

Georgia in the West:

A Policy Road Map to Georgia's Euro-Atlantic Future

Task Force Co-Chairs: Senator Lindsey O. Graham and Senator Jeanne Shaheen

Task Force Directors: Frances G. Burwell and Damon M. Wilson

Rapporteur: Cynthia Romero



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* The report reflects the consensus of the directors and rapporteur of the Atlantic Council Task Force on Georgia. The Senate Co-Chairs and members of the Task Force welcome this report as an important contribution to the debate, and support its overall conclusions. However, not all of the report recommendations reflect the views of all Task Force members. Individuals participated in the Task Force in their private capacity; affiliations are provided for identification purposes only.

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Foreword

Georgia is at a critical juncture in its path to Europe. While the color revolutions across Eurasia have been undone one by one, one thing remains clear—the people of Georgia yearn for a European future. In order to secure that future, the next two years will be critical. Parliamentary elections in 2012 and a presidential contest in 2013 will test Georgia’s commitment to the democratic reforms that are a necessary part of its Euro-Atlantic integration. They will also represent a watershed moment in Georgia’s post-Soviet history; an opportunity to witness Georgia’s first peaceful, democratic transfer of power.

Three years after the Georgia-Russia conflict, having weathered the shocks of war and the financial downturn, Georgia remains a committed US ally charting an uneven but steady course toward the West. In 2008, just before the war, the Atlantic Council released a report calling for renewed US and European diplomacy to avert conflict and secure Georgia’s territorial sovereignty. Today, US and European leadership is more important than ever if Georgia is to succeed as a Western democracy. However, attention in the United States and Europe has diverted away from Georgia to more pressing global issues, from the financial crisis to the events of the Arab awakening.

In an effort to reinvigorate the debate and raise the profile of Georgia among policy circles in Washington and Europe, the Council created a task force to assess current US and European policy toward Georgia and make recommendations to forge a bipartisan consensus on a way forward. We recruited top analysts on Georgia and the region, as well as senior-level former policymakers and strategic business leaders. Senator Jeanne Shaheen (D-NH), chair of the Senate Foreign Relations Subcommittee on Europe, and Senator Lindsey Graham (R-SC), member of the Senate Armed Services Committee, two senators with a proven track record on Georgia issues, served as task force

co-chairs. The task force aimed to lay out a road map for US officials, and their counterparts in Europe and Tbilisi, to keep Georgia on the path toward democracy and Euro-Atlantic integration.

As this task force report argues, US and European policymakers must revitalize the tools of their engagement with Georgia if that country is to succeed in accomplishing the political, security, and economic transformations required at this critical juncture. The report stresses the importance of US and European leadership to counter Russia’s creeping annexation of the occupied territories and solidify an international commitment to Georgia’s territorial integrity over the long term. Georgia is in a tough neighborhood and is likely to continue to face challenges from its external environment, perhaps even more so as Vladimir Putin returns to the presidency in Russia. But despite this external pressure, Georgia must also take serious steps to enhance its own democracy, building on the reforms it has already achieved. In the midst of backsliding throughout the region, the United States and Europe must support Georgia as a real demonstration that countries in the region can determine their own destiny and thrive as Western democracies.

This report reflects the conclusions from the task force’s fact-finding mission to Georgia on October 16-22, 2010, as well as trips and briefings undertaken by the task force over the course of a year. The task force traveled to Tbilisi and Batumi and met with Georgian government officials, civil society representatives, opposition figures, business leaders, and representatives of the international community. The task force was also briefed by US, European, and Georgian officials in subsequent meetings in Washington.

The Council is grateful to a number of organizations and individuals who facilitated the task force briefings and

enriched the findings of the report. Special thanks are due to our partner in Tbilisi, the Georgian Foundation for Strategic and International Studies (GFSIS), and to Alex Rondeli and his team (Natalia Arkania and Ekaterine Meskhrikadze) for so ably handling programmatic and logistical arrangements for the task force in Tbilisi and Batumi. We are grateful to the National Security Council of Georgia for its generous assistance arranging our meetings with government officials. We would like to thank the Open Society Georgia Foundation, the National Democratic Institute, the International Republican Institute, USAID, the Millennium Challenge Corporation, and the Eurasia Partnership Foundation for briefing and convening the task force with a broad array of civil society, media, and opposition leaders in Georgia. US Embassy/Tbilisi also hosted the task force and we are especially grateful to Ambassador John Bass and his team for their insights and assistance.

