seize control over new territories which, in turn, could spiral out of control and lead to the outbreak of a larger regional war.

There are other, limited, constraints. Both sides regularly share online video clips of incidents along their front-line positions, anticipating use of such material to demon-

⁵ Crisis Group interview, officials, military and politicians, Nagorno-Karabakh, February 2017.

⁶ In 2015, Azerbaijan spent \$3 billion on its military, a 165 per cent rise compared to 2006. President Aliyev boasted that Azerbaijan's defence budget was bigger than Armenia's national budget. Crisis Group Report, *Nagorno-Karabakh: New Opening, or More Peril?*, op. cit., p. 11.

⁷ 85 per cent of Azerbaijan's arms imports came from Russia according to Stockholm International Peace Research Institute's "Trends in World Military Expenditure, 2015", April 2016. Crisis Group interviews, officials, analysts, Baku, March 2017.

⁸ Crisis Group interviews in Baku in March 2017 and de facto NK in February and May 2017.

⁹ Sergey Minasyan, "Deterrence in the Karabakh Conflict", Caucasus Institute, 2016, pp. 110-116.

¹⁰ According to their 2010 Agreement on Strategic Partnership and Mutual Support, Baku and Ankara are to support each other in case of aggression against either of them. Armenia is the only South Caucasus country that is a member of the Collective Security Treaty Organisation (CSTO), a Russian-led military alliance of six former Soviet republics. On a bilateral level Armenia and Russia have the Treaty of Friendship, Cooperation and Mutual Aid of 1997, updated in 2010, which evokes military cooperation in case of foreign attack and threat to territorial integrity and sovereignty. Crisis Group Report, *Nagorno-Karabakh: New Opening, or More Peril?*, op. cit., p. 3.

strate who launched the first strike.¹¹ In the short term, this could deter the parties, neither of whom wishes to be held responsible for the outbreak of war.¹² But the evidence, such as it is, would not be independently obtained and thus likely would be seriously questioned by outside actors and the other party, given the heavy use of propaganda materials by both sides.

A. *Military Tactics*

Much of Nagorno-Karabakh is inhospitable terrain for military operations. The Armenian side controls its mountainous, densely-forested interior and the north, which is protected naturally by the Murovdag mountain range.¹³ As a result, military action can take place only along the remaining 150-km segment of the Line of Contact that stretches from the Martakert district to the Iranian border.

But remote combat can take place all along the roughly 200-km Line of Contact. Since mid-winter, both sides have used drones, grenade launchers and artillery.¹⁴ Given the terrain, neither side has an obvious technical advantage in artillery; both essentially use the same Russian-manufactured weapons, though Baku has diversified its weapons suppliers, especially in areas other than artillery.¹⁵

In the event of escalation, remote combat likely will be combined where feasible with use of infantry and heavy military equipment and potentially air force support, dragging the parties into a broader conflict with much larger military and civilian losses. Armenian experts recognise Azerbaijan's clear technical and quantitative advantage in weaponry and equipment.¹⁶ Some Azerbaijani experts assert they also have a quantitative advantage in troop numbers. An increasingly important variable in the eyes of these experts is Azerbaijan's demographic advantage.¹⁷ Its population has boomed over the past decade and currently outnumbers that of Armenia and Nagorno-Karabakh roughly four-to-five fold.

On the other hand, Armenian experts point to their side's familiarity with the territory where ground combat most likely would take place. It has built up its fortified positions in Nagorno-Karabakh over years, including cobweb entrenchments that in certain areas extend for hundreds of metres. A range of hills along approximately half of the 150-km north-eastern section of the Line of Contact would make it difficult for Azerbaijani forces to advance infantry forward. The Armenian side, of course, would face similar obstacles in regaining lost territory.

¹¹ Videos can be found on the official YouTube channels of Azerbaijan's (at www.youtube.com/channel/UCp9m21a2rI1_oDItLvHcuCw) and de facto NK's defence ministries (at www.youtube.com/user/TheNkrArmyChannel/videos).

¹² After the 2008 war with Russia, Georgian authorities used excerpts of intercepted phone calls registering reported movement of Russian military vehicles into South Ossetia, to cast doubt on the emerging narrative in the West that Georgia was to blame for starting the war.

¹³ Aleksandr Golts, "Обострение конфликта в Нагорном Карабахе – поражение России" [Escalation of Nagorno-Karabakh conflict – Russian defeat], Snob (<https://snob.ru>), 5 April 2016.

¹⁴ Drones are purchased from or produced with the support of Israeli manufacturers. Crisis Group Report, *Nagorno-Karabakh: New Opening, or More Peril?*, op. cit., p. 8.

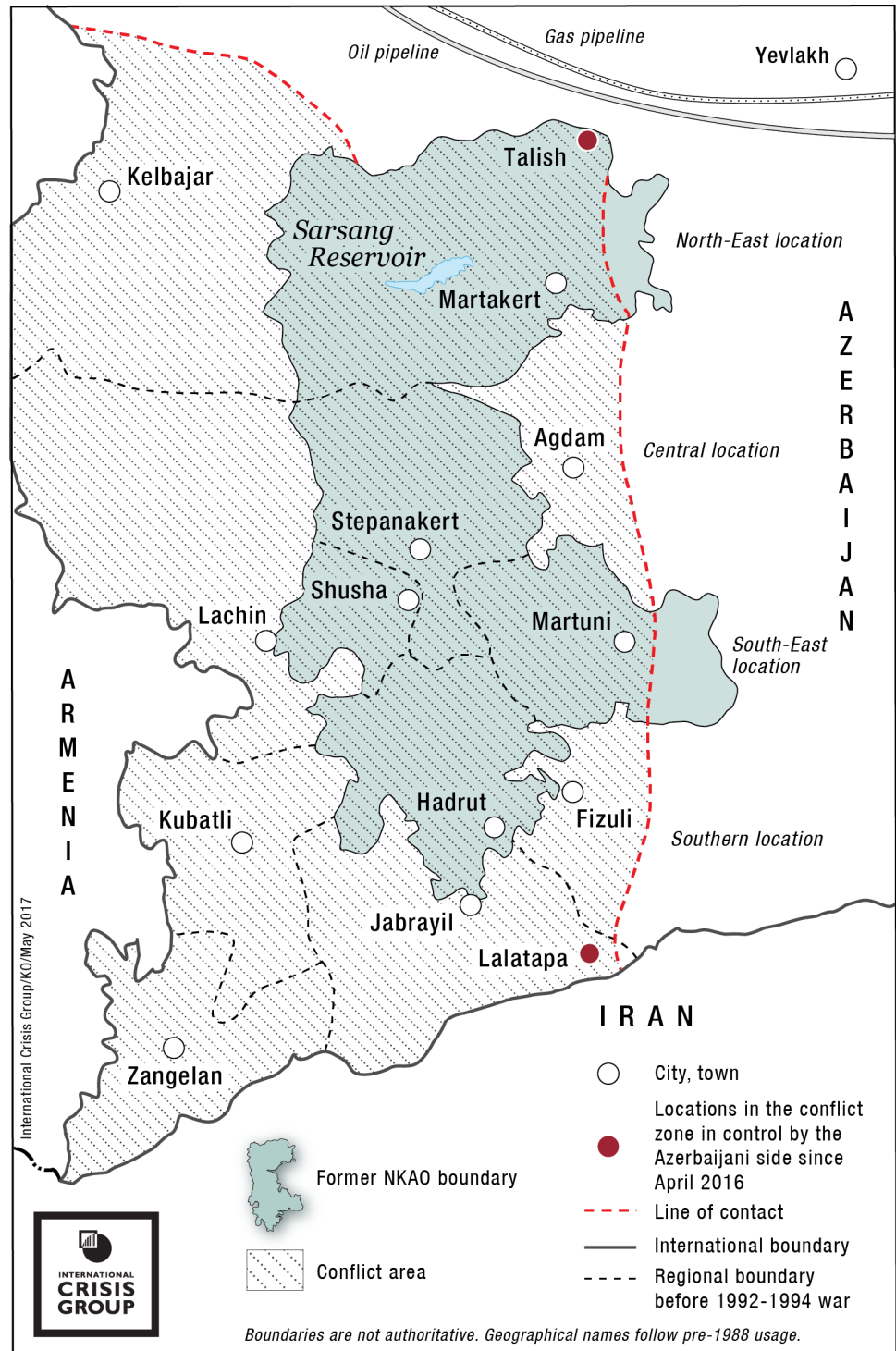
¹⁵ Interviews with NK-based military, February and May 2017.

¹⁶ Sergey Minasyan, "Deterrence in the Karabakh Conflict", Caucasus Institute, 2016, pp. 118-121.

¹⁷ Crisis Group interviews, Baku, March 2017.

Detailed Map of the Conflict Zone

Since the 1992-1994 war, the Armenian side has controlled the territory of the former Nagorno-Karabakh Autonomous Oblast and seven adjacent Azerbaijani districts – five in full (Jabrail, Zangilan, Gubadli, Lachin and Kelbajar) and two in part (Agdam and Fizuli). Most Azerbaijani IDPs come from Agdam and Fizuli districts, making up 40 per cent of the total displaced population, according to Azerbaijani official sources.



Circumstances differ around the central and south-eastern sections of the Line of Contact, which are strategically important to both sides. These locations stretch along a valley, making it easier to use heavy military equipment. Main roads linking Armenian settlements in the northern and southern parts of Nagorno-Karabakh pass through the valley, which also offers access to the city of Agdam, destroyed during the war in the 1990s, and the capital of de facto Nagorno-Karabakh, Stepanakert.

Losing control over this valley could prompt the Armenian side to abandon military efforts within the conflict zone and resort to ballistic missiles capable of reaching most of Azerbaijan's urban areas and infrastructure.¹⁸ Azerbaijan almost certainly would respond in kind, with missiles based in the exclave of Nakhichevan inside Armenia.¹⁹

Yet despite these apparent advantages, this valley constitutes Azerbaijan's most vulnerable point along the Line of Contact due to the presence of densely populated Azerbaijani villages directly behind its positions. Although Armenian and Azerbaijani troops are separated by about 100-200 metres in this location, exchange of fire is far less frequent than at other points along the Line of Contact. From Armenian trench fortifications, one could make out the roof tops of local houses and hear the sound of a tractor during an early 2017 visit. Any confrontation along this corridor would lead to serious losses among Azerbaijan's civilian population.

B. *Potential Humanitarian Implications*

An increase in military activity inevitably would provoke serious civilian casualties and displacement. Located within the 15-km zone in which the Armenian side likely would advance in the event of an escalation are densely populated settlements of ethnic Azerbaijanis. Armenian sources calculate some 600,000 ethnic Azerbaijani inhabitants would be forced to leave their homes, while Azerbaijani sources estimate about 300,000.²⁰ Azerbaijan also notes the presence of energy infrastructure close to the Line of Contact,²¹ which might be targeted should an escalation occur.²² Likewise, about 7,000 ethnic Armenians live within a zone extending 15 km from the Line of Contact into Nagorno-Karabakh,²³ most in the northern part which also hosts the

¹⁸ Armenia's leadership states that it is ready to use force, including ballistic missiles, if Stepanakert suffers an attack that it is unable to contain and counter. "President Serzh Sargsyan participated at the 11th convention of the homeland defenders voluntary union", Official website of the President of Armenia (www.president.am), 18 February 2017, <http://www.president.am/en/press-release/item/2017/02/18/President-Serzh-Sargsyan-attended-meeting-of-Yerkrapah>.

