

CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

STATESMEN'S FORUM: ARMENIA'S EVOLVING RELATIONS WITH UNITED STATES, EUROPE'

GUEST SPEAKER:

VARTAN OSKANIAN

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PATRICK CRONIN: Good morning, ladies and gentlemen. Welcome to CSIS and this Statesmen's Forum to discuss Armenian foreign policy with the foreign minister of Armenia, Vartan Oskanian. I'm Patrick Cronin. I'm the Director of Studies and Senior Vice President, and I just want to offer a couple of thoughts before I introduce the Foreign Minister. First is simply to note the strategic and geographic centrality of Armenia. It really is at the crossroads, and it's so strategically important it must be very vexing for the foreign minister to try to balance all of the interests of Armenia with its neighbors; obviously Armenia has a very close strategic partnership with Russia, out of necessity if nothing else, and yet Armenia is pursuing this 360-degree multidimensional policy for its security.

Essentially since 9/11 in particular we've seen Armenian foreign policy move much closer to NATO and the United States in a number of ways. It has actually deployed peacekeepers to Kosovo and now it's preparing to send non-combat support to Iraq. And at the same time there is this debate that goes on, the question of whether Armenia is being left behind in the South Caucasus with respect to Georgia and Azerbaijan, which continue to consolidate their relations with the West.

There is a great interest as well, obviously, in Armenian-Turkish relations. This transcends the pipeline, and also with Azerbaijan. And on the Nagorno Karabagh dispute we haven't seen observable progress but maybe we'll hear an update this morning that could be more promising about where this could lead.

Economically I'd like to also say that we have seen progress with respect to Armenia. I was actually in the Bush administration helping to design - in fact, in charge of the Millennium Challenge Corporation, and the fact that Armenia was one of the two former Soviet countries to be declared eligible and qualify for the Millennium Challenge Account based on 16 transparent indicators of good governance - political, economic, and social - speaks well of the Armenian economy, and we certainly hope that that successful economic growth and those reforms, continued commitment to freedom, will continue in Armenia.

With just those few thoughts thrown out, I'd like to now briefly introduce the foreign minister.

He was educated in the Yerevan Polytechnic Institute and then took a Master's degree at Harvard University, and also went to the Fletcher School here in the United States. He joined the Foreign Ministry in 1992 as the deputy head of the Middle Eastern department and had a meteoric rise from there. He's gone on to be the deputy foreign minister, and then for the past seven years or so he has been the foreign minister. Minister Oskanian is also someone who has been deeply in charge and involved in the Armenian negotiations on the Nagorno Karabagh issue for the past decade. He has spoken here once before and is looking forward especially to your questions. He's going to speak for about 20 minutes and then he'd like to hear your questions and exchange in some give and take before his busy schedule will take him away to one meeting after another here in Washington.

So please join me in welcoming Minister Vartan Oskanian. (Applause.)

VARTAN OSKANIAN: Thank you very much. I truly appreciate this opportunity to speak to this audience this morning, and certainly I don't want to monopolize the time here. I will speak as shortly as I can, something I promise I can deliver - I won't put a time on it but I will try to be as short as possible so that you will speak out your mind and ask questions that interest you most, and I will try to entertain them.

But again, it's an honor to be here at CSIS again. This is my second time, and I recall my first appearance here. That was almost four years ago, and since then certainly the world has changed. Armenia has changed, our region has changed, and new challenges have emerged. The question that I usually get confronted with, both in Armenia and abroad but particularly in Armenia, our own people ask me, and our diaspora people when I travel throughout the world, is the following: what Armenia wants, where it's heading, what's the vision of Armenia's leadership today for Armenia? To respond to such questions you could either be philosophical and try to provide all sorts of long answers going in history and try to project a vision or you can simply be very simple and very direct, and so that's what usually we try to be, and I personally try to be, and the answer usually is the following: we want to create, establish, build a country in Armenia which is democratic, prosperous, which lives in peace and security. It's very simple and this could be true for every other country, and every leader of any country certainly will wish the same for its own people and country.

And the countries differ in the way they pursue this goal, and Armenia, in this past 10, 12 years of its independence has certainly made a lot of progress in all those three directions: democracy, economic development, which eventually will lead to full prosperity, and also to reach peace and stability not only in Armenia but also in the region. All those three areas have a few things in common. One is that we've made progress in all those three directions. Second, that in all those three directions our departure point was very low. We began building democracy from communism. When the Soviet Union collapsed there were no traditions and we basically began from scratch, and anything you do from a zero base would appear pretty promising. We understand the road to democracy will be very long, will be very treacherous, but it is a promising road and Armenia is determined to continue on that path.

The same can be said for our prosperity and economic development. The last four years in particular have been very promising for Armenia. We've been having double-digit growth in these past three years: in 2001, then we moved to 12.3, and last year it was 14.9. And this year, almost halfway through, we're close to 10 percent GDP growth, and traditionally the early months of the year are the slowest in our economy, so if the trend continues we will certainly have another double-digit growth in our economy. But again, we began from a very, very low point of departure. We are not alone, though. All the other Soviet Republics had

similar collapses. They too began from a zero point. Our advantage in all this has been that we've made serious progress compared to our neighbors, and our departure point, as I said, was more or less the same.

