



Author: Zaur Shiryev

Contributors: Eka Tkeshelashvili and Mitat Çelikpala

Policy Paper

Institutionalizing a Trilateral Strategic Partnership: Azerbaijan, Georgia, Turkey



Konrad
Adenauer
Stiftung



Acknowledgments

The author and contributors are grateful to anonymous peer reviewers for their helpful responses to earlier drafts of this paper. The Konrad-Adenauer-Stiftung's South Caucasus team, Canan Atilgan, Shorena Gharibashvili and Florian Feyerabend, and Professor Mustafa Aydin, Rector of Kadir Has University provided invaluable help and encouragement. Thanks also to Celia Davies for final editing and comments.

Author and contributors

Zaur Shiryev is an Academy Associate at the Royal Institute of International Affairs (Chatham House) in London, UK.

Eka Tkeshelashvili is the President of the Georgian Institute for Strategic Studies, and former Foreign Minister, Justice Minister, and Vice-Prime Minister of Georgia.

Prof. Dr. Mitat Çelikpala is the Dean of the Graduate School of Social Sciences at Kadir Has University in Istanbul, Turkey.

All rights reserved.

Konrad-Adenauer-Stiftung
Regional Program South Caucasus
Akhvlediani Agmarti 9a
0103 Tbilisi, Georgia
<http://www.kas.de/kaukasus>

Disclaimer:

Commercial use of all media published by the Konrad-Adenauer-Stiftung (KAS) is not permitted without the written consent of KAS.

The views expressed in this publication are not necessarily those of KAS or of the organization for which the author works.

© Konrad-Adenauer-Stiftung e.V. 2016



Konrad-Adenauer-Stiftung (KAS) is a political foundation of the Federal Republic of Germany. Democracy, peace and justice are the basic principles underlying the activities of KAS at home as well as abroad. The Foundation's Regional Program South Caucasus conducts projects aiming at: Strengthening democratization processes, Promoting political participation of the people, Supporting social justice and sustainable economic development, Promoting peaceful conflict resolution, supporting the region's rapprochement with European structures.



The Center for International and European Studies (CIES) at Kadir Has University was established in 2004 as the Center for European Union Studies to study Turkey's European Union accession process. Since September 2010, CIES has been undergoing a major transformation by widening its focus in order to pursue applied, policy-oriented research and to promote debate on the most pressing geostrategic issues of the region. Its areas of research and interaction include EU institutions and policies (such as enlargement, neighbourhood policies and CFSP/CSEDP), cross-cutting horizontal issues such as regional cooperation, global governance, and security, inter alia with a geographical focus on the Black Sea Region (including the Caucasus), the Mediterranean, Southeastern Europe, Turkish-Greek relations, and transatlantic relations.

Table of Contents

INTRODUCTION.....	4
PART I - The Rationale of the Trilateral Format and Potential Harmonization of Foreign-Security Policies	6
PART II - Defence Cooperation among the Troika: Risks and Potential	12
PART III - Energy and Transport Projects: Prospects for Further Cooperation.....	16
PART IV - Trilateral Economic Ties and Business Engagement.....	19
CONCLUSIONS AND RECOMMENDATIONS.....	24
BIBLIOGRAPHY.....	28

INTRODUCTION

The development and consolidation of the energy cooperation between Azerbaijan, Georgia and Turkey in the early 1990's was the beginning of strategic trilateral partnership. In this regard, the realization of two major projects, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline, has redrawn the contours of the geopolitical map of the South Caucasus and its immediate neighborhood. That partnership has led to the development of strategic relations and high level coordination, the spirit of which brings to mind the Three Musketeers' motto of "All for one and one for all, united we stand divided we fall". There was, however, a fourth Musketeer that played a key role in shaping modern geopolitical reality of Caucasus, namely the United States, which provided crucial political and financial backing.

During the 1990s, this "Three Musketeers" image strengthened external perceptions that the three countries were closely aligned in terms of their foreign, economic and security policies. However, as Russia began to flex her muscles in the early 2000's, and with the Russian-Georgian war in 2008, differences emerged in the foreign-security policies of the three. However, ongoing collaborations have helped not only to sustain but also to strengthen the trilateral partnership. Key among these are the Trans Anatolian Natural Gas Pipeline (TANAP) and the Trans Adriatic Pipeline (TAP) to export Shah Deniz II gas to European markets by 2019; beyond the energy sector there is also the Baku-Tbilisi-Kars railway project.

The main challenge to the trilateral partnership is that in some areas, bilateral ties are much more developed than at the trilateral level. The trilateral partnership is most developed in the energy sector, which has been the primary focus of cooperation. Furthermore, any disruptions to bilateral relationships can be troubling for the third partner, as we saw during the short-lived Turkey-Armenian normalization process, which caused Baku-Ankara relations to cool, or the election of the Georgian Dream Coalition (GD) in 2012. Accusations that the Georgian Dream was pro-Russian together with some questionable statements by the new government on trilateral projects (namely the BTK railway) led to similar short term concerns.

Given that the bilateral relationships were mainly established at the leadership levels, changes in government have been followed by misunderstandings and short-term of distrust. Therefore the sectoral institutionalization of relations at both the bilateral and trilateral levels marks a new stage in cooperation. The motto of today's strategic partnership has evolved into something more like "despite our differences, we are united". Hence 2012 witnessed the first trilateral meeting among the foreign ministers of

the three countries. The same format was replicated by other government departments, graduating to a trilateral Presidential-level meeting.

Enhancing the strategic partnership through sectoral (economy, foreign relations, defence) strengths has contributed to the 'institutionalization' target; during the 1990s, the relationships were already institutionalized at the state level. Further to this, is also important to note that the trilateral format transcends the anti-Russia or anti-West polarization. However, notwithstanding this desire for some kind of political 'neutrality', three main challenges can be identified in this regard.

Firstly, in order to develop the trilateral arrangement, there is a need to establish a proper balance between developing process-based, working-level coordination/cooperation, and maintaining a platform for high-level trilateral political consultations. Existing bilateral partnerships may need to be expanded to the trilateral level. There are also less developed areas of cooperation, for instance in large sectors such as media and science. In addition societal level engagement must be enhanced via public diplomacy and people-to-people contact.

Second, from the strategic point of view, the main challenge may be the lack of presidential-level focus on enhancing the trilateral relationship; this was originally expected from Turkey. In general, the Turkey was initiator of the trilateral format. However, Ankara's shift in focus to the Middle East as well as its reluctance to irritate an increasingly assertive Russia has narrowed down Ankara's ambition, and as a result, its vision for the role of the trilateral relationship. But the shifting geopolitical landscape in the Middle East as well as in the Black Sea area could stimulate a recalibration of policies, reinvigorating Turkey's strategic engagement in the trilateral format.

Last but not the least, the changing dynamics in regional affairs, and the potential for divergent perceptions of these developments, constitutes a key challenge. Notably, the regional landscape has been considerably destabilized by Russia's annexation of Crimea and the war in Ukraine. There are also signs of changing attitudes towards Russia among the three countries. Until Russia's military intervention in Syria at the end of September 2015 and the discord between Ankara and Moscow, Georgia was the only country with an openly pro-European attitude, and Azerbaijan maintained a neutral position. But the change in Turkey-Russia relations will affect the trilateral strategy. In this complex environment, the ways in which these states choose to support one another and coordinate their strategies may serve to deepen the alliance. In this regard, the West's perception and policy will be a defining factor. The NATO Summit in 2016 and possible decision on Georgia's membership, along with the potential role of Iran in the wake of the nuclear deal, will be key.

Almost three years have passed since the first trilateral meeting between the three foreign ministers, and the adoption of the Trilateral Sectoral Cooperation Action Plan for 2013-2015, determining concrete actions and plans for cooperation in all major fields of mutual interest. A new Action Plan is likely to be adopted in the near future. The aim of this report is to analyze trilateral sectoral development, looking at defence cooperation, economic and business communities, the energy partnership, and in broader terms, the orientation of foreign and security policies.

