



Digging out of Deadlock in Nagorno-Karabakh

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Headquarters

International Crisis Group

Avenue Louise 235 • 1050 Brussels, Belgium

Tel: +32 2 502 90 38 • Fax: +32 2 502 50 38

brussels@crisisgroup.org

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Principal Findings

What's new? An opportunity has opened to reset deadlocked talks between Baku and Yerevan over the breakaway region of Nagorno-Karabakh. The parties are a long way apart, but negotiations could help prevent a new escalation after years of growing militarisation and lay the groundwork for the conflict's eventual resolution.

Why does it matter? The window may close if Baku and Yerevan do not act. Already the thaw in Armenia-Azerbaijan relations shows signs of frost. Without talks on key issues – the future of areas adjacent to Nagorno-Karabakh and people currently residing there, prospects for international peacekeeping, and Nagorno-Karabakh's status – positions risk hardening further.

What should be done? On the adjacent territories, temporarily freezing new settlement construction in return for Azerbaijan refraining from legal action or new sanctions could improve prospects for talks. For peacekeepers, the OSCE High-Level Planning Group could reassess options. On Nagorno-Karabakh's status, the parties remain far apart but informal talks could still be worthwhile.

Executive Summary

A narrow opening to breathe life into the moribund peace process between Azerbaijan and Armenia over the breakaway territory of Nagorno-Karabakh risks closing. If it does, Baku and Yerevan may not only lose the gains they have recently made but also bury the peace process for some time. Yerevan and Baku would be wise to act fast. They could start talks on issues underpinning the standoff: the future of territories adjacent to Nagorno-Karabakh in which Armenian settlers have made their homes; a potential role for international peacekeepers; and, the core issue, Nagorno-Karabakh's status. On the adjacent territories, a time-bound freeze on new settlements in return for Azerbaijan's pledge to pause any international legal action or new sanctions could check a gnawing problem and help unlock talks on other core disagreements. On prospects for peacekeeping, the Organization for Security and Co-operation in Europe's (OSCE) High-Level Planning Group (HLPG), set up in the 1990s to plan for such missions, could assess options anew. The parties are bitterly divided on Nagorno-Karabakh's status but starting discreet, informal talks could still be worthwhile.

In early 2019, progress seemed palpable. A new government in Yerevan said it was ready to seek a compromise solution. Baku appeared to be more open to exploring ways to resolve the dispute. The two countries' relations, acrimonious since a 1992-1994 war and further damaged by clashes in 2016 that killed hundreds of people, slightly thawed. Renewed diplomatic engagement between the two reduced flare-ups and created a more favourable environment for negotiations. The Armenian and Azerbaijani governments agreed to launch humanitarian projects near the front lines and let journalists and relatives visit detainees in their respective capitals.

But the rapprochement has not led to renewed peace talks. Discussion between the two sides on their main points of disagreement over Nagorno-Karabakh have been suspended for more than a decade. Years of estrangement have hardened positions: Yerevan, Baku and the de facto authorities in Nagorno-Karabakh's capital Stepanakert continue to make uncompromising demands regarding Nagorno-Karabakh's ultimate fate. Moreover, over recent months Armenia-Azerbaijan relations have cooled again as each leader issued tit-for-tat claims over Nagorno-Karabakh that the other considered provocative. If the two sides fail to build on the cornerstones laid in 2019, the relative calm may not hold.

A renewed effort to seek compromise could help prevent tensions from once again spiralling. Specifically, the parties could revisit three issues over which they have been at loggerheads since the 1992-1994 war. The first involves the fate of territories adjacent to Nagorno-Karabakh. Azerbaijanis were forced to flee these areas during the war. Settlers – mostly ethnic Armenians displaced from Azerbaijan itself – moved in. Stepanakert now exerts authority over and funds settlements that have expanded to most of the area between Armenia and Nagorno-Karabakh. Settlers contribute significantly to the breakaway region's economy, mostly through booming agriculture, and have strong ties to homes and communities they have built from the ground up. Finding a way forward that meets the interests of both settlers and people displaced

from the adjacent areas, and also involves the return of those areas to Azerbaijan, will be no small challenge.

One option to nurture conditions for talks might be for Armenia to persuade Nagorno-Karabakh's de facto authorities to suspend plans for new settlements and, in return, for Azerbaijan to pledge not to act on plans to pursue settlement-related complaints in international courts or impose further sanctions for a set period. Yerevan argues that decisions regarding settlement expansion are in Stepanakert's hands. In reality, however, Armenia has considerable influence as Nagorno-Karabakh's main security guarantor, provider of around half of its budget and main market for its products. For its part, Baku is likely to oppose such reciprocal steps, fearing that pausing legal action in return for a settlement freeze would risk appearing to accept existing settlements at a time when it feels there is greater international support for its stance. But it could reiterate publicly its position that the settlements violate international law even while pledging to halt new sanctions or legal action, and thus signal it rejects the continued existence of those settlements that are in place.

The second issue revolves around the composition and mandate of a potential international peacekeeping or monitoring mission. Such a mission could help minimise violence, create conditions for a peace deal and monitor or enforce such a deal if and when one is reached. While proposals have been circulated intermittently since 1994, particularly by Russia, no such force has ever deployed. The parties have both tended to oppose a military force or one with an outsized Russian role. An OSCE HLPG was set up in the 1990s to plan for such missions but – in the absence of progress in talks – has foundered. With the support of the parties, the OSCE could reinvigorate it and task it with a specific, time-delimited (perhaps one year) mandate to define a set of options. These could then form the basis for the parties' discussions on such a mission.

The last issue is Nagorno-Karabakh's independence claim, at the conflict's core and the hardest to resolve. Armenia and Stepanakert insist on statehood. Baku is at most prepared to offer Nagorno-Karabakh self-rule within Azerbaijan. Though the parties share little common ground, there are tentative signs of movement. In Azerbaijan, senior officials have begun exploring precisely what granting the region autonomy would entail and how a referendum on its status could be organised. Their ideas remain far from anything Yerevan or Stepanakert would accept; nor do they reflect an accurate grasp of life and governance in Nagorno-Karabakh today. They could, however, offer an opening for discussion. Given the sensitivity of the issue and the distance between the parties, any talks on status would likely have to start discreetly and semi-formally.

While past dialogues have failed mostly due to disagreement and distrust between the parties, the fact that the three issues have always been discussed together, as a single package, arguably has not helped. The three are interconnected, and progress on any requires (and could enable) progress on the others. But parties have been slow to act on the first two – the settlements and the potential role of international peacekeepers or monitors – for fear that doing so could influence future discussions of the third, Nagorno-Karabakh's status. To mitigate this constraint, the parties could pledge that any agreement reached would be without prejudice to talks on other issues.

Direct talks between the parties inevitably entail risks. They could highlight the distance between the two sides' positions, thereby fuelling mutual anger and potentially reversing the past months' gains. But years of continued stalemate have put a potential solution further out of reach and isolated Armenians and Azerbaijanis from one another. The more time goes by, the more facts on the ground will be entrenched, the harder they will be to reverse and the graver the risk of war. If talks might make matters worse, their continued absence almost certainly will. Getting back to the table will be difficult but is the only way Armenia and Azerbaijan can start digging out of their deadlock.

Baku/Yerevan/Stepanakert/Tbilisi/Brussels, 20 December 2019

Digging out of Deadlock in Nagorno-Karabakh

I. Introduction

The coming to power in 2018 of a new government in Yerevan raised hopes of a reset in relations between Armenia and Azerbaijan. The two countries have been deadlocked for over two decades over Nagorno-Karabakh, which declared independence from Azerbaijan in 1991. The 1992-1994 war that followed pitted Azerbaijan's armed forces against Nagorno-Karabakh rebels backed by the Armenian army. It ended with Nagorno-Karabakh's de facto independence and a self-proclaimed government based in Stepanakert. Armenian forces also took effective control over seven regions adjacent to Nagorno-Karabakh.¹ Tens of thousands died in the fighting. Although exact numbers are contested, well over 400,000 ethnic Azerbaijanis were displaced from the territories adjacent to Nagorno-Karabakh and some 40,000 from Nagorno-Karabakh itself.² In addition, hundreds of thousands of Armenians from throughout Azerbaijan and Azerbaijanis from throughout Armenia fled their homes during the war.³

Although a May 1994 ceasefire ended open conflict, peace has been elusive. Since the ceasefire, the conflict parties have reviewed and rejected several plans proposed by international mediators. Armenia has continued providing political, military and financial support to the breakaway region, which Baku views as Armenia-occupied Azerbaijani territory. Tension occasionally has led to clashes, the worst of them in the spring of 2016. Then, four days of fighting killed hundreds, although again exact numbers are disputed. It left Azerbaijan in control of slightly more territory in Nagorno-Karabakh and the adjacent territories than before. It also left the combatants thinking about a rematch.

In the last eighteen months, however, Armenian and Azerbaijani leaders have taken steps to reverse what had seemed a slide toward a new war. Direct leadership contacts and communication channels between security personnel and political representatives in capitals have minimised flare-ups and casualties. Both countries'

¹ UN Security Council Resolutions 822, 853, 874 and 884, all adopted during the 1992-1994 war, as well as UN General Assembly Resolution 62/243 adopted in 2008, refer to these territories as occupied.

² See "Всероссийская перепись населения 1989" [Soviet Census 1989], which lists 440,000 inhabitants in total on those territories. Official Azerbaijani statistics count over 700,000 Azerbaijanis displaced from the adjacent territories, but also include descendants of those who initially fled. "On the districts bordering Armenia or Nagorno-Karabakh, territories of which are either occupied or affected by the Armenian armed forces", official website of the State Committee for the Affairs of Refugees and Internally Displaced Persons of the Republic of Azerbaijan.

³ See "Soviet Census 1989", op. cit., which lists a total pre-conflict Azerbaijani population in Armenia of 84,860 and a pre-conflict Armenian population in Azerbaijan of around 245,000, excluding around 145,500 Armenians living in the Nagorno-Karabakh Autonomous Oblast (NKAO). The Armenian government estimates that there are now more than 360,000 refugees from Azerbaijan. Also see "Azerbaijan: Analysis of Gaps in the Protection of Internally Displaced Persons", UN High Commissioner for Refugees, October 2009, which estimates that 200,000 Azerbaijanis fled Armenia.

leaders also agreed to launch humanitarian projects and support visits of relatives of detainees held in each other's capitals as well as of journalists, the first of which occurred in November.⁴ This slight thaw marks a substantial shift. It is the first reversal in what had been a steady decline in relations since the April 2016 clashes.

When they are ready to come to the table, the parties will have a quasi-roadmap at hand. If, despite decades of negotiations, they have never settled on a peace plan, Baku and Yerevan have agreed to a framework for talks. It begins with the core principles of the Helsinki Final Act, which mediators and the parties endorsed during the Organization for Security and Co-operation in Europe (OSCE) Ministerial Summit in Madrid in 2007. These include refraining from the threat or use of force, preserving states' territorial integrity, and protecting the equal rights and self-determination of peoples.⁵

Based on these principles, in 2009-2012 the OSCE Minsk Group, co-chaired by the U.S., Russia and France, proposed six additional elements as a guide for talks, which neither Baku nor Yerevan has ever publicly rejected:⁶

- ❑ Creating an interim status for Nagorno-Karabakh that provides guarantees for security and self-governance;
- ❑ Returning the territories surrounding Nagorno-Karabakh to Azerbaijani control;
- ❑ Building a corridor linking Armenia to Nagorno-Karabakh;
- ❑ Determining the final legal status of Nagorno-Karabakh through a legally binding expression of will;
- ❑ Upholding the right of all internally displaced persons (IDPs) and refugees to return to their former places of residence; and
- ❑ Granting the parties international security guarantees that would include a peace-keeping operation.⁷

If the parties appeared to accept these elements, they understood them differently. Armenia viewed "interim status" warily, but agreed because it expected that the proposed referendum, held in Armenian-majority areas, would culminate in Nagorno-Karabakh's independence. Even if some ethnic Azerbaijani IDPs were to return, their numbers would be insufficient to sway the result.⁸ For its part, Azerbaijan assumed that interim status, which would involve Azerbaijani rule in some form for as long as

⁴ "Leyla Abdullayeva answers the question of media regarding the mutual visits of journalists from Azerbaijan and Armenia", official website of the Republic of Azerbaijan, 25 November 2019; "Answer by spokesperson of the MFA of Armenia on the question about the journalist exchange programme", official website of the Ministry of Foreign Affairs of the Republic of Armenia, 26 November 2019.

⁵ "Fifteenth Meeting of the Ministerial Council 29 and 30 November 2007: Statements and Declarations by the Ministerial Council Decisions of the Ministerial Council", OSCE, 30 November 2007; "Seventeenth Meeting of the Ministerial Council 1 and 2 December 2009: Statements and Declarations by the Ministerial Council Decisions of the Ministerial Council", OSCE, 2 December 2009.

⁶ Since 2009, the de facto authorities of the Nagorno-Karabakh entity voiced repeated concerns over the elements. For example, see "Statement of the MFA of NKR", official website of the Ministry of Foreign Affairs of the Republic of Artsakh, 15 July 2009.

⁷ "Statement by the OSCE Minsk Group Co-Chair countries", OSCE, 10 July 2009.

⁸ Crisis Group interviews, current and former Armenian officials, analysts, December 2017-March 2019.

it lasted, could be indefinite – as no deadline was set for the referendum – or at least offer an opportunity for Azerbaijanis to reintegrate and, officials say, win over the Armenian population.⁹ Baku also saw an opportunity to restore control over the adjacent territories “without a shot being fired”.¹⁰

Given the distance between the two sides’ understanding of where the six elements would lead, it is perhaps not surprising that progress since has stalled. There is no agreement on interim, let alone final, status, the adjacent territories remain under Armenian control, IDPs are still displaced and no international peacekeepers or monitors have deployed. To break out of this deadlock, the parties must find ways to resolve three main areas of disagreement:

- ❑ the fate of seven adjacent regions in which thousands of ethnic Armenians have settled and which are under the effective control of the de facto authorities in Nagorno-Karabakh;
- ❑ the mandate and composition of an international peacekeeping or observer mission that could buttress any political agreement; and
- ❑ Nagorno-Karabakh’s ultimate status.