¹⁹ Experts in Baku cited readiness to use missiles based in Nakhichevan in response to an Armenian missile attack. Crisis Group interview, Baku, March 2017.

²⁰ Crisis Group interview, high-level de facto official, Stepanakert, February 2017. Regions of Beylagan, Aghjabadi, Barda, Goygol and Goranboy as well as Naftalan city are located roughly within 15-25km of the closest point of the Line of Contact.

²¹ The Baku-Tbilisi-Ceyhan (BTC) oil pipeline passes several dozen kilometres north of the Line of Contact.

²² Crisis Group interviews, diplomats, Baku, Brussels, spring 2017. In April 2016, Armenian media quoted sources in the de facto NK Defence Ministry suggesting they would seek to harm Azerbaijan oil and gas infrastructure. "Карабах готов нанести удар по нефтяным коммуникациям Азербайджана", Newsarmenia.am (<http://newsarmenia.am>), 5 April 2016.

²³ Crisis Group interview, de facto official, Stepanakert, February 2017.

Sarsang water reservoir, essential to the region's agriculture and mining businesses. A prolonged military assault with heavy military equipment could allow Azerbaijan to strike deep into the region, including targets in Stepanakert.

Around 150,000 people currently live in Nagorno-Karabakh, half of them in Stepanakert. During the April escalation, residents encountered gaps in the civil defence systems, such as Soviet-era bomb shelters, that were locked or decrepit. In Stepanakert, local authorities and residents renovated some facilities after the April escalation, but few checks have been conducted to confirm their stability, and local authorities did not offer courses to the local population on what to do in the event of war and where to find the nearest points of help.²⁴ Stocks of produce and basic medicine supplies are limited; both likely would be reserved for the most vulnerable residents unable to leave the region.²⁵

International diplomatic and humanitarian actors worry that if large-scale violence restarts, neither party is likely to protect civilians or prevent ethnic cleansing and other war crimes.²⁶ In November 2016, the European Court of Human Rights (ECHR) communicated one case each against Armenia and Azerbaijan related to atrocities committed during the four days of conflict, requesting information from the two governments.²⁷ The de facto Nagorno-Karabakh ombudsman also documented several violent incidents involving Azerbaijani soldiers committing atrocities against Armenian military recruits.²⁸ Online videos and photographs depict an Azerbaijani soldier displaying the head of an Armenian soldier to several ethnic Azerbaijani villagers.²⁹ Similar atrocities are cited in the appeal to ECHR against Armenia, including mutilation of bodies of Azerbaijani soldiers killed during the April 2016 escalation.³⁰ None of these claims appears to have been investigated and remain unpunished.

Diplomats note that significant civilian casualties and reports of atrocities could prompt external intervention, notably on the part of Russia, which arguably could invoke them as justification.³¹

²⁴ Crisis Group interviews, Stepanakert, February 2017.

²⁵ Crisis Group interviews, January and February 2017.

²⁶ Crisis Group interviews, representatives of international organisations and diplomats, Yerevan, Baku and Tbilisi, spring 2017.

²⁷ See "T.M. and Others v. Armenia and 4 other applications", 25 November 2016, and "K.S. and N.A. v. Azerbaijan and 21 other applications", 25 November 2016, European Court of Human Rights (<http://hudoc.echr.coe.int>). These incidents include the brutal killing of three elderly ethnic Armenian residents in the village of Talish.

²⁸ See de facto ombudsman's detailed report. "Artsakh Ombudsman's Second Interim Report on Atrocities Committed by Azerbaijan during the 2016 April War", at http://www.ombudsnkr.am/en/docs/Report_PUBLIC.pdf.

²⁹ The videos filmed on a mobile phone were published on social media but later removed. The de facto authorities shared copies with Crisis Group.

³⁰ "T.M. and Others v. Armenia and 4 other applications", op. cit.

³¹ Crisis Group interview, Russian official, January 2017.

III. Shifts in Public Moods and Policies

The April 2016 flare-up led to the most significant conflict-related shift in political and public life in Azerbaijan, Armenia and de facto Nagorno-Karabakh since the end of the 1992-1994 war. The four-day escalation prompted an enormous rise in patriotic feeling on all sides, solidifying demands for a “final solution” to a conflict that has smouldered for two decades. While Azerbaijani society was buoyed by victory, Armenia went through a period of despondency that, at least in part, shaped the outcome of elections that set the country’s political direction for years to come. Nagorno-Karabakh society, for whom the escalation revived painful wartime memories, witnessed some of the most far-reaching internal changes, with political and economic development projects now sidelined in favour of renewed focus on military strengthening.

A. Azerbaijan’s Society

As a result of the April escalation, and for the first time since the 1994 ceasefire, Baku managed to alter the much-resented status quo on the ground. In so doing, it dispelled the Armenian army’s invincibility myth born of its victory in the 1992-1994 war and resulting capture of Nagorno-Karabakh and seven adjacent districts. Although Azerbaijan gained control of only two strategic heights in the conflict zone, that was enough to restore its people’s confidence in their army, not seen in action since its vast investments in technical upgrades, new equipment and training starting in the mid-2000s.³² Buoyed by this new-found confidence, Azerbaijanis appear to believe that a full return of the Nagorno-Karabakh conflict zone to Baku’s control – including by force – might be possible.³³

1. Popular pressure on the government

The April 2016 escalation prompted a wave of patriotism and jubilation throughout Azerbaijani society unseen since the early 1990s struggle for independence from the Soviet Union. Groups of young people marched with flags and posters in support of the military. Citizens hung Azerbaijani flags from their windows. “Everyone expressed solidarity last year – even those who criticise corruption and human rights abuses were united behind this need to retake Karabakh”, said a liberal-minded youth activist.³⁴

Few Azerbaijanis questioned their government’s version that the April 2016 conflict was provoked by Armenians who occupied the conflict zone and used force to protect the status quo for two decades, refusing to compromise on settlement proposals.³⁵ For the first time in many years of such provocations, according to this official version,

³² Azerbaijan has been boosting its military since 2006. In 2015, Azerbaijan spent \$3 billion on its military, more than Armenia’s entire national budget. Crisis Group Report, *Nagorno-Karabakh: New Opening, or More Peril?*, op. cit.

³³ Crisis Group interviews, Azerbaijan, early 2017.

³⁴ Crisis Group interview, Baku, March 2017.

³⁵ For analysis of April 2016 events, see *ibid.* Accounts of the April events differ; the Armenian side believes Azerbaijan pursued a pre-planned attack.

the enemy finally received a “response that was deserved”.³⁶ Many now appear to believe not only that the government’s multibillion-dollar investment in the army was warranted but also that it should make use of its modernised army to settle the conflict.³⁷

Many also question the decision to cease hostilities after four days instead of permitting the army to make more significant territorial advances.³⁸ According to a poll conducted shortly after the escalation, 65 per cent of Baku residents supported continuation of military activities with only 25 per cent calling for a halt.³⁹ Several opposition politicians publicly criticised authorities – something that rarely happens in the tightly controlled country – accusing them of lacking the political courage to continue the war to “a successful outcome”.⁴⁰

Such sentiments were particularly prevalent among Azerbaijanis displaced during the 1992-1994 conflict from Armenia, Nagorno-Karabakh and the adjacent Armenian-occupied districts. A disabled IDP from Shusha/Shushi now living in a compact settlement centre outside Baku claimed many of those who travelled to front-line regions to support the army were disappointed when a ceasefire was so quickly declared.⁴¹ Although the government has worked to address IDP socio-economic issues, many remain economically vulnerable and unintegrated into Azerbaijani society. While they enjoy free or low-cost education, health care and electricity as well as some special employment opportunities, they are unable to elect municipal representatives, which limits their capacity to voice concerns.⁴² IDP representatives say they dream of returning to Karabakh. The generation that fled the 1990s conflict feels responsibility toward their children, fearing they “will not know what Karabakh was”. As one IDP representative said, it was “up to us to ensure we do not leave this problem unsettled and lingering for the next generation to struggle with”.⁴³

President Ilham Aliyev, who has consolidated power since succeeding his father, Heidar Aliyev, in 2003, saw his approval ratings soar.⁴⁴ He claimed that the ceasefire was a temporary but necessary pause required to give Armenia an opportunity to retreat peacefully, and that international mediators were prepared to pressure Armenia for concessions.⁴⁵ But the popular mood could sour if the quick return of Nagorno-Karabakh promised in the months following the escalation fails to materialise

³⁶ Crisis Group correspondence, analyst, Baku, early 2017.

³⁷ Crisis Group interviews, analysts and representatives of the IDP community, Baku, March 2017.

³⁸ Crisis Group interviews, Azerbaijan, March 2017.

³⁹ Opinion poll conducted by independent ACT Azerbaijan, <https://goo.gl/SaeCIV>, May 2016, p. 5.

⁴⁰ Crisis Group interviews, opposition representatives, Baku, March 2017.

⁴¹ Crisis Group interviews, IDPs on the outskirts of, and in settlements near Baku, March 2017.

⁴² For more detail, see Crisis Group Europe Briefing N°67, *Tackling Azerbaijan's IDP Burden*, 27 February 2012.

⁴³ Crisis Group interview, IDP representatives, Baku, March 2017.

⁴⁴ Heidar Aliyev ruled Azerbaijan for thirteen years during the Soviet era and for ten years since 1993 when his country became independent.

⁴⁵ “Speech by Ilham Aliyev at the official reception on the occasion of the Republic Day”, Official website of the President of Azerbaijan, May 2016, at <http://en.president.az/articles/19986>. “Speech by Ilham Aliyev at the military unit in Tartar district”, Official website of the President of Azerbaijan, May 2016, at <http://en.president.az/articles/19730>.

and the public begins to suspect that Baku's gains were insubstantial.⁴⁶ With every passing month, it becomes harder for the government to justify delays in resolving the Nagorno-Karabakh problem, especially amid reports of Azerbaijani casualties. After an armed clash in late February 2017, which left six Azerbaijani soldiers dead, a well-known member of parliament called on the government to end the Nagorno-Karabakh matter via full-scale war.⁴⁷

Flush with the sense of victory, the public appears increasingly unwilling to accept casualties without accompanying military success and territorial gains. Since early 2017, the Ministry of Defence regularly publishes videos shot from drones and security cameras in an attempt to document damage inflicted on the enemy.⁴⁸ Observers in Azerbaijan agree that the loss of a new war, or even of the two heights seized in April 2016, would seriously undermine support for the government and potentially awaken public grievances vis-à-vis the authorities.⁴⁹ Many in the fragmented opposition also blame the government for flirting with the Russian leadership, which mediated the April 2016 cessation of hostilities and which a large number of Azerbaijanis, regardless of political affiliation, believe is using the conflict as leverage to pressure both countries and secure broader regional influence.⁵⁰

2. A tougher stance

In the wake of the April escalation, Aliyev announced additional measures to improve military training and equipment.⁵¹ Baku also hardened its legal approach to the conflict, calling Yerevan's actions an "annexation" – alongside "occupation" – arguing that the international community should use coercive measures against Armenia, similar to those applied against Russia in response to its actions in Crimea and eastern

⁴⁶ Youth activists and liberal-leaning opposition figures in Baku report that the sense of solidarity has begun to weaken as it becomes apparent that the government used force for merely tactical purposes, to force Yerevan to engage in negotiations and that the skirmishes led to many casualties for few real gains. However, most agreed that criticism is confined to a narrow segment of society, mostly active on social media. Crisis Group interviews, youth and opposition activists, analysts and former diplomat, Baku, March 2017.