PART I -

The Rationale of the Trilateral Format and Potential Harmonization of Foreign- Security Policies

The first trilateral-type meeting involving Turkey and Azerbaijan dates back to December 2010, when the Azerbaijani, Turkish and Iranian foreign ministers met on the side-lines of the Economic Cooperation Organization meeting in Istanbul. This informal meeting led to the first official trilateral meeting in the Iranian city of Urmia in April 2011. The most recent meeting – the fourth - was held in March 2014 in Van, Turkey. The Azerbaijan-Iran-Turkey trilateral format was introduced at a time when political tensions between Tehran and Baku were high, and Turkey sought ways to thaw the relationship.¹

However, the format was not initially successful, and in fact, the Baku-Tehran relationship continued to deteriorate, though not because of the format itself. What improved the situation was Hasan Rouhani's victory in the 2013 presidential election and the subsequent shifting dynamics in the region via the nuclear accord negotiations with the West. This format was a *risk saver* – aimed at reducing tensions between Iran and Azerbaijan – and it was clear that there was little demonstrable commitment to collectively representing regional interests in a multilateral negotiating forum.

Meanwhile, the trilateral format was also tested through the meetings between the foreign ministers of Turkey, Azerbaijan and Turkmenistan, the first of which was held in May 2014. The chief aim was to bring Ashgabat into discussions about potentially exporting its gas to European market through using existing gas export line from Azerbaijan to Turkey, namely the Trans Anatolian Natural Gas Pipeline (TANAP) and Trans Adriatic Pipeline (TAP). But due to problems with the realization of the Trans Caspian Pipeline - which has been on the table since the end of the 1990s – those involved in the project are keen to bring Turkmen gas to the European market via Azerbaijan. This trilateral consultation—which in the next stage will involve the

¹ Özerkan, Fulya. "Turkey seeks thaw in Iran-Azeri ties", *Hurriyet Daily News*, December 4, 2011, <http://www.hurriyetaidailynews.com/default.aspx?pageid=438&n=turkey-seeks-thaw-in-iran-azerbaycan-ties-2011-04-12> (accessed September 14, 2015).

presidents—began with political consultations and aims to enhance cooperation across various fields, particularly in energy, trade, transport, culture, tourism, education and environmental protection.² Unlike the Baku-Tehran-Ankara format, this format promotes cooperation in various fields. Additionally, this partnership seeks to minimize the political and economic disagreements between Azerbaijan and Turkmenistan.

The Azerbaijan-Georgian-Turkish trilateral format began in June 2012 with the first meeting of the three Foreign Ministers, which saw the signing of the Trabzon declaration. A subsequent meeting on 28 March 2013 in Batumi consolidated the notion of a platform for formalized cooperation between the regional strategic partners. This accelerated sectoral cooperation and the format was raised to the presidential level in May 2014.

The Trabzon declaration made it clear that the purpose of the trilateral format is to provide mutual support in the international arena, promoting further development of relations across various sectors, and supporting the individual choices of each country (e.g. Georgia's path to Euro-Atlantic structures³ compared to Azerbaijan's so-called neutrality). The key message is, "despite our differences, we are united".

This iteration of the trilateral format also included the same *risk saver* notion as the Baku-Tehran-Ankara format, as well as the promotion of cooperation entailed in the Baku-Ashgabat-Ankara format. Furthermore, and what is lacking in latter two, the Baku-Ankara-Tbilisi format is also aimed at the institutionalization of relations in different sectors, as well as developing the well-established cooperation in energy, economic and political relations. The format's main objectives are as follows:

Minimizing Effect of Political Disagreements and Possible Effect to Third Partner

Prior to the emergence of the formal trilateral format, a few political disagreements took place, for instance in 2003 when Western-oriented Mikhail Saakashvili came to power after the Rose Revolution, and in early speeches spoke about spreading government changes with revolutionary attempts. This created fear among the Baku authorities, who saw risks to their own interests. A bigger issue for the troika was the Turkish-Armenian rapprochement process. The sudden cooling of Baku-Ankara ties concerned Georgia for two main reasons. The first is its transit role – Tbilisi was worried that this would disrupt the implementation of energy projects and cause them financial problems.

² "Baku Statement of the First Trilateral Meeting of the Ministers of Foreign Affairs of the Republic of Azerbaijan, the Republic of Turkey and Turkmenistan", Ministry of Foreign Affairs of the Republic of Turkey, May 26, 2014, http://www.mfa.gov.tr/baku-statement-of-the-first-trilateral-meeting-of-the-ministers-of-foreign-affairs-of-the-republic-of-azerbaijan_-the-republic.en.mfa (accessed September 15, 2015).

³ See more: "Trabzon Declaration of the Ministers of Foreign Affairs of The Republic of Azerbaijan, Georgia and the Republic of Turkey", Ministry of Foreign Affairs of the Republic of Turkey, June 8, 2012, http://www.mfa.gov.tr/trabzon-declaration-of-the-ministers-of-foreign-affairs-of-the-republic-of-azerbaijan_-georgia-and-the-republic-of-turkey_-08-june-2012_-trabzon.en.mfa (accessed September 15, 2015).

Secondly, the rapprochement would have increased Russian leverage vis-à-vis Azerbaijan, and decrease rather than increase Turkey's role in regional discourse.

Similarly, deepening economic ties and ever-increasing informal trade between Turkey and Abkhazia represent a matter of serious concern for Georgia.⁴ In order to minimize the effect of bilateral disagreements on the third partner, the aim is to institutionalize relations in various state agencies in order to eliminate political impact and increase consultations. While this format does not guarantee success, better coordination will speed up the process of finding a solution.

For instance, after the launch of the foreign ministers' meeting format in June 2012, another political disagreement emerged between Azerbaijan and Georgia. The new government headed by Bidzina Ivanishvili began ruminating about whether it made sense for Georgia to continue with the Baku-Tbilisi-Kars project, a central priority for Azerbaijan, which had already invested heavily in its construction in an effort to upgrade rail connections to Turkey.⁵ This caused alarm in Baku. However, the foreign ministers and respective authorities from both sides dealing with the construction of railway subsequently ensured that there were no obstacles, and the misunderstanding was resolved in a high-level meeting.

Ambiguity around the possibility of opening a railway connection between Russia and Georgia alarmed the political leadership in Baku. Comments by then-Prime Minister Bidzina Ivanishvili in favor of this possibility increased those concerns.⁶ The railway has not been opened as a result of the negative reactions in Azerbaijan as well as among the Georgian public. However, neither the Georgian public nor Baku has been fully persuaded yet that such an option is off the table and that Moscow and Tbilisi are not holding secret talks.

The problems that have emerged since the launch of the trilateral format indicate that the partnership still faces some limitations, and that coordination between the parties has not been fully realized. In particular, the revelation of behind-the-scenes negotiations between the Georgian Ministry for Energy and Natural Resources and Russian Gazprom on the possibility of Russian gas exports to Georgia at the end of

⁴Sergi Kapanadze, "Turkish Trade with Abkhazia: An Apple of Discord for Georgia", *Turkish Policy Quarterly*, No. 13/3, (2014):59.

⁵ S. Neil MacFarlane, 2015. *Two Years of the Dream: Georgian Foreign Policy during the Transition*, London: Chatham House.

https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150529GeorgianForeignPolicyMacFarlane.pdf.

⁶ "Ivanishvili Speaks in Favor of Rail Link via Abkhazia", *Civil Georgia*, September 22, 2012, <http://www.civil.ge/eng/article.php?id=25245> (accessed October 15, 2015).

September 2015 reinforced concerns.⁷ While the volumes that Georgia might be getting from Gazprom might not be particularly large, the very fact that Georgia could have engaged in such negotiations while being partially occupied by Russia, and given that Gazprom has previously cut off supplies, raised legitimate questions. These were amplified by the secrecy of negotiations. Since this story broke in the Georgian media, Tbilisi has made diplomatic efforts to explain its position to Baku and dispel misunderstandings. However, this episode, especially given the continuing negotiations with Gazprom, has damaged the bilateral relationship. Bilateral trust needs to be repaired in order to prevent this from negatively impacting the trilateral relationship.