Thus far, all efforts to tackle the three issues have sought to do so in toto. The three are interdependent: resolution of the conflict will require a single comprehensive agreement, not piecemeal understandings. But failure to look at each issue independently has hampered discussion of any of them.

This report examines these three issues with an eye to finding ways to break the impasse. It is based on interviews with local and international officials, experts, and members of the general population residing in Armenia, Azerbaijan and Nagorno-Karabakh and the adjacent areas in 2017-2019. It factors in the parties’ legal and political positions, but does not advocate any particular stance in the ongoing dispute, simply aiming to help the parties overcome a debilitating stalemate and take advantage of a slight thaw in relations. Geographical names reflect the usage of the pre-war years in the 1990s. The report acknowledges that the current population of the de facto Nagorno-Karabakh entity does not include ethnic Azerbaijani IDPs forced to flee the territory during the 1992-1994 war.

⁹ Crisis Group interview, former senior Azerbaijani official, Baku, March 2019.

¹⁰ “President of Azerbaijan: ‘Our patience also has limits’”, Euronews, February 2010; Crisis Group interviews, current and former Azerbaijani officials, analysts, May 2018-March 2019.

II. Territories Adjacent to Nagorno-Karabakh

In 1994, Armenian forces took control of the seven Azerbaijani districts adjacent to Nagorno-Karabakh. In five (Jebrail, Zangelan, Kubatly, Lachin and Kelbajar) they took full control, while seizing only parts of Agdam and Fizuli. Settlers soon followed. Today, they comprise around 11 per cent of the combined population of the adjacent areas and Nagorno-Karabakh itself – the territories that Azerbaijan views as occupied by Armenia – and their numbers continue to grow.¹¹ They represent a major challenge for both Armenia and Azerbaijan. Neither country has publicly expressed willingness to discuss the settlements as part of peace talks, even as Azerbaijan continues to demand the return of those territories.¹²

A. History

Before the war, the seven districts were populated predominantly by Azerbaijanis. This population fled during the fighting. Afterward, Armenian and de facto authorities in Stepanakert saw limited settlements as a way to establish control over strategically important territory, notably the one road connecting Armenia with Nagorno-Karabakh, which runs through the town of Lachin.¹³ According to a former de facto official, a secret order issued by the de facto authorities, under Yerevan's supervision, called on ethnic Armenians to settle in the town and a handful of nearby villages in order to control that road.¹⁴ The de facto authorities felt that four settlements in Lachin district would suffice.¹⁵

Some Armenian activists and war veterans had bigger plans, however. Instead of limiting settlements to Lachin, they argued that it was ethnic Armenians' "moral right" to settle land that centuries ago was part of the Kingdom of Greater Armenia.¹⁶ Through media campaigns and Armenian charities, they encouraged ethnic Armenians to move to not only the town of Lachin and nearby villages but all the adjacent territories. Areas between Armenia and Nagorno-Karabakh – namely Lachin, Kelbajar, Kubatly and Zangelan – and along the roads connecting Stepanakert to Agdam

¹¹ Estimate based on information from the current and former de facto officials, who consider that 147,000 people live in the areas under their control; about 15,000 live west and south west of Nagorno-Karabakh, while around 2,000 live in smaller settlements south and east of the region. See "Demographic handbook of Artsakh 2019", National Statistical Service of the Republic of Artsakh, 2019. This information was cross-checked with other public sources; for more details, see Appendix C.

¹² Crisis Group interviews, officials, Yerevan, Stepanakert, Baku, 2017-2018.

¹³ Crisis Group interview, former de facto officials, Stepanakert and Yerevan, March-April 2018.

¹⁴ Crisis Group interview, former de facto official, Yerevan, April 2018.

¹⁵ Ibid.

¹⁶ Many Armenian nationalists argue that these territories are part of Artsakh, a region in the Kingdom of Greater Armenia, which existed for almost 600 years starting in the 2nd century BC. They refer to history in general and to specific artefacts, sites and monuments of cultural and religious significance. Since 1995, de facto authorities have asserted different names for towns, villages and districts in these territories. Some were picked from Armenian history books, while others correspond to the names of Armenian towns and villages in eastern Turkey under the Ottoman Empire. Crisis Group interview, former de facto senior official, Yerevan, April 2018; Crisis Group interviews, leaders of resettlement process, Lachin and Kelbajar districts, Stepanakert, December 2017, March 2018. Also see fn 28.

district saw the most substantial growth.¹⁷ By 1995, Lachin district housed twelve settlements instead of the planned four.¹⁸ By 2004, there were about 13,500 permanent residents in dozens of new villages across the four districts between Nagorno-Karabakh and Armenia.¹⁹

The settlers arrived at the ruins of Azerbaijani villages destroyed during the war. In some areas, the Armenian forces had burned homes and other infrastructure and mined the land to prevent Azerbaijanis from returning.²⁰ Most settlers were already socially or economically vulnerable. The majority were ethnic Armenians displaced from neighbouring regions of Azerbaijan during the conflict or migrants from nearby mountainous areas of Armenia in search of free housing and land.²¹

The settlements, especially those outside Lachin, made the Armenian government nervous. While some Armenian charities offered limited help with relocation costs, Yerevan refused to provide direct assistance for fear of international criticism and Azerbaijani legal action.²² Several of those who founded settlements say that Yerevan even tried to prevent them doing so.²³ One former de facto official who sought financial support from private sources in Yerevan to improve living conditions in Zangelan and Kubatly reported consistent obstacles throughout his tenure, which lasted into 2004. Change, he said, came only after he left office and Stepanakert took full control of the territories in 2006.²⁴ A politician with close links to the Armenian leadership of the 1990s confirmed that Yerevan strongly opposed attempts to settle

¹⁷ Crisis Group interviews, former de facto senior official and leaders of resettlement process, Yerevan, Stepanakert, Lachin and Kelbajar districts, December 2017, March-April 2018.

¹⁸ There are no signs that military authorities took part in fostering the settlement process. The first military units were deployed in the main towns of the adjacent districts. Their bases remain fenced in and personnel rotate on a regular basis. No military personnel have permanent homes in any nearby settlements. Crisis Group interviews, December 2017, March 2018. Whose army is present in the conflict region is disputed. Stepanakert insists that these are its troops and that any linkages with Armenian military personnel or institutions take place only through special bilateral agreements. Because Baku rejects the possibility of an independent Karabakh force, it views military personnel in the area as occupying Armenian forces.

¹⁹ Crisis Group interviews, former de facto officials, leaders of resettlement process, settlers, December 2017, April-March 2018.

²⁰ Crisis Group interviews, Armenian veterans, December 2017.

²¹ De facto authorities have registered up to 30,000 people as “Armenian refugees from Azerbaijan”. Another 60,000 ethnic Armenians are considered IDPs by Stepanakert as they come from Shahumyan district. This is a district in Azerbaijan where Armenians have a long history. De facto authorities consider it a part of Nagorno-Karabakh “occupied by Azerbaijan”. Crisis Group interviews, de facto officials and civil society representatives, March 2018. The 2005 Report of the OSCE Fact-Finding Mission also mentions victims of 1988 Armenia’s earthquake among the new settlers; see “Report of the OSCE Fact-Finding Mission (FFM) to the occupied territories of Azerbaijan surrounding Nagorno-Karabakh (NK)”, OSCE, 2005.

²² Crisis Group interviews, settlers and former de facto officials, Stepanakert and Yerevan, December 2017, March-April 2018. Armenian leaders have never provided direct support to settlements. But Yerevan has provided budget support to Stepanakert since the 1990s, part of which the latter has used to finance the settlements since 2006. For details see Appendix C.

²³ Crisis Group interviews, founders of settlements and former de facto officials, Stepanakert and Yerevan, March-April 2018.

²⁴ Crisis Group interview, former de facto official, Yerevan, April 2018.

the surrounding territories except for the Lachin road, to which “no Azerbaijani was going to return anyway”.²⁵

With limited resources, settlers throughout the 1990s lacked proper construction materials or equipment. To repair schools and other public buildings, they tried to raise private funds locally and in Armenia.²⁶ The settlements were isolated, with minimal access to public goods or services such as electricity or telephone connections.²⁷

In 1998, de facto authorities in Stepanakert began to exert control over the settlements, starting in Lachin and continuing with Kelbajar, though their investment in those areas remained minimal.²⁸ De facto officials deployed, and the authorities took on partial salary payment for local teachers, workers responsible for public cultural events, and nurses (of whom there are few, and only in some settlements).²⁹ Local residents did not always welcome the new authorities.³⁰ One of the first de facto police officers deployed to Kelbajar reports that due to hostility from inhabitants he spent several nights in his car instead of asking for shelter at a local house.³¹ Even if other districts were more welcoming, Stepanakert’s involvement failed to bring what settlers wanted most: real financial support.³²

International attention to the settlements continued to make Yerevan uneasy. After a 2005 fact-finding mission, the OSCE Minsk Group co-chairs explicitly called for an end to new settlements.³³ They also urged the parties to reach agreement on the

²⁵ Crisis Group interview, Armenian politician, Yerevan, July 2018.

²⁶ Crisis Group interviews, settlers, Lachin and Kubatly districts, December 2017.

²⁷ In some settlements, residents took part in local parliamentary elections organised by de facto authorities since 1997. In 1998, de facto authorities mentioned the adjacent territories in a law “on administrative division”; see “ԼՂՀ ՎԱՐՉՍԱՐԱԴՐՈՒՄՅՈՒՅԻՆ ԲԱԺԱՆՄԱՆ ՄԱՍԻՆ” [About NKR’s Administrative Division], official website of the National Assembly of the Republic of Nagorno-Karabakh, adopted on 16 June 1998. In 2000, the de facto parliament invited representatives of the settlements to take part in its sessions as “observers”. Crisis Group interviews, current and former de facto officials, member of de facto parliament, former and current heads of settlements, Stepanakert, Lachin, Kubatly, Zangelan and Kelbajar districts, December 2017, March 2018.

²⁸ Crisis Group interviews, former de facto officials, Yerevan and Stepanakert, March-April 2018. In 1998, de facto authorities assigned new names to the main towns and administrative units. Lachin town was renamed Berdzor. Lachin, Kubatly and Zangelan districts were merged into one administrative unit called Kashatagh. Zangelan was renamed Kovsakan, Kubatly to Sanasar. Kelbajar town was renamed Karvachar, and the district was renamed Shahumyan to recall the territory to the north of Nagorno-Karabakh, which the de facto leadership considers “occupied by Azerbaijan”. Agdam merged with a new Askeran district and was renamed Akna. Fizuli became part of Martuni district and was renamed Varanda. Jebrail district was merged with Hadrut and its main town renamed Jrakan. For some of the names, see “About NKR’s Administrative Division”, op. cit.

²⁹ The 1999 budget law already included an explicit reference to expenditure in Kelbajar, see “ԼՂՀ 1999Թ. ՊԵՏԱԿԱՆ ԲՅՈՒՋԵԻ ՄԱՍԻՆ” [About 1999 State Budget of NKR], official website of the National Assembly of the Republic of Nagorno-Karabakh; “ԼՂՀ ՕՐԵՆՔԸ ԼՂՀ 1999 ԹՎԱԿԱՆԻ ՊԵՏԱԿԱՆ ԲՅՈՒՋԵԻ ՄԱՍԻՆ” [Decree to the Law on 1999 State Budget of NKR], Database of the Ministry of Justice of the Republic of Nagorno-Karabakh, 30 December 1998.

³⁰ Crisis Group interviews, settlers and former and current heads of settlements, Kelbajar district, December 2017.

³¹ Crisis Group interview, de facto official, Kelbajar, December 2017.

³² Crisis Group interviews, settlers, Kelbajar, Lachin, Kubatly and Zangelan districts, December 2017.

³³ “Report of the OSCE Minsk Group Co-Chairs’ Field Assessment Mission to the occupied territories of Azerbaijan surrounding Nagorno-Karabakh”, OSCE, 24 March 2011; “Executive summary of

territories' fate, which they saw as the only way to avoid settlers laying down deeper "roots and attachments to their present places of residence".³⁴ An agreement, they thought, could also make it possible to end the settlers' "miserable and isolated" living conditions.³⁵ One former de facto official told Crisis Group that these statements led Yerevan to instruct Stepanakert to halt even the basic financial support it was providing. "Because of [the co-chairs], people were spending winters with holes in their roofs, and I could not help them", he said.³⁶ Indeed, many former and current de facto officials and politicians continue to blame the OSCE Minsk Group for, in their view, forcing settlers to live for years in poverty.³⁷

This changed in 2006, when the de facto government in Stepanakert adopted a constitution claiming full but temporary jurisdiction over the adjacent territories and thus the settlements.³⁸ The constitution was recognised only by the de facto Nagorno-Karabakh authorities. Nonetheless, it provided a framework through which Stepanakert began to increase services throughout the surrounding settlements.³⁹

Perhaps most significantly, Stepanakert's greater involvement after 2006 has jumpstarted agriculture in the area.⁴⁰ Although agricultural programs are meant to span the whole region, they have little success in Nagorno-Karabakh's mountainous terrain. In the settlements, however, agriculture boomed. This helped improve living standards and attract new settlers. Entrepreneurs began to lease large plots of land, employing other settlers to work them. Over time, settlers began to organise their own plots. "Nine years ago, when we first arrived, we worked only on 150 hectares of land", said a settler in Kubatly. "Now there is not a piece of land to spare".⁴¹

the Report of the OSCE Minsk Group Co-Chairs' Field Assessment Mission to the occupied territories of Azerbaijan surrounding Nagorno-Karabakh", OSCE, October 2010.

³⁴ "Letter of the OSCE Minsk Group co-chairs to the OSCE Permanent Council", p. 3.

³⁵ Ibid.

³⁶ Crisis Group interview, former de facto official, Yerevan, April 2018.

³⁷ Crisis Group interviews, former and current de facto officials, politicians, Kelbajar, Lachin, Kubatly and Zangelan districts, Stepanakert, Yerevan, December 2017, April 2018, October 2019.

³⁸ Article 142 of the Nagorno-Karabakh constitution says: "Until the restoration of the state territorial integrity of the Nagorno-Karabakh Republic and the adjustment of its borders public authority is exercised on the territory under factual jurisdiction of the Republic of Nagorno-Karabakh".