And thirdly, peace and security. Again, here, if we look back to 10 years we began building peace and security in our region basically from a war. Armenia's first days of independence, first years were marked by war with Azerbaijan over the conflict of Nagorno Karabagh, and in 1994 we reached a ceasefire agreement, and that's been holding in these past 10 years. This year we celebrated the 10th anniversary of that ceasefire. Again, we do have relative peace and stability, but again our departure point was too low. When you're beginning building peace from war and you reach relative peace and stability, that is something positive but certainly is not the end result. We understand we have to demonstrate a lot of political will in the coming months and years, hopefully only months so that we reach long-term and permanent peace and stability in our region.

So in all those three directions, although we've made progress and we're happy with it, but we understand that the challenge is not to sustain them but to further deepen and strengthen. Democracy, for example, I think - and I will always admit this - that we've only scratched the surface of democracy in our country. We have a long way to go. Our membership in the Council of Europe was very instrumental. The Council provided us with a clear blueprint as where the country should be heading, what kind of reforms, political reforms must implement, and since our application to that organization we've made a lot of progress, and with full membership three years ago we've assumed new responsibilities and obligations which we will fulfill. And the end of 2004 is a clear deadline to complete the first phase of those obligations, and I must say we're at 90 percent rate in terms of fulfilling those, and we are pretty confident that we will be able to complete them by the end of 2004.

This will not be the end. We will enter a new phase, a more difficult phase where we will try to go deeper and deeper in democracy building. As I said, we've only scratched the surface so far, and a more difficult task, and the challenging task, is to go deeper in democracy building, and here we require assistance from abroad. The United States has been extremely helpful and instrumental in the democratic processes in Armenia. NDI is present, National Democratic Institute, in Armenia, and they're bringing their contribution to Armenia's democracy building, and the United States, through its Millennium Challenge Account, is making Armenia more focused in areas which would provide good governance, democracy building, rule of law, and respect for human rights.

So all this and the Council of Europe's obligation certainly will make Armenia to move faster in that direction. But there is one caveat here that we need to be aware of, that after a certain point, once you do and complete the easy phase of democracy building - and we've learned this through our own experience - to move to the second phase will be much more challenging and will require further political will. To be able to complete that successfully, the country requires a constructive opposition. Without partnership with your opposition domestically you will have a difficult time to make that next move and to go deeper into democracy. I'm sure people who are in this room have interest in our region and have been following events in Armenia, our domestic developments, and you're aware of the recent political problems we've been having with our opposition, and our opposition, through its very aggressive attitude towards the authorities, did not contribute to the democracy building because there's a lack of partnership between government and opposition.

So we think, through the international organizations, through the NDI, through the American

government, through the Council of Europe we'll be able to patch up the relationship between the opposition and the government, be able to bring the opposition back to its normal course, back to parliament, and to become a true partner with the government in those areas which are critical for Armenia's democracy building. So again, in this area - so I may move on to the economic and then peace and security, to conclude, we're happy with the progress we've had but certainly we have a long way to go, and this new phase, as I've said, will be much more challenging and much more difficult and will require further political will by the government and our opposition and our people so that we'll be able to further deepen and strengthen democracy in Armenia.

Moving to the economy, which has been, as I said, very positive in terms of its development in these past three years, puts us in a very challenging situation. As we understand, to have double-digit growth over - two years of double-digit growth - and just continue this will be extremely difficult. You simply cannot sustain - there is no additional foreign direct investment, there's no continued export growth, import substitution, and continued economic reform in the country, and also peace and stability in the region, in the country.

So these elements need to be there so that we'll be able to sustain economic growth in Armenia, which will be extremely important so that we'll be able to tackle the more problematic issues that we face, such as high poverty rates in the country, high unemployment. These, we believe, are the two macroeconomic evils that the country is facing because the other macroeconomic fundamentals are pretty strong. Our currency has been stable in this past six, seven years. Growth is high. Inflation is low. Our reserves have been growing every year. We now have four months of import reserves, which puts us in a very stable situation in terms of exchange rates, and the growth is continuing, as I've said. So the challenge is to be able to sustain this.

What were the reasons, as we now look back, for this kind of success that Armenia had in this past three-four years were the reforms basically that we've conducted in the country since '92. Those reforms began to yield their positive results. One is the climate that we've created. The Wall Street Journal and Heritage Foundation assessment of economic freedom of the countries in the world puts Armenia at 44, rank at par with France. Indeed, our economy is very liberal. Our laws are extremely liberal. And as I said, we rank along with France and Singapore at 44 in economic liberalization.

Secondly, the continued flow of foreign and direct investment. This is growing year over year, although the numbers are not very big - our economy is small in general - but the trend is very positive, and we're seeing more and more interest in Armenia's economy by foreign companies, other countries, and our own diaspora of people. And with the Millennium Challenge Account's further injection of cash to our budget on average - almost \$100 to \$150 million, even could be \$200 (million) - if we could provide the right programs and projects there will be additional injection of cash in Armenia's economy, and that coupled with the investments we've been having from our diaspora people - last year we had average \$150 million - if that continues, so the two coupled together will inject another \$300 million in Armenia's economy over the next four or five years, this will certainly sustain the double-digit growth in Armenia's economy.

Finally, the third aspect, which is peace and stability and security in our region, is extremely critical. Without it, the other two could not have been achieved. Peace is essential. Security is essential. And Armenians in general are extremely security conscious. Our history, our past has made us extremely sensitive to security matters. We're extremely security conscious, and

being bordered by Turkey and Azerbaijan, with which we don't have any diplomatic ties - with Azerbaijan we have the Nagorno Karabagh conflict - puts us even in a more difficult situation in security terms. That's why in this area we've been implementing multi-layer security measures based on our policy of complementarity to provide as maximum security as possible for Armenia.