Deepening Sectoral Cooperation

All three countries have reached a point where they acknowledge the need to deepen the relationship at the sectoral level. They have widened rather than deepened the relationship, and generally it has remained strong because of friendship and/or good relations between leaders. The oil and gas pipelines have generated strong links and brought a common understanding of the benefits. But this has created a twofold problem. First, beyond energy and transport cooperation, collaboration in other sectors has received relatively little attention, and tends to be bilateral rather than trilateral. In this regard, the level of sectoral cooperation is much deeper at the bilateral level in some sectors, and this has opened a gap at the trilateral level. For example, Azerbaijani-Turkish military and defence cooperation is far closer than current state of level of Georgian-Turkish cooperation. This might be understandable, but there has been little trilateral focus on this issue until the launch of the trilateral meeting format between the defence ministers. Top-level support for deepening sectoral cooperation must be bolstered by ministerial support from relevant departments.

Further and More Coordinated International Support

All three countries, especially Azerbaijan and Georgia, have faced similar challenges in the post-independence period, including ethnic separatism and the occupation of sovereign territories. Mutual support took the form of statements of support from government officials, supporting one another at bilateral and multilateral meetings including at the United Nations and in European Union Parliament resolutions. From the early days of Georgian and Azerbaijani independence, Turkey used its international standing as a member of NATO and several European institutions to advocate for its partners' interests. But there is a need for coordinated mutual support, not only on vital issues like territorial integrity, but also in regard to their membership in several institutions. All three can use their resources to a single end, as was the case during

⁷ "Georgian Energy Minister Speaks of Need to Buy Russian Gas", *Civil Georgia*, October 20, 2015, <http://www.civil.ge/eng/article.php?id=28674> (accessed October 14, 2015).

Azerbaijan's non-permanent membership in the United Nations' Security Council in 2011. These efforts should be expanded. For instance, in November 2015, Azerbaijan took part in the Group of Twenty (G20) Antalya summit at the invitation of Turkey. In the future, Tbilisi should be included in such initiatives to ensure improved coordination and firm support. Notably, the problem of territorial integrity and the refugee issue in Azerbaijan and Georgia require trilateral coordination. The three countries should coordinate their diplomatic activity across various international platforms, ensuring that secessionist conflicts are fully addressed in the resolutions or initiatives of the UN, Council of Europe, European Parliament, etc.

Challenges and Risks

There are several challenges that these countries currently face, have already faced, or will face in the near future.

The number one question is Russia's changing role in regional affairs, following Moscow's annexation of Crimea and the launch of a proxy war in Eastern Ukraine. Since the Russian-Georgian war in 2008, Moscow has been flexing its muscle in regional affairs, but the war in Ukraine triggered by Russia because of Ukraine's pro-EU choices as opposed to the so-called Eurasian Economic Union. This situation has put Georgia and Azerbaijan in a complicated situation. Baku lacks the promise of substantial support from the West and has preferred 'anti-Western' rhetoric as a means of protecting itself from Russia – but this is a fragile and unstable method. Although the three states have made efforts not to visibly portray this trilateral partnership as an anti-Russian bloc, Moscow's dissatisfaction with the deepening and expanding trilateral cooperation were clear. In order to avoid the ire of Russia, Azerbaijan's policy faces a paradox. While it wants to increase trilateral cooperation, key contextual factors—namely Baku's anti-Western rhetoric together with the increasing international criticism of the country's human right record—could limit Western resource allocation. With this paradox in mind, there are incredibly difficult policy choices to make. Russia's increasingly aggressive rhetoric may limit trilateral cooperation, for instance in the military-defence sphere. Turkey-Russia relations are also deteriorating, which will affect the three countries under discussion. For instance, Russia has created problems for Turkish trucks transiting Russian territory to reach Kazakhstan and other Central Asian countries. In response, Azerbaijan agreed to provide an alternative route for Turkish vehicles, through the Caspian Corridor from Azerbaijan to Turkmenistan. The political cost of this move for Azerbaijan – which has tried to be balanced in its relations with Moscow – will be significant if Moscow-Ankara relations continue along this track. There will be a need for substantial support from Western countries.

The second challenge is the fact that both Turkey and Azerbaijan, for different reasons, have problematic relationships with EU countries – specifically, in regard to the limits of Western political and/or institutional support. Baku’s anti-Western rhetoric is highly problematic given that Europe is the target market for its energy projects. Moreover, Azerbaijan’s declining energy revenues mean that it will be increasingly reliant on financial investments by European companies in the energy sector. The additional issue is the ongoing investigation by the European Commission into whether the proposed acquisition of the Greek gas transmission system operator DESFA by the State Oil Company (SOCAR) is in line with the EU Merger Regulation.⁸ The DESFA deal is critical for Azerbaijan’s access to the Balkan route and for strengthening its access to gas markets in Southeast Europe. Similarly, Turkey - which should be acting as a model for democratic development for the other two countries - has damaged its democratic credibility in the last five years with a series of policy changes. This limits the prospects for raising support from other countries and actors in the West. Turkey, unlike the other two countries, has greater influence and more tools of engagement in regard to relations with the EU and United States.

The other element that is needed to boost trilateral consultations is informal leadership, which Turkey seemed to ready to undertake by taking the initiative to launch this format. However, this is now lacking. Ankara is focused on the Middle East, and its relations with Russia have been intensified and complicated by the ‘Turkish Stream’ project, which is a competitor of the Southern Gas Corridor project. Recent events in Syria, including Russia’s role in the conflict, are likely to change the scope and depth of Turkey’s engagement in the trilateral relationship, especially in terms of its leadership role. Last but not least, the lack of a broader strategic aim for the trilateral relationship remains a challenge. Each side has its own strategic calculus for how this cooperation can support national interests, but in order to deepen the trilateral relationship, a common vision needs to be formed.

All these challenges bear risks, especially the growing Russian influence and aggression in the region, which is amplified by the regrettable lack of Western involvement in supporting the three countries. In addition, the changing the role of Iran in the region will be an important factor. In the wake of the nuclear deal, Tehran would like to play an influential role in the South Caucasus region. The competing interests of Iran and Turkey, and Tehran’s likely political closeness with Russia, are risk factors. In the near future, the ‘Western-oriented’ actions of the three countries will become increasingly visible. At NATO’s 2016 Warsaw Summit, Tbilisi anticipates obtaining a Membership Action Plan. This would greatly strengthen the position of Euro-Atlantic

⁸ European Commission, 2014. *Commission opens in-depth investigation into proposed acquisition of Greek gas transmission system operator DESFA by SOCAR*, http://europa.eu/rapid/press-release_IP-14-1442_en.htm (accessed October 14, 2015).

countries in the South Caucasus, but would also serve as a pretext for Russia to seek new ways to destabilize Georgia. Such action would be problematic for Azerbaijan and Turkey. In the event that Tbilisi does not gain a MAP, the disappointment will weaken hopes for Western engagement in region, and reduce Georgia's engagement with NATO. These various challenges requires strong coordination between all three countries, and closer harmonization of foreign policy choices. The question of how to measure the success of trilateral cooperation in security and foreign policy could be answered if one of the three is faced with a crisis, such as a foreign threat of some sort, including via economic sanctions. The responses of the other two will be very illuminating in this regard.

PART II -

Defence Cooperation among the Troika: Risks and Potential

Substantive defence cooperation between Azerbaijan, Georgia, and Turkey has developed primarily along bilateral rather than trilateral lines. The comprehensive military-defence cooperation between Azerbaijan and Turkey is by far the strongest axis, given new impetus by the 2010 *Strategic Partnership and Mutual Support* agreement. This strengthened mutual commitment to a level akin to Russian-Armenian solidarity, because the two parties have pledged to support each other “using all possibilities” in the case of a military attack or aggression against either of them.

By comparison, Georgian-Turkish defence and military cooperation remains quite narrowly defined, limited to Ankara's assistance in modernizing and improving the technological capacity of Georgian army to NATO standards. Tbilisi does not have special support from Ankara in regard to the security challenges it faces from Moscow. The Azerbaijani-Georgian military and defence cooperation has deepened in the post-2008 period, following the Russian-Georgian war. Both sides are keen to develop defence industry cooperation via joint production of defence equipment, but the status of this ambitious plan is unclear.