⁴⁷ Azerbaijani MP, Zeynab Khanlarova, called for a full-scale war, expressing her grievance for human loss. See www.youtube.com/watch?v=tPIKdRr353M. Similar sentiments were voiced by representatives of those displaced by the conflict during Crisis Group interviews in Baku in March 2017.

⁴⁸ Videos were released on the official YouTube channel of Azerbaijan's Defence Ministry. Armenia denied all reports of casualties and front-line operations coming from Baku.

⁴⁹ Crisis Group interviews, Baku, early 2017.

⁵⁰ See statements by Azer Gasimli from the Republic Alternative Movement, <http://cumhuriyyet.org/xeberler/558-azer-qasimli-qarabag-prinsiplerim.html>; Ali Karimli, chairman of Azerbaijan Popular Front Party, www.meydan.tv/az/site/politics/13493/; Jamil Hasanly, leader of National Council, www.azadliq.info/129805.html. Local media subsequently attacked Karimli and small groups of protesters from pro-governmental youth groups gathered in front of his house. Crisis Group interviews, Baku, March 2017.

⁵¹ The defence ministry was the only state institution not to endure budget cuts following devaluations of the Azerbaijani manat in 2015 resulting from falling oil prices. Vafa Zeynalova, "Azerbaijanis Struggle After Currency Devaluation", IWPR, 18 January 2016. The armed forces likewise were spared staff cuts experienced by other governmental institutions. Crisis Group correspondence, conflict expert, Baku, February 2017.

Ukraine.⁵² In addition, Baku imposed progressively stronger restrictions on travel to and business in Nagorno-Karabakh, arguing that engagement with the area's de facto authorities enhanced their legitimacy and thus bolstered their claim to independent status. It also alleged that economic cooperation developed the breakaway entity's capacity while depriving Baku of "income from Azerbaijani territory", especially profits derived from the extraction of metals and other natural resources.⁵³

Since 2005, Azerbaijan has been compiling a list of people who visit Nagorno-Karabakh without notifying central authorities or obtaining permission. It comprises approximately 620 citizens of various nationalities, including politicians, researchers and journalists.⁵⁴ Punishment used to entail a ban on entry to Azerbaijan, but in 2016 Baku additionally launched its first criminal investigation against a listed individual and secured their extradition from Belarus.⁵⁵ The government issued international search warrants via Interpol for three European Parliament members and several foreign archaeologists on the list.⁵⁶ In February 2017, Azerbaijan's Prosecutor's Office reportedly launched an investigation into a number of businesses suspected of "illegal economic activities" in Nagorno-Karabakh.⁵⁷

Seeking to bolster their claim to complete territorial reintegration, some in Baku emphasise that ethnic Armenians and Azerbaijanis can live together without conflict. As one source close to the government explained: "we need to counter any possible perception that there may be incompatibility".⁵⁸ Tellingly, although generally not supportive of track II initiatives, Baku backed a December 2016 non-governmental Armenia-Azerbaijan Platform for Peace favouring complete restoration of Azerbaijan's control over the conflict zone.⁵⁹

⁵² Crisis Group interviews, Azerbaijani officials, Brussels, Baku, December 2016, March 2017.

⁵³ Crisis Group interview, Azerbaijan Ministry of Foreign Affairs official, Baku, March 2017.

⁵⁴ The list has been updated and made public on the website of Azerbaijan's Foreign Ministry at www.mfa.gov.az/content/915.

⁵⁵ Russian-language blogger Aleksandr Lapshin, citizen of Russia, Israel and Ukraine, was arrested in Belarus and transferred to Azerbaijan in February 2017. He was criminally charged for violation of Azerbaijan's state border regulations and calls against Azerbaijan's territorial integrity; "Press release on the case of Alexander Lapshin", Republic of Azerbaijan Ministry of Foreign Affairs, 8 February 2017 at www.mfa.gov.az/en/news/909/4673. Amnesty International called for immediate release of the blogger; "Azerbaijan: Extradited blogger should be released immediately by Azerbaijani authorities", Amnesty International (www.amnesty.org), 10 February 2017.

⁵⁶ "Baku blacklists EU lawmakers, researchers over Karabakh visits", RFE/RL, 23 February 2017, www.rferl.org/a/azerbaijan-blacklist-eu-lawmakers-researchers-karabakh/28326645.html. Official statement by Azerbaijan's General Prosecutor's Office – www.genprosecutor.gov.az/az/news/5/1555/azerbaycan-respublikasi-bas-prokurorlugunun-metbuat-xidmetinin-melumati.

⁵⁷ "Azerbaijani prosecution opens probe into foreign companies operating in Karabakh", *Sputnik*, 4 March 2017.

⁵⁸ Crisis Group interview, analyst, Baku, March 2017.

⁵⁹ Three ethnic Armenians participated in the initiative; they are considered traitors in Armenia; "Ставка на маргиналов" [Stake on marginals], *Zham* magazine, 10 January 2017; "Созданная в Азербайджане платформа искажает суть Трэк 2" [The Platform established in Azerbaijan distorts the essence of Track 2 processes], *Armedia*, 8 December 2016. That said, none played a significant role in Armenia's public life or originally hailed from NK.

B. *Armenia's Society*

Armenian society sank into despondency after the April escalation, losing trust in its leadership's ability to protect Nagorno-Karabakh's territory or population. The April flare-up, particularly the leadership's failure to mount an adequate military response, got the election year off to a difficult start in Armenia, which is in the process of transforming its semi-presidential system into a parliamentary republic.⁶⁰ The government's capacity to make unpopular concessions in Nagorno-Karabakh negotiations will be even more constrained during this significant constitutional transition.

1. Public mobilisation and anger

During the first hours of the April 2016 escalation, hundreds of Armenians rushed to the conflict zone to volunteer in the Nagorno-Karabakh-based army. Citizens from the capital as well as from distant rural villages collected food, clothing, gasoline and even motor vehicle components. This unprecedented social mobilisation, fuelled by reports of casualties, quickly turned into a major challenge for the Armenian leadership. Speculation about alleged misconduct by the top military command has been a leading topic of debate for months; Armenians contrast the heroism of front-line recruits to purported lack of ammunition and food at military positions and recount stories of tanks stuck half-way to the front-line because of stolen diesel.⁶¹

An open parliamentary investigation into the government's response and alleged misconduct by top officials might have addressed these concerns and allowed the military to respond to accusations.⁶² But the government avoided an open debate ahead of the April 2017 elections, choosing instead to take other steps. The government reported the arrest of several officials responsible for military procurement, though without providing details of the investigations.⁶³ It also reshuffled the Joint Staff and dismissed some army personnel.⁶⁴ Armenian political party leaders travelled to the Line of Contact to investigate claims of misappropriation of defence resources and parliament's Defence Committee organised a closed-door discussion of the army's performance.⁶⁵

These measures did little to appease an already frustrated public, which expected punishment of the ruling elite.⁶⁶ "[For years] the nation was ready to turn a blind eye

⁶⁰ This followed a 2015 constitutional referendum; the process of transition began with the April 2017 parliamentary elections and will be completed by spring 2018 with presidential elections.

⁶¹ Crisis Group interviews, civil society activists, journalists, local residents, Yerevan, October 2016, January 2017.

⁶² A Western diplomat working on Armenia's security issues dismissed speculation concerning the army's poor performance, viewing it as symptomatic of deep-seated public frustration with high-level corruption. Crisis Group interview, January 2017.

⁶³ Hovannes Movsisian, "Senior Defense Ministry Officials Arrested", RFE/RL Armenian Service (www.azatutjun.am).

⁶⁴ Crisis Group interview, Armenian high-level official, Yerevan, January 2017.

⁶⁵ Crisis Group interviews, parliamentary members, Yerevan, October 2016, January 2017. Crisis Group interview, Armenia's National Assembly staffer, Yerevan, January 2017.

⁶⁶ According to a poll conducted before the escalation, more than 50 per cent of Armenian youth did not trust the main state institutions, including the president and parliament. See "Independence

to corruption in cabinets, because we believed this government could at least protect the country in case of war”, said an analyst in Yerevan. “No such political immunity was in place after the April war”.⁶⁷

Growing dissatisfaction came to the surface in July 2016 during a violent incident in which a group of disgruntled Nagorno-Karabakh war veterans known as “Sasna Tsrer” stormed a Yerevan police station to demand the president’s resignation, killing two police officers and taking hostages.

2. The government’s pre-election response and opposition criticism

Though “Sasna Tsrer” chiefly was motivated by concern over possible government concessions in negotiations over Nagorno-Karabakh, the incident sparked a far broader challenge to the authorities. Hundreds of people poured out into the streets of central Yerevan protesting lack of accountability, corruption and oligarchic ties between the government and business community.⁶⁸ Treading carefully so as to manage the twin challenge, the government spent two weeks negotiating the rebels’ peaceful surrender to avoid further demonstrations. As the incident illustrates, the authorities face little manoeuvring space in talks over Nagorno-Karabakh; they have used this to argue against pressure from Moscow and the Minsk Group to move ahead on substantive negotiations.⁶⁹

With elections only nine months away at the time of the “Sasna Tsrer” incident, the government sought to pacify the situation by appointing younger, more credible figures to key government posts, including that of prime minister and defence minister. The reshuffled government promised administrative and anti-corruption reforms, as well as broader civilian involvement in the military and increased financial benefits for conscripts and contracted servicemen.⁷⁰

Criticism of the military performance only surfaced late in the campaign. Opposition leaders refrained from partisan attacks during and in the immediate aftermath of the escalation amid broad patriotic consensus on the issue of Nagorno-Karabakh, though internally the criticism was severe. “For the first time in April 2016, the tacit contract was broken between the authorities and the population which had been ready to tolerate high-level corruption as long as security was guaranteed”, said an analyst in Yerevan.⁷¹

Generation Youth Study 2016 – Armenia”, Friedrich-Ebert-Stiftung, <http://library.fes.de/pdf-files/bueros/georgien/13149.pdf>, p. 54.

⁶⁷ Crisis Group interview, October 2016.

⁶⁸ Ani Karapetyan and Elen Aghekyan, “Armed Standoff in Armenia: Why It Happened and What It Could Mean”, Freedom House (<https://freedomhouse.org>), 2 August 2016.

⁶⁹ Crisis Group interviews, analysts, Yerevan; diplomats, Brussels, Yerevan, all spring 2017.