³⁹ One popular program among this predominantly poor population aims to increase birth rates through financial allowances and special banking preferences for each child born to a family in the de facto region: after the birth of a fifth or sixth child, families often receive free housing. Some families in the settlements with four or more children have received help from the de facto government with housing repairs or been given a new home. See the de facto government's decrees to this effect on its official website.

⁴⁰ The program officially started with the 2007 establishment of the agriculture fund, which offered farmers preferential credits for grain and fertilisers. New technology and equipment helped increase yields. Produce was sold inside the de facto region, as well as in Armenia. The program led to a sharp increase in demand for agricultural land, with the size of cultivated land tripling in ten years. About 80 per cent of the economically active population is now engaged in farming, which is the leading source of employment after the local army. Crisis Group interviews, senior de facto official, de facto officials and parliamentarians, Stepanakert, December 2017, March 2018. Also see "Made in Artsakh: Как бизнесмены подняли с колен непризнанную республику" [Made in Artsakh: How businesspeople raised the unrecognised republic from its knees], *Sekret Firmy*, 14 October 2015.

⁴¹ Crisis Group interviews, settlers in Kubatly district, December 2017.

Baku has closely followed these developments. Since the 2005 OSCE fact-finding mission, Azerbaijan has increasingly emphasised the growing settlements and illegal economic activity at international organisations and in bilateral discussions with foreign partners.⁴² Since 2016, the Azerbaijani foreign ministry has disseminated regular reports and satellite imagery of settlement expansion.⁴³ Some Azerbaijani officials suggest that the settlements could be cause for future sanctions and legal action against Armenia.⁴⁴

B. *The Settlements Today*

Yerevan's apprehension, Baku's protests and the OSCE Minsk Group's appeals have not constrained the settlements' growth. Today, about 17,000 ethnic Armenians live in the territories between Armenia and Nagorno-Karabakh.⁴⁵ Among them are some 4,000 children and young people born since 1994, a faster rate of growth than in Nagorno-Karabakh itself.⁴⁶

Life remains tough in the settlements. Settlers have restored water and power supplies, but public transport between settlements and other destinations remains non-existent. The trip from either Stepanakert or any of the closest towns in Armenia along the remains of winding, damaged roads to settled areas can take up to a day.⁴⁷ With public hospitals far away and bad roads limiting access to emergency health

⁴² "Illegal settlement of Armenians in the occupied territories of Azerbaijan by Armenia as a gross violation of the principles of international law", Council of Europe (CoE), 28 June 2006; "The situation in the occupied territories of Azerbaijan", UN General Assembly (UNGA) 62/243, 25 April 2008; "Annex to the letter from the Permanent Representative of Azerbaijan to the United Nations addressed to the Secretary-General", 27 April 2010; "Speech by Ilham Aliyev at the 65th session of the United Nations General Assembly", official website of the President of the Republic of Azerbaijan, 23 September 2010.

⁴³ For more details, see "Illegal economic and other activities in the territories of Azerbaijan occupied by Armenia", Ministry of Foreign Affairs of the Republic of Azerbaijan, 2016; and "Illegal activities in the territories of Azerbaijan under Armenia's occupation: Evidence from satellite imagery", Report by Azercosmos OJSCo and the Ministry of Foreign Affairs of the Republic of Azerbaijan, 2019.

⁴⁴ Crisis Group interviews, officials, Baku, May 2018-March 2019. Also see "Azerbaijan calls on PACE to impose sanctions on Armenia", Azernews, 23 June 2015; "Azerbaijani Embassy in Washington calls on the international community to consider sanctions against Armenia", New Azerbaijan Party website, 6 August 2014.

⁴⁵ The population of the Nagorno-Karabakh conflict region is about 140,000. See "The Results of 2015 population census of the Republic of NKR", National Statistical Service of the Republic of Artsakh. Before the war in 1990s, the population numbered around 190,000. See "Soviet Census 1989", op. cit. For more details on demography in the adjacent territories, see Appendix C.

⁴⁶ De facto officials and politicians argue that about 10,000 children were born in the adjacent territories. Crisis Group could not find evidence for this claim. According to the statistics of the de facto authorities in 2004-2018, 3,889 children were born in the most populated districts of Kelbajar, Kubatly, Lachin and Zangelan. Crisis Group estimates based on figures published by the local statistical office. See "The Demographic Handbook of Artsakh 2019", op. cit.; "The Regions of NKR in Figures 2010-2016", The National Statistical Service of the Republic of Artsakh, 2016; "The regions of NKR in figures 2008-2014", The National Statistical Service of the Republic of Artsakh, 2015; "The regions of NKR in figures 2003-2009", The National Statistical Service of the Republic of Artsakh, 2010. For more demographic details, see Appendix C.

⁴⁷ Crisis Group interviews, settlers in Zangelan, Kubatly and Kelbajar districts, December 2017.

care providers, people have adapted. Home births, for example, are typical.⁴⁸ While many settlers are displaced victims of war, they have been unable to receive foreign aid because the settlements are illegal according to international law.⁴⁹

But if public transport, connectivity and health-care access have not much improved, the agricultural sector continues to expand rapidly.⁵⁰ Lachin, Kubatly and Zangelan districts dominate local agricultural production, accounting for more than one quarter of Nagorno-Karabakh's and the adjacent territories' output (for both export and local consumption) in 2016.⁵¹ Indeed, farming and the construction of small- and medium-sized hydroelectric power stations in the adjacent territories have significantly contributed to Nagorno-Karabakh's economy and the de facto government's revenues.⁵²

To maintain growth driven by agricultural expansion, Stepanakert now plans to start developing previously unsettled areas.⁵³ Parts of Jebrail and Fizuli districts, to the south and east of Nagorno-Karabakh, had been largely left settlement-free, possibly due in part to pressure from Yerevan, which sought to leave itself the option of a peace deal that would return those areas to Baku's control.⁵⁴ Increasing demand for land, however, has made de facto officials and the Nagorno-Karabakh population more determined to maintain control of those areas. Even those who once saw the territory as subject to a bargain now want to hold on to it. Settlers have cultivated unsettled land along all major roads in the territories, up to the rear positions of Armenian troops along the line of contact with Azerbaijani forces. Areas near the Araks River on the Iranian border have proven particularly promising for farming.⁵⁵

In October 2017, Nagorno-Karabakh's de facto president, Bako Sahakyan, identified expanding the settlement of the adjacent territories as a priority for 2017-2020.⁵⁶ In 2018, his government allocated \$800,000 in the de facto entity's annual budget to populate and develop new settlements, the first time that funds were earmarked for this purpose.⁵⁷ In early 2019, it unveiled plans for a new settlement in Fizuli with

⁴⁸ Ibid.

⁴⁹ Crisis Group interviews, representatives of international humanitarian organisations, March 2018.

⁵⁰ Crisis Group interviews, settlers in Zangelan, Kubatly and Kelbajar districts, December 2017.

⁵¹ See "The regions of NKR in figures 2000-2016", op. cit.

⁵² For more details on agriculture in the adjacent territories, see Appendix C.

⁵³ Crisis Group interviews, de facto leadership, Stepanakert, December 2017, March 2018.

⁵⁴ Ibid.

⁵⁵ Crisis Group interviews, de facto leadership and parliamentarians, Stepanakert, December 2017 and March 2018.

⁵⁶ "Speech of President Sahakyan at the enlarged consultation dedicated to the key points of the 2017-2020 Artsakh Republic President Program", official website of the President of the Republic of Artsakh, 16 October 2017.

⁵⁷ Crisis Group interviews, de facto leadership and parliamentarians, Stepanakert, December 2017, March 2018. See "Արցախի Հանրապետության 2018թ. պետական բյուջեի մասին" [About State Budget of Artsakh government for 2018], Ministry of Finance of the Republic of Artsakh, 2018. The 2019 budget does not include a similar line. See "Արցախի Հանրապետության 2019թ. պետական բյուջեի մասին" [About State Budget of Artsakh government for 2019], Ministry of Finance of the Republic of Artsakh, 2019.

several rows of houses close to fertile farmlands.⁵⁸ At the time of writing, however, no new settlement was reported either in Fizuli or Jebrail.

As settlements grow, so does opposition to returning the lands to Azerbaijan.⁵⁹ Stepanakert and the settlers increasingly question any sort of peaceful coexistence with ethnic Azerbaijanis.⁶⁰ Many settlers say that they have lived for twenty years in extremely tough conditions, without financial support, and will fight to stay. “If the Armenian government decides [to transfer the territory to Azerbaijani control], I am ready to take up arms against them”, said an Armenian villager in Lachin district.⁶¹ The Armenian diaspora’s backing, which has kept these communities afloat in the absence of other assistance, strengthens settlers’ belief that these territories are “primordially Armenian lands”.⁶² April 2016’s outbreak of fighting hardened these positions.

Nor is it clear that settlers would be willing to move elsewhere if offered compensation, as some Armenian officials and politicians suggest.⁶³ A minority might: “If people ask us to leave, we will not stay”, said a settler in Jebrail district.⁶⁴ But given the settlements’ growing economic importance, the investments settlers have made in creating homes and communities for themselves, and the narrative that the land is Armenian, financial incentives may not suffice. One diplomat suggested that attempts at resettlement would prompt a “tsunami of protest” from both settlers and inhabitants of Nagorno-Karabakh itself, to say nothing of Armenian nationalists at home and within the diaspora.⁶⁵ He cautioned that the issue of settlements could become a Pandora’s box: adding one more insurmountable issue to an already long list.⁶⁶ For Armenian officials pessimistic that peace talks will get anywhere, avoiding any discussion of the settlements, and thus allowing their growth and postponing decisions on their fate, is preferable to trying to resolve the question now.⁶⁷

A legal dimension further complicates the situation. In 2015, the European Court on Human Rights ruled that Armenia exercises effective control over the territory of Nagorno-Karabakh and the surrounding areas and therefore bears responsibility for

⁵⁸ “Արաքսի հովտում նոր գյուղ է ձևավորվում” [A new village getting founded in the Araks valley], Armenia Public TV on YouTube, 28 February 2019.

⁵⁹ For instance, de facto officials, analysts and civil activists voiced similar sentiments during Crisis Group interviews in Stepanakert in July 2015.

⁶⁰ Crisis Group interviews, de facto officials and politicians, Stepanakert, December 2017, March 2018.

⁶¹ Crisis Group interview, resident of settlement, Lachin district, December 2017.

⁶² Crisis Group interviews, de facto officials, politicians, experts, Stepanakert and Yerevan, December 2017, March–April 2018. See comment by the representative of the Tufenkian Foundation, an Armenian diaspora organisation that has been the main provider of financial support to projects in the adjacent areas, in “For Armenians, they’re not occupied territories – they’re the homeland”, Eurasianet, 6 August 2018. For more detail on the support of the Armenian diaspora organisations, see Appendix C.

⁶³ Crisis Group interviews, former officials and politicians, Yerevan, December 2017, April 2018.

⁶⁴ Crisis Group interview, resident of settlement, Jebrail district, December 2017.

⁶⁵ Crisis Group interview, diplomat, Tbilisi, December 2017.

⁶⁶ Crisis Group interview, diplomat, Tbilisi, December 2017.

⁶⁷ Crisis Group interviews, former and current officials, Yerevan, March 2018, July 2018, October 2019.

them under the European Human Rights Convention.⁶⁸ The case has increased Armenia's concern that discussing settlements would amount to an admission of occupation, and thus its legal responsibility for Nagorno-Karabakh and the adjacent districts.⁶⁹

Since 2016, Baku has intensified international outreach to warn countries against contacts with and aid or investment to settlements in the adjacent areas. It has gathered satellite imagery documenting the settlements' expansion and hired lawyers to build its case for how they violate international law.⁷⁰ The Azerbaijani government is now considering filing lawsuits in the European Court of Human Rights against the Armenian government and individuals engaged in the regions. It hopes that victory in these cases will lead to asset freezes and other penalties against those responsible.⁷¹ While Yerevan does not fear that such cases or sanctions would substantially harm the Armenian economy, it does worry that the cases may bolster Azerbaijan's stance that the territories are occupied.⁷²

C. Steps to More Constructive Talks on Settlements

Space for starting any conversation on settlements is limited. Azerbaijan's current position is clear: the settlements are illegal, and their continuation is creeping expropriation of Azerbaijani territory.⁷³ Azerbaijani officials fear that opening talks could implicitly signal recognition of the settlements. Baku wants to link any discussion of the settlements to the return of the adjacent territories and IDPs.⁷⁴ Yerevan and Stepanakert usually dispute that the territory in question is occupied; they also cite security requirements as their rationale for maintaining control of the land.⁷⁵ For Yerevan, any talks must be tied to Azerbaijani compromises including on Nagorno-Karabakh's status. As noted, it also fears that any talks in which it is perceived as representing Stepanakert's interests regarding the settlements could be read as a tacit admission of occupation, bolstering Azerbaijani claims in international courts regarding the settlements and potentially serving as fodder in a future Azerbaijani campaign to convince other states to impose sanctions against Armenia.⁷⁶

⁶⁸ "Case of Chiragov and others v. Armenia", European Court of Human Rights, 16 June 2015. The European Court of Human Rights issued two similar decisions in *Chiragov and Others v. Armenia* and *Sargsyan v. Azerbaijan*, which discussed the issue of financial compensation to displaced people as a result to the ongoing conflict. Those decisions held that due to a lack of political solution to the Nagorno-Karabakh conflict, the applicants should be awarded compensation as just satisfaction in respect of pecuniary and non-pecuniary damage.

⁶⁹ Crisis Group interviews, former and current officials, Yerevan, March 2018, July 2018, October 2019.

⁷⁰ "Baku calls foreign companies to avoid illegal activity at the occupied territories", Turan Agency, 23 July 2018.

⁷¹ Crisis Group interview, senior officials, Baku, November 2019.

⁷² Crisis Group interviews, senior officials, Yerevan, October 2019.

⁷³ "Speech by Ilham Aliyev at the 65th session of the United Nations General Assembly", op. cit.; "Letter dated 10 April 2017 from the Permanent Representative of Azerbaijan to the United Nations addressed to the Secretary-General", op. cit.

⁷⁴ Crisis Group interview, senior official, Baku, November 2019.