Our security measures are indeed multi-layered. It begins with our bilateral security cooperation with Russia. It goes through the collective security agreement that we're a member of, along with other CIS, former Soviet republics, six of them. It takes us through the CFE treaty and other disarmament treaties, Europe and global. It takes us to our cooperation with NATO, which is increasing and deepening every day, every month. Almost a year ago we were way lagging behind of our two neighbors. We caught up with them. Today Armenia is a member of SOFA, is a member of PARP, and we're beginning our individual partnership program now with NATO, and that puts us at par with our two neighbors, which we believe is extremely important when it comes to NATO cooperation so that no dividing lines will be created in our region. Just imagine if our neighbors will move way ahead in terms of their cooperation with NATO and Armenia will stay behind. That will create this balance in the region, even will lead to some sort of a dividing line, something that we don't want to happen.

So our moves forward on this NATO matter have to be in tandem, and we believe all three of us now are moving in unison, and we hope it will continue in the future. We also appointed a full ambassador to NATO, something we didn't have before. Our ambassador at the European Union and the bilateral covers Belgium, the Netherlands, and Luxembourg was also covering NATO. Now we have a full separate ambassador that covers NATO for Armenia, and we're looking very much forward to take part at the foreign minister's level, to the NATO summit in Istanbul.

The other layer is our bilateral cooperation, along with the one that we have with Russia. Because of our policy of complementarity, it allows us also to have bilateral military cooperation with other countries, and the two with which we have good cooperation are Greece and the United States. With the United States, the cooperation began only recently. Because of the 908 restriction, the administration were not in a position to provide any military assistance, neither to Azerbaijan or Armenia. With the waiver of 907, now we have the opportunity to have military cooperation with the United States, and that is extremely helpful. It comes to add to the layers that we already had, and all taken together through complementarity indeed provides a strong security shield for Armenia in a very delicate and problematic region.

Our region is problematic for Armenia because of two basic reasons. One is the consequence of the other. The source of it is the Nagorno Karabagh conflict, which has also brought Turkey on board because of its unequivocal support and solidarity to Azerbaijan, with total disregard of the geostrategic vision that they could have had beginning '91, '92 when Armenia became independent. With total rejection of that vision they focused on their ethnic solidarity with Azerbaijan and adopted a very uneven and one-sided policy to Nagorno Karabagh and towards Armenia. And since then, no movement has been registered in Turkish-Armenian relations despite the fact that Armenia has never and will never set any condition for normalizing ties with Turkey, despite the fact that Armenia has more reasons to set conditions for normalizing relations with Turkey. But because of our strategic vision, because of our willingness to have a peaceful region and good neighborly ties with all our neighbors, we've never put any conditions before Turkey to normalizing ties, but we regret that Turkey on this issue has not met us halfway and they continue to make the Nagorno Karabagh conflict,

which is a conflict that Armenia has with a third country, as a precondition for normalizing relations with Armenia. We've been working on these relations. Last year I had three separate meetings with my counterpart from Turkey. The first meeting was very promising but since then we've basically backpedaled because Turkey came to realize that their intentions are one thing but their capabilities are another. And they are indeed hostage to Azerbaijani pressure when it comes to normalizing relations with Armenia. When I began to talk with Abdullah Gul, he said, we certainly want to separate the two together and we move forward with our bilateral ties. In the second meeting he said, you know what, that linkage is there but not much weight should be put on it. Let's continue to work on our bilaterals. In our third meeting he simply apologized and said, no, we can't do much because that issue is there. Unless Armenia does something about it we cannot do much in our bilaterals.

So that's where - back to point zero, and at this moment, no progress has been registered, but we're still hopeful that we can do something about this. With Turkey's membership possibilities to the European Union, with the United States' insistence that Turkey does actually something and open the border - begin with the railroad opening probably and move on to other issues. So we're still hopeful and will continue to work on this without losing hope that eventually we'll be able to make progress in our bilateral ties. Indeed, we believe Turkey has a responsibility and obligation to change its policy towards Armenia. Eventually Turkey is the bridge for the Caucasus to NATO and the European Union.

The three countries - the Caucasus - have a border with Turkey: Azerbaijan, a very small one. Through Nakhichevan it's only eight, nine kilometers. We have a long border with them. Georgia has a long border. And Turkey indeed is the only country - NATO and future European Union with which the three Caucasus countries have borders. We are a member of the Partnership for Peace in NATO. We're a member of the Euro-Atlantic Partnership Council. Turkey is a member. When we became a member in these two organizations, which are NATO organizations, we thought, Turkey will take leadership in here and just bring Armenia tracked into these programs with its help, serving as a bridge between Turkey and NATO. The same obligation now Turkey should feel - not that they felt in the first case, they did not, but the EU processes should be additional burden on Turkey to feel that obligation that now they have dual obligation, not only NATO but also the European Union. Everyone expects that Turkey will get session negotiations right early next year.

Armenia, Georgia, and Azerbaijan only last month were declared as three countries who will be included in the European Union's New Neighborhood initiative, which is a step forward in that direction and future membership, Turkey being ahead of us with the accession negotiation rights should feel the obligation to serve as a bridge for the three Caucasus countries as members of the New Neighborhood policy. Pay attention to the word 'neighborhood.' The only neighborhood possibility we have is our border with Turkey. No other Caucasus country has any other border with any other EU or potential EU member state. Turkey is the only one, and they need to feel that responsibility that they've got to change their policy towards Armenia, engage Armenia, and bring them in Turkey is now being asked by the European Union also to recognize the Armenian genocide. Recently, at the very highest level, the Socialist Party chairman in France made that declaration, and now there are repeated calls on Turkey that they demonstrate that political will, come to terms with their past and history, and get over with this issue.