Prior to the first meeting between the three countries' defence ministers, which took place on the sidelines of the NATO Ministerial meeting in Brussels in June 2014, trilateral cooperation took place within a NATO program on pipeline security. The computer-based staff exercise Eternity has occurred every year since 2006; in addition to this, Azerbaijani, Georgian and Turkish Special Forces have conducted the “Caucasus Eagle” military exercises annually since 2012.⁹

⁹ Zaur Shiryev and Kornely Kakachia, *Azerbaijani-Georgian Relations: The Foundations and Challenges of the Strategic Alliance*, SAM Review, No: 7-8, (Baku: SAM, 2013), 39-40.

The formalization of the foreign ministry troika meeting opened the way for similar meetings between other departments, and in 2013, the defence ministries held a meeting. Georgia was the initiator; then-Defence Minister Irakli Alasania made it clear he did not want to take an anti-Russian tone, focusing instead on military preparedness in regard to protection of communication infrastructures, oil and gas pipelines, and railway lines in the event of an emergency.¹⁰ The political leadership in Baku was open to the Georgian initiative. However, at the time, the Azerbaijani Defence Minister was struggling with public criticism due to a series of non-combat deaths in the military and public revelations about corruption at the MoD; thus he took a personal decision not to attend the meeting.¹¹ The postponed meeting took place later, after Azerbaijan's October 2013 cabinet reshuffle brought a new Defence Minister, Zakir Hasanov, who is keen to support the trilateral cooperation. It was not only 'personality politics' that hindered the realization of trilateral defence meetings, but also the fact that initially, the vision was limited to the exchange of information and protection of energy pipelines and strategic projects.¹²

Trilateral cooperation intensified with the first official meeting in Nakhchivan (Azerbaijan) in August, followed by a second in April 2015 in Tbilisi. At the Nakhchivan meeting, the sides mapped out the main directions of trilateral military cooperation and started working on a tripartite agreement, which was expected to outline the priorities of trilateral cooperation.¹³ However, this agreement has not yet materialized, though the three Chiefs of Staff signed trilateral protocol in May 2015, clinching the decision to create a Coordination Group tasked with regulating the cooperation.

Barriers and Prospects for Trilateral Defence-Military Cooperation

Meanwhile, despite the statements of support for rapidly developing the effectiveness of the trilateral meeting format, there has been a lack of clarity as to whether these meetings are aimed at creating a military alliance or simply strengthening the current format (i.e. collaborating on pipeline security and safeguarding strategic projects).

There are a number of differences that pose challenges to the effectiveness of this cooperation:

¹⁰ "Do Georgia, Turkey and Azerbaijan not exclude escalation of military situation?", *Aravat*, August 22, 2014, <http://en.aravat.am/2014/08/22/166609/> (accessed October 14, 2015).

¹¹ Discussion between author (Zaur Shiryev) and Georgian Defence Minister, Irakli Alasania, on the sidelines of Georgian Defence and Security Conference in Batumi in June 28, 2013. According to Alasania, despite his meeting President [Ilham Aliyev] Azerbaijani Defence Minister Abiyev did not immediately accept his call for trilateral meeting.

¹² "Minister: Azerbaijan, Georgia and Turkey must cooperate in defence industry", *Trend*, August 2, 2013, <http://en.trend.az/scaucasus/georgia/2176522.html> (accessed October 17, 2015)

¹³ "Azerbaijan, Georgia and Turkey to sign military agreement", *News.az*, April 2 2015, <http://news.az/articles/politics/96724> (accessed October 17, 2015).

Political-security barriers: First of all, while Ankara and Baku have clear interests in containing and isolating Armenia, Georgia's position is different.¹⁴ Tbilisi has no such policy towards Armenia, and is clear about that. Georgia has a tense relationship not with Yerevan, but with its patron Moscow, and Tbilisi may see Russian military bases in Armenia as a security issue. Notably, Georgian Defense Minister Tinatin Khidasheli, has stated, “[any] Russian military base near our borders harbors danger.”¹⁵ If Azerbaijan-Georgia military-defence cooperation is to deepen, Baku needs Tbilisi to limit its cooperation with Yerevan. Although there have been no joint military exercises, Georgia and Armenia do cooperating on military education,¹⁶ and both MoDs have an annual plan for cooperation. This reassures Armenia that the trilateral cooperation cannot develop into a military alliance, and it is for this reason that the Armenian political leadership has accorded it relatively little attention, at least publicly.

However, political limitations go beyond Georgia's cooperation with Armenia. For instance, growing political tensions between Azerbaijan and the US, largely due to Baku's concerns about Russia's harsh regional stance since the annexation of Crimea, have curtailed the early promise of military cooperation. Notably Azerbaijan and Turkey have not been invited to participate in joint US-Georgian military exercises. Tbilisi's remarkable commitment to NATO integration despite concerns about further aggression from Moscow is, quite understandably, not shared by Azerbaijan. For Turkey's part, despite being an alliance member, Ankara does not tend to seek NATO's support in regional affairs and has not publically endorsed NATO's stance towards Russia. As a result, since the first trilateral meeting of the defence ministers, no new activity on joint military exercises has been conducted, though existing ones have continued (Caucasus Eagle and Eternity). But at the bilateral level, Turkish-Azerbaijan military exercises have increased in number and in substance; exercises for air and land forces have been held more than three times in the last two years.

Technical-Military barriers: An effective military partnership requires the harmonization of military equipment, and the adherence to a set of common standards, namely NATO standards. With Ankara as a NATO member already and Tbilisi as aspirant country, both are working towards modernization and military equipment capability in line with these standards. By contrast, Azerbaijan still depends heavily on Russia for exports of

¹⁴ Evan Gottesman, “Realignment in the Caucasus”, *World Policy Blog*, April 22, 2015, <http://www.worldpolicy.org/blog/2015/04/22/realignment-caucasus> (accessed October 17, 2015).

¹⁵ Tinatin Khidasheli “If the next NATO summit ends without a Membership Action Plan for Georgia, there will be disappointment” (Грузия будет разочарована, если на саммите НАТО останется без ПДЧ), Interview by Mikhail Vignansky, *Russia in Global Affairs magazine*, July 6, 2015, <http://www.globalaffairs.ru/diplomacy/Gruziya-budet-razocharovana-esli-na-sammite-NATO-ostanetsya-bez-PDCh-17570> (accessed October 18, 2015).

¹⁶ “Davit Tonoyan: Armenia and Georgia trust each other”, *Mediamax*, July 27, 2015, <http://www.mediamax.am/en/news/interviews/14944/#sthash.WOYdnzzD.dpuf> (accessed October 18, 2015).

military equipment, a trend that was strengthened by a 2010 agreement (expiring 2017). Under this agreement, roughly 85% of Azerbaijan's military supplies are Russian-made.

Effectiveness of Military Exercises: As mentioned above, small-scale trilateral military exercises have focused on safeguarding pipeline security. Since the first meeting between the Ministers of Defence, the three countries have discussed strengthening this aspect of the partnership. Previously, attacks on the BTC pipeline by the PKK terrorist organization (2008, 2012, and recently in August 2015)¹⁷ were considered as an internal security issue for Turkey. But in July 2015, when Russian-backed forces from breakaway South Ossetia moved the occupation line deeper into Georgia, part of the Baku-Supsa oil pipeline effectively fell under Russian control.¹⁸

Questions were raised about the effectiveness of the trilateral mechanism for pipeline security. Although neither Turkey nor Azerbaijan really spoke out against this move, due to concerns about Russia's reaction, they did question the existing mechanism for pipeline security and the need for a better contingency plan in the event of an attack. This also damaged the reputation of military exercises on pipeline security (Eternity), and exposed the politicization – and therefore weakening - of these mechanisms. Essentially, if any one of the troika wants to avoid provoking Russia, the overall mechanism is seriously undermined. Furthermore, the substance and scope of the mechanism is not entirely clear.