⁷⁵ Crisis Group interviews, officials and politicians, Yerevan and Stepanakert, 2017-2019.

⁷⁶ Crisis Group interviews, officials and politicians, Yerevan, December 2017, April 2018.

But if prospects for substantive discussions between Armenia and Azerbaijan regarding the settlements appear remote, failure to talk incurs mounting risks. The gap is widening between the sides: Azerbaijanis believe that the territories could be easily returned, while Armenians are increasingly convinced that they should not be. Neither side discusses how Armenian settlers could coexist with returning Azerbaijani IDPs; absent such a dialogue, there is no hope of reversing resistance to a possible compromise within those two groups.

One option for paving the way for more substantive talks might be for Yerevan and the de facto authorities to cease settlement construction in return for Baku pledging to abstain from advocating settlement-related sanctions or filing any related claims in international courts against Armenia. This moratorium could be time-delimited (perhaps for one year) to provide a window for talks to show progress. Without it, the settlement expansion that Stepanakert plans would create more obstacles to a resolution, further harden positions and bolster constituencies against peace in both countries.

Such an arrangement would have advantages for Yerevan. As things stand, new settlements strengthen the belief among settlers and Armenian nationalists that no territory can be given up. By turning a blind eye to them, Yerevan sets the stage for the problem to grow and complicate any eventual discussions. Building new settlements also risks making the situation on the ground even more unmanageable as existing ones are plagued by poverty, dilapidated housing and shoddy infrastructure.

Yerevan would likely have to apply substantial pressure to persuade the de facto leadership to accept a one-year moratorium on further settlements, but the de facto entity's dependence on Yerevan gives it considerable influence. Armenia is Nagorno-Karabakh's main security provider and represents it in the official talks with Azerbaijan. Yerevan also supplies around half of Stepanakert's budget and remains the main market for Nagorno-Karabakh's products.⁷⁷

For its part, Baku would likely have strong reasons to reject reciprocal steps along these lines, but there might be ways to address its concerns. Azerbaijani officials understandably fear that accepting an arrangement whereby settlement expansion ceases in return for a freeze on sanctions or legal action could signal that Baku accepts existing settlements. They may also sense they have international winds in their sails given their chairmanship of the Non-Aligned Movement, a grouping set up for nations that backed neither the U.S. nor the Soviet Union during the Cold War, and support for Azerbaijan's position on Nagorno-Karabakh from the Organisation of Islamic Cooperation.⁷⁸

But accepting a freeze does not mean accepting the settlements. Baku could make public statements reiterating its view that the settlements are illegal under international law even while pledging to put any plans for new sanctions or legal action on hold for a delimited time. This would signal that it does not accept the legality or con-

⁷⁷ For more details, see Appendix C.

⁷⁸ "The Aggression of the Republic of Armenia against the Republic of Azerbaijan", Organisation of Islamic Cooperation Resolution No. 10/11, in "Resolutions on Political Affairs adopted by the Eleventh Session of the Islamic Summit Conference", March 2008; "Cairo Final Communiqué of the Twelfth Session of the Islamic Summit Conference", 6-7 February 2013; "OIC adopts two resolutions on Azerbaijan", Azernews, 25 January 2018.

tinued existence of those settlements that are in place. Moreover, a freeze on settlements would serve Azerbaijan's interests as much as those of Armenia. The settlement expansion threatens to make any prospective return of the adjacent territories harder and costlier for Azerbaijan.

Another option to help break the deadlock on settlements might be a comprehensive, independent assessment of the situation in the adjacent territories. This would in turn help counter misperceptions and potentially lay the groundwork for an informed discussion about those territories' future. Past OSCE fact-finding missions, in 2005 and 2010, were intended to document the settlements' existence. Both were brief, enjoyed limited access and lacked relevant expertise. In 2005, the team identified a small number of settlements and reported the destruction of infrastructure and high levels of poverty among the local population.⁷⁹ As noted above, OSCE Minsk Group co-chairs recommended that Yerevan and Stepanakert prevent new settlements on the back of that report.⁸⁰ The 2010 mission published only an executive summary, which echoed the 2005 findings. It called on "the leaders of all the parties to avoid any activities in the territories and other disputed areas that would prejudice a final settlement or change the character of these areas".⁸¹

In 2018, the question of an assessment resurfaced. First, at the January meeting of the Armenian and Azerbaijani foreign ministers, the OSCE Minsk Group co-chairs discussed a possible new mission.⁸² Baku was supportive, hoping that an assessment would draw fresh international attention to the settlements and more support for Azerbaijan's demand for the territories' unconditional return.⁸³ Some de facto officials in Stepanakert were also positively inclined but, for their part, hoped an assessment would demonstrate that the territories' immediate return was no longer feasible.⁸⁴ Yerevan never made its position public.⁸⁵ In late 2018, after the change in Armenian leadership, Baku proposed a fact-finding mission. This time, Yerevan conditioned a mission on a similar assessment in the relatively small territories of the Soviet-era Nagorno-Karabakh oblast currently controlled by Azerbaijan.⁸⁶ Baku rejects this idea because, as one Azerbaijani official told Crisis Group: "Those territories are

⁷⁹ "Report of the OSCE Fact-Finding Mission (FFM) to the occupied territories of Azerbaijan surrounding Nagorno-Karabakh (NK)", OSCE, 28 February 2005.

⁸⁰ Ibid.

⁸¹ "Executive summary of the Report of the OSCE Minsk Group Co-Chairs' Field Assessment Mission to the occupied territories of Azerbaijan surrounding Nagorno-Karabakh", op. cit.

⁸² "Press Statement by the Co-Chairs of the OSCE Minsk Group", OSCE, 18 January 2018.

⁸³ Crisis Group interview, senior Azerbaijani diplomat, Baku, May 2018.

⁸⁴ Crisis Groups interviews, de facto officials, Stepanakert, December 2017, March 2018.

⁸⁵ Crisis Group interviews, officials, Yerevan, July 2018.

⁸⁶ These are parts of Martakert and Martuni regions of Nagorno-Karabakh that both Armenian and de facto authorities consider "occupied" by Azerbaijan. In 2015, one of these territories started building a settlement for around 1,100 people, mainly IDPs from the Nagorno-Karabakh conflict zone. For more details about the settlement, see "Məcburi köçkünlər üçün yeni salınmış qəsəbədə Novruz şənliyi" [IDPs celebrate Novruz in a newly built settlement], official website of the Tartar Regional Administration, 20 March 2018. Stepanakert also claims authority over the former Shahumyan region, which was mainly populated by the ethnic Armenians, who fled the region during the war in 1990s. Stepanakert declared this region part of its territory when announcing independence in 1991.

part of the internationally recognised lands of Azerbaijan and should undoubtedly be under Azerbaijan's legal authority".⁸⁷

In principle, a new, comprehensive survey of the facts on the ground could prove valuable to all sides. By providing a neutral outside perspective, the assessment could give Yerevan, Baku and Stepanakert a shared understanding of realities and constraints on the ground and help them look for pragmatic solutions that would best serve those affected by their decisions. The problem is that the disagreement between the two sides on an assessment's purpose for now appears unbridgeable. For Armenia and the de facto authorities, it would have to focus primarily on settlers' needs – their livelihoods, access to health care and education and other aspects of their socio-economic well-being – and thus potentially open up the area to international humanitarian organisations that for now do not work in the settlements.⁸⁸ Azerbaijan rejects an assessment with that focus, fearing it would solidify the settlements' existing status. For Baku, the main purpose of an assessment should be to draw international attention back to the settlements and their illegality and pave the way for displaced Azerbaijanis to return.⁸⁹

While for now it appears unlikely that a way through exists, the co-chairs could continue to explore options with the two sides to see if there is some space for compromise.

⁸⁷ Crisis Group interview, senior Azerbaijani official, November 2019.

⁸⁸ Representatives of two such organisations told Crisis Group they would be ready to do so if Armenia and Azerbaijan reached an agreement, endorsed by international mediators, to give them access. Crisis Group interviews, representatives of international humanitarian organisations, Yerevan, Tbilisi, March and November 2018, January 2019.

⁸⁹ According to a senior Azerbaijani official, a new survey must assess "the factual situation in order to prepare for the eventual safe and dignified return of Azerbaijani IDPs and in accordance with UNGA Resolution 62/243, for 'creating appropriate conditions for this return, including the comprehensive rehabilitation of the conflict-affected territories'". Crisis Group interview, senior Azerbaijani official, Baku, November 2019.

III. Prospects for an International Mission

Proposals for an international peacekeeping or monitoring mission to Nagorno-Karabakh are as old as the peace talks themselves. Here, too, breakdowns in communication have stymied useful discussions. Four questions pertaining to an international mission are relevant. The first concerns any potential mission's mandate, including whether it would be military or civilian and whether it would deploy before or after a peace agreement. The second relates to the role of the OSCE's HPLG, established after the 1992-1994 war to explore peacekeeping options. The third involves a potential expansion of the regional Office of the Personal Representative of the OSCE Chairman-in-Office (PRCiO), established in 1995. The last concerns Russia's role.

A. *Mandate and Makeup*

The main questions concern what an international mission would do – whether helping reduce risks of violence even absent a peace deal or deploying after a deal to monitor or enforce its provisions – and, following from that, who it would comprise. Officials, military officers and civil society representatives in Yerevan, Baku and Stepanakert mostly oppose any foreign military deployment, which they fear could lead to “an occupying force”.⁹⁰ Armenian, Azerbaijani and de facto officials tend to prefer that any mission be civilian-led, limited to observation and armed only for self-defence.

Agreement ends there, however. The two sides' perspectives on a mission's potential role and conditions under which it would deploy differ, based on their contrasting visions of peace. Yerevan and Stepanakert oppose any mission that would require Armenians to withdraw their military forces. They see themselves as guarantors of ethnic Armenians' security and are unwilling to surrender that role to outsiders.⁹¹ They do, however, feel that a civilian observer mission deployed as peace talks continue would signal international commitment and build confidence.⁹²

In contrast, Baku would like a mission to deploy as part of an agreement that includes the withdrawal of Armenian (whether they report to Yerevan or Stepanakert) forces. It supports the demilitarisation of the lines between Nagorno-Karabakh and the adjacent territories. That said, Baku is sceptical of any international mission absent agreements on the return of both the adjacent territories to Azerbaijani control and Azerbaijani IDPs to those territories and Nagorno-Karabakh itself, fearing that it could entrench the status quo. Were such agreements in place, a mission could

⁹⁰ Crisis Group interviews, political and military officials, Baku, Yerevan and Stepanakert, December 2017, March-May 2018, February-March 2019, October 2019.

⁹¹ Crisis Group interviews, de facto political and military officials, Stepanakert, December 2017, March 2018, October 2019. In its official statements, Armenia advocates for a heavily armed peacekeeping force in case of a peace agreement that would discuss a need for withdrawal of the Armenian troops from the conflict zone. (See Armenia's “Statement on the 2019 Programme Outline”, PC.DEL/652/18, 22 May 2018; “Statement on the 2020 Programme Outline”, PC.DEL/476/19, 6 May 2019.) Crisis Group interview, official, Yerevan, October 2019.

⁹² Crisis Group interviews, officials, de facto political and military officials, Stepanakert and Yerevan, December 2017, March-April 2018, February and October 2019.

monitor their implementation and undertake some policing functions in areas with mixed populations. This, Baku believes, could support “integration and peaceful co-existence” between Armenians and returning Azerbaijanis.⁹³

B. *The OSCE’s High-Level Planning Group*

Although peacekeepers have never been deployed to Nagorno-Karabakh, the OSCE High-Level Planning Group, which reports annually to the OSCE Permanent Council, has had a nearly three decades-long mandate, approved at the 1994 OSCE Budapest Summit, to figure out how they could be.⁹⁴ But the HLPG is handicapped by the absence of progress toward a peace agreement, without which peacekeeping scenarios and its operational requirements remain theoretical or outdated. Reportedly, the HLPG presented four options for a multinational peacekeeping mission in 1995, ranging from traditional armed peacekeeping to unarmed observer/monitoring missions. But the OSCE acknowledged soon after that “conditions which would allow the deployment of such an operation are [...] still lacking”.⁹⁵

While successive OSCE Chairmen-in-Office have approved the HLPG’s work, some OSCE personnel worry about its capacity. Its annual papers are often repetitive and fail to reflect changing political realities.⁹⁶ Former OSCE personnel argue that plans developed in the 1990s are also out of step with modern UN peacekeeping standards.⁹⁷ The HLPG comprises nine people, based in Vienna. The number is a fraction of the 31 originally planned though the organisation is not fulfilling its full mission and could ramp up if needed.⁹⁸ It reported on conditions in the conflict zone in 1995-1997 and, in 2007, prepared an estimate of the costs for a military peacekeeping and an unarmed observer mission.⁹⁹ Today, however, HLPG staff rarely visit the area.¹⁰⁰

⁹³ Crisis Group interview, senior Azerbaijani diplomat, Baku, May 2018.

⁹⁴ The office of the Personal Representative of the OSCE Chairperson-in-Office is the only international mission to promote peace in relation to Nagorno-Karabakh, but it consists of only six unarmed international members and has no mandate to monitor the conflict, let alone keep the peace. For more, see “Mandate of the Personal Representative of the OSCE Chairman-in-Office on the conflict dealt with by the OSCE Minsk Conference”, European Parliament, 15 June 2011 and the official website of the OSCE Minsk Group. The HLPG’s mandate, adopted by the Chairperson-in-Office (CiO) on 23 March 1995, tasks it: a) to make recommendations for the Chairperson-in-Office on developing as soon as possible a plan for the establishment, force structure requirements and operation of a multinational OSCE peacekeeping force; and b) to make recommendations on, inter alia, the size and characteristics of the force, command and control, logistics, allocation of units and resources, rules of engagement and arrangements with contributing states. See “Survey of OSCE Field Operations”, OSCE Secretariat, June 2019.

⁹⁵ “Fifth meeting of the Ministerial Council: Chairman’s summary decisions of the Budapest Ministerial Council Meeting”, OSCE, 8 December 1995.

⁹⁶ Crisis Group interviews, diplomats, Vienna, November 2017.

⁹⁷ Ibid.

⁹⁸ Crisis Group interviews, former OSCE personnel, Vienna, November 2017.