The report benefited greatly from the contributions of the task force members. We are grateful to the members of the task force for sharing their perspectives and lending invaluable expertise and to our co-chairs, Senator Shaheen and Senator Graham, for endorsing the work

of the task force and the report. The report reflects a remarkable degree of consensus among the task force members that resulted from a year of exploration and debate about critical issues facing Georgia. However, not all of its recommendations reflect the views of all task force members.

At the Atlantic Council, Cynthia Romero, Associate Director for Transatlantic Relations, is commended for her role as rapporteur and for undertaking the delicate task of shaping the findings and conclusions to reflect the consensus of the task force. Damon Wilson, Executive Vice President and Fran Burwell, Vice President and Director for Transatlantic Programs and Studies, co-managed this year-long effort and provided expert analysis and oversight.

We hope that this report will be an important contribution to the policy debate on Georgia and will serve to reinvigorate leadership in Washington, Europe, and Tbilisi in order to secure Georgia's place in a Europe whole and free.

Frederick Kempe
President and CEO



Executive Summary

In 2010, the Atlantic Council created a high-level, bipartisan task force on Georgia, co-chaired by Senator Jeanne Shaheen (D-NH) and Senator Lindsey Graham (R-SC), to assess Western policy toward Georgia and make recommendations for a bipartisan way forward that advances Georgia's democratization and Euro-Atlantic integration. This task force report aims to reinvigorate Georgian, US, and European efforts to achieve those objectives.

In the aftermath of the 2008 war, Georgia faces significant security, political, and economic challenges. However, the Georgian people remain united in their vision of a democratic Georgia, fully integrated into the West, as a

member of NATO and the European Union (EU). To achieve this vision, Georgia's leadership must advance a second phase of reforms to further foster institution-building and plurality in Georgia and to bring the country closer to the goal of Euro-Atlantic integration. The next two years are critical, as the 2012 parliamentary elections and the 2013 presidential elections present a historic opportunity to witness the first peaceful transfer of power in an independent Georgia.

A democratic, stable, and prosperous Georgia will be a powerful and demonstrable success story for US and European engagement policy in Europe's East. In order for Georgia to undertake much-needed reforms during a

FINDINGS FROM TASK FORCE VISITS TO GEORGIA

In October 2010 and during subsequent visits, members of the Atlantic Council Georgia Task Force visited Georgia to gain a better understanding of the situation inside Georgia and to develop policy recommendations. The task force members' key findings included:

- There is a depth of support among all cross sections of society for the vision of Georgia as part of the West.
- A track record of reforms has drastically decreased corruption and bolstered economic performance, but has also centralized power.
- A sense of insecurity continues to dominate the political and economic scenes.
- US policy and rhetoric in Georgia play a very important role.
- There is a perceived lack of message, strategy, or vision from Europe.

At the same time, the task force detected worrying signs about the sustainability of economic growth, the pace of reforms, and the weakening of civil society. Top international policy issues included Georgia's response to Russia's candidacy in the World Trade Organization (WTO), occupation policy, and defense relations with Georgia, which are addressed in the report.

The task force concluded that the key tests on Georgia's path toward consolidating its democracy were agreeing on an electoral code backed by the opposition, ensuring the viability of independent media, enabling opposition parties to finance themselves, and pursuing the next phase of judicial reform. Each of these tests is a key benchmark on the path toward Georgia's next round of elections: the 2012 parliamentary elections and 2013 presidential elections.

critical time in its transition, US and European leadership is essential. However, in the aftermath of the 2008 war, US and European leaders are at best unclear and at worst divided on what they are ultimately willing to offer a democratic Georgia.