Despite the various differences, trilateral defence industry cooperation seems promising. Azerbaijan-Georgia defence cooperation occurred post-2008, when Georgia first began to make a major push to invest in its domestic arms manufacturing capabilities. The State Military Scientific-Technical Centre - DELTA was re-nationalized in Georgia during this period, and Azerbaijani Defence Industry Ministry – though established back in 2005 – became effectively operational during this time.

From that point, Azerbaijan was marked as a potential partner for Georgia given its own interest in expanding its domestic capabilities, while Turkey was regarded as both a model to follow and a "senior adviser".¹⁹ However, Azerbaijan and Turkey have developed several joint initiatives in the defence industry; the latest one with Turkish ROKETSAN entails the joint production of rockets. At the same time, Azerbaijan is a major consumer of Turkish Defence Industry products (such as the Istiglal Anti-Material Rifle). The fact that the Azerbaijani defence industry has

¹⁷ "PKK terrorists attack pipeline in Turkey's north-eastern Kars province", *Daily Sabah*, August 24, 2015, <http://www.dailysabah.com/nation/2015/08/24/pkk-terrorists-attack-pipeline-in-turkeys-northeastern-kars-province> (accessed October 18, 2015).

¹⁸ "Russia Annexes Additional Georgian Lands, Closing in on the Strategic East-West Highway", *Eurasia Daily Monitor*, Volume: 12 Issue: 135, July 20, 2015

¹⁹ E-mail conversation with Michael Cecire, independent Black Sea-Eurasia regional analyst on 28 July 2015.

established joint production with other countries is also important; for instance, Azerbaijan exported 100 drones²⁰ (“Aerostar” and Orbiter 2M UAVs) that were manufactured in Baku by Azad Systems Co, a joint venture with Israel.

However, a 2008 proposal for sales and production cooperation with Azerbaijan on the modernized version of Georgian SU-25 KM (“Scorpion”) remains unrealized. Despite the rhetoric around trilateral joint production there are no clear plans on paper. The rapid development of the Turkish defence industry holds greater potential – it has a highly competitive position in the defence production market. This offers a better chance for ‘trilateral’ production. Then there are only technical questions remaining on the type of product that all three countries are equally interested in producing, and whether this would be an independent venture for Turkey (i.e. is not dependent on NATO allies). However, the biggest question is not so much technical capacity, but rather the constraints of the political landscape, which have crucial influence on the scope of any military cooperation.

PART III -

Energy and Transport Projects: Prospects for Further Cooperation

The oil and gas export pipelines – Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) – are the foundation of the current relationship between Azerbaijan, Georgia and Turkey.²¹ Without these energy projects - and without Western, particularly US support in the 1990s– the trilateral relationship that today is moving into its sectoral institutionalized phrase would have remained undeveloped.

Sectoral institutionalization in the fields of energy and transport took place through the trilateral format, involving relevant bodies from all three countries. The realization of the projects required close collaboration in order to ensure effective problem solving. The problems and benefits should not be assessed exclusively in financial terms, though the projects certainly contributed to the recovery of the national economies of Azerbaijan and Georgia after a difficult decade following the collapse of the Soviet economic system. Since it became fully operational in 2006, the BTC has financially benefited all three countries: Turkey and Georgia to a lesser degree as transit countries (50-60

²⁰ “Minister: Azerbaijan to supply one of NATO member countries with 100 drones”, *APA Agency*, September 11, 2014, http://en.apa.az/xeber_minister_azerbaijan_to_sell_100_drones_216160.html (accessed October 18, 2015).

²¹ See more information: S. Frederick Starr and Svante E. Cornell (ed), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Central Asia-Caucasus Institute and Silk Road Studies Program, 2005, http://www.silkroadstudies.org/resources/pdf/Monographs/2005_01_MONO_Starr-Cornell_BTC-Pipeline.pdf

million per year) than Azerbaijan as the exporter country.²² However, the projects have hugely benefitted all three countries through increased employment opportunities as well as strengthening the early consultation framework in the trilateral format.

The energy projects have encouraged foreign investment in all three economies. Along with increased interest from Euro-Atlantic institutions, the regional landscape has been redefined – which has in turn influenced the foreign policy choices of the regional countries. The pipelines and transportation infrastructure bringing Azerbaijan’s Caspian oil reserves to Europe significantly strengthened the region’s links to European markets, and weakened Russia’s position, economically and politically.

In addition, following the opening of the BTE in 2006, pumping Azerbaijani gas from Shah Deniz Phase I to Turkey, Ankara benefited through energy supplies for its domestic market. The project has also been a lifesaver for Georgia, by ending Russia’s gas supply monopoly.²³ With the development of Shah Deniz Phase I Azerbaijan has become self-sufficient in terms of domestic demands; natural gas is being increasingly used for power generation - the share of oil products decreased from 70 percent in the 1990s to below 28 percent in 2014.

Further, the development of Azerbaijan’s Shah Deniz Phase II has opened the way for the implementation of the Southern Gas Corridor project with the completion of the Trans Anatolian Gas Project (TANAP) and the Trans Adriatic Gas Pipeline (TAP) by 2018. This could make Azerbaijan a more powerful exporter of gas, adding Europe to its customer list. In addition, it will help Turkey and Georgia by guaranteeing additional gas for domestic consumers as well as employment opportunities, investments and revenues as transit countries.

Further, trilateral engagement in transport projects remains critical, firstly with the EU supported TRACECA transport corridor (Transport Corridor Europe-Caucasus-Asia) project, which envisaged the revival of the historical Great Silk Road after hundreds of years and a systemic regrouping of transport-communication networks of European and Asian states. The TRACECA rail routes connected Azerbaijan and Georgia via the Baku-Tbilisi-Batumi and Baku-Tbilisi-Poti rail link. The Baku-Tbilisi-Batumi/Poti railway is connected to the European rail networks via the Black Sea rail ferry service in the West.²⁴

The missing transport link is a connection between Turkey and Georgia - there was already a rail network between Azerbaijan and Georgia. This will extend the TRACECA

²² Azerbaijan’s overall revenues which exceed 115 billion USD until 2015. See: “Azerbaijani State Oil Fund’s revenues from ACG project exceed \$115B”, *Trend*, October 2, 2015, <http://en.trend.az/business/energy/2439189.html> (accessed October 19, 2015).

²³ Isabel Gorst, “No pain, no gain: an end to energy dependency”, *Financial Times*, October 31, 2007

²⁴ Taleh Ziyadov, *Azerbaijan as a Regional Hub in Central Eurasia*, (Baku: ADA Press, 2012), 51.

rail network to Southeast Europe via the Baku-Tbilisi-Kars (BTK) railway project. After long delays in construction, the BTK railway - begun in November 2007 - will be fully operational in 2016.²⁵ The major problem with BTK is that despite its undeniable significance, its completion has been subject to repeated delays. It is expected to transport 1.5 million passengers and 3 million tons of freight per year in its initial stages of operation and far more by 2034 - 3 million people and more than 16 million tons of goods per year.²⁶

Future expectations of the trilateral partnership in the energy and transport sectors

Unlike other sectors, trilateral energy and transport sector cooperation has been ongoing over the last two decades, with major successes in oil, gas and transportation projects. However, there is still scope for cooperation in small projects and in the renewable energy sector. This requires the harmonization of energy sector in various respects.

First of all, cooperation in the renewable energy sector is relevant for all three countries. In particular, Georgian hydropower is very attractive in financial terms. If Georgia has both an electricity surplus and the capacity to export to Turkey,²⁷ Azerbaijan's investment could help all three countries. In fact, back in 2012, Azerbaijan and Georgia reached an agreement on setting up a joint energy company to export electricity to third countries, based on building hydro power stations in Georgia with Azerbaijani money.²⁸ However, this was never realized. Turkish investments along with Chinese and Norwegian involvement helped develop the sector. But there is still need for further investments, which Azerbaijan can provide.

Energy trade is another area where cooperation is continuing to develop. A number of intergovernmental agreements have been reached on renovating and building new transmission lines to connect Georgian, Azerbaijani, and Turkish power grids. All three countries are contracting parties to the Energy Charter Treaty (ECT). Under this charter, in the direction of EWEC (East-West Electricity Corridor Countries), Azerbaijan is implementing a project on the construction of a power bridge connecting the three

²⁵ "Azerbaijani, Turkish Presidents Visit Georgia", *Civil Georgia*, November 21, 2007, <http://www.civil.ge/eng/article.php?id=16384> (accessed October 19, 2015).