⁹⁹ The group also updated its operating plans in 2007. “Annual Report 2008”, OSCE, 2009.

¹⁰⁰ Crisis Group interviews, OSCE current and former staff, Armenian, Azerbaijani and de facto officials, November 2017, May, July and October 2018, October and November 2019.

To do so, they require – and often fail to secure – explicit consent from Baku, Yerevan and Stepanakert.¹⁰¹

For more than a decade, attempts to improve the HLPG's capacity have been blocked by the fact that both sides link it to their wider disagreements, when they need not do so. Each has politicised the body's work by seeking to use it as a tool to advance their agendas: in Azerbaijan's case, to push its demand that Armenian forces withdraw from Nagorno-Karabakh and the adjacent areas; and in Yerevan and Stepanakert's case, to force a discussion of Nagorno-Karabakh's status mission.¹⁰² This has hobbled the body's ability to provide the technical expertise needed to support discussions of new security arrangements for populations living in the conflict zone to support the peace process. Neither Yerevan nor Baku has called for the body's dissolution, for fear of appearing the spoiler. Yet both sides voice frustration with its functioning, suggesting an opening for agreeing to reform efforts by the HLPG's own staff.¹⁰³

The OSCE, co-chairs and parties to the conflict could take steps to make the HLPG more useful. They could grant it the necessary access and resources and charge it with a time-delimited (perhaps one year) task of defining an updated set of scenarios and options for international peacekeepers or monitors. The resulting report would be provided to the OSCE, co-chairs and parties. The latter should then disseminate it and foster expert debate in Baku, Yerevan and Stepanakert. Updated plans would allow all involved to assess the value and feasibility of an international mission, whether before or after a final peace agreement is defined. For its work in Nagorno-Karabakh and the adjacent areas, the HLPG would need to cooperate with the OSCE's Office of the PRCiO, which has unrestricted access to the de facto authorities in the region.

C. *The OSCE's Office of the PRCiO*

Another modest step forward could be for the parties to reach agreement on an increase of personnel in the Personal Representative's office, which is responsible for monitoring along the Line of Contact and the Armenia-Azerbaijan border, and other trust-building measures.¹⁰⁴ Since the office's establishment in 1995, its six international staff have been based in Georgia's capital Tbilisi.¹⁰⁵ Twice a month they visit the conflict zone for a short-term monitoring exercise that usually lasts several hours. The time and location of their visits are agreed with Baku, Yerevan or Stepanakert – depending on which front lines they are visiting – beforehand.¹⁰⁶

¹⁰¹ Yerevan and Stepanakert have consistently raised concerns over a Turkish former military officer on the HLPG staff because Turkey that openly supported Azerbaijan during the April 2016 escalation. Crisis Group interviews, officials and de facto officials, Yerevan and Stepanakert, December 2017, October and November 2019.

¹⁰² Crisis Group interview, official, Yerevan, October 2019.

¹⁰³ Crisis Group interviews, OSCE, Armenian and Azerbaijani former and current officials, Vienna, Tbilisi, Yerevan, Baku, November 2017, May and October 2018, July and October 2019.

¹⁰⁴ For the full list of responsibilities of the PRCiO, see "Mandate of the Personal Representative of the OSCE Chairman-in-Office", op. cit.

¹⁰⁵ The Personal Representative does not have a permanent base and travels between Baku, Tbilisi, Yerevan and Stepanakert on a regular basis.

¹⁰⁶ See Crisis Group Europe Report N°244, *Nagorno-Karabakh's Gathering War Clouds*, 1 June 2017. Who on the Armenian side is communicating details depends on the location of the visit: if it

The question of reinforcing its staff numbers has been on the table since the aftermath of the April 2016 escalation. Back then, Baku and Yerevan agreed in principle to increase the office's staff, envisaging adding between four and six international personnel to the current six.¹⁰⁷ That agreement was endorsed by the three Minsk co-chairs (the U.S., France and Russia).¹⁰⁸ It was then re-confirmed by the Armenian and Azerbaijani leaders in a joint statement with the Russian president.¹⁰⁹ Since then, both Armenia and Azerbaijan have, in principle, remained committed to that deal.

What stops its implementation is disagreement over where the new staff will be located. Yerevan and Stepanakert would want new staff based not in Tbilisi but on either side of the line of contact, with two or three on each side.¹¹⁰ Some Armenian and de facto officials also want PRCiO's staff to enjoy unlimited access to the front line without having to request permission in advance from the parties.¹¹¹ Armenia thus hopes to deter any potential assault from Azerbaijan. Baku rejects those ideas, which run contrary to its core demand for peacekeepers or monitors to deploy only after an Armenian troop withdrawal. It supports an increase only if staff are based in Tbilisi and their modus operandi remains unchanged. Baku also insists that any increase be temporary, with a duration probably of one year. That way, "if we don't see any progress on the settlement of the conflict, we reserve the right to return to earlier arrangements", said one senior Azerbaijani diplomat.¹¹²

Despite the parties' deeply rooted concerns, the staff increase might still be possible and would allow the PRCiO to better monitor the front lines and fulfil other trust-building steps, potentially including humanitarian projects. One way out might be assigning new staff to Tbilisi, but with an agreement that they would visit the conflict zone more often. Moving forward even on a modest increase of four to six personnel on the basis of the parties' agreement would be a confidence-building step for wider discussions on potential security provisions for people living in affected areas. Revising the PRCiO's modus operandi is a taller order. Azerbaijan is unlikely to give up its requirement that monitors seek its permission before travelling to the front lines. Doing so would make it resemble too closely a monitoring mission, which Baku finds unacceptable absent an agreement on the return of adjacent territories and IDPs. The sides could continue discussing this option, possibly with the involvement of the HLPG's reformed staff and the support of the OSCE Minsk Group co-chairs.

takes place along the Armenian-Azerbaijani border, then the logistics are settled between Baku and Yerevan; if it takes place in the Nagorno-Karabakh conflict zone, then Baku and Stepanakert make the arrangements.

¹⁰⁷ Crisis Group Commentary, "Politics and Security Hold Each Other Hostage in Nagorno-Karabakh", 17 January 2018.

¹⁰⁸ "Joint Statement of the Minister of Foreign Affairs of the Russian Federation, Secretary of State of the United States of America and State Secretary for Europe Affairs of France", OSCE, Vienna, 16 May 2016.

¹⁰⁹ "Совместное заявление президентов Азербайджанской Республики, Республики Армения и Российской Федерации по нагорнокарабахскому урегулированию" [Joint Statement of the Presidents of the Republic of Azerbaijan, Republic of Armenia and the Russian Federation], official website of the Kremlin, 20 June 2016.

¹¹⁰ Crisis Group interviews, officials, Stepanakert and Yerevan, May 2017, April 2018, October 2019.

¹¹¹ Crisis Group interviews, officials, Stepanakert and Yerevan, October and November 2019.

¹¹² Crisis Group interview, senior official, Baku, November 2019.

D. *Russia's Role*

Azerbaijani and Armenian fears of Russian domination of any mission pose another obstacle to the agreement on peacekeepers deploying. Russia has played a leading role in mediating the Nagorno-Karabakh conflict for more than a decade. It is the only regional power to have publicly pledged peacekeepers, offering to deploy troops to Nagorno-Karabakh at least twice since the 1992-1994 war (first shortly after the 1994 Bishkek protocol was signed and more recently since 2015, as discussed below).¹¹³ Current and former Russian officials argue that a Russian-led peacekeeping force could help prevent further hostilities, even absent a wider agreement.¹¹⁴ Indeed, Russia is the only world power still actively involved with Nagorno-Karabakh. For more than a decade it has been the main player in the OSCE Minsk Group. The two other co-chairs – France and the U.S. – are increasingly disengaged.¹¹⁵ The EU has no formal role.¹¹⁶ Yerevan views Turkey, another significant regional power, as Azerbaijan's backer, and thus not a plausible actor for negotiations or peacekeeping.¹¹⁷

Yet Russia's offers to deploy troops to Nagorno-Karabakh have consistently been rebuffed by Armenia, Azerbaijan or both.¹¹⁸ The two countries share fears that a mission led by Russia or comprising its forces would fail to solve the conflict while creating new dangers.¹¹⁹ Sceptics argue that peacekeepers would serve as cover for an increased Russian military presence in the region. Yerevan and Baku also fear a Russian mission could undermine their sovereignty and increase their dependence on Moscow.¹²⁰ Both maintain good relations with Russia, but with the Kremlin selling weapons to the two of them and working to increase its influence throughout the broader region (including in Turkey, Iran, and Georgia), neither fully trusts Moscow's motives.¹²¹

Moscow's most recent offer to send peacekeepers was part of the so-called Lavrov Plan. First mooted by Russian Foreign Minister Sergei Lavrov in 2015 and reiterated in 2016, following the outbreak of hostilities, it was never formally acknowledged by the Kremlin. The plan proposed pairing the deployment of Russian armed forces to Nagorno-Karabakh with a gradual withdrawal of Armenian forces from the adjacent territories and granting "interim status" to the breakaway entity for an unidentified period of time. It did not offer any clarity on what a referendum or longer-term status would look like.¹²²

¹¹³ Vladimir Kazimirov, "Мир Карабахы" [Peace for Karabakh], *International Relations*, 2nd edition (Moscow, 2015), p. 184. Crisis Group interviews, Russian diplomats, Yerevan, December 2017.

¹¹⁴ Crisis Group interviews, Russian diplomats, Yerevan, December 2017.

¹¹⁵ Crisis Group interviews, officials, foreign diplomats, Yerevan, Baku, March-May 2018.

¹¹⁶ Some experts still suggest a possible role the EU could play in supporting confidence-building measures between the conflict actors. See "Nagorno-Karabakh: Is it time to bring peacekeeping and confidence building back on the agenda?", European Policy Centre, 29 September 2016.

¹¹⁷ Crisis Group interviews, officials, Yerevan, December 2017, April 2018.

¹¹⁸ Crisis Group interviews, current and former officials, military, Baku, Yerevan, Stepanakert, 2017-2018.

¹¹⁹ Crisis Group interviews, officials, Baku, Yerevan, December 2017, March-May 2018.

¹²⁰ Crisis Group interviews, officials, Baku, Yerevan, December 2017, March-May 2018.

¹²¹ Crisis Group interviews, foreign diplomats, Yerevan, December 2017, April 2018.

¹²² Crisis Group interviews, foreign diplomats and officials in Baku, Yerevan, May 2018.

Azerbaijani leaders, backing away from their usual opposition to a Russian presence, first supported the concept, hoping it could lay the groundwork for the return of the adjacent territories and reduce the number of Armenian forces in the conflict region. Baku's willingness to consider the Russian proposal, despite its reservations about Moscow's role and armed peacekeepers, also reflected its recognition that Western disinterest meant that no other outside power was likely to get involved. Over time, the Azerbaijani ruling elite has increasingly accepted that Russia will be part of any resolution to the conflict. Indeed, in 2016, the Azerbaijani government was open to a Russian-led peacekeeping mission in Nagorno-Karabakh, which it hoped would replace Armenian forces and guarantee security for settlers until the territories' return to Azerbaijan's control (at which point IDPs could return).¹²³

Yerevan, for its part, rejected the proposal. The central problem was the lack of provisions for resolving Nagorno-Karabakh's final status and Armenian leaders' fear that such peacekeepers would effectively eliminate future prospects for the region's independence.¹²⁴ Some Armenian officials reportedly said the paper could have been drafted in Baku, given how closely they believed it hewed to Azerbaijani interests.¹²⁵

Today, the Lavrov proposal is off the table. Not only does Armenia continue to reject it, but Azerbaijan, too, has reverted to past calls for "balanced peacekeeping forces" comprising contingents from several countries, not only Russia.¹²⁶ Some in Baku have even returned to old formulae, arguing that if co-chair countries contribute to the peacekeeping force, their individual contributions should make up no more than 10 per cent of the mission's personnel – thus keeping Russian numbers down – and that peacekeepers should be unarmed.¹²⁷ As for Armenia, it remains ready to support a multinational presence with Russian participation while negotiations continue, as long as it is unarmed, has an observation mandate only and does not require Armenian troops' immediate withdrawal.¹²⁸

The HLPG likely has to factor Armenian and Azerbaijani uneasiness over a large Russian contingent into its planning. Objections in Baku and Yerevan do not necessarily rule out Russia playing an important role. Indeed, Azerbaijan's previous acceptance of the Lavrov plan shows that it at least could agree to a Russian-led mission under appropriate conditions. But the HLPG might explore a formula that allows for a mix of forces without a majority from any one state, which would temper fears of excessive Russian influence.

¹²³ Crisis Group interviews, senior officials, Baku, May 2018.

¹²⁴ Crisis Group interviews, officials, foreign diplomats, Baku, Yerevan, Tbilisi, 2017-2018.

¹²⁵ Crisis Group interview, diplomat, January 2017.

¹²⁶ Crisis Group interviews, senior officials, Baku, February-May 2019.

¹²⁷ Crisis Group interviews, senior officials, Baku, May 2018.

¹²⁸ Crisis Group interviews, officials, Stepanakert, Yerevan, December 2017, March-April 2018.

IV. Nagorno-Karabakh's Status

Whether Nagorno-Karabakh will remain part of Azerbaijan or become an independent state is the conflict's central question. Both Armenian and de facto leaders demand independence, which for many of them would serve as a stepping-stone to Nagorno-Karabakh's eventual unification with Armenia. Azerbaijan, on the other hand, considers independence anathema. It is willing to allow Nagorno-Karabakh substantial autonomy within Azerbaijan, though has never presented a clear and detailed proposal on what that would look like.¹²⁹ All previous debates on status were spurred by proposals from foreign mediators.