⁷⁰ Karen Karapetyan, “We should cast a more ambitious look towards future”, interview for Mediamax (www.mediamax.am), 21 February 2017. Before becoming prime minister, Karapetyan had been working for Gazprom, the large Russian state-run gas company for about fifteen years, with one year spent as Yerevan’s mayor in 2011. In late December 2016, parliament adopted a law allowing the government to collect 1,000 Armenian dram (about \$2) per citizen who held a bank account in the country. In April 2017, defence minister announced a new military system that would increase the number of paid conscripts; more at www.mil.am/hy/news/4728.

⁷¹ Crisis Group interview, analyst, Yerevan, October 2016.

Calls for more pragmatic and compromise-oriented approaches to conflict settlement have been marginal, and broadly rejected by most of the population. Levon Ter-Petrosyan, Armenia's first post-independence president and now an opposition member, was the only politician to criticise the government for past failures in handling the negotiation process. In December 2016, he called for return of territories adjacent to the former Nagorno-Karabakh Autonomous Oblast (NKAO) to Baku's control in order to avoid war.⁷² His party only gained 3 per cent of public support – the lowest ever result for Ter-Petrosyan and his party.

C. *Nagorno-Karabakh Society*

The April escalation marked a turning point in Nagorno-Karabakh. Although closely linked with Armenian society, Nagorno-Karabakh's ethnic Armenian population remains a relatively isolated and distinct community, whose identity has been shaped by its experience as a society under siege. It spent much of the last decade developing its economy, bolstering its institution, and rebuilding towns and villages with military, financial and political support from Yerevan as well as assistance from the Armenian diaspora. But the April 2016 escalation interrupted these efforts, and caused a shift in financial resources toward military purposes.

1. The impact of war

The escalation brought back memories of the 1990s war. Human casualties, loss of two strategic heights, a new wave of displacement – some forced to move for a second time – and reported atrocities against ethnic Armenian civilians and troops reinforced feelings of an existential threat.⁷³ The younger generation, having grown up amid relative stability and only witnessing violent incidents at the Line of Contact, awoke to the fear of losing loved ones, homes and lifestyle.⁷⁴ The clashes strengthened solidarity within Nagorno-Karabakh society and reinforced calls to end the conflict by any means necessary, including war and advancing deeper into Azerbaijan's territory.⁷⁵

But with a renewed sense of vulnerability also came increased discontent. Veterans of the 1990s war, who by the time of escalation had been gradually sidelined from local decision-making, were among the first to criticise the Armenian army's

⁷² In December 2016, Ter-Petrosyan described his vision at a meeting of his Armenian National Congress (ANC), see www.youtube.com/watch?v=o7OuHuYpNfQ&t=1s.

⁷³ More than 130 Talish residents fled the village during the April escalation. This was their second displacement in the past 25 years; residents of the village and nearby territories were first displaced and became refugees at the outset of the 1990s conflict. The OSCE Minsk Group condemned these atrocities in a December 2016 statement at; www.osce.org/mg/287531. That same month, the de facto Ombudsman published a detailed account in which he alleged civilians in the Talish region were tortured and three Armenian soldiers beheaded. See "Artsakh ombudsman's Second Interim Report on Atrocities Committed by Azerbaijan during the 2016 April War", at www.ombudsnkr.am/en/docs/Report_PUBLIC.pdf. Some of these cases were submitted in the case against Azerbaijan Strasbourg-based ECHR in November 2016. "K.S. and N.A. v. Azerbaijan and 21 other applications", 25 November 2016, European Court of Human Rights (<http://hudoc.echr.coe.int>).

⁷⁴ Crisis Groups interviews, Nagorno-Karabakh youth, October 2016, February 2017.

⁷⁵ Crisis Groups interviews, de facto officials, politicians, residents, Stepanakert, October 2016, February, May 2017.

performance. Vitaliy Balasanyan, a well-known field general, blamed the de facto authorities' premature institution-building efforts, calling for an exclusive focus on the military.⁷⁶ Former General Samvel Babayan, previously exiled in Russia, demanded the resignation of the de facto defence minister.⁷⁷ Upon his return to Stepanakert, he was greeted by dozens of people – a large show of support for this region – who took to the central square in support of his call for change.⁷⁸ According to a public survey funded by groups affiliated with the Armenian government, more than 60 per cent of Nagorno-Karabakh respondents expressed “disillusionment with the future of the country”, and more than 70 per cent voiced readiness to emigrate.⁷⁹ The Nagorno-Karabakh leadership responded by simultaneously appointing critics to administration positions and solidifying its power by amending the constitution to consolidate power in the presidency.⁸⁰

2. Intensified military preparations

Armenian and de facto Armenian-Karabakh military forces are intertwined, with Armenia providing all logistical and financial support, as well as ammunition and other types of military equipment.⁸¹ After the April escalation, and for the first time in two decades, the local Nagorno-Karabakh leadership acted on its own initiative to refurbish military positions located along the Line of Contact.⁸² Foreign donations, collected by ethnic Armenian diaspora representatives and channelled directly to

⁷⁶ “General Balasanyan’s interview about Nagorno-Karabakh war”, YouTube video, 22 May 2016, <http://bit.ly/2rbr3gA>.

⁷⁷ Ami Chichakyan, “Demanding Samvel Babayan to be appointed in the position of NKR defense minister”, *Aravot newspaper*, 6 June 2016, <http://en.aravot.am/2016/06/06/177451>.

⁷⁸ Babayan ceased all opposition activity and left Nagorno-Karabakh after Hayk Khanumyan, his ally and parliamentarian in the de facto National Assembly, was beaten by a group of young people, some wearing military uniform, on 7 June 2016. At least three were arrested for the incident, and months later pardoned by the de facto President. “Айк Ханумян считает, что объявленная амнистия распространится и на его похитителей” [Hayk Khanumyan expects the declared pardon to consider his kidnappers], RFERL Armenian Service, 26 August 2016, <https://rus.azatutyun.am/a/27948216.html>.

⁷⁹ “Opinion polls in Nagorno-Karabakh: Comparative results from 2015 and 2016”, November 2016, <https://goo.gl/sl8GEX>, p. 21. The research was commissioned by Brussels-based “European Friends of Armenia (EUFA)”, which has been supporting the current Armenian leadership in promoting its ideas among foreign audiences.

⁸⁰ Vitaliy Balasanyan became secretary of the de facto National Security Council in November 2016. A month later, Masis Mailyan, another prominent opposition politician, was named the de facto president’s ambassador at large.

⁸¹ Both Armenia’s and the de facto Nagorno-Karabakh’s leaderships used to strongly deny any close integration between the two structures. This changed after April 2016. In January 2017, a high-level military official from Armenia confirmed to Crisis Group the existence of close cooperation as well as Armenia’s support and control of Nagorno-Karabakh-based military troops; he added that this also was confirmed by the 2015 European Court of Human Rights ruling in “Chigarov and others v Armenia”, which found Armenia responsible for military operations inside Nagorno-Karabakh. See <http://hudoc.echr.coe.int/eng?i=001-155353>.

⁸² In interviews with Crisis Group, military officials based in Armenia and Nagorno-Karabakh said this process still was backed and closely monitored by Armenia’s Joint Staff, although they were led and managed by the de facto authorities.

the de facto leadership, were diverted exclusively to the local defence agency.⁸³ Some additional funds came from the local budget.⁸⁴ Authorities constructed alternative roads and tunnels near military positions and installed thermal imagers and night-vision equipment along the Line of Contact to improve front-line surveillance. They also modernised the military's internal communications system, deepened and reinforced trenches in some locations with additional protective covers, and generally tried to improve infrastructure.

During the escalation, the de facto authorities called up the vast majority of Nagorno-Karabakh's male population, most of whom remained in the trenches for at least the next two months.⁸⁵ In an effort to increase the army's preparedness and boost the credibility of their response to the lessons of April 2016, they also replaced command leadership in some front-line positions and increased the number of contracted officers, although full information about such rearrangements was not made public.⁸⁶

3. Postponement of political and economic reforms

In anticipation of resumed military activities, the de facto authorities reoriented their priorities, de-emphasising economic and administrative reforms. With annual transfers from the Armenian state budget playing a significant role in Nagorno-Karabakh's local economy, and covering a large portion of salaries and other social benefits, the de facto leadership could invest its own resources in development projects.⁸⁷ Since 2006, the de facto government initiated successful programs in agriculture, energy generation and foreign investment; over a decade, such efforts helped increase local income by a factor of 2.5 and triple the local budget.⁸⁸ After April 2016, however, the de facto authorities shifted course, postponing a number of economic initiatives. This came on top of other economic consequences of increased tension: the number of tourists – predominantly but not exclusively members of the Armenian diaspora – decreased by 16 per cent and many potential investors

⁸³ The de facto government announced that \$11 billion had been raised via foreign donations and exclusively spent on the local army. See "The special account of receipts and expenditures report, 2017", Government of Nagorno-Karabakh Republic Information Centre, 2 January 2017 at <http://gov.nkr.am/en/official-news/item/2017/02/02/infograph>.

⁸⁴ The budget of the de facto government is financed in part by transfers from Armenia; it also enjoys its own revenues, which make up around 40 per cent of local budgets since 2005. Crisis Group interviews, de facto officials, Stepanakert, February 2017.

⁸⁵ The local budget helped compensate all recruits for lost salary or average income during the military recruitment period. According to legislation from the de facto parliament, all males over the age of eighteen must undertake two-year compulsory military service and can be called to duty at any time.

⁸⁶ Crisis Group interviews, civilians and military officials, Nagorno-Karabakh, October 2016, February 2017; Yerevan, January 2017.

⁸⁷ Since 2008, Armenia has been transferring approximately 3.15 per cent of its budget to Nagorno-Karabakh; de facto authorities regard this as a fair arrangement given there are no customs payments between Armenia and NK. Crisis Group correspondence with de facto Finance Ministry, Stepanakert, February 2017.

⁸⁸ Crisis Group interview, de facto finance minister, Stepanakert, February 2017. The numbers were confirmed by the de facto Finance Ministry in follow-up correspondence.

abandoned plans to come to Nagorno-Karabakh.⁸⁹ The de facto official responsible for economic reform said: “War and economic [development] move in two opposite directions”.⁹⁰ After the April events, projected economy growth for 2017 fell from 13 to 9 per cent.⁹¹

The de facto leadership likewise shifted course on the political front, shelving its previous call to increase the parliament’s powers – a move that would have brought Nagorno-Karabakh’s constitution more in line with Armenia’s. Nagorno-Karabakh’s leaders justified the decision, arguing a parliamentary model no longer was appropriate given increased threat of war. Instead, the government presented an amended draft constitution that effectively solidifies the president’s authority. It also allows the current de facto president, Bako Sahakyan, to remain in power for a three-year “transitional period” after his second term ends in July 2017 and to run again in 2020. More than 90 per cent of the electorate approved the amendment in a February 2017 referendum.⁹² Only a single opposition politician campaigned against the constitutional change, but many others – including some within the de facto government – opposed it privately, choosing not to voice their concerns amid fears of a new attack from Azerbaijan.⁹³ Provoking internal turbulence is wrong, one local analyst said, when “war is only 30km away”.⁹⁴

⁸⁹ Crisis Group interview, de facto official, Stepanakert, February 2017. The downturn also arguably resulted from increased pressure on foreign investors by Azerbaijan, which regards all types of economic activities within the Nagorno-Karabakh conflict zone as illegal. See www.mfa.gov.az/files/file/MFA_Report_on_the_occupied_territories_March_2016_1.pdf.