²⁶ "Envoy confident of unwavering Azerbaijani-Turkish fraternal ties", *Today's Zaman*, January 3, 2011, http://ingiltere.zaman.com.tr/en/newsDetail_getNewsById.action?newsId=4469 (accessed October 19, 2015).

²⁷ "Georgia's Hydropower Potential Giving water the green light", *Bank of Georgia Research*, June 28, 2012, 14., [20Sektoris%20Mimokhilva%20Da%20Eksporis%20Shesadzleblobebi%2014%20geo.pdf](http://www.bankofgeorgia.com/georgia/research/2012/06/28/20Sektoris%20Mimokhilva%20Da%20Eksporis%20Shesadzleblobebi%2014%20geo.pdf) (accessed October 19, 2015).

²⁸ "Azerbaijan to invest in construction of Georgian Hydro Power Station", *Georgian Journal*, March 7, 2012, <http://www.georgianjournal.ge/component/content/article/9-news/8204-azerbaijan-to-invest-in-construction-of-georgian-hydro-power-station.html> (accessed October 21, 2015).

countries. For this purpose it established the Samukh-Gardabani 500 kV power transmission line connected with the 400 kV PTL Georgia-Turkey, enabling Azerbaijan to supply the Turkish market through Akhaltsikhe substation.²⁹ The other project is the Black Sea Transmission Network Project, an interconnection line between Georgia and Turkey, which is scheduled to be completed in 2017. The extension of project includes connections with Azerbaijan.

Alternative energy capacity will reduce dependency on oil and gas in domestic markets and export possibilities in the wake of declining oil prices. Thus, there is great interest in collaboration between Azerbaijan, Georgia, and Turkey. Turkey has heavily invested in Georgia's hydropower sector, but wind energy, biomass, and geothermal energy offer additional areas for collaboration. In this direction, Azerbaijan and Georgia agreed in July 2015³⁰ to establish a joint working group in the field of alternative energy cooperation. By raising collaboration to the trilateral level, Turkey's involvement would increase capacity.

PART IV -

Trilateral Economic Ties and Business Engagement

Since the 1990s, energy and transport projects have been the driving force of bilateral and trilateral economic relations. Joint energy and transport projects sought to establish stable ties with both regional and global markets.³¹ Primarily, Turkey helped Azerbaijan and Georgia engage with Western markets, while the two Caucasus countries provided a means for Turkey to strengthen its ties with the Central Asian market.

The focus on building regional economic links was rooted in the desire to move away from the dependence on international financial assistance of the 1990s. The realization of energy projects was first of all pursued as a top-down process by international institutions operating in the region, providing financial and material support for the harmonization of the transport and energy sectors. This would not only increase profitability of local entities, but crucially, help create a predictable business environment that is attractive to foreign investors. The organic economic integration between the three states was launched with the Baku-Tbilisi-Ceyhan (BTC) oil and Baku-Tbilisi-Erzurum (BTE) gas pipelines. Both projects have also contributed to the standardization of certain economic regulations and business standards.

²⁹ "Azerbaijan proposed declaration on support of transboundary power cooperation in South Caucasus", *ABC news*, July 3, 2015, <http://abc.az/eng/news/89385.html> (accessed October 21, 2015).

³⁰ "Azerbaijan, Georgia to jointly develop alternative energy", *Azernews*, July 9, 2015, <http://www.azernews.az/business/85192.html> (accessed October 21, 2015).

³¹ Mitat Celikpala and Cavid Veliyev. 2015, *Azerbaijan-Georgia-Turkey: The Success Story of Regional Integration*, CIES Policy Brief, No.3, p.12.

In terms of developing Western-oriented economic integration in Azerbaijan, Georgia, and Turkey, Ankara was the natural leader. It played that role in the opening stages of the development of energy and transport projects. Since the mid-2000s, Azerbaijan, with its energy wealth, has emerged as another component of this pro-integration leadership triangle.³² Following the realization of the BTC and BTE, the trend of foreign investment boosting economic relations continued with further Azerbaijan-driven investment in the downstream distribution and sales of gasoline and diesel in Georgia. Local and foreign investors have spearheaded the continued expansion of natural gas pipelines through Turkey via the TANAP and TAP mega-projects.³³

The geographical location of the three countries offers both advantages and challenges. They are strategically positioned between Western and Eastern markets. On the other hand, this geopolitical location leaves them vulnerable to foreign intervention. The key example here is the Russian-Georgian war, which politicized bilateral economic ties. Moscow destabilized Tbilisi's economy by closing its market to Georgian goods. As a result, both Azerbaijan and Turkey sought to strengthen the Georgian economy via direct investments. For Georgia, the attraction of foreign direct investment was one of the government's key priorities when it launched sweeping economic reforms in 2004. Until 2008, the main commodity of trilateral trade was energy (oil and gas) – however, further to the 2006 embargoes, Georgian-Russian economic cooperation collapsed with the outbreak of war in 2008. This opened the way for more investments in the business community by Turkey and Azerbaijan, which also helped secure internal stability in Georgia and prevent economic free-fall. In this respect, the key destinations for Turkish capital have been transport, communications, and construction. Azerbaijan has primarily invested in the real estate sector, transport, and communications. The investments have increased since 2008, and unlike the historically resource-oriented investment in the oil and gas sector, Baku has turned toward more efficiency-oriented investments. Statistics on FDI in the Georgian economy demonstrate that from 1997 to 2014, Georgia has drawn over 12 billion USD FDI, with Turkey ranking fourth and Azerbaijan fifth (see Table 1; source: GeoStat, the National Statistics Office of Georgia).

³² Alexandros Petersen, "Integrating Azerbaijan, Georgia, and Turkey with the West: The Case of the East-West Transport Corridor", *CSIS Commentary*, September 10, 2007.

³³ Joshua Noonan, "The Caspian Connection, Silk Road Reporters", *Silk Road Reporters*, June 25, 2014

Table 1. Foreign Direct Investments in the Georgian economy (1997-2014)

#	Country	FDI in million USD
1.	United States of America	1.297
2.	The Netherlands	1.287
3.	The United Kingdom	1.202
4.	Turkey	1.041
5.	Azerbaijan	934

The current trade turnover between Azerbaijan and Turkey is 3.167 billion USD; 1.9 billion USD between Georgia and Turkey; and 1.18 billion USD between Georgia and Azerbaijan (see Table 2). Over the past five years, Turkey and Azerbaijan have been Georgia's top trading partners.³⁴

Table 2. Georgia's export-import and trade turnover with Azerbaijan and Turkey³⁵

Azerbaijan	2008	2009	2010	2011	2012	2013	2014
Export	203,930	165,633	256,241	425,963	626,836	709,964	544,504
Import	607,396	410,176	484,587	610,748	691,782	652,876	637,582
Trade Turnover	1,015256	575809	740828	1036711	1318618	1362840	1,182087
Turkey	2008	2009	2010	2011	2012	2013	2014
Export	262,910	225,768	216,799	226,387	140,088	183,795	239,295
Import	940,479	787,885	886,694	1,276,487	1,468,825	1,408,930	1,727,390
Trade Turnover	1203389	1013653	1103493	1502874	1608913	1592725	1,966686

However, although recent years have seen an increase in efficiency-oriented investments in the Georgian economy and the introduction of new energy projects, namely TANAP and TAP, Azerbaijan-Turkey economic relations were predominantly resource-oriented. Baku's investment in the Turkish economy will reach 20 billion by 2020. Moreover, the countries' investments in one another's economies are not coordinated – it could be helpful to coordinate investments through prior trilateral consultations, which is what the institutionalization of the partnership aims to do.

³⁴ "Georgia's top trading partners: Turkey, Azerbaijan and China", *Agenda.ge*, May 21, 2015 <http://agenda.ge/news/35589/eng> (accessed October 23, 2015).