Both sides claim strong ties to the territory. While Nagorno-Karabakh has long been home to many ethnic groups, Armenians have been the majority for centuries and Armenian culture and society have deep roots there. The region also figures prominently in Azerbaijan's history, literature and art. The suffering of hundreds of thousands of Azerbaijanis forced to flee Armenia, Nagorno-Karabakh and the adjacent territories during the 1992-1994 war has kept alive Baku's demands for the territory's return. In the words of one Azerbaijani politician, "you cannot concede part of your identity, especially when it is tangible and visible like pieces of land".¹³⁰

With both parties making unyielding claims, the only breakthrough in 25 years of negotiations came at the 2007 Madrid OSCE Ministerial meeting – and even then, progress was limited. Armenia and Azerbaijan agreed to the three basic principles, which were later developed into the six elements (all outlined in this report's introduction). These included granting Nagorno-Karabakh a temporary "interim status" that would end after "a legally binding expression of will" – a referendum, in other words – to determine the region's final status. Details on how the vote would work, what question or questions it would ask and who could cast ballots were left to further negotiations. As described, both countries agreed to these principles believing they could serve their own aspirations regarding status, not to find solutions that the other would accept.¹³¹

Since that time, deadlock, militarisation and the 2016 clashes have not only worsened prospects for Baku and Yerevan to reach agreement on status but also closed space for discussion of the issue between the two societies. Baku's legal restrictions on civil society, widespread support among both sides' populations for military action during and after the 2016 clashes and collapsing faith in negotiations have strongly discouraged Azerbaijanis from talking to Armenians.¹³² In both Azerbaijan and Armenia, only a handful of activists spoke out against the 2016 confrontation, highlighting

¹²⁹ Azerbaijan's position is founded on the 1996 Lisbon Declaration adopted at the annual OSCE Summit. Baku refers to the 1996 OSCE summit declaration that stated that the status of Nagorno-Karabakh should be "defined in an agreement based on self-determination which confers [...] the highest degree of self-rule within Azerbaijan". Armenia did not endorse this statement. See Annexes 1 and 2 in "Lisbon Document 1996", OSCE, 2 December 1996.

¹³⁰ Crisis Group interview, official, Baku, September 2018.

¹³¹ Since 2009, the de facto authorities of Nagorno-Karabakh entity voiced repeated concerns over the elements. For example, see "Statement of the MFA of NKR", *op. cit.*

¹³² Crisis Group interviews, pro-government analysts, Baku, April 2018.

how small (and narrowing) any potential lobby for dialogue is on both sides.¹³³ For its part, Yerevan is hostile to any conversation that might throw into question Nagorno-Karabakh's future independence. Stepanakert is determined not to give up the self-governance it has enjoyed for two and a half decades.¹³⁴ All this leaves little room for discussion between the conflict-torn populations about Nagorno-Karabakh's future and further hardens public opinion across the board.¹³⁵

Moreover, after the thaw of early 2019, Baku-Yerevan relations appear to have become frostier again over recent months, with the leaders exchanging tit-for-tat claims on the disputed territory, sometimes referred to as the battle of punctuation marks. In August 2019, Prime Minister Pashinyan appeared to toughen his rhetoric, declaring: "Artsakh [Nagorno-Karabakh] is Armenia, period".¹³⁶ The next day, his foreign ministry downplayed the comments.¹³⁷ But the comment was welcomed by hardliners in Armenia and denounced in Azerbaijan. Two months later, Azerbaijani President Aliyev retorted: "Karabakh is Azerbaijan, exclamation point".¹³⁸

The impasse over Nagorno-Karabakh's status has precluded discussion of just about anything else. Both sides fear compromising on issues ranging from broader economic and humanitarian cooperation to short-term confidence-building measures for fear of undermining their positions on status.¹³⁹

There are, however, small signs of movement. In contrast to its predecessors, the new Armenian administration expresses more interest in finding a compromise to resolve the conflict. For the first time, Yerevan speaks publicly about its readiness to take into account the interests of people living in not only Armenia and Nagorno-Karabakh, but also Azerbaijan.¹⁴⁰ Azerbaijanis increasingly discuss what a peace process and Nagorno-Karabakh self-rule might entail, with some analysts and officials thinking creatively about possible next steps on the main status-related issues

¹³³ "Assessment of the April 2016 Conflict Escalation between Armenia and Azerbaijan: A Critical Analysis of the Reaction of the 'Track Two' Community in Azerbaijan", Eurasia Partnership Foundation/Caucasus Research Resource Centre, 2018.

¹³⁴ Crisis Group interviews, Armenian officials and the de facto officials, Yerevan and Stepanakert, March-April 2018; Yerevan, February and October 2019.

¹³⁵ "Azerbaijan detains activists amid Karabakh tensions", Institute for War and Peace Reporting, 15 August 2014; on the situation of Azerbaijan's civil society in 2014-2017, see "2018 Country Reports on Human Rights Practices: Azerbaijan", U.S. Department of State, 2018.

¹³⁶ "Nikol Pashinyan attends opening of 7th Pan-Armenian Summer Games", official website of the Prime Minister of the Republic of Armenia, 5 August 2019.

¹³⁷ "The Statement of the Ministry of Foreign Affairs of the Republic of Armenia", official website of the Ministry of Foreign Affairs of Armenia, 6 August 2019.

¹³⁸ Ilham Aliyev, speech to the 16th Annual Meeting of Valdai International Discussion Club, 3 October 2019, cited on the official website of the President of the Republic of Azerbaijan.

¹³⁹ Crisis Group interviews, Azerbaijani officials, Baku, March 2019; Armenian and de facto officials, December 2017, February and October 2019.

¹⁴⁰ According to Pashinyan, "[A]ny solution to the Karabakh issue should be equally acceptable to the people of Armenia, the people of Artsakh [Nagorno-Karabakh] and the people of Azerbaijan". Quoted in "Nikol Pashinyan, Bako Sahakyan co-chair joint meeting of Security Councils of Armenia and Artsakh", official website of the Security Council of Armenia, 12 March 2019. All Armenian governments since the 1992-1994 war have declined to recognise Nagorno-Karabakh's independence, which they have claimed signals their readiness to find a compromise with Azerbaijan on the breakaway region. Crisis Group interviews, former and current officials, Yerevan, March-July 2018, October 2019.

in the Madrid principles: interim status, the referendum and final status.¹⁴¹ Baku has made no proposal to its Armenian counterparts and the ideas circulating, which do not envisage the region's independence, remain far from anything to which Yerevan, let alone Stepanakert, will agree. Still, they can be seen as suggesting a desire to talk rather than fight.

If Baku turns such ideas into official proposals and Yerevan is ready to make good on its expressed desire to find a peaceful solution acceptable to Azerbaijan and reciprocate with its own suggestions that factor in Stepanakert's views, the resulting conversation in theory could help both sides better understand one another. Such discussion will not resolve the question of status any time soon, but it can perhaps help identify potential areas of cooperation.

A. "Interim Status"

President Aliyev repeatedly argues that "the people and state of Azerbaijan will never allow the creation of a second Armenian state on Azerbaijan's historical lands".¹⁴² This attitude is shared among Azerbaijani public figures and opposition groups.¹⁴³ But something officials term "high-level autonomy" is, they say, palatable. This would grant Nagorno-Karabakh substantial self-rule within Azerbaijan.

In discussions of "interim status", Azerbaijanis have mentioned retaining current de facto governing structures, but as part of Azerbaijan.¹⁴⁴ To sweeten the deal, they suggest Nagorno-Karabakh could have the authority to conduct a limited foreign policy on an agreed set of issues, which it cannot do today as an entity not recognised by any nation-state. The autonomous Nagorno-Karabakh region would extend only to the region's Soviet borders. Indeed, in return for Nagorno-Karabakh's interim autonomy, Baku would expect Yerevan and Stepanakert to give up claims or control over the adjacent territories.

Azerbaijani officials see such a formula as a substantial concession, but one they say they would be willing to pursue if Yerevan and Stepanakert agree.¹⁴⁵ "This is the greatest compromise Azerbaijan can offer", one said.¹⁴⁶ They also feel it could offer many mutual advantages, including contacts between the two societies and the return of IDPs. "Communication on demining will open up, investment to the [Nagorno-

¹⁴¹ Crisis Group interviews, Azerbaijani officials, experts and civil society members, Baku, May 2018, March 2019, November 2019.

¹⁴² "Azerbaijan won't allow creation of second Armenian state on its historical lands – Ilham Aliyev", Azvision, 31 October 2017. For a similar presidential statement, see Ilham Aliyev, speech at the official reception on Republic Day, cited in the official website of the President of the Republic of Azerbaijan, 27 May 2014.

¹⁴³ Crisis Group interviews, current and former officials, opposition members, Baku, May 2018-February 2019.

¹⁴⁴ According to Taleh Ziyadov, Azerbaijan could temporarily recognise the de facto governing arrangements in Nagorno-Karabakh until its final status is determined. In exchange, Armenia should return Azerbaijani territories adjacent to Nagorno-Karabakh. See Taleh Ziyadov, "Nagorno-Karabakh Negotiations: Though the Prism of a Multi-Issue Bargaining Model", *International Negotiation*, vol. 15, no. 1 (March 2010), p. 107.

¹⁴⁵ Crisis Group interviews, senior officials, Baku, May-June 2018, March 2019.

¹⁴⁶ Crisis Group interview, senior official, Baku, June 2018.

Karabakh] region will be launched”, one senior official said.¹⁴⁷ Azerbaijani proponents argue that this would help both societies overcome their prejudices and smooth the way for resolving the question of Nagorno-Karabakh’s final status.¹⁴⁸

A proposal of interim autonomy along these lines would be rejected out of hand by Yerevan and Stepanakert.¹⁴⁹ Even if the move proposes no real change in the self-governance and life of the de facto entity, and is billed as “interim autonomy”, many Armenians will suspect that it is an Azerbaijani attempt to attain its goals in the “interim” only then to cement them permanently. Even were Yerevan somehow to accept the idea of Azerbaijan granting Nagorno-Karabakh an indefinite “interim status” in exchange for the return of adjacent territories (another step that Armenians presently adamantly refuse), many Armenians would want additional security arrangements to protect settlers given the likely inflow of Azerbaijani IDPs to those areas.¹⁵⁰ Armenian officials have avoided offering “interim status” proposals of their own, for fear of undermining their position on Nagorno-Karabakh’s independence.

B. *Referendum on Final Status*

Baku accepts that a referendum on the future status of Nagorno-Karabakh would be legally binding. But it believes that the timing of the referendum and the question of voter eligibility require further negotiation. Otherwise, according to one former senior Azerbaijani official, “Armenians would vote for independence and will get it, and Azerbaijan will have to agree”.¹⁵¹

Among the alternatives Baku has considered is the prospect of two separate votes – one for the Armenian majority, another for Azerbaijani IDPs, such that both groups must agree in order for the vote to be binding (this can be thought of as the Cyprus model).¹⁵² Baku has helped foster institutions for Nagorno-Karabakh Azerbaijanis in part so they are organised to participate in such a vote – or, indeed, in negotiations – in the future. One such institution is the Azerbaijani Community of the Nagorno-Karabakh Region, created in 2006 by a group of IDPs from Nagorno-Karabakh in the form of a public union. Most members are from Shusha, where over 20,000 ethnic Azerbaijanis lived before the war.¹⁵³ Community leaders say that the population of Azerbaijanis displaced from the Soviet-era Nagorno-Karabakh Auton-

¹⁴⁷ Crisis Group interview, official dealing with the Nagorno-Karabakh conflict, Baku, May 2018.

¹⁴⁸ Crisis Group interviews, senior officials, Baku, May-June 2018, March 2019.

¹⁴⁹ Crisis Group interview, de facto official, Stepanakert, November 2019.

¹⁵⁰ Crisis Group interviews, officials of Armenia and de facto Nagorno-Karabakh, Yerevan, October 2019.

¹⁵¹ Crisis Group interview, former senior official, Baku, September 2018.

¹⁵² Crisis Group interview, senior official, Baku, September 2018. In 2004, parallel referendums on a reunification plan were held in the Republic of Cyprus and the breakaway Turkish Republic of Northern Cyprus. Both communities had to approve the plan on offer for it to be implemented. In the event, Turkish Republic of Northern Cyprus voters approved the plan, but Republic of Cyprus voters rejected it. Thus, the plan was rejected. For more see Crisis Group Europe Report N°171, *The Cyprus Stalemate: What Next?*, 8 March 2006.

¹⁵³ Before the 1992-1994 war, the entire population of the Shusha city was 23,156: 92 per cent of residents were ethnic Azerbaijanis and around 7 per cent were ethnic Armenians. The total pre-war ethnic Azerbaijani population of NKAO was around 40,000, while Armenians comprised 150,000. See “Soviet Census 1989”, op. cit.

omous Oblast has since grown to over 60,000, roughly a third of Nagorno-Karabakh's current population which is estimated at 150,000.¹⁵⁴

The Cyprus model – in effect, giving a veto to displaced Azerbaijanis – is almost certain to be rejected out of hand by Yerevan and Stepanakert. Armenia endorsed the six elements of the OSCE Madrid Principles because it saw in them a clear prospect for Nagorno-Karabakh's independence through a public vote recognised by Azerbaijan.¹⁵⁵ In the words of a senior Armenian diplomat, the idea of a referendum “is a good face-saving tool for Azerbaijani leadership that otherwise cannot declare Nagorno-Karabakh ‘independent’”.¹⁵⁶ Some Armenian officials and politicians are ready to discuss voting rights for Azerbaijani IDPs, though as part of a single vote rather than having their own separate vote (as in the Cyprus model).¹⁵⁷ As the number of IDPs is insufficient to make Azerbaijanis the majority in the region, letting them vote would not block independence.

C. *Final Status*

For final as for interim status, Azerbaijan may accept considerable autonomy for the region but not independence. In October 2016, President Aliyev surprised many when he referred to “an autonomous republic” of Nagorno-Karabakh in an interview.¹⁵⁸ No Azerbaijani leader had ever used the word “republic” in this context, always referring to it as a “region”. Almost immediately, then OSCE Minsk Group U.S. Co-Chair James Warlick lauded the statement and welcomed the president's decision to start “discussions on status”.¹⁵⁹

Some Azerbaijani politicians advocate skipping “interim status” and a referendum and negotiating Nagorno-Karabakh's final status from the outset.¹⁶⁰ Their stated logic is that the effort that would go in to negotiating a referendum and interim status would be better spent sorting out a more lasting way forward. Although jettisoning the OSCE's six principles implies a difficult negotiation in its own right, the same questions and issues arise in discussions of interim status suggesting it is not impossible that such conversations could lead to a final status resolution that avoids the intermediate step.