Speaking of genocide recognition I should - so that I do not contradict my previous words - that recognition is not a precondition from the Armenian side. Recognition issue is an agenda item. We will pursue that with other countries in international organizations, even with

Turkey, but we haven't, and we will not in the future, make that a precondition for normalizing ties with Turkey. In other words, if Turkey decides tomorrow to normalize relations with Armenia and the genocide has not been recognized, that will not be an obstacle for Armenia to go ahead with normalization. This is one point that I'm very careful to make very clear because there are all sorts of interpretation, even from Armenia, that we on one hand say we have no conditions; on the other hand we raise the genocide issue. We don't see a contradiction here. The genocide issue is our moral obligation to raise, to have it on our foreign policy agenda, but having it on the agenda and making it a precondition, these are two separate things. So it is no condition and we are willing to move forward in our bilaterals with Turkey. Now this brings me to the Nagorno Karabagh conflict, which is an important component in that last dimension, which is the peace and stability. We can't have long-term permanent peace and stability in the Caucasus in our region between Armenia, Azerbaijan, without resolving the Nagorno Karabagh conflict. This is very clear, everyone understands it, and we really work hard to reach an agreement on this issue. We came very close with Ilham Aliyev's father, Heydar Aliyev a year and a half ago, two years ago. At Key West a document was produced which basically provided a package agreement for the Nagorno Karabagh conflict. It took a lot of courage by both presidents, by President Aliyev and President Kocharian, to agree to the terms of that agreement, because both sides were making serious compromises, but that provided a serious framework for resolution of the conflict.

Unfortunately, now, Ilham Aliyev's situation has changed. Ilham Aliyev now is saying he cannot continue on the same path that his father had embarked on, and the conditions and the terms that are included in the Key West document cannot be acceptable. The word 'acceptable,' I would use it with some reservation because that will mean - its not that it's not acceptable but it's not do-able given the political conditions that the new president is in after his elections. He's a new president, he's young, he doesn't have the moral authority within the country that his father had, and indeed it will be extremely difficult for him to fulfill the terms and obligations of that agreement. We understand that. That's why we think we've got to give time to the new leadership in Azerbaijan, work with them, and try to even reach a compromise agreement, even some other reflection or interpretation of the Key West document. Does it have to be the exact wording? It doesn't have to be the same letter and the spirit, but it could be a variation of what we had as long as we stick to the basic principles.

Unfortunately, now, Azerbaijan policy differs greatly from Heydar Aliyev's policy. Today, Azerbaijan basically is trying to focus on the consequences of the conflict rather than on the cause of the conflict. Because the conflict has two parts: the cause of it, which is the status of Nagorno Karabagh. The whole thing started because the people of Nagorno Karabagh, during the collapse of the Soviet Union, opted for self-determination. They wanted to have their status changed from autonomy to one of something else, that they will have more say in their lives and future. Azerbaijan needed to reject that call and they suppressed the peaceful demonstrations.

So the cause of the problem is the status of Nagorno Karabagh but that issue has its consequences because the suppression by Azerbaijan in 1992 of those peaceful calls led to military conflict, which eventually brought about some consequences, such as territories that are now under Armenian control. It generated a lot of refugees from both sides, and other negative consequences that eventually need to be addressed. Azerbaijan's approach is to focus on the consequences, ignore the cause, and try to unravel them. We Armenians also would love to unravel those consequences, but in a different way. We would have loved to go back in time and undo the pain and suffering. We would have liked that Azerbaijan would have not relinquished, yet even victimized its own population. We would have liked to see that

Azerbaijan would not try to provide a military solution to a political problem. And still today we would like to prefer that the Azerbaijani rhetoric will be less militant, will be more realistic, forward looking and more hopeful. But it is not. Their insistence that those territories that are Armenian controlled be returned in exchange for beginning of talks for a possible high autonomy within Azerbaijan doesn't really make much sense because that will simply take us to 1988 status quo ante, as if nothing has happened in the intervening years, as if no war was fought and won, as if no generation of new Armenians were born oblivious to Azerbaijani claims, as if the Nagorno Karabagh right - political, historic - and realities on the ground can be ignored. These things simply cannot be ignored. The focus today should be on the status of Nagorno Karabagh. We've got to address that.

Certainly those who've heard the representation of the position from both sides will come to the conclusion, oh, boy, the views are so different, so divergent that there's absolutely no hope that any progress can be made. Not at all. We think we can make progress despite the divergences of our views and positions because there's always a middle way. There is a compromise solution. The word 'compromise' we'll hear from Armenia, but we never hear, especially recently, from the Azerbaijani side. But there is a compromise solution. We think we can agree on a timetable through which all those consequences, those side issues can be addressed, meanwhile providing the people of Nagorno Karabagh the opportunity to decide their own future by using internationally accepted norms and instruments. I don't want to open up exactly what this entails, but I think I tried to explain it as what kind of an approach can be adopted. And during our talks, which are now two-track talks - one at presidents' level, one at foreign ministers' level - we are addressing these kinds of issues: how to try to reconcile these two views when you insist on return of territories, the other side insists on status, we think the concoction of two could provide a new opportunity, can produce some new elements which would serve as the hinge around which this whole conflict can be resolved.