⁹⁰ Crisis Group interview, de facto official, Stepanakert, February 2017.

⁹¹ Ibid.

⁹² The text of the de facto constitution is at www.nankr.am/en/1837, according to the de facto Central Election Commission, over 90 per cent of the electorate supported it while approximately 9 per cent opposed it. See “Concerning state referendum conducted by the Artsakh government in February 2017: results of 20 February voting by precinct areas and regions”, February 2017, <https://goo.gl/XPwSkU>. No state recognised the referendum results; Azerbaijan and its close foreign allies, including Turkey, condemned the referendum. For Azerbaijan’s official statement, see: “No: 34/17, Statement of the Ministry of Foreign Affairs on illegal ‘referendum’ in the occupied territories of Azerbaijan”, 14 February 2017, at www.mfa.gov.az/news/879/4696. For some of the statements of foreign states, see: “Turkey rejects planned Karabakh referendum”, 18 February 2017, Anadolu Agency; “Iran: ‘Referendum’ in Nagorno-Karabakh unacceptable”, Azeri news Agency-Apa, 20 February 2017; “Georgia doesn’t recognize ‘referendum’ in Nagorno-Karabakh”, Trend News Agency, 20 February 2017; “Pakistan’s position on Nagorno-Karabakh unchanged”, Diplomatic News Agency, 21 February 2017.

⁹³ Hayk Khanumyan, an independent opposition member of parliament, was alone in campaigning against the new constitution. The local branch of the Armenian Revolutionary Federation-Dashnaksutyun voted against it in the de facto parliament but refrained from an active public campaign. Crisis Group interviews, de facto politicians, February 2017. Crisis Group interviews, members of de facto parliament, officials, journalists, Stepanakert, February 2017.

⁹⁴ Crisis Group interview, analyst, Stepanakert, February 2017.

IV. Why Have the Post-April Talks Been Failing?

By clarifying the risks and costs of renewed conflict, the clashes should have spurred the parties to cooperate; indeed, Azerbaijan arguably hoped the limited escalation would galvanise the international community and pressure Armenia to engage.⁹⁵ But events unfolded differently. Despite two meetings in the months following the escalation, the presidents – burdened by mutual mistrust – were unable to reach any agreement; negotiations deadlocked after a public spat in September. On both sides, public opinion appears increasingly entrenched and uncompromising, providing leaders with scant leeway to negotiate. Mutual concessions that might benefit the two countries in the longer term could in the shorter run threaten internal stability and thus ruling elites. For now, the only scenarios seemingly under discussion are military solutions or the tactical use of force to gain advantage at the negotiating table.

Both sides also mistrust international mediators, perceived as guided by the interests of major powers and unable to ensure the region's long-term security and stable development. The two presidents have demanded that all OSCE Minsk Group co-chairs assume a more proactive mediation role, including by issuing public statements that do not equate the two parties, but rather criticise the other side's shortcomings and assign responsibility, be it for security incidents (in the case of Azerbaijan) or lack of progress in the talks (in the case of Armenia).

As Western interest has waned over the past decade, Russia has emerged as the lone country consistently demonstrating high level political will to engage, helping to produce a ceasefire during the April 2016 crisis. Neither side is in a position to reject Russian participation, given the breadth of its cooperation with both countries, yet politicians and analysts on each side remain sceptical of Russian motives, suspecting Russia's primary aim is to buttress its presence in the South Caucasus.⁹⁶

A. *Main Sticking Points in Negotiations*

Three main issues have been on the negotiating table since the end of the war in the 1990s: the fate of the seven districts around the former Nagorno-Karabakh Autonomous Oblast (NKAO); the status of the remaining territory in the conflict zone, now populated predominantly by ethnic Armenians; and the international security measures necessary to support the return to stability and security within the conflict zone.⁹⁷ Settlement of these questions would provide a foundation for further advances in the negotiating process, including return of IDPs, but presumes compromise and mutual concessions.

⁹⁵ Crisis Group interviews, diplomats and foreign analysts, Yerevan, January 2017, Baku, March 2017.

⁹⁶ Crisis Group interviews, Yerevan, Baku, February-March 2017.

⁹⁷ See Philip Remler, "Chained to the Caucasus: Peacemaking in Karabakh 1987-2012", International Peace Institute, 6 January 2016.

1. “Occupied” territories

In addition to the former NKAO, seven adjacent Azerbaijani districts are held by ethnic Armenian forces, five in full and two in part.⁹⁸ Baku insists these territories are its own, recalling UN Security Council resolutions that describe the territories as occupied.⁹⁹ Since 2014, Baku has gone further, describing them as having been “annexed” by Armenia and recently also demanding that members of the international community impose sanctions analogous to those imposed on Russia in response to its annexation of Crimea.¹⁰⁰ Baku also has consistently invoked the right of all ethnic Azerbaijanis forcibly evicted from Nagorno-Karabakh and adjacent territories to return to these areas, a feeling echoed by Azerbaijanis who were forced to flee and who express anger both at their inability to return and the fact that others have been settled in their former homes.¹⁰¹

The current position of Armenia – the representative of Nagorno-Karabakh Armenians in negotiations – concerning the status of these disputed territories is unclear. Although in 2012 President Sargsyan acknowledged that at least some of them should be returned to Azerbaijan, today the Armenian side in effect makes no distinction between the former NKAO and adjacent territories. Officially, Yerevan says the status of these districts will be settled within a larger package, even as it maintains military control over them in coordination with the de facto Nagorno-Karabakh forces. For the broader public, any prior boundary separating the former NKAO from adjacent territories appears to have been erased, and most Armenian analysts agree there is no appetite for such distinctions.¹⁰²

Practically, the return of even parts of the five districts would entail fundamental changes in the system of defensive structures and military facilities on the Armenian side of the Line of Contact. Loss of strategic heights also would heighten Armenia's defence obligations, with considerable financial and personnel resource implications.¹⁰³ Ultimately, Yerevan sees little if any benefit in agreeing to concessions that would prove politically unpopular and militarily risky without, in return, receiving strong international security guarantees as well as settlement of the contentious matter of Nagorno-Karabakh's status in its favour.¹⁰⁴

⁹⁸ The districts fully held by ethnic Armenian forces include Jabrail and Zangilan (south of the former NKAO), as well as Gubadli, Lachin and Kelbajar (between the former NKAO and Armenia). Those held in part by ethnic Armenian forces include Agdam and Fizuli (east of the former NKAO). Azerbaijan lost control of these districts during the 1990s war.

⁹⁹ UN Security Council Resolutions 822, 853, 874 and 884, all adopted during the 1992-1994 war, refer to these territories as occupied, a characterisation Yerevan rejects. Conversely, Armenia considers parts of the former NKAO and Shaumyan district (north of NK), as being occupied by Azerbaijan.

¹⁰⁰ Crisis Group interviews, Azerbaijani officials, Baku, March 2017.

¹⁰¹ Crisis Group interviews, Azerbaijan, mid-2017. For further background, see Crisis Group Briefing, *Tackling Azerbaijan's IDP Burden*, op. cit. About 80 per cent of all Azerbaijani IDPs hail from these districts. See www.stat.gov.az/source/others/aggression.jpg.

¹⁰² Crisis Group interview, Armenian official, Yerevan, January 2017. Crisis Group interviews, Yerevan, January 2017.

¹⁰³ Crisis Group interview, former senior official in Armenia's defence ministry, Yerevan, October 2016.

¹⁰⁴ Crisis Group interviews, officials, Yerevan, January 2017

When Nagorno-Karabakh adopted its constitution in 2006, entrenching its claims to statehood, it also redrew internal administrative boundaries to incorporate adjacent territories and create new districts; as a result, it expanded its total territory by a factor of 2.5 relative to the former NKAO.¹⁰⁵ De facto authorities categorically exclude the possibility of transferring control of even parts of these territories, which include strategically important roads that link up Armenian settlements in the territories, as well as infrastructure constructed after the 1992-1994 war.¹⁰⁶

Armenians living in Nagorno-Karabakh, too, express a clear view: these lands, which they fought for and won, should remain under their control.¹⁰⁷ In particular, the eleven thousand people who (according to local sources) inhabit what arguably are the two most strategic districts – Kelbajar and Lachin – consider them home.¹⁰⁸ They chiefly are post-war settlers from Armenia as well as ethnic-Armenian IDPs from neighbouring regions that remained under Azerbaijan's control after the war. The de facto authorities signed long-term land rent contracts with the local population, who have turned lands in most adjacent areas into farms and will pay annual taxes for the next two decades.¹⁰⁹ These long-term arrangements suggest neither the authorities nor the settlers view this as a temporary status or are contemplating return of the districts to Baku's control.

2. Status issue

The past decade has seen developments regarding interpretations and application of principles of self-determination and territorial integrity. The West's recognition of Kosovo's independence was followed by Russia's unilateral recognition of Abkhazia and South Ossetia, and in 2014, its annexation of Crimea. These events sharply divided major world powers. They have particular resonance in post-Soviet conflicts.

This context exacerbated Armenia and Azerbaijan's concern that discussions of Nagorno-Karabakh's status might make them pawns in a larger geopolitical game, leaving them little manoeuvring room and even less influence.¹¹⁰ In the absence of clear, accepted international norms, the two conflicting parties have tended to adopt more extreme positions. Where space once existed for discussion of notions such as interim status, positions presently are firmly entrenched: Baku insists on granting Nagorno-Karabakh broad autonomy within Azerbaijan; Yerevan insists on independence for Nagorno-Karabakh – likely a prelude for its annexation by Armenia.¹¹¹

¹⁰⁵ The final article of Nagorno-Karabakh's first constitution incorporates these territories into the de facto Republic. See "Constitution of the Nagorno-Karabakh Republic", Official website of the President of the Artsakh Republic, (non-official translation), www.president.nkr.am/en/constitution/fullText. This article has remained in the new constitution adopted in February 2017.

¹⁰⁶ Crisis Group interviews, de facto officials and residents of Nagorno-Karabakh, Stepanakert, October 2016, February and May 2017.

¹⁰⁷ Crisis Group interviews, Nagorno-Karabakh region, October 2016, February 2017.

¹⁰⁸ The Armenian name for Kelbajar is Karvachar. Crisis Group interviews, district residents, Yerevan, October 2016; Kelbajar, May 2017. These unverified numbers were provided by local residents.

¹⁰⁹ Crisis Group interviews, residents, Nagorno-Karabakh, October 2016, February and May 2017.

¹¹⁰ Crisis Group interviews, Yerevan, January 2017, Baku, March 2017, and Stepanakert, October 2016 and February 2017.