³⁵ This data was retrieved from GeoStat. In order to address disparities between national statistics, Georgian statistics have been taken as precedent.

New Economic Impetus through Business Forums: opportunities and barriers

Prior to the launch of these business forums as well as for a time afterwards, Turkish companies were leading in terms of trilateral investment. More than 2000 Turkish companies operate in Azerbaijan, comprising 36 percent of all foreign companies in Azerbaijan. In Georgia, during 2011-2014 Turkish companies increased their activities. The largest tenders in Georgia were won by Turkish companies, amounting to 35 percent of income generated by all foreign companies involved in investments in Georgia.³⁶ By contrast, 340 Azerbaijani companies operate in Georgia and 235 Georgian companies function in Azerbaijan. Azerbaijani companies, especially the State Oil Company, have played a leading position in the energy sector. In addition, other Azerbaijani companies have increased their involvement in Georgia's agriculture sector.

The first Turkey-Azerbaijan-Georgia Business Forum was held in Tbilisi in February 2012, and the most recent, the fourth, was held in March 2015.³⁷ Each year has seen the participation of more than three hundred business representatives from industry, energy, construction, agriculture, ICT, tourism, chemistry, transport, health care, education, finance, service, trade and other sectors.

The three years since the first Business Forum have seen increasing investment by Turkish companies - not only traditional investors like tourism and construction companies - but also entities interested in new sectors. Joint projects for hydropower and thermal power plants in Georgia have also been launched. There is further logic behind these joint projects - Turkey aims to benefit as a net importer of electricity. Neither Azerbaijan nor Georgia has benefitted as much as Turkey since the launch of the business forums in doing joint projects, nor in terms of investing in new sectors (beyond energy and agriculture).

This is the consequence of several key barriers, outlined below.

The first obstacle is the legal and tax barriers for foreign investors. Despite the energy partnership and standardization of certain market rules, which were helpful in the past, currently, especially in Azerbaijan, this barrier is the main obstacle for foreign investors. All three countries have signed double tax treaties to end double taxation. But in Azerbaijan, there are administrative barriers imposed by tax authorities, and thus the

³⁶Ana Dabrundashvili, "Participation of foreign companies in state tenders has doubled", *Transparency International*, November 6, 2014, <http://www.transparency.ge/en/node/4775> (accessed October 23, 2015).

³⁷"Turkey, Azerbaijan, Georgia seek to increase cooperation", *Anadolu Agency*, March 6, 2015, <http://www.aa.com.tr/en/economy/turkey-azerbaijan-georgia-seek-to-increase-cooperation/69150> (accessed October 23, 2015).

benefits of double tax are not utilized.³⁸ Other problems in Azerbaijan include corruption at border controls and visa requirements for Turkish citizens.

Secondly, although all three countries have Free Trade Agreements (FTAs) with one another on a bilateral basis, none of the FTAs are implemented in reality. Moreover, now that Georgia has a Deep and Free Trade Agreement with the EU, there is a potential new market for both Azerbaijani and Turkish businessmen. Of the three, Azerbaijan is the only non-member of the World Trade Organization. WTO membership could benefit partner countries in terms of trade, as the harmonization of legislation with WTO standards supports economic reform. For example, the partners do apply the most favored nation (MFN) principle – a key WTO standard which means that goods traded are free of quantitative restrictions.

The other huge problem – a reality rather than a structural barrier - is the recent devaluation of the national currencies in Georgia and Azerbaijan, for different reasons. The decision by Azerbaijan was largely due to the decline of global oil prices. Azerbaijan's main tool in terms of economic relations and investment projects in Turkey and Georgia is its financial power, the result of oil revenues in previous years. This looks set to change with the drop in oil prices and the effect of Russia's economic crisis (meaning declining remittances from migrant workers in Russia). For example, Azerbaijan's consolidated budget revenues are expected to be 16.7 billion manats (15.9 billion USD) in 2016, down from 21.3 billion manats (27.2 billion USD) in 2014. Budget spending for 2016 is forecasted to be 16.3 billion manats (15.6 billion USD), down from 21.1 billion manats (20.1 billion USD) in 2015.³⁹

This situation indicates challenges for the coming years. The government should not underestimate the need for economic reform. In the first instance, key reforms include the elimination of administrative barriers, transparency, easy access to markets, and potentially special conditions for Georgian and Turkish businesses Azerbaijan can actually improve its portfolio in terms of developing the regional economic partnership with Georgia and Turkey. In this regard, it is important to note one new development which might increase the relevance of trilateral business forums. As Georgia has signed an Association Agreement with the European Union, Georgia will be able to access the European market. This could open up new opportunities for Azerbaijan and Turkish businesses to penetrate EU markets free of quotas and tariffs. But it is also the

³⁸ Doing Business and Investing in Azerbaijan, 2014 Edition, p.22, <https://www.pwc.de/de/internationale-maerkte/assets/doing-business-and-investing-in-azerbaijan-2014.pdf> (accessed October 23, 2015).

³⁹ "Azerbaijan sees 1.8 per cent GDP growth in 2016, bases budget on \$50 oil price", *Reuters*, October 20, 2015, <http://www.reuters.com/article/azerbaijan-budget-idUSL8N12K11O20151020#h4LsOJfkmTLOXUIE.97>

case that businesses in all three countries lack capacity in regard to competing in the European market. In order to improve this situation, improved trilateral engagement between businesses must be achieved, followed by investments in improving business portfolios and producing highly standardized products for EU consumers.

CONCLUSIONS AND RECOMMENDATIONS

The trilateral meeting format has seen increased sectoral engagement through the process of institutionalization since 2012. External factors affecting the South Caucasus region, domestic conditions, and the global economic climate have all been problematic in the last three years. Beginning with Russia's aggressive policy towards regional countries and the substantial weakening of Western engagement, pressure from Moscow has caused the concerns in these countries. Also, in the context of declining oil prices in the global market and the impact of Western sanctions on the Russian economy - which indirectly affected Georgia and Azerbaijan, leading them to devalue their national currencies - the economic environment is proving very tricky to navigate at present. In addition, Turkish-Russian relations have deteriorated since September 2015, and the latter has started imposing sanctions. The risks are clear. If tensions between Ankara and Moscow prevail, Russia will deploy its chief card, i.e., its gas exports, which currently account for nearly 54 percent ⁴⁰of Turkey's total gas consumption. If Moscow cuts its gas exports, Ankara could face a serious crisis. This will add a new dimension to the gas consumption discussions between Azerbaijan, Georgia and Turkey. In this regard, the realization of the TANAP and TAP projects can provide protection from this kind of threat in the long-term.

But in the short term, the volume of gas that Turkey will receive from Shah Deniz II (6 billion cubic meters per year) in the initial stages of TANAP cannot replace Russian supplies. Furthermore, the gas projects will be realized in 2018 at the earliest, and until then Turkey needs to look for other sources. Beyond that, the political implications of the Turkish-Russian standoff for Azerbaijan and Georgia will be interesting. The degree of these implications is hard to measure, but it is clear that supporting Turkey could lead to Russian aggression.

Based on the past three years, it is hard to measure the successes and failures of the trilateral meeting format and the impact on sectoral engagement. However, substantial improvements have been observed in military-defence cooperation. Other areas like

⁴⁰Güneş Kömürcüler, Turkey's energy dilemma amid the Russia crisis, *Hurriyet Daily News*, December 4, 2015, <http://www.hurriyetdailynews.com/turkeys-energy-dilemma-amid-the-russia-crisis.aspx?pageID=449&nID=92057&NewsCatID=540> (accessed December 7, 2015).

business forums and partnerships in alternative energy have been developed, and trilateral meetings have played a positive role.

The trilateral meeting format as a political platform saw successes during the post-Cold War period for various European states. The Visegrad Group, an alliance of Central European states – Czech Republic, Hungary, Poland and Slovakia – is a key example. Their common agenda was joining EU and NATO, and integration in various sectors. But there is no foolproof recipe for success, because each group is very different. For instance, groupings of post-Soviet countries – such as GUAM (Georgia, Ukraine, Azerbaijan and Moldova) - showed early success but ultimately failed due to the lack of action taken in pursuit of a common vision.