There's one other element that both sides need to be cognizant of and that is our future goal, future aim to be part of Europe, to become more integrated in European structures. I think this idea - and with clear intention by Armenia, Azerbaijan and Georgia as we do not hide it that, yes, indeed, we would like to be a member of the European Union sometime down the road as long as it takes, but that's our strategic vision. We're moving in that direction. If this is true for all three countries, we've got to try to put these conflicts in that broader context: try to look at borders not as something that will provide political division but simply will define our cultures and identities, not as borders that will serve as an obstacle for cooperation in the future. If that context and understanding is embedded in our thinking, we may begin to look at issues differently, and that certainly will provide the broader context within which we can address differences and reach a solution.

I think I went over the time that I thought I would speak. Here I will conclude and I'll be happy to entertain your questions. Thank you. (Applause.)

DR. CRONIN: Minister, thank you very much for that outstanding rundown - 30 minutes, no notes - talking about the vision for Armenia, about democracy building, trying to integrate an effective opposition, economic growth, sustaining it not just for the growth but for the reforms that have produced that growth, and with the Millennium Challenge Account prospects out there, maybe that would be something that would lead to further reforms within Armenia to be a model, and then the peace and security very much hinging on this multi-layered set of relations, especially the most tenuous relations over Nagorno Karabagh but also important relations with Turkey.



The minister has agreed to take some questions. We have Cory Welt, and other CSIS staff, standing by to pick up cards on which questions should be written. Our Russia-Eurasia program has just done an outstanding job working with our External Affairs Office today to produce this program.

Cory, are you going to bring up some questions or -

Minister, the first question I have here is a comment on the specific consequences of Georgia's 'rose revolution' for Armenia and the region - this of course seen as an anti-corruption revolution. What impact might that have on the region, and any impact or consequences for Armenia?

MR. OSKANIAN: Well, the consequences I can think of are all positive, but still, we have to give some time to see how things will evolve in Georgia, but it seems like as we follow very closely the developments in Georgia it looks like it's moving in the right direction, especially as far as Armenia is concerned. The peaceful conclusion of the conflict with Ajaria was extremely good news for Armenia, and those two days where the communications were disrupted between Ajaria and Georgia and between Ajaria and Armenia we had close to 120 trucks, trailers and cargo trailers just sitting at the port in Ajaria and we couldn't bring them into Armenia. This is a clear testimony and indication at how linked Armenia is with Georgia, with the two Black Sea ports, and how important is Georgia's stability for Armenia's economy and for Armenia's stability. So if the trend continues in this positive direction and the central government continues to enlarge and broaden its control over its territory, I think that will work for the benefit of the region, for the benefit of Armenia and Azerbaijan and the rest of the countries.

Its implications on Armenia, yes it had some, because the change of power - very abrupt change of power in Georgia roused some interest and got our opposition itself excited about changing presidents, and they began to think, if the Georgians can do it, why can't we? And they suddenly recalled and remembered the flaws and irregularities that we had during our own elections, although there was no comparison between our election situation and Georgia's, although there was no comparison in the assessment and evaluation of international organizations as observers of Armenia's situation and Georgia's, and despite there is no comparison between the strength of government structure, the economic situation, the social conditions. Nevertheless, our opposition got very excited and they thought they could replicate the rose revolution in Armenia, and they began to act on it but it lost its excitement very soon and the wind was taken out of the sail when they realized that they don't have large public support to achieve that goal.

So that was some of the impact that it had on Armenia, which created a semblance of instability, but thanks to our economic growth and strong government structures, and also the public understanding of the real situation in Armenia, that threat has diminished very quickly. DR. CRONIN: Minister, this question very much follows on your answer, and it deals with your vision for constructive political opposition and what is the likelihood of that happening here say before the next election?

MR. OSKANIAN: Well, eventually it will happen. The opposition will have no choice but to return to parliament. The partnership that I emphasized is extremely important because if you do it without the opposition I don't think you'll go in the right direction. When you have an opposition which is extremely aggressive and not willing to participate, again, it will be very harmful to the processes. With a constructive opposition I think we can move much faster in

democracy.

Now, the question that you may ask, how would you expect an opposition which is a minority in the parliament to have its say in democracy-building matters, in the army, and parliament when the laws need to be adopted, you know, debated and what have you. Well, our coalition parties, which have a majority in the parliament, recently, as a way out of this crisis, offered the opposition veto rights over extremely important and critical issues in the parliament.

Three areas: one, reform of election law. They've given - despite the fact that they only have 22 members in the parliament, they've given veto rights on this issue. Without opposition agreement on the issues of reform of our election code, no change can be made. This will force the majority to work very closely in partnership with the opposition to make the necessary changes that will benefit Armenia, that will provide the legal framework for better and fairer elections in 2007 and 2008.

The second area where we've given veto rights was the overall constitutional reform. Armenia now having implementing its constitution since '95, has detected a lot of flaws and shortcomings in our constitution, which we want to change. With the new changes, the balance of power between the different branches will be much more balanced. The president will be losing, with these changes, some authority. The parliament will gain and the government will gain some, so it will be much more balanced. And the opposition needs to be engaged in this, and they were given again veto rights on all constitutional reform matters.

The third area was all the laws pertaining to the fight against corruption. The opposition will also have veto rights.

So those offers are still on the table, still outstanding. The opposition I think is now trying to position itself - is playing hardball and they haven't accepted - they have other conditions, but eventually they will realize that they need to be engaged for the sake of the country, and that will happen.