¹¹¹ "Ilham Aliyev responded to questions from Sputnik International News Agency", Official website of the President of Azerbaijan, 17 October 2016, at <http://en.president.az/articles/21409>. "President

3. Peacekeeping forces

International security arrangements are a precondition for any movement with regard to returning displaced ethnic Azerbaijanis to their homes and transferring control over all or parts of the districts surrounding the former NKAO back to Azerbaijan. During 23 years of negotiations, several variants have been mooted and deliberated, from peacekeepers armed with light weaponry to an unarmed observer mission.¹¹²

Yet these options raise various concerns for the two parties. Armenia evinces little trust that whatever arrangement is put in place can be sufficiently robust or long-term.¹¹³ In the aftermath of Russia's annexation of Crimea, Armenian analysts and officials are even more dubious of international guarantees.¹¹⁴ On the Azerbaijani side, the biggest fear is that the situation will not progress to the point where the question of a peacekeeping force becomes relevant. Secondly, there is strong concern about the composition of such a force.¹¹⁵

Debate likewise has surrounded the potential composition and mandate of a security force dispatched to implement such arrangements. The OSCE High Level Planning Group authorized to discuss options has done little to advance deliberations. To date, only Russia has expressed willingness to send its military personnel to the conflict zone – though this runs against a “gentlemen’s agreement” forged in the Minsk Group context some fifteen years ago that troops from neither regional powers nor Minsk co-chair countries would participate in a potential peacekeeping mission.¹¹⁶ In a rare instance of mutual agreement, neither Armenians nor Azerbaijanis wish to see Russian peacekeepers in the conflict zone.¹¹⁷

B. *Lack of Trust between Negotiating Sides*

In the 1990s, Armenia's and Azerbaijan's leaders would travel to their shared international border for meetings without waiting for an invitation from mediators. They would smile, shake hands and pat their counterparts on the back, all before television cameras.¹¹⁸ Such encounters have become a thing of the past. Azerbaijan's President Aliyev and Armenian President Serzh Sargsyan meet rarely and only under pressure

handed high state awards to the services who excelled in the course of combat duties”, Official website of the President of Armenia, 25 March 2017, www.president.am/en/press-release/item/2017/03/25/President-Serzh-Sargsyan-awarded-Soldiers-in-Artsakh. Crisis Group interviews, Armenian official, Yerevan, January 2017; de facto officials, Stepanakert, February 2017.

¹¹² Philip Remler, “Chained to the Caucasus” op. cit.

¹¹³ Crisis Group interviews, analysts and diplomats, Yerevan, spring 2017.

¹¹⁴ Crisis Group interviews, officials and analysts, Yerevan, October 2016 and January 2017.

¹¹⁵ Crisis Group interviews, analysts, Baku, March 2017.

¹¹⁶ See “Securing an Armenian-Azerbaijani agreement: the roles of international and local security providers”, Conciliation Resources, June 2015, p. 7.

¹¹⁷ Crisis Group interviews, analysts, Baku and Yerevan, spring 2017.

¹¹⁸ The former leaders, Heydar Aliyev from Azerbaijan and Robert Kocharyan from Armenia, would meet frequently. See, eg, “Meeting with Robert Kocharyan and Heydar Aliyev”, YouTube, 17 August 2011, <http://bit.ly/2rEQKHQ>.

from mediators. When they do, their exchanges typically consist of harsh statements verging on insults.¹¹⁹

This profound lack of trust between the leaders is especially damaging because since the 1990s war, negotiations have become the prerogative of the two sides' presidents and foreign ministers.¹²⁰ Alternative channels, such as direct communication between the militaries, have closed.¹²¹ Other than foreign ministers – who play a part during the preparatory phase or when talks stall – no other governmental representatives are at the negotiating table. This hyper-personalisation of the process means that substantive positions, as well as success or failure of any particular negotiation, become the sole responsibility of two specific individuals rather than of broader institutions.¹²²

Moreover, both sides view negotiations as a zero-sum game in which risk-taking can spell defeat, further stymying even incremental progress. This was illustrated during post-April efforts to strengthen peace-monitoring and introduce Confidence and Security Building Mechanisms (CSBM) which, had they been accepted by both sides alongside substantive talks, could have reduced the likelihood of renewed escalation.

CSBM measures, as discussed in the May and June meetings of the Armenian and Azerbaijani presidents in the OSCE Minsk Group framework, had two components: to enhance monitoring by the special representative of the OSCE chairman-in-office; and to introduce a mechanism for investigating incidents in the conflict zone (a suggestion under review since the 1990s).¹²³

Yet Armenia's and Azerbaijan's interpretations and views on implementation differ. For Armenia, enhancing security was a precondition for any substantive talks; for Azerbaijan, substantive talks needed to take place simultaneously lest the proposed security measures cement the status quo. Returning from the May talks in Vienna, President Sargsyan said his main task was to minimise the danger of a new escalation, and only then move toward a step-by-step resolution of the conflict.¹²⁴ On his return,

¹¹⁹ This occurred in August 2014 when Russian President Vladimir Putin mediated talks. Azerbaijan's leader spoke about relevant UNSC resolutions and Armenia's continuing "occupation" of areas in the Nagorno-Karabakh conflict zone; Armenia's president argued that Azerbaijan was ignoring UNSC resolutions. For a transcript, see "Meeting with Ilham Aliyev and Serzh Sargsyan", Official website of the President of Russia, 10 August 2014, <http://en.kremlin.ru/events/president/news/46427>.

¹²⁰ In the official negotiation process, de facto NK is represented by Armenia's officials. The president of de facto NK has often voiced full support for his Armenian counterpart in talks.

¹²¹ One of the last meetings of militaries from both sides took place in the beginning of the 2000s, according to Serzh Sargsyan, then Armenia's defence minister, "Transcript of interview by Thomas de Waal with Serzh Sarkisian", Carnegie Endowment, 15 December 2000, http://carnegieendowment.org/files/DeVaalinterview_r.pdf.

¹²² Crisis Group interview, foreign diplomat, Yerevan, January 2017.

¹²³ "President Serzh Sargsyan received the RF Minister of Foreign Affairs Sergey Lavrov", Official website of the President of Armenia, 22 April 2016, www.president.am/en/press-release/item/2016/04/22/President-Serzh-Sargsyan-meeting-with-RF-foreign-minister-Sergey-Lavrov. They are seen as two separate initiatives. The proposals were divided in two intentionally to allow the conflict parties to agree on at least one of them, according to a foreign diplomat; Crisis Group interview, Yerevan, January 2017.

¹²⁴ See Sargsyan's airplane interview on his return from Vienna talks in May 2016. "President. The Armenian side proposed to hold the next meeting after the establishment of monitoring", YouTube, 17 May 2016, <https://youtu.be/IXlgNPANWps>.

Aliyev made clear his views were entirely different: time was of the essence and incremental conflict resolution, unacceptable.¹²⁵ For Aliyev, any post-April deal needed to reflect Azerbaijan's interest in tangible changes to the status quo, including at least the partial return of districts surrounding Nagorno-Karabakh and creation of opportunities for IDP returns. Discussions of these proposals continued to no avail in the presence of Russian President Vladimir Putin.¹²⁶

Meanwhile, rhetoric has grown increasingly provocative since April 2016. In public speeches, the two leaders began to emphasise the importance of determining Nagorno-Karabakh's final political status, a topic on which their fundamental disagreement is well known. Sargsyan stated he never would allow Nagorno-Karabakh to revert to Baku's control.¹²⁷ Aliyev responded in kind: Azerbaijan never would allow an Armenian state on Azerbaijani territory.¹²⁸ In September 2016, relations between the two men reached a new low at the Commonwealth of Independent States (CIS) summit, where Sargsyan and Aliyev called each other liars.¹²⁹ Since then, they have refused to meet and their pronouncements have become even more militant. Since November 2016, Aliyev regularly talks about the might of his country's army; he has cited historians who assert that not only Nagorno-Karabakh but also modern Armenia is situated on territory that historically belonged to Azerbaijan.¹³⁰ Both presidents have travelled to the front line to examine enemy positions through binoculars.¹³¹ Attending a meeting of veterans at the end of February 2017, President Sargsyan made a call to "keep the gunpowder dry", and mocked Azerbaijani leaders who, he said, continue to hope for a tea-drinking ceremony in Stepanakert.¹³²

¹²⁵ "Speech by Ilham Aliyev at the official reception on the occasion of the Republic Day", op. cit.

¹²⁶ President Putin held a joint meeting with both presidents in St. Petersburg, followed by separate meetings with Aliyev and Sargsyan. "Meeting with Serzh Sargsyan and Ilham Aliyev", Official website of the President of Russia, 20 June 2016, <http://en.kremlin.ru/events/president/news/52189>; "Meeting with President of Armenia Serzh Sargsyan", Official website of the President of Russia, 10 August 2016, <http://en.kremlin.ru/events/president/news/52683>.

¹²⁷ "The President held a meeting with the representatives of the society, authorities and clergy", Official website of the President of Armenia, 1 August 2016, <http://bit.ly/2sn9o3r>.

¹²⁸ "Речь Ильхама Алиева на открытии нового жилого здания построенного для военнослужащих", Official website of the President of Azerbaijan, 25 June 2016, <http://ru.president.az/articles/20495>.

¹²⁹ "Ilham Aliyev gave compelling and tough response to Armenian President's provocative remarks", Official website of the President of Azerbaijan, 16 September 2016, <http://en.president.az/articles/21097>. "Sharp exchanges between Armenian and Azerbaijani presidents at CIS Bishkek summit", Commonsplace.eu, 18 September 2016, http://commonsplace.eu/index.php?m=23&news_id=3899&lng=eng.

¹³⁰ "Speech by Ilham Aliyev at the meeting with representatives of the general public in Tartar", Official website of the President of Azerbaijan, 3 December 2016, <http://en.president.az/articles/21942>.

¹³¹ Aliyev visited the Line of Contact twice in November 2016; Sargsyan had a two-day trip to the Nagorno-Karabakh conflict zone in December 2016.

¹³² "President Serzh Sargsyan participated at the 11th convention of the homeland defenders voluntary union", op. cit.

C. *Eroding Trust in the International System*

Polarisation between the two sides does not merely complicate international mediation, it also reflects declining trust in that mediation. The fates of Kosovo, Abkhazia and South Ossetia, as well as Crimea weigh heavily, impacting on perceptions of possible security arrangements, but also shaking broader confidence that the parties can count on an international system with sound legal underpinnings. Indeed, both believe the international community has been inconsistent vis-à-vis self-determination and territorial integrity claims, reinforcing Yerevan's and Baku's desire to maintain stability by relying on their own means.

Both sides are convinced that international mediators cannot provide firm guarantees to safeguard the agreements they want Armenia and Azerbaijan to conclude. Aliyev repeatedly has spoken about the shortcomings of international law, which failed to compel Armenia to return the seven regions the UN Security Council itself deemed occupied.¹³³ Armenia, similarly, blames the international community for failing to respond to Azerbaijan's policy of isolation toward de facto Nagorno-Karabakh.