Therefore, in each case, coordination and vision determines the success or failure of the format. In order to enhance the usefulness of this report for the three countries in question, the participants of the Istanbul meeting (Istanbul, 26-27 October 2015) on this topic have formulated policy recommendations regarding the four sectors discussed in this paper.

Foreign Policy and Security

- There is a need to stimulate informal dialogue among the three foreign ministers, or even below the ministerial level. This format should enable the discussion of broad issues, including those that not regularly discussed between the parties, for example, Central Asia, Iran and other regions. This will help each country to gain a better sense of one another's short and long term strategies. This will improve coordination of common strategies and could increase connectivity between respective ministries. At the formal level, high level cabinet meetings of the foreign ministries, or between the policy makers from each Ministry of Foreign Affairs, should be institutionalized.
- The parties should coordinate their efforts on the resolution of conflicts, i.e., Nagorno-Karabakh, South Ossetia and Abkhazia, to enhance mutual support at the international level. This has existed in the past, but the practice has declined in recent years, with countries taking a narrower focus on their own specific issues.
- A key issue from the security perspective is the lack of border demarcation/delimitation between Azerbaijan and Georgia, which impedes effective border security and management. Given that the conflict in Syria has led to recruitment of militants from North Caucasus, better coordination is urgently needed. The security challenges are not limited to the militant/jihadist threat; drug trafficking and terrorism threat are other key issues.
- Defence and defence industry cooperation should be prioritized, with two main goals. The first is the arrangement of regular trilateral military exercises, as

currently cooperation in this field is limited to computer-based military command and staff exercises (Eternity) and small military exercises (Caucasus Eagle). Environmental threats and cyber security should also be addressed in this regard. The other aim is for Turkey to take a leading role in defence industry development. Although Azerbaijan and Georgia have developed their defence industries, neither is comparable to Turkey's. However, producing a joint military product in the near future could mark a new milestone. This type of productive cooperation would hold political as well as military importance.

- Pipeline security will be a major challenge in the near future. While there exists an ongoing dialogue between the three national security services on pipeline security, their contingency planning is limited to terrorist attacks. There is no plan for a trilateral response to third-party attacks on the oil and gas pipelines. Thus pipeline security should be seriously reviewed, and intelligence sharing should be expanded.

Economy and Energy

- There is huge potential to develop the economic cooperation between these three countries, but bureaucratic obstacles limit cooperation at the level of small and medium sized businesses. Thus the improvement of the business environment – specifically via visa-free regimes - is urgently needed to enhance economic cooperation.
- Azerbaijan should join the World Trade Organization in order to facilitate better economic relations with regional countries. This will be helpful in diversifying the country's economy and building up the non-oil sector, including in terms of exports to Turkey and Georgia.
- The implementation of Georgia's EU Deep and Comprehensive Free Trade Agreement offers potential benefits to Azerbaijan and Turkey. In order to fully realize these benefits, Baku and Ankara should focus on standardization and quality control of market goods. This could open the way to exporting products to Europe through Georgia. Turkey also represents a huge market for Georgia and Azerbaijan; this opportunity should be pursued.
- Cross-border entrepreneurial activity should be encouraged through the reduction of bureaucratic hurdles, especially in regard to small and medium businesses.

Last but not least, the trilateral format should expand its focus to include cooperation in the media and education sectors, in order to foster people-to people contact and to increase the flow of reliable information, which will in turn enhance cultural understanding at the societal level.

BIBLIOGRAPHY

Alexandros Petersen, "Integrating Azerbaijan, Georgia, and Turkey with the West: The Case of the East-West Transport Corridor", *CSIS Commentary*, September 10, 2007.

Ana Dabrundashvili, "Participation of foreign companies in state tenders has doubled", *Transparency International*, November 6, 2014.

Azerbaijan proposed declaration on support of transboundary power cooperation in South Caucasus", *ABC news*, July 3, 2015.

Azerbaijan sees 1.8 per cent GDP growth in 2016, bases budget on \$50 oil price", *Reuters*, October 20, 2015.

Azerbaijan to invest in construction of Georgian Hydro Power Station", *Georgian Journal*, March 7, 2012.

Azerbaijan, Georgia and Turkey to sign military agreement", *News.az*, April 2 2015.

Azerbaijan, Georgia to jointly develop alternative energy", *Azernews*, July 9, 2015.

Azerbaijani State Oil Fund's revenues from ACG project exceed \$115B", *Trend*, October 2, 2015.

Azerbaijani, Turkish Presidents Visit Georgia", *Civil Georgia*, November 21, 2007.

Davit Tonoyan: Armenia and Georgia trust each other", *Mediamax*, July 27, 2015.

"Do Georgia, Turkey and Azerbaijan not exclude escalation of military situation?", *Arovat*, August 22, 2014.

Doing Business and Investing in Azerbaijan, 2014 Edition.

"Envoy confident of unwavering Azerbaijani-Turkish fraternal ties", *Today's Zaman*, January 3, 2011.

European Commission, 2014. *Commission opens in-depth investigation into proposed acquisition of Greek gas transmission system operator DESFA by SOCAR.*

Evan Gottesman, "Realignment in the Caucasus", *World Policy Blog*, April 22, 2015.

"Georgia's Hydropower Potential Giving water the green light", *Bank of Georgia Research*, June 28, 2012.

"Georgia's top trading partners: Turkey, Azerbaijan and China", *Agenda.ge*, May 21, 2015.

“Georgian Energy Minister Speaks of Need to Buy Russian Gas”, *Civil Georgia*, October 20, 2015.

Güneş Kömürcüler, Turkey’s energy dilemma amid the Russia crisis, *Hurriyet Daily News*, December 4, 2015.

Isabel Gorst, “No pain, no gain: an end to energy dependency”, *Financial Times*, October 31, 2007.

“Ivanishvili Speaks in Favor of Rail Link via Abkhazia”, *Civil Georgia*, September 22, 2012.

Joshua Noonan, “The Caspian Connection, Silk Road Reporters”, *Silk Road Reporters*, June 25, 2014.

“Minister: Azerbaijan to supply one of NATO member countries with 100 drones”, *APA Agency*, September 11, 2014.

“Minister: Azerbaijan, Georgia and Turkey must cooperate in defence industry”, *Trend*, August 2, 2013.

Mitat Celikpala and Cavid Veliyev. 2015, *Azerbaijan-Georgia-Turkey: The Success Story of Regional Integration*, CIES Policy Brief, No.3.

Özerkan, Fulya. “Turkey seeks thaw in Iran-Azeri ties”, *Hurriyet Daily News*, December 4, 2011.

“PKK terrorists attack pipeline in Turkey’s north-eastern Kars province”, *Daily Sabah*, August 24, 2015.

“Russia Annexes Additional Georgian Lands, Closing in on the Strategic East-West Highway”, *Eurasia Daily Monitor*, Volume: 12 Issue: 135, July 20, 2015.

S. Frederick Starr and Svante E. Cornell (ed), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Central Asia-Caucasus Institute and Silk Road Studies Program, 2005.

S. Neil MacFarlane, 2015. *Two Years of the Dream: Georgian Foreign Policy during the Transition*, London: Chatham House.

Sergi Kapanadze, “Turkish Trade with Abkhazia: An Apple of Discord for Georgia”, *Turkish Policy Quarterly*, No. 13/3, (2014).

Taleh Ziyadov, *Azerbaijan as a Regional Hub in Central Eurasia*, (Baku: ADA Press, 2012).

Tinatin Khidasheli “If the next NATO summit ends without a Membership Action Plan for Georgia, there will be disappointment” (Грузия будет разочарована, если на саммите НАТО останется без ПДЧ), Interview by Mikhail Vignansky, *Russia in Global Affairs magazine*, July 6, 2015.

“Turkey, Azerbaijan, Georgia seek to increase cooperation”, *Anadolu Agency*, March 6, 2015.

Zaur Shiriyev and Kornely Kakachia, *Azerbaijani-Georgian Relations: The Foundations and Challenges of the Strategic Alliance*, SAM Review, No: 7-8, (Baku: SAM, 2013).