While no Azerbaijani official has publicly offered details of how Nagorno-Karabakh's self-rule under Azerbaijan would work, in interviews with Crisis Group several discussed models that involve minimal subordination to Baku. These tend to envision a future in which Nagorno-Karabakh authorities:

¹⁵⁴ Various sources cite different figures for total numbers of IDPs both at the time of displacement and in the community today. These figures are difficult to verify and remain debated. 2009 Census in the Republic of Azerbaijan, Azerbaijan State Statistics Committee, 1st Volume, Baku, 2010. Crisis Group interviews, Azerbaijani community leaders, Baku, March 2019.

¹⁵⁵ Crisis Group interview, Armenian historian, Yerevan, December 2017.

¹⁵⁶ Crisis Group interview, Armenian official, Yerevan, April 2018.

¹⁵⁷ Crisis Group interviews, officials, parliamentarians, politicians, Yerevan, December 2017, April 2018, June and November 2019.

¹⁵⁸ “Алиев: Нагорный Карабах может стать автономной республикой” [Aliyev: Nagorno-Karabakh can become an autonomous republic], Sputnik, October 2016.

¹⁵⁹ “Aliyev's remarks on Karabakh's status must be discussed: OSCE envoy”, Panarmenian.net, 26 October 2016.

¹⁶⁰ Crisis Group's interviews, Azerbaijani politicians, Baku, May-June 2018.

- ❑ Can reject decrees or laws from Baku related to self-governance in the region;
- ❑ Enjoy considerable self-governance, including in educational and cultural policy, public health, some branches of the economy, law enforcement and postal services, among others;
- ❑ Are subject to Azerbaijan’s judicial and customs systems;
- ❑ Can establish economic representation in foreign countries;
- ❑ Have a role in formulating foreign and security policies (but no veto over Azerbaijan’s policies in those areas);
- ❑ Maintain a demilitarised zone with no armed forces inside the region.

At the same time, Baku would want to ensure that returning Azerbaijani IDPs are well represented in Nagorno-Karabakh’s governance structures, including as elected and appointed officials.¹⁶¹

These options draw substantially on the experience of European countries that resolved territorial disputes without changing their borders. Many in Baku point to the Åland Islands, Northern Ireland and South Tyrol as examples:

- ❑ The Åland Islands have a Swedish-speaking majority but are part of Finland. They are demilitarised, with self-rule, their own police force, a flag and other attributes of a sovereign entity. International treaties signed by Finland have to be ratified by the Åland parliament to have legal force on the islands.
- ❑ Northern Ireland is an appealing model to many in Baku because the territory, like Nagorno-Karabakh, fought a war for independence. In addition to its own self-rule and distinctive state attributes, Belfast controls an independent judiciary, but the highest court of appeal remains the UK Supreme Court.¹⁶² It also has a sovereign parliament, as well as representation in the British parliament and central government in London.
- ❑ South Tyrol in the north of Italy has three official languages, reflecting a diverse local population. Along with executive and legislative sovereignty, its local government enjoys fiscal independence.

None of these models is directly comparable to Nagorno-Karabakh. The Åland Islands, for example, enjoy more authority than Baku wants to grant Nagorno-Karabakh. Moreover, neither Europe’s relatively long democratic history nor the supranational umbrella of the EU is present in the South Caucasus.¹⁶³ A Nagorno-Karabakh solution would also have to align with the region’s specific needs. Nevertheless, “although not all features are relevant to Nagorno-Karabakh, learning about these models should provide a reference point”, suggested an Azerbaijani analyst.¹⁶⁴

¹⁶¹ The list is prepared based on Crisis Group interviews with Azerbaijani senior officials, Baku, May-June 2018.

¹⁶² “Northern Ireland Law: Legal System – An Introduction to Northern Ireland Law”, Oxford Lib-Guides.

¹⁶³ “Azerbaijan is not Finland and Armenians are not Swedes”, *Aravot*, October 2014; Crisis Group interview, foreign diplomat, Baku, March 2019.

¹⁶⁴ Crisis Group interview, analyst, Baku, April 2019.

The principal problem, however, is that even if Baku is open to granting Nagorno-Karabakh considerable autonomy, anything short of independence is unacceptable to Yerevan and Stepanakert. “There will be no return to the [early] 1990s”, a senior Armenian official told Crisis Group. The Armenian side rejects any plan in which Nagorno-Karabakh returns to Baku’s direct control, whether in the short or long term.¹⁶⁵ Stepanakert says it has built a functional entity whose economy is growing despite political and legal pressure from Baku.¹⁶⁶

That said, the fact that Baku is putting ideas forward could at least create space for discussions on governance and security in Nagorno-Karabakh. Baku should formalise proposals that delineate how autonomy can guarantee the rights and meet the needs of both local Armenians and displaced Azerbaijanis who may seek to return. While this will not be enough to convince Yerevan or Stepanakert, it might at a minimum start a conversation.

D. *Talks on Status*

While the two sides are far from one another on Nagorno-Karabakh’s interim status, a referendum and its final status, discussions of these issues could still be beneficial. The converse is almost certainly true: in the absence of such talks, the gulf separating the two sides and societies on each issue is likely to widen. These conversations could begin to lay the groundwork for eventual compromise, however difficult it is to envisage today.

Putting out concrete options on interim and final status might be useful. Baku should convert some of the ideas circulating among official and experts into formal proposals. For its part, the Armenian leadership and the de facto authorities in Nagorno-Karabakh could demonstrate their interest in compromise by engaging constructively and offering their own ideas. Insofar as Azerbaijani proposals underestimate the true extent of self-rule and institutionalisation of the de facto authorities in Nagorno-Karabakh today, Yerevan and Stepanakert can offer Azerbaijan a more accurate picture, which might lead to adjustments at least in Azerbaijani perspectives. Armenian suggestions are unlikely to be initially received in Baku any more warmly than Azerbaijani ideas are in Yerevan or Stepanakert, but they might similarly help set a starting point for talks.

The enormous sensitivity of Nagorno-Karabakh’s independence demand means that any engagement by the two parties on the issue is best undertaken initially through semi-formal or informal channels, lest the publicity of formal talks lead to greater acrimony. All recent attempts to start formal discussions have deepened confrontation between Yerevan and Baku. None has led to serious debate on any of the main issues.

A final challenge is Stepanakert’s role in talks. Since spring 2018, the new Armenian government has demanded that the de facto leadership join. Azerbaijan has always disputed the de facto leadership’s participation. In any case, while Stepanakert was part of 1994 and 1995 ceasefire agreements, it lost its independent negotiating role when its first president, Robert Kocharyan, became Armenian president in

¹⁶⁵ Crisis Group interview, senior Armenian official, February 2019.

¹⁶⁶ Crisis Group, de facto senior official, Yerevan, October 2019.

1998.¹⁶⁷ Before 2018, there was little question that Yerevan represented Stepanakert's interests, as successive Armenian leaders had personal ties to the region and the 1992-1994 war. Pashinyan, in contrast, has no such connection. Baku has rejected calls for Stepanakert to return to the table, arguing that Nagorno-Karabakh is under Armenian occupation and that for its leadership to participate would imply the de facto authorities represent an independent entity, potentially strengthening their statehood claim.¹⁶⁸ Baku countered that if Stepanakert joins talks, so should Azerbaijanis displaced from the region.¹⁶⁹ Both Yerevan and Stepanakert reject that idea, arguing that Baku represents the IDPs.¹⁷⁰

Disagreement over Stepanakert's role strengthens the case for informal talks, at least as a starting point. One option could be discussions among Baku, Yerevan and Stepanakert, initially including only independent experts, former officials or civil society groups endorsed by the leaderships in the three places, potentially with lower level or no officials participating from the outset. To meet Baku's demand that the concerns of Azerbaijani IDPs be heard, representatives from this community could be included as part of the delegation endorsed by Azerbaijan. Such a dialogue would not replace direct talks between the sides, but take place in parallel.

Both sides ought to agree on two key principles: first, to keep talks on status separate from those on adjacent territories and international missions; secondly, that any agreement on steps prior to final status determination will be without prejudice to that determination and would be revisited if incompatible with that decision once made. Indeed, in the past, fear of setting precedents that could limit manoeuvre on final status has hindered conversation on other topics.

¹⁶⁷ See Lévon Ter-Petrossian, *Armenia's Future, Relations with Turkey and the Karabagh Conflict* (New York, 2018), p. 118.

¹⁶⁸ Crisis Group interview, senior Azerbaijani official, Baku, March 2019.

¹⁶⁹ "Nikol Pashinyan, Bako Sahakyan co-chair joint meeting of Security Councils of Armenia and Artsakh", op. cit. Baku references the 1992 Commission on Security and Cooperation in Europe Helsinki meeting and the definition of the parties of the Nagorno-Karabakh conflict: "elected and other representatives of Nagorno-Karabakh will be invited to the [Minsk] Conference as interested parties", which it sees as an acknowledgement that the Nagorno-Karabakh Azerbaijanis have equal rights to the region's Armenians in the negotiations process. The Armenian side does not agree and references other documents from the past, including ceasefire document, which contains signatures of representatives from Baku, Yerevan and Stepanakert.

¹⁷⁰ Crisis Group interviews, officials and politicians, Yerevan and Stepanakert, April, June and November 2018, April and October 2019.

V. Conclusion

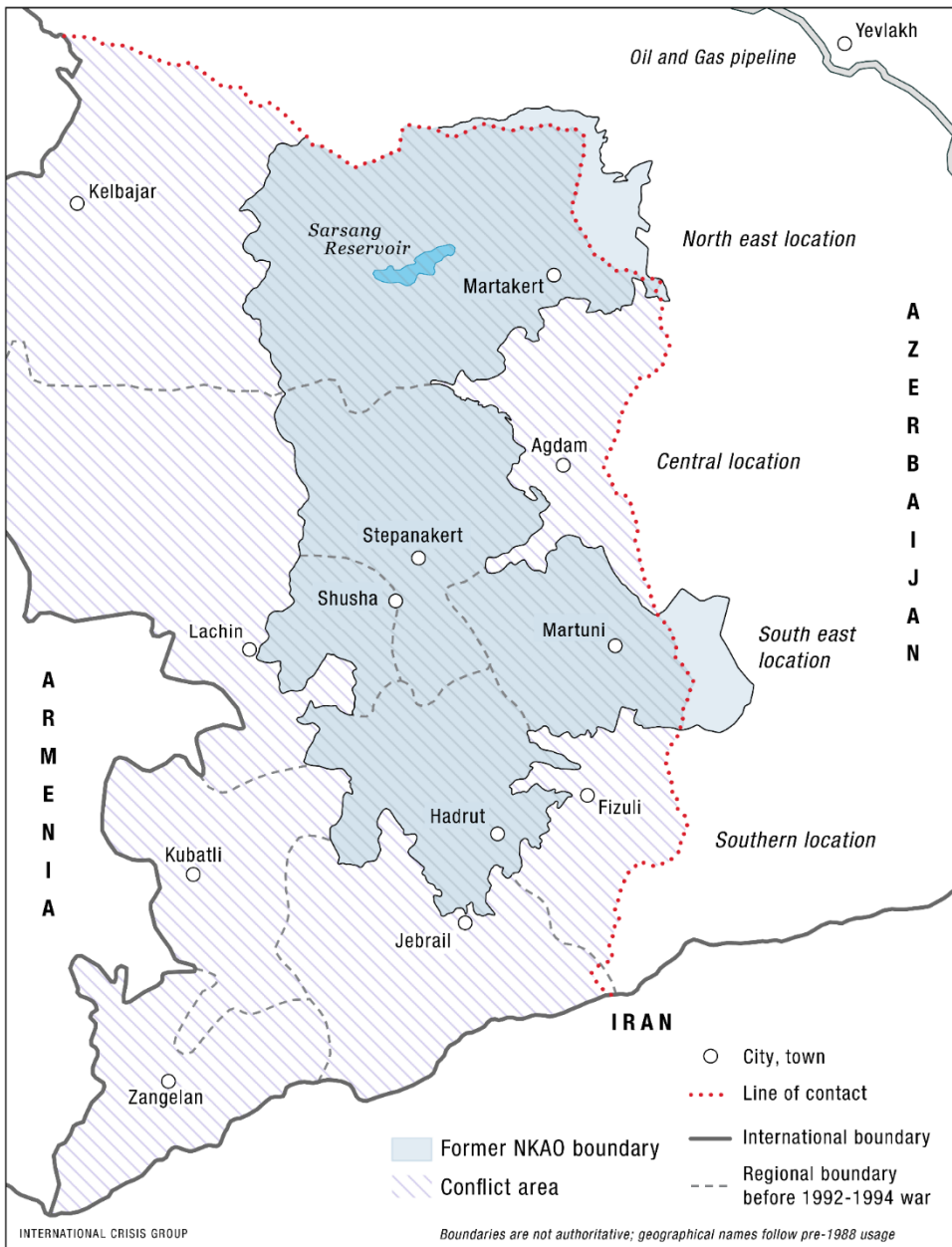
The nearly three decades since the 1992-1994 war have made peace harder. Antagonism and distrust have grown. The two societies have less interaction, even as the line of conflict is more militarised. But while the chasm between them is huge, the recent relative thaw in relations between Baku and Yerevan offers a modicum of hope and a window of opportunity.

Armenia and Azerbaijan ought to take advantage of this situation by initiating direct talks about the issues underpinning their standoff: the adjacent territories' fate, a potential role for international peacekeepers or monitors, and Nagorno-Karabakh's status. On the first issue, a preliminary agreement could trade a temporary freeze on new settlement construction for Azerbaijan's pledge to pause taking legal action or imposing new sanctions. For the second, the HLPG can be tasked with, and provided the access to carry out, a renewed assessment of peacekeeping or monitoring options under various contingencies. This could be coupled with a compromise agreement to expand the OSCE's Office of the PRCiO. These steps might build some trust and enable further discussions. The distance between the parties on the third issue – status (final or interim) and how a referendum might be organised – means that even conversation on these matters would be a radical step and would likely need to take place initially through semi-formal or informal channels.

There are inevitable pitfalls to reopening dialogue. Discussions when views are so opposed could fuel anger, between the two governments and among the broader public, especially if information is not carefully managed. Yet without talks, opinion in Armenia and Azerbaijan will likely continue to drift further apart. Failure to reset the peace process could also reverse progress that has been made on the front lines. Direct talks could minimise risks of a new war and rekindle a measure of hope in resolving the Nagorno-Karabakh conflict. The last several months of calm are a significant improvement over years of flare-ups that risked triggering wider violence. If the two sides can exploit this interlude, they might be able to create a new norm of engagement that helps them at least discuss some of their differences. Over time this might create openings for the broader and lasting settlement that has been so elusive for so long.