So the short answer is that, yes, it will happen within the next six, seven months. That's my belief. They will return and will begin work on these matters as equals with the majority in the parliament so that we'll be able to make advances in these areas.

DR. CRONIN: Minister, there are a couple of questions here I would like to combine regarding relations with Turkey. One of them deals with the Armenian official position on territorial claims on Turkey or the recognizing of mutual borders between Turkey and Armenia, and a related question really is what is the biggest obstacle to reconciliation with Turkey inside Armenia?

MR. OSKANIAN: The greatest obstacle within -

DR. CRONIN: Within Armenia is there a domestic calculus here that -

MR. OSKANIAN: You know, the border recognition issue is an interesting question. The best way to approach this issue is not talk about it -- don't ask, don't tell type of policy. Armenia is a member of the United Nations. Turkey is a member of the United Nations. We're both members of the OSCE and the charters of these organizations are very clear on border matters. When you're a member of those organizations with certain borders that are recognized by the United Nations and one or the other side has not stated otherwise, then the

de facto situation holds. Why Turkey would like to ask Armenia if they have not asked their other neighbors when they establish diplomatic ties that Armenia makes an explicit statement that we don't have territorial claims from Turkey - I don't think this is a fair approach to this issue. That needs not to be discussed. Secondly, if a diplomatic relations protocol is signed, all those issues are addressed within that protocol. There are standard texts for establishing diplomatic ties, where all those border matters, sovereignty, non-use of force, respect of rights, what have you, are all addressed in that diplomatic protocol.

So Turkey raising this issue I think is one of their ways to create additional obstacles, not to move forward in their bilateral ties with Armenia. We understand now the Karabagh part - we do not accept it but we understand it could be a legitimate issue. But again, it's a third country issue and we would prefer that Turkey focuses on bilateral matters rather than raising this issue concerning a third country, in this case Azerbaijan.

The major obstacle in Armenia? Well, we have different political parties in Armenia with different political agendas, different platforms, different approaches with regard to different issues. Each has the right to express their views, but the foreign policy prerogative is the president's. Constitutionally, the president is mandated to devise and implement through the foreign ministry Armenia's foreign policy. We do not have any obstacle for normalization - as a government - for normalization of our relations with Turkey: opening the border, signing diplomatic relations protocol, and just move on, look to the future - not forgetting the past but look for the future. There is the European integration process, there is NATO, all sorts of things that are happening, developing in our region and Turkey needs to provide the leadership, given its size, its bigger population, its economic strength. Turkey has to take the lead in these matters and we hope eventually we will be able to achieve that.

So the short answer is as far as the government and the public at large, there are no serious obstacles for normalizing relations with Turkey.

DR. CRONIN: Mr. Oskanian, we have a couple of questions about Nagorno Karabagh. One of them is trying to press you a bit further to elaborate on your sense of optimism that you expressed, including meeting with your Azeri counterpart. Another one is citing history of the '90s when there was movement toward an agreement and it led to the resignation - the departure of the president. Is that something that could be in the offing if it didn't have the popular support, if an agreement strayed from principles?

MR. OSKANIAN: Well, that was a very good question, a very knowledgeable one. The one that led to President Ter-Petrossian's resignation was not a movement toward solution. That was a movement toward a cosmetic patch-up of the situation in hand. And when I spoke about Azerbaijan's insistence on return of territories with the promise of beginning negotiations on future status within Azerbaijan, that was being debated in '97, '98 in Armenia, which led eventually to President Ter-Petrossian's resignation.

But one point I want to make clear -- there is total misunderstanding on this issue; I hope eventually President Ter-Petrossian will write his memoirs and he'll speak up on this issue because he alone can say what exactly was the reason behind his resignation. But my understanding is Nagorno Karabagh was only one issue there, just a small part or big part, I don't know, but that was not the only reason that Ter-Petrossian resigned. But again, if we just assume for the sake of argument that he resigned over the Karabagh issue, again, to formulate the question correctly, that movement was not leading to any solution. That was leading to a patch-up that would have created disbalance in the region, would have taken us to the 1988

status quo ante and that would have created additional problems for the future.

Had we moved on that in 1998, I'm confident that today we'd have been in a much more difficult situation on the Nagorno Karabagh issue. Things would have changed and the possibility for the resumption of war would have been much higher at this moment.

DR. CRONIN: And your sense of optimism?

MR. OSKANIAN: And my sense of optimism is basically the content of the discussions that we're having with our Azerbaijani counterparts, with the presence of the three co-chair countries -- the United States, Russia, and France -- and we're trying to reconcile those differences. Again, so that you understand this clearly, the positions are the following: give territories - we'll talk about status. We're saying no. Let's introduce, produce clarity in the status issue; then we're willing to address the territory issues.

Now, the way to bring these two together is the one that I tried to formulate very diplomatically without mentioning the specific instruments. The way I described it was the following: that we think we can agree on a timetable that will address the consequences of the Nagorno Karabagh conflict, the military side of it -- territories, refugees, what have you - and at the same time, with a timeframe difference possibly, allow the people of Nagorno Karabagh to decide its own fate through instruments that are acceptable internationally. What that instrument will be, that is subject for negotiations and that's what we're trying to do during our discussions, during our talks at two different levels.

DR. CRONIN: Minister, we have a couple of questions regarding Armenia's relations with Russia and also with the United States. First, regarding the United States-Armenia security cooperation, what actually has been agreed to and where is that security relationship heading in your opinion, and then how does that relate to Armenia's ties to Russia? So what is the plan that you have to combine the cooperation with Russia and the U.S.? What are the roles respectively?