D. *Calls for New Roles for Foreign Mediators*

1. The Minsk Group co-chairs under fire

The OSCE Minsk Group, established in 1994, consists of eleven countries including Armenia and Azerbaijan.¹³⁴ Russia, the U.S. and France have served as permanent co-chairs of the group since 1997, nominating their own representatives to take charge of day-to-day mediation on the Nagorno-Karabakh issue.¹³⁵ The special representative (SR) of the OSCE Chair-in-Office works in tandem with the co-chairs.¹³⁶

The Minsk Group has changed its approach over time. Co-chairs in the 1990s put forward proposals, trying to convince the parties to reach substantive agreement on core issues. Since the beginning of the 2000s, however, the Minsk Group has become more of a technical tool, serving essentially to maintain communication between the parties.¹³⁷ This likely reflects above all declining international interest and involvement. The U.S.-led Key West peace process in 2001 was the last time negotiations received such high-level attention from the West.¹³⁸ Since 2008, Russia has assumed a leading role, negotiating directly with the parties and inviting other co-chairs to support its ideas.¹³⁹

¹³³ See UNSC Resolutions 822, 853, 874 and 884. See also statements by President Ilham Aliyev in Tartar in December 2016, "Speech by Ilham Aliyev at the meeting with representatives of the general public in Tartar", op. cit.

¹³⁴ For more detailed information about its mandate, see "Mandate for the Co-Chairmen of the Minsk Process", Minsk Group, OSCE.

¹³⁵ Philip Remler, "Chained to the Caucasus", op. cit.

¹³⁶ Despite frequent chairmanship turnover, SR Andrzej Kasprzyk – who appears to enjoy the confidence of all parties as well as the privilege of regular meetings and contact with de facto NK leadership officials – has remained in his post for the past twenty years. Crisis Group interviews, Baku, Yerevan and NK.

¹³⁷ Crisis Group Report, *Nagorno-Karabakh: New Opening, or More Peril?*, op. cit., p. 7.

¹³⁸ Philip Remler, "Chained to the Caucasus", op. cit.

¹³⁹ Crisis Group interview, Western diplomats, Yerevan, January 2017.

During serious crises, the Minsk Group became the target of criticism by both parties, each demanding more direct high-level foreign engagement. The developments in April increased their frustration, which was chiefly and quickly directed at Minsk Group co-chairs.¹⁴⁰ Within hours of the escalation, the co-chairs became caught in a crossfire of reproaches and complaints. Yerevan demanded an open declaration that Azerbaijan's army had provoked the clash, endangering Armenian civilians and members of its military.¹⁴¹ Baku for its part insisted on an international assessment of civilian casualties and damage inflicted by the Armenian side.¹⁴² Discontent reached the boiling point when Azerbaijan's National Assembly speaker, Ogtay Asadov, declared that his country was starting to lose trust in the Minsk Group, a sentiment quickly echoed by other politicians and public activists. In Yerevan, public outrage spilled out onto the streets. On 9 April, upon leaving an official meeting, the co-chairs were met by youth holding posters and flags which read "Shame on you!"¹⁴³

It was the first time the co-chairs had faced such expressions of public anger on both sides. In the coming months, they came under increasing pressure to take a more active role.¹⁴⁴ Both capitals demanded the co-chairs assess developments and take concrete positions on substantive matters.¹⁴⁵ Such an approach would require unified and strong backing from French, U.S. and Russian leaders. The alternative – a more assertive posture but a divided set of mediators within the Minsk Group, would imperil the sole remaining channel of communication between the two parties, especially given the need for consensus in the OSCE context.¹⁴⁶

That said, the parties are aware of the co-chairs' constraints. The Minsk Group and Special Representative lack the instruments to conduct investigations into ceasefire violations, much less establish responsibility. The SR theoretically has the mandate to deploy "an OSCE peacekeeping operation ... to facilitate a lasting comprehensive political settlement", but in practice it has only a small group of monitors. This group, led by SR Andrzej Kasprzyk, visits a pre-agreed area for a few hours twice a month. Their field trips essentially are symbolic and do not meet modern peace-monitoring requirements.¹⁴⁷

During the April confrontation, President Sargsyan proposed strengthening the mediators' role and introducing an OSCE investigation mechanism.¹⁴⁸ The goal was

¹⁴⁰ Crisis Group interviews, Yerevan, Baku, January, March 2017.

¹⁴¹ The OSCE Minsk Group issued a statement condemning atrocities but not before December 2016. See "Joint Statement by the Heads of Delegation of the OSCE Minsk Group Co-Chair Countries", Minsk Group, OSCE, 8 December 2016.

¹⁴² See co-chairs press-conference, Yerevan, April 2016, at www.youtube.com/watch?v=wV39yAHO3oU.

¹⁴³ "National Assembly speaker: Azerbaijan loses trust to OSCE Minsk Group on Karabakh conflict", *abc.az*, 4 April 2016. See video footage of the protest at <https://ru.armeniasputnik.am/video/20160409/2889494.html>; "The day on the frontline", YouTube, 9 April 2016, <http://bit.ly/2rURc4J>.

¹⁴⁴ Crisis Group interviews, officials and analysts, Yerevan, Baku, January, March 2017.

¹⁴⁵ Crisis Group interviews with Armenian and Azerbaijani officials, Yerevan and Baku, spring 2017.

¹⁴⁶ The Minsk Group includes Turkey, Germany, Italy, Portugal, the Netherlands, Sweden, Finland, Belarus, France, Russia, U.S., Armenia and Azerbaijan.

¹⁴⁷ For more details, see "Ambassador Andrzej Kasprzyk", OSCE Chairmanship, OSCE. Laurence Broers, "The Nagorny Karabakh Conflict: Defaulting to War", Chatham House, 11 July 2016.

¹⁴⁸ "The President met with the Ambassadors of the OSCE participating states", Official website of the President of Armenia, 4 April 2016, <http://bit.ly/1RA44CG>.

to reduce risk of further violence and fulfil both parties' demands for a mechanism to investigate any future incidents.¹⁴⁹ But this requires consensus among all OSCE member states, including conflict parties. Azerbaijan has conditioned its consent on "substantive progress" in the peace process, specifically discussion of the concrete terms of a future settlement, including the withdrawal of the Armenian military forces from Nagorno-Karabakh.¹⁵⁰

Lack of compromise has re-frozen the process, reinforcing the parties' claims that the Minsk Group is a "useless structure" whose co-chairs "do nothing", and that "it does not matter what format or group they are part of".¹⁵¹ The decision by France and the U.S. to appoint energetic diplomats commanding respect and support in their home capitals did not correct the problems nor did a joint public statement by the co-chairs' foreign ministers on the situation in the conflict zone. The parties still lack confidence in their intention to genuinely engage.¹⁵²

The Minsk Group's lowest common denominator, "passive mediator" approach places the co-chairs in a weak position, particularly vis-à-vis parties entrenched in maximalist positions. Changing the current dynamic requires high-level backing from Moscow, Washington and Paris coupled with close coordination. That combination appears unlikely at least in the near future, given uncertain political transitions in France and the U.S. President Macron, with time, might well intensify France's involvement on this issue. President Trump, for now, remains a genuine question mark.

2. Understanding Russia's role

Russia has been the dominant international player in the Nagorno-Karabakh conflict for the last ten years. It has been the only global power publicly presenting proposals to the Armenian and Azerbaijan leaderships and reacting instantly to changes in the conflict zone.¹⁵³ More recently, Moscow has used its privileged position to promote its own initiatives, though often acting on behalf of the OSCE Minsk Group, thereby boosting their legitimacy and political weight.

A central actor, Russia also is one whose motivations raise questions both in Yerevan and Baku. Neither side views Moscow as disinterested; both view it as using the conflict to advance its position and military presence in the South Caucasus, an area it considers to be within what Russian officials typically describe as the country's "sphere of privileged interests". Moscow is seen as courting Armenia or Azerbaijan alternately, depending on which is more willing or able to bolster its regional goals. These include safeguarding its borders, including the problematic North Caucasus,

¹⁴⁹ Crisis Group interview, foreign diplomat, Yerevan, January 2017.

¹⁵⁰ Crisis Group interviews, Azerbaijani officials, Baku, March 2017. "Statement by Elmar Mammadyarov, the Minister of Foreign Affairs of the Republic of Azerbaijan, at the 23rd Ministerial Council of the OSCE", Official website of Ministry of Foreign Affairs of Republic of Azerbaijan (www.mfa.gov.az), 8 December 2016.

¹⁵¹ Crisis Group interviews, Azerbaijani and Armenian officials, Baku and Yerevan, March and January 2017.

¹⁵² Stéphane Visconti, France's former ambassador to Latvia, replaced Pierre Andrieu in November 2016. Richard E. Hoagland, a U.S. diplomat with over 30 years of experience, replaced James Warlick on an interim basis in January 2017.

¹⁵³ Crisis Group Report, *Nagorno-Karabakh: New Opening, or More Peril?*, op. cit.

and preventing an uptick in military activity close to Syria, where it is deeply engaged. As a result, Armenia and Azerbaijan question Russia's interest in resolving the conflict and criticise its overly transactional approach.¹⁵⁴ Notwithstanding their concern, the absence of proactive Western participation has left the two parties with no real alternative to Russian mediation.

If Russia is the predominant outside player, its influence nonetheless has limits. It established contact between the Armenian and Azerbaijani chiefs of staff and brokered the April 2016 ceasefire but the Minsk Group format – not Moscow's invitation alone – was needed to convene the May and June summits.¹⁵⁵ Russia also has been the target of mutual recrimination by Yerevan and Baku. Immediately after the April events, street protests erupted in Yerevan protesting Russian arms sales to Azerbaijan; Armenian police had to block the entrance to the Russian embassy from youth groups carrying posters and flags, and pelting the building with eggs. President Sargsyan, expressing discontent to Russian Prime Minister Dmitry Medvedev in Yerevan, took the unprecedented step of publicly reprimanding Russia for selling Azerbaijan weapons used to shoot Armenian soldiers.¹⁵⁶ Armenia and Russia have a close military alliance founded on a bilateral treaty and on Armenia's membership in the Collective Security Treaty Organisation (CSTO), as well as close economic ties, and external observers noted how Yerevan's outspoken criticism went well beyond past practice.¹⁵⁷ For many Armenians, a principal lesson of the April escalation was that Yerevan "cannot count on the Russians anymore".¹⁵⁸

In fact, Armenia's disappointment predates April 2016. Already in the second half of 2015, Russia's Minister of Foreign Affairs Sergey Lavrov presented Yerevan and Baku with a non-paper on a possible deal; it was so poorly received in Armenia that an Armenian official suggested it "must have been drafted in Baku".¹⁵⁹ The Lavrov Plan presumed the return of five of seven districts around the former NKAO to Baku's direct control.¹⁶⁰ Contrary to Yerevan's expectations, Nagorno-Karabakh would not receive any clear guarantees regarding its future political status outside Azerbaijan. Instead, the document apparently referred to an "interim status", sparking Armenian fears that Russia's position was shifting in Azerbaijan's direction and

¹⁵⁴ Crisis Group interviews, Baku, Yerevan, Brussels, Vienna, 2016 and 2017.

¹⁵⁵ Crisis Group interview, European diplomat Brussels, June 2016.

¹⁵⁶ "Armenians protest against Russian arms sales to Azerbaijan", RFE/RL Armenian Service, 13 April 2016, <http://bit.ly/2rkZfFc>. "President Serzh Sargsyan met with the Chairman of the Government of RF Dmitri Medvedev", Official website of the President of Armenia, 8 April 2016, <http://bit.ly/1SjWtUS>.

¹⁵⁷ Crisis Group interviews, Yerevan and Vienna, spring 2017.