Baku/Yerevan/Stepanakert/Tbilisi/Brussels, 20 December 2019

Appendix A: Detailed Map of the Conflict Zone



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



Appendix C: Data Collection Methods

Information provided during field trips to Nagorno-Karabakh and the adjacent areas was cross-checked with reports regularly published by the statistical offices of Armenia and the de facto entity along with press reports, local legislation, institutional websites and materials made public by diaspora organisations active in the region.¹⁷¹ All these sources have been systematically analysed and compared with each other. As a whole, data published by local authorities are generally internally coherent and primarily produced for local consumption and for administrative purposes. They have also previously been referenced by international organisations, as well as by the Azerbaijani government in official statements.¹⁷²

There is no direct correspondence between the current administrative subdivisions of the de facto entity and the formerly used borders of the adjacent territories. The most populated parts correspond with the districts that the de facto authorities call Kashatagh and Shahumyan, respectively located to the west and south west of Nagorno-Karabakh. They bring together large parts of four administrative units known as Kelbajar, Lachin, Zangelan and Kubatly. For these territories, separate statistics are more readily available. Therefore, unless otherwise noted, data from Kashatagh and Shahumyan form the basis of this report.

Demography of the adjacent territories

Around 11.48 per cent of the population of areas now controlled by the de facto Nagorno-Karabakh authorities lives in the adjacent territories. As a whole, the total estimate of about 17,000 people corresponds to the number of registered residents, and only slightly overestimates the number of people actually living there:

- ❑ Almost 15,000 registered in areas west and south west of Nagorno-Karabakh (Kelbajar, Lachin, Kubatly and Zangelan). According to de facto authorities, there are 14,913 people living in this area as of January 2019. Local administrative documents, including the number of pupils recorded in schools in areas south west of the former (Soviet-era) Nagorno-Karabakh Autonomous Oblast, present figures that are about 17 per cent lower than the number of children in population statistics, which may partly be due to underreported emigration from these areas.¹⁷³
- ❑ In addition, up to 2,000 people mostly live in settlements near the former town of Agdam. The 2005 OSCE mission that visited these villages confirmed that about 800-1,000 people were living in areas outside of Nagorno-Karabakh's borders in

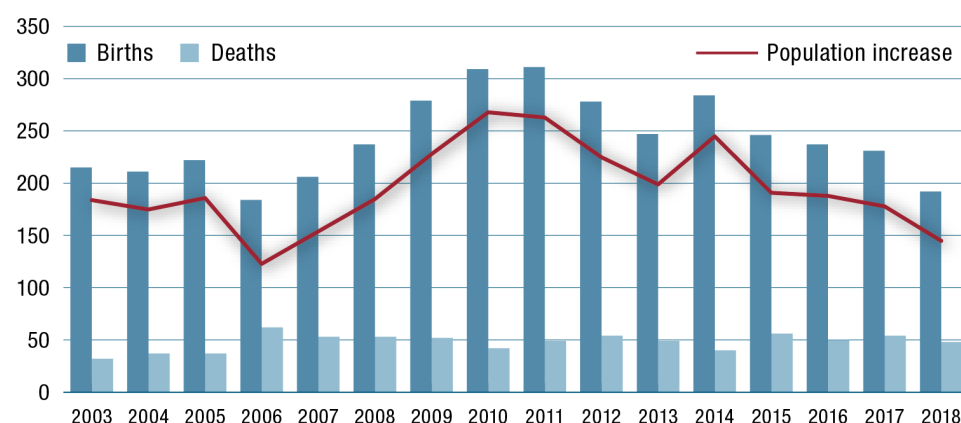
¹⁷¹ The de facto Nagorno-Karabakh authorities routinely publish legislative acts on a dedicated portal. As of January 2018, this included about 12,000 acts dating from 1992. In some cases, detailed annexes to budget laws have not been published, but they still often include significant information that corroborates data from other sources.

¹⁷² "Letter dated 15 August 2016 from the Permanent Representative of Azerbaijan to the United Nations addressed to the Secretary-General", Permanent Representative of Azerbaijan to the UN, 16 August 2016.

¹⁷³ See, in particular, "The Demographic Handbook of Artsakh 2019", op. cit.; decision by the de facto authorities on education and schools for the academic year 2018-2019, Decision 1047-N, 24 December 2018.

Agdam district.¹⁷⁴ The number of residents in these settlements has increased substantially in recent years, in part due to external assistance. Diaspora organisations working in these areas report numbers of residents that are significantly higher than those in the 2005 census of the de facto authorities (eg, Nor Maragha was reported to have 516 residents in 2013 compared to 349 in 2005; and Ukhat-sar was reported to have 285 residents in 2017 compared to 144 in 2005).¹⁷⁵

Chart 1. Natural population increase in adjacent territories 2003-2018
 (including only areas west and south west of former NKAO)



Year	Births	Deaths	Population increase
2003	215	32	183
2004	211	37	174
2005	222	37	189
2006	184	62	147
2007	206	53	144
2008	237	53	184
2009	279	52	227
2010	309	42	267
2011	311	49	262
2012	278	54	224
2013	247	49	198
2014	284	40	244
2015	246	56	190
2016	237	50	187
2017	231	54	177
2018	192	48	144

Source: Office for statistics of the de facto Nagorno-Karabakh entity.

¹⁷⁴ See “Report of the OSCE Fact-Finding Mission (FFM) to the occupied territories of Azerbaijan Surrounding Nagorno-Karabakh (NK)”, 2005.

¹⁷⁵ “De Facto and De Jure Population by Administrative Territorial Distribution and Sex”, National Statistical Service of the Republic of Artsakh; see himnadram.org for reports on projects conducted by the All Armenian Fund.

Due to both natural growth and migration, settlements have disproportionately contributed to the de facto entity's population growth, accounting for about one third of the total growth recorded in the 2010-2015 period.¹⁷⁶ Relatively small number of pensioners and recorded deaths, as well as the relatively high number of births and school-age children recorded in these areas, strongly suggest that the settlements are mostly inhabited by working-age people and children. As of 2017, about 8 per cent of residents in adjacent territories south west of Nagorno-Karabakh are pensioners, while this figure for other areas controlled by the de facto authorities is well over 20 per cent.¹⁷⁷ Given this demographic trend, natural growth is due to remain remarkably strong, in line with the data recorded for the last decade, with between four and seven times more births than deaths recorded in any given year. Migration patterns to and from adjacent territories have been more volatile, with periods of outbound migration (2005-2009, 2016-2018), as well as periods of inbound migration (2010-2015).

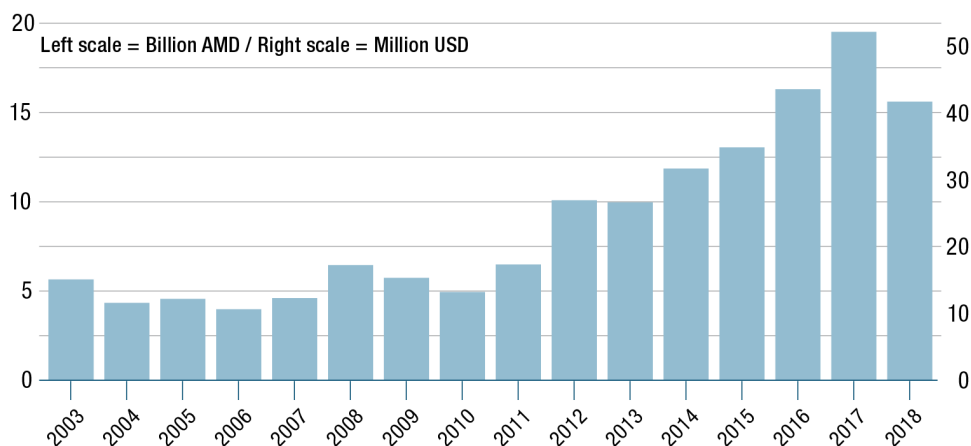
Agriculture in the adjacent territories

As of 2017, the adjacent territories accounted for almost one third of the total agricultural output recorded in the Nagorno-Karabakh's official statistics, nearly doubling their relative weight in agricultural production in less than a decade. The continuous growth and integration of the settlements is reflected in local legislation. For example, the de facto law with all Nagorno-Karabakh cadastre codes published in 2000 had relatively few locations in the adjacent territories; the correspondent de facto law issued in 2005 added about 40 new cadastre locations, most of them in the adjacent territories.¹⁷⁸

Chart 2. Agricultural output of adjacent territories 2013-2018

(including only areas west and south west of former NKAO)

Inflation adjusted at constant 2010 prices



Source: Office for statistics of the de facto Nagorno-Karabakh entity; World Bank for inflation (FP.CPI.TOTL) and exchange rate (PA.NUS.FCRF).

¹⁷⁶ Estimate based on accounting for migration and natural growth as reported by the Nagorno-Karabakh statistical office in adjacent territories west and south west of the former (Soviet-era) Nagorno-Karabakh Autonomous Oblast. See "The Regions of NKR in Figures 2010-2016", op. cit.

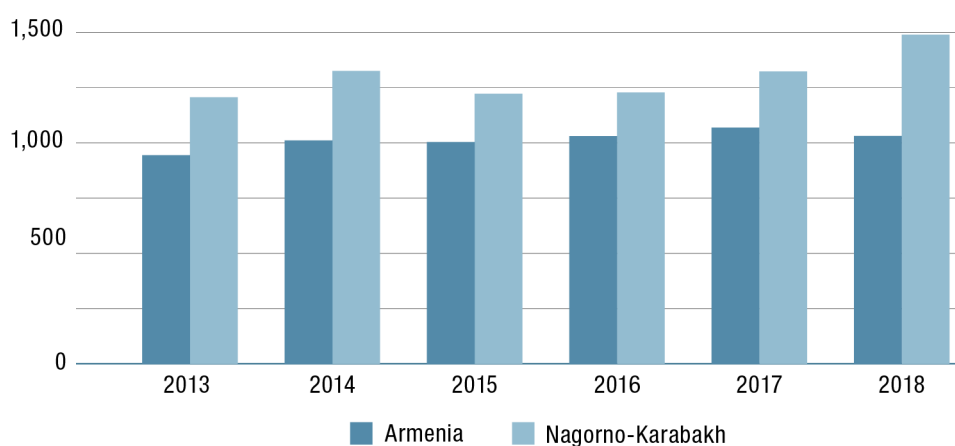
¹⁷⁷ See "The Regions of NKR in Figures 2010-2016", op. cit.

¹⁷⁸ List of cadastral codes, N 9-01 / 01 (2000), 9 June 2000; List of cadastral codes, N 15-K (2005), 11 March 2005.

Assistance to Nagorno-Karabakh and adjacent territories

Over the last decade, Armenia has directly financed between 50 and 60 per cent of Nagorno-Karabakh’s budget. The amount of the transfer (often referred to in local documents as an “interstate loan”) is recorded both in statistical yearbooks issued by the de facto authorities, as well as in Armenia’s own budget law, and the figures between these sources correspond.¹⁷⁹ Armenia provides other forms of assistance, including training and occasional in kind donations ranging from cars to computer servers.¹⁸⁰ Partly thanks to this assistance, the budget per capita of de facto authorities is about 20-30 per cent higher than in Armenia.¹⁸¹ According to de facto budget laws, communities in adjacent territories receive a higher subsidy per capita than other parts of Nagorno-Karabakh.¹⁸²

Chart 3. Armenia and de facto Nagorno-Karabakh’s budget expenditure, USD per capita 2013-2018



YEAR	ARMENIA	NAGORNO-KARABAKH
2013	944	1,207
2014	1,011	1,326
2015	1,004	1,222
2016	1,031	1,229
2017	1,069	1,323
2018	1,031	1,489

Source: Armenia’s Office for statistics; Office for statistics of the de facto Nagorno-Karabakh entity; World Bank for exchange rate.

¹⁷⁹ See, for example, “Law on the State Budget of the Republic of Armenia for 2018”, official website of the Government of Armenia, 8 December 2017; “Artsakh in figures 2018”, National Statistical Service of the Republic of Artsakh, 2019.

¹⁸⁰ See, for example, Armenia’s government’s Decision on providing property to NKR, Decision 184-A, 26 February 2009; Armenia’s government’s Decision on donation to NKR, Decision 151-A, 15 February 2018.

¹⁸¹ Based on figures on consolidated budget expenditure and total population included in the respective statistical yearbooks. See “Artsakh in figures 2018”, op. cit.; Statistical Yearbook of Armenia 2018, Statistical Committee of the Republic of Armenia, 2018.

¹⁸² Details on budget subsidies to communities in Nagorno-Karabakh are included in local budget laws, see “NK budget law for 2018”, Ministry of Finance of the Republic of Artsakh, 21 December 2017.

No single public document summarises the total amount of assistance Armenian diaspora organisations provide to initiatives in Nagorno-Karabakh. Notable activities in the adjacent territories include the Vardenis-Martakert highway, as about 50 out of its total 115km are located in these areas (out of a total cost of \$35 million, the Armenia Fund has reportedly contributed approximately \$15 million).¹⁸³ The U.S.-based Tufenkian Foundation has conducted a large part of its activities in Nagorno-Karabakh's adjacent territories, which reportedly include spending \$900,000 on building a new village in Jebrail district.¹⁸⁴ According to estimates based on official documentation that U.S.-based non-profits file with tax authorities, the Tufenkian Foundation has spent about \$2 million in the adjacent territories between 2003 and 2015, and has facilitated additional assistance from other donors and foundations.¹⁸⁵

¹⁸³ See Hetq.am, "Second Highway Linking Armenia and Artsakh Officially Opens", Hetq.am, 1 September 2017; "Vardenis-Martakert Highway", Armenia Fund, September 2017.

¹⁸⁴ See "Expansion and Development of the Arajamugh Village", Tufenkian Foundation, 18 November 2017.

¹⁸⁵ See "Tufenkian Foundation, Inc.", ProPublica's Nonprofit Explorer.

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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.

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