MR. OSKANIAN: Let me begin from the end. We do not see a contradiction between our cooperation with the United States and Russia. With Russia of course it's much deeper. There is no comparison. We hope one day we'll be able to bring the American cooperation at par with Russia. I don't rule that out, but at this moment there's no comparison. With Russia it's much deeper on security matters; we have bilateral agreements. With the United States it's just beginning. We've sent, as you mentioned in your opening remarks, sent a peacekeeping force to Kosovo. We're preparing to send a noncombatant contingent to Iraq. And also we're negotiating with the United States that some training can be provided to Armenian companies or battalions in preparation for future peacekeeping throughout the world.

Our cooperation began with the United States on military matters during this fight against terrorism. Armenia is a partner with the United States in this fight and we are ready to make our very modest means available to fight this problem, along with the international community. We're extremely satisfied and happy to see a U.N. resolution, Security Council resolution on Iraq, which will broaden the scope of engagement by different countries, and Armenia is certainly willing to take part in that.

Again, going back to the first part of my response, there is no contradiction between our cooperation with the U.S. and Russia because the policy that we've been adopting - employing in this past six years, a policy of complementarity, allows us to do that. The complementarity

policy is not a policy of balance. A policy of balance requires that what you do with one try to do equally the same with the other so that you create a balance. Complementarity gives us the opportunity to have an asymmetrical relation with two different powers. We can do eighty percent with one and complement your security needs with the twenty that you do with the other side, and the two together will add up to one hundred and provide a better shield for Armenia. That's the essence of complementarity, and it's worked for Armenia and we will continue to employ it in the future as long as the contradiction and the differences between the United States and Russia have not gone deep enough to put us in a position where we have to choose between one or the other. We're not in a similar situation. I don't think that will happen again. That is a Cold War situation, and there's no way that we'll revert back to a similar situation that countries like Armenia, Georgia, Azerbaijan and others will look at the international situation and say, oh, no, if you do this you can't do the other side. We're not there and I don't think we'll ever get to that position.

DR. CRONIN: Minister, could you outline Armenia's cooperation with Iran?

MR. OSKANIAN: Well, our cooperation with Iran economically is very normal. We trade with them. Iran is our third or fourth trade partner. The borders are open, unlike Turkey's. So we make more extensive use of Iran's territory to transit through the Persian Gulf and communicate with the rest of the world. Iran is a big market - 60 million population. We have extensive trade with them although there are some limitations - tariffs; quotas; they're not members of the World Trade Organization, Armenia is; our market is more open to their products than theirs to ours -- but nevertheless, as we go on we're making progress.

Now we've begun cooperation also on energy matters. A pipeline hopefully, gas pipeline, will be built soon. We concluded the agreement. We understand this may put us at odds with the United States because of ILSA, the Iran-Libya Sanction Act, but we will work with the United States to see how we can fit it so that we do not contradict the term of that resolution. That issue will be one of the topics that I will discuss during my talks today and tomorrow with government officials.

So we will have also energy cooperation with Iran, which gives us additional energy security, which will diversify the energy sources that enter into Armenia. The only gas pipeline that we sit on is the one that comes from Russia, carrying Turkmenistani gas, passing through Georgia and entering Armenia. That is extremely unreliable, very unsecure, and given the past history, in the early '90s was being blown up every other day, causing havoc in our energy sector at that time made us learn our lesson. So we would like to see it diversified because also eventually the closure of nuclear power plants is also on our agenda.

So in between we've got to find enough substitute energy sources so that we can, with peace of mind, can close the power plant and have enough energy that will compensate the loss that we will incur from the closing of the power plant.

DR. CRONIN: Minister, the next question is regarding the European Union. How will the decision to start preparing for the inclusion of Armenia, Azerbaijan, and Georgia in the EU's European Neighborhood policy affect the EU's involvement in the region's frozen conflicts, and how does the Armenian government view that involvement?

MR. OSKANIAN: Well, we view this very positively. We like to see the European Union more engaged in the Caucasian matters so that they bring their contribution to the resolution of the conflict. And there are two ways to do it. When we say that we would like to see the

EU more involved, it doesn't mean that they will be hands-on mediators and substitute the Minsk Group. Not at all. They can complement the Minsk Group work because the Minsk Group has done a wonderful job. They have not exhausted their potential. They will continue to work. And I think this conflict eventually will be resolved with the help of the Minsk Group. That has not been exhausted by any means.

But the European Union can do complementary work in two ways. One is to engage the three Caucasus countries in regional cooperation from the European Union perspective. As we have now become members of the New Neighborhood Initiative, that will require additional obligations from all three countries if we are serious about our integration. So we've got to begin making our moves from now. You can't wait 24 years and do nothing and the 25th become a member of the EU. If you have the goal of becoming an EU member in 25 years, that means you have to make serious progress from now on to the end of that period every year, every month, every day. So we've got to work on it.

So when the EU puts pressure on the three Caucasus countries to engage in regional cooperation -- because the EU looks at the Caucasus as one unit -- that's our advantage. They look at the Caucasus as one unit, they approach us as one unit, and they would like to see the three countries cooperate as extensively as possible. So that will help us to create a more favorable environment within which we can address the more problematic issues such as the Nagorno Karabagh conflict. The Georgians can view the Abkhaz issue, the Ossetian issue, what have you.

The other thing that the EU would do is more long term, and that is the visionary thing. By giving the signals that, yes, the three Caucasus countries could become members of the European Union down the road if they meet the necessary requirements.