¹⁵⁸ Crisis Group interview, foreign diplomat, Yerevan, January 2017.

¹⁵⁹ Crisis Group interview, Western diplomat, January 2017.

¹⁶⁰ "Lavrov's Plan" is a confidential document that was seen by, and discussed with officials in Armenia, Azerbaijan and Western capitals. Crisis Group interviews, Western diplomats, Vienna, October 2016; Brussels, January 2017; Yerevan, January 2017. Russia refuses to call it "Lavrov's Plan", emphasising that the non-paper is based on past discussions within the OSCE Minsk Group. Media and officials in Armenia and Azerbaijan also have referred to them as "Putin's plan" and "a revised Kazan document", in reference to an earlier Russian-proposed peace plan that failed. Russia's proposal apparently contemplates return of five districts located east and south of the NKAO, but not of the two larger districts of Kelbajar and Lachin that are strategically important to the Armenian side because of the placement of two main roads connecting Armenia with de facto Nagorno-Karabakh.

would support a self-rule arrangement under its control. In return, Azerbaijan, as well as Turkey, reportedly would open their borders with Armenia. Some diplomats say Baku and Ankara privately suggested willingness to open borders in exchange for the return of fewer than five districts.¹⁶¹ As one observer put it: “For the first time in 25 years, Russians were pressuring Armenians”.¹⁶²

Azerbaijan expressed satisfaction with Russia’s apparent new position, but it was short-lived. President Aliyev welcomed Russia’s readiness to “put pressure” on Armenia and between the April confrontation and mid-summer 2016 repeatedly said he anticipated immediate changes in the stalled process. These hopes dissipated as Azerbaijan concluded that Russia was again willing “to play the two sides so as to keep pressure on both”.¹⁶³ After meeting with his Armenian counterpart in August 2016, Vladimir Putin said: “We need to find such approaches and mechanisms, whereby ... no one would feel that they are the victorious or the defeated party”.¹⁶⁴ Azerbaijan had had higher hopes.

As Yerevan and Baku see it and informally admit, Russia is chiefly interested in expanding its military presence in the region by deploying troops in the conflict zone, an ambition even some Russians privately acknowledged in interviews.¹⁶⁵ They point in particular to a suggestion in the so-called Lavrov Plan that Russia might deploy a peacekeeping contingent to Nagorno-Karabakh with the consent of the parties. Both parties rejected the proposal, fearing such a military presence would make them even more dependent on Moscow’s shifting interests.¹⁶⁶ Further fuelling Armenian and Azerbaijani mistrust, a Russian official has argued that in the event of a large-scale military confrontation, Moscow may have to intervene to prevent ethnic cleansing or serious violations of humanitarian law.¹⁶⁷ This, Armenian and Azerbaijani analysts fear, could be the prelude to a permanent Russian military presence in Nagorno-Karabakh.¹⁶⁸

¹⁶¹ Crisis Group interviews, diplomats, Brussels and Ankara, 2016 and 2017.

¹⁶² Crisis Group interview, foreign diplomat, Yerevan, January 2017.

¹⁶³ “Speech by Ilham Aliyev at the military unit in Tartar district”, op. cit. Crisis Group interviews, analysts, Baku, March 2017.

¹⁶⁴ “High-level Armenian-Russian negotiations took place in Moscow”, Official website of the President of Armenia, 10 August 2016, <http://bit.ly/2qASl1s>.

¹⁶⁵ Crisis Group interviews, Yerevan, January 2017. A Russian official did not dispute this interpretation. Crisis Group interview, Russian official, Moscow, October 2016.

¹⁶⁶ As previously noted, Armenia, Azerbaijan and the OSCE Minsk Group co-chairs reached a so-called “gentlemen’s agreement” not to include any of the regional states in a putative peacekeeping force, thereby ruling out Russia and Turkey in particular.

¹⁶⁷ Crisis Group interview, Russian diplomat in the region, January 2017.

¹⁶⁸ Crisis Group interviews, analysts, Yerevan, Baku, mid-2017.

V. Conclusion

While violence remains at a relatively low boil, any escalation quickly could spin out of control, and the danger of more deadly fighting involving highly destructive weaponry is real. Failure to contain a future escalation likely would result in heavy casualties coupled with foreign intervention. Troop deployment from any of the regional powers would deeply impact Armenia and Azerbaijan, and their sovereignty, at a time when both have just celebrated 25 years of independence.

Negotiations are the only way out of the impasse, and the best way to avert another war. Sound principles for a realistic, fair settlement of the conflict exist, but distrust, a gap between the mediators' and the two sides' perceptions, and the protagonists' heightened appetite for maximum gains likely render any immediate compromise formula remote. For both sides, either stalemate or war currently appears a better outcome than compromise. Worse, Baku's frustration with the status quo on the ground, and Armenia's efforts to cement it, could prompt a vicious cycle of further and more violent confrontation.

Implementation of the CSBMs discussed in Vienna and St. Petersburg – enhancing monitoring of the zone of conflict and setting up an investigative mechanism – is urgently needed and should be accompanied by establishment of a channel of communication between field-based militaries on both sides. But this needs to happen in parallel to substantive discussions of issues central to the settlement. The problem is that both sides see no reason to proceed with the element of the twin approach they disfavour: Yerevan will not agree to substantive discussions until CSBMs are addressed; Baku will balk at implementation of confidence-building measures without at least some dialogue on substantive issues.

This is where high-level coordination and pressure by Moscow, Washington and Paris is both needed and possible – if they put their differences on other issues aside. The best prospect for averting renewed war is for Russia, the U.S. and France to work in unison, with strong buy-ins from their respective leaderships. As they do so, they also should press Armenian and Azerbaijani leaders to tone down hostile rhetoric, soften their negotiating positions and acknowledge – privately, but also publicly – that this conflict ultimately will only be resolved through negotiations, not by force.

Yerevan/Baku/Stepanakert/Brussels/Vienna, 1 June 2017

Appendix A: Map of the Conflict Zone in a Regional Context

Stepanakert is the capital of the former Nagorno-Karabakh Autonomous Oblast and the non-recognised Nagorno-Karabakh Republic. The Azerbaijanis have officially renamed the city Khankendi and refer to it by this name. This report uses the pre-1988 names for all geographical features in the area of conflict.



Appendix B: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early warning bulletin, providing a succinct regular update on the state of play in up to 70 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord Mark Malloch-Brown. Its Vice Chair is Ayo Obe, a Legal Practitioner, Columnist and TV Presenter in Nigeria.

Crisis Group's President & CEO, Jean-Marie Guéhenno, served as the UN Under-Secretary-General for Peacekeeping Operations from 2000-2008, and in 2012, as Deputy Joint Special Envoy of the United Nations and the League of Arab States on Syria. He left his post as Deputy Joint Special Envoy to chair the commission that prepared the white paper on French defence and national security in 2013.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in ten other locations: Bishkek, Bogota, Dakar, Kabul, Islamabad, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Sanaa, Tblisi, Toronto, Tripoli, Tunis, and Yangon.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Canadian Department of Foreign Affairs, Trade and Development, Dutch Ministry of Foreign Affairs, Finnish Ministry for Foreign Affairs, French Ministry of Foreign Affairs, German Federal Foreign Office, Irish Aid, Principality of Liechtenstein, Luxembourg Ministry of Foreign Affairs, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, Swiss Federal Department of Foreign Affairs, and U.S. Agency for International Development.

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June 2017

Appendix C: Reports and Briefings on Europe and Central Asia since 2014

Special Reports

Exploiting Disorder: al-Qaeda and the Islamic State, Special Report N°1, 14 March 2016 (also available in Arabic).

Seizing the Moment: From Early Warning to Early Action, Special Report N°2, 22 June 2016.

Counter-terrorism Pitfalls: What the U.S. Fight against ISIS and al-Qaeda Should Avoid, Special Report N°3, 22 March 2017.

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Ukraine: Running out of Time, Europe Report N°231, 14 May 2014.

Eastern Ukraine: A Dangerous Winter, Europe Report N°235, 18 December 2014.

The Ukraine Crisis: Risks of Renewed Military Conflict after Minsk II, Europe Briefing N°73, 1 April 2015.

Russia and the Separatists in Eastern Ukraine, Europe and Central Asia Briefing N°79, 5 February 2016.

Ukraine: The Line, Europe Briefing N°81, 18 July 2016.

Ukraine: Military Deadlock, Political Crisis, Europe Briefing N°85, 19 December 2016.

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Water Pressures in Central Asia, Europe and Central Asia Report N°233, 11 September 2014.

Syria Calling: Radicalisation in Central Asia, Europe and Central Asia Briefing N°72, 20 January 2015 (also available in Russian).

Stress Tests for Kazakhstan, Europe and Central Asia Briefing N°74, 13 May 2015.

Kyrgyzstan: An Uncertain Trajectory, Europe and Central Asia Briefing N°76, 30 September 2015.

Tajikistan Early Warning: Internal Pressures, External Threats, Europe and Central Asia Briefing N°78, 11 January 2016.

The Eurasian Economic Union: Power, Politics and Trade, Europe and Central Asia Report N°240, 20 July 2016 (also available in Russian).

Uzbekistan: In Transition, Europe and Central Asia Briefing N°82, 29 September 2016.

Kyrgyzstan: State Fragility and Radicalisation, Europe and Central Asia Briefing N°83, 3 October 2016 (also available in Russian and Kyrgyz).

Uzbekistan: Reform or Repeat?, Europe and Central Asia Briefing N°84, 6 December 2016.

Uzbekistan: The Hundred Days, Europe and Central Asia Report N°242, 15 March 2017.

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Bosnia's Future, Europe Report N°232, 10 July 2014.

Macedonia: Defusing the Bombs, Europe Briefing N°75, 9 July 2015.

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Too Far, Too Fast: Sochi, Tourism and Conflict in the Caucasus, Europe Report N°228, 30 January 2014 (also available in Russian).

Chechnya: The Inner Abroad, Europe Report N°236, 30 June 2015 (also available in Russian).

North Caucasus: The Challenges of Integration (IV): Economic and Social Imperatives, Europe Report N°237, 7 July 2015 (also available in Russian).

The North Caucasus Insurgency and Syria: An Exported Jihad?, Europe Report N°238, 16 March 2016 (also available in Russian).

Cyprus

Divided Cyprus: Coming to Terms on an Imperfect Reality, Europe Report N°229, 14 March 2014 (also available in Greek and Turkish).

Turkey

The Rising Costs of Turkey's Syrian Quagmire, Europe Report N°230, 30 April 2014.

Turkey and the PKK: Saving the Peace Process, Europe Report N°234, 6 November 2014 (also available in Turkish).

A Sisyphean Task? Resuming Turkey-PKK Peace Talks, Europe Briefing N°77, 17 December 2015 (also available in Turkish).

The Human Cost of the PKK Conflict in Turkey: The Case of Sur, Europe Briefing N°80, 17 March 2016 (also available in Turkish).

Turkey's Refugee Crisis: The Politics of Permanence, Europe Report N°241, 30 November 2016 (also available in Turkish).

Managing Turkey's PKK Conflict: The Case of Nusaybin, Europe Report N°243, 2 May 2017.

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