One of them is having full peace in their region, having resolved the conflicts. And I made a reference to this point at the end of my remarks when I said, this EU membership possibility provides a new context, a broader context within which we can address the Nagorno Karabagh conflict, that borders can be viewed differently had there not been the potential for the European member.

The Cyprus question, you know, it's a double-edged sword. In one way you say, had there not been the Cyprus membership possibility, the Northern Cyprus people would have not voted yes to that plan. So that gave them a vision, but the Greek Cypriots voted no. So that can work both ways. But in my view it was the EU membership prospects that really allowed the progress, the kind that they made on this issue. So the same can work also for Armenia and Azerbaijan if that prospect is made clear: the EU made the first step declaring that, yes, we are part of the initiative of New Neighborhood. If we move on to more serious steps, then we will look more seriously to this and that context will be provided within which the Karabagh issue can be addressed.

DR. CRONIN: So the next question notes that it's not only NATO and the European Union that are interested in security cooperation in Europe; there is also the OSCE, for instance. And the question is regarding whether the OSCE has a role in the future, especially in resolving or helping to solve Nagorno Karabagh or in relations with Turkey.

MR. OSKANIAN: Well, OSCE does two things for security. One is negotiates the Nagorno Karabagh conflict, which is extremely important. The other one is the CFE treaty. It's a visionary thing. It's been extremely helpful -- sets corridors for the member states for

armaments and personnel. There's an inspection mechanism. Even Turkey can send inspection into Armenia; Armenia can send to Turkey or vice versa. So this provides balance and transparency in the region. So the OSCE indeed plays a very positive role on security matters in our region and we hope it will continue.

Turkey is a member of the OSCE. They aspire now to become chairman in office in 2007. Decisions at the OSCE are made by consensus. This puts us in an extremely difficult situation, and that decision has to be made this year during the ministerial meeting towards the end of this year, because there is the troika mechanism. The next year chairmanship we know who it is, the next year is already clear, so this year we need to decide who will be chairman in office of OSCE in 2007. And Turkey is the only candidate, and Armenia has the veto power, which we will use, because Turkey has not risen to the occasion. We cannot allow a country to be chairman in office with which we don't have diplomatic ties. We cannot allow a country to be chairman in office of OSCE which negotiates the Nagorno Karabagh conflict, and the chairman has certain rights and privileges that can be used against Armenia. And given their policy in these past 12 years towards the region, which has been extremely unbalanced, and given their unequivocal support and solidarity toward Azerbaijan and one-sided policy toward Nagorno Karabagh, Armenia simply - even if we want - cannot afford to have, for a whole year, Turkey as a chairman in office.

So these kind of problems rise because Turkey has not risen to the occasion and has not given us the chance to look at Turkey differently. And this, as I said, puts us under a lot of pressure by different countries so that we accept Turkey as chairman in office, but it will be an extremely difficult political decision for Armenia.

DR. CRONIN: So do you have time to answer a question on the Millennium Challenge Account? Of course this is an account that was set up by the U.S. government to help promote economic growth in developing countries that are committed to good governance. I know Millennium Challenge Corporation officials are right now in the throes of looking at all these countries, and I think a very distinguished group just came back from Armenia. Obviously it's a long-term process, a building and inclusive process, but nonetheless, this is a question regarding your government and what - since the development agenda is hardly new, are there specific projects or programs or ideas in Armenia that you're thinking about or that others in the government are thinking about that would be particularly helpful to help Armenia sustain economic growth and increase productivity?

MR. OSKANIAN: Yes, that will be the whole purpose of it. I know all the money will go towards alleviating and reducing poverty in Armenia. That will be the key element there and to all the programs and projects the government of Armenia will present to be financed by the MCA will be within that realm.

Speaking of the Millennium Challenge Account, I'll use this opportunity since - you being one of the people who devise that - we think that was a visionary thing to do for countries like Armenia, and I really would like to use this opportunity to thank the U.S. government, the people who make the decision. Well, this is a program for needy countries. You have to be a poor country to be eligible. That's fine. We'll take that label. Yes indeed, we're poor. But we think our future is bright so we've got to work on it. But there were 100 countries who were poor and listed as potential MCA recipients. Only 16 were chosen, and the criteria that was set by the United States was extremely strict. One was good governance, the other one was economic liberalization, the third one was investment in human capital.

So Americans looked at these countries, 100 of them. They've come with the 16 that had fulfilled this requirement. That means we are a poor country but we are a developing country and we are developing in the right direction. That is the most important thing. And the good thing about the MCA is that the very money that has been made available to us because of those criteria must be spent on those very issues so that we further deepen, strengthen, and sustain them.

So we think, again, this will be something that will greatly contribute to Armenia's economic development, and we're extremely happy and delighted to work with the members of the board. They were in Armenia. We've been devising our plans. I'm not personally involved - going back to our question to tell exactly what kind of programs we're presenting. Those have not been concluded and finalized yet. But again, those will be programs that will be directed towards poverty reduction in Armenia.

DR. CRONIN: Unfortunately we're out of time with this particular Statesmen's Forum, but, Minister, I hope we will be back with you yet a third time if you have time when you're here in Washington again.

Please join me in thanking the minister for an outstanding presentation this morning, and on behalf of CSIS, the Office of External Affairs, the Eurasia Program, we really appreciate your remarks this morning.

MR. OSKANIAN: And thanks for the opportunity.

(Applause.)

(END)