In Central and Eastern Europe, engagement carried the promise of NATO and EU membership with built-in conditionality to push forward reforms. For Georgia, membership in NATO and the EU is neither imminent nor guaranteed, notwithstanding NATO leaders' agreement that Georgia will become an Alliance member. By laying out a road map that builds in conditionality, benchmarks, and intermediate benefits, the United States and Europe can provide clear incentives to Georgia that reward democratic reforms, and, in turn, shape Western attitudes toward Georgia's place in the West. By further implementing reforms that move Georgia toward transatlantic standards, Georgia will increasingly become part of the West, impacting what leaders in Washington, Brussels, and other European capitals are willing to offer Tbilisi. The United States and Europe must rearticulate a policy toward Georgia, expanding existing tools for engagement, including the NATO-Georgia Commission, the EU's Eastern Partnership, and the US-Georgia Charter on Strategic Partnership.

The US-Georgia Charter should be used to strengthen Georgia's security, bolster democratic institutions, extend ties with all sectors of Georgian society, and encourage US investment in Georgia's economy. A successful US engagement policy toward Georgia cannot be a function of US policy toward Russia. The US administration should back up its commitment to Georgia with additional actions to strengthen Georgia's territorial sovereignty. First and foremost, the United States must continue to make clear to Russia that it does not accept Russian violations of the cease-fire agreement, and that it will not allow Russia's actions in 2008 to be rewarded by acceptance of the status quo. The United States should go on the offensive diplomatically to emphasize that it will not allow a precedent to be established that aggression against a neighbor and violation of a cease-fire agreement are acceptable international behavior, and to propose an international presence in Abkhazia and South Ossetia to ensure compliance with the cease-fire agreements. The United States should also work actively with European allies to send a clear message to Russia that it opposes its authoritarian actions at home and any attempts to undermine the sovereignty of its neighbors.

In formulating a coherent policy toward Georgia, the United States should place equal importance on the deepening of Georgia's democracy, the promotion of Georgia's security, and the advancement of its economic development—areas that are inherently related and mutually reinforcing. The United States should take the following measures to bolster US-Georgia relations and to support Georgia's political, security, and economic future:

- **Put democracy assistance at the core of foreign aid.** The United States should prioritize democracy assistance in its aid to Georgia over the long term. During the election period, US officials should weigh in against any signs of abuse of administrative resources or biased limitations on opposition activity or campaign financing. Concrete steps include the following:
 - *Make clear the importance of electoral reform:* US officials and nongovernmental organizations should encourage the government to agree on all major electoral reforms with the leading political opposition, and specifically apportion majoritarian districts in a more equitable manner.
 - *Strengthen civil society organizations:* The United States should assist the Georgian government's effort to ramp up information technology capabilities so that it can be more responsive to freedom-of-information requests from civil society. US assistance should also help to bolster interaction between parliamentarians and citizens.
 - *Bolster free media:* US officials should encourage Georgia to lower barriers—including coverage limitations—for independent media, and ensure media access for the opposition.
- **Protect Georgia's territorial integrity.** The United States can bolster Georgia's ability to pursue democratic reforms by helping to address Georgia's sense of insecurity. The following measures will help to ensure Georgia's territorial integrity and deter Russia's creeping annexation of Abkhazia and South Ossetia:
 - *Hold Russia accountable for its occupation:* The United States should enshrine US policy for the long term via an executive order, policy statement, and/or report to Congress which formally labels Russia's presence in Abkhazia and South Ossetia an occupation and institutionalizes US policy denying Abkhazia and South Ossetia recognition as independent states. The United States should

also hold Russia to account for its legal obligations, including the protection of minorities and the fundamental right of safe return for internally displaced persons (IDPs), while pushing for the internationalization of ethnic Georgian-populated areas of Gali and Kodori in Abkhazia and the Akhgori region of South Ossetia. The United States should also encourage Russia to issue a nonuse-of-force pledge in Georgia and the occupied territories.

- *Propose an international security presence in the occupied territories:* As part of an effort to go on the offense diplomatically, the United States should work with its allies to lay out a clear vision of what security arrangements should be in the context of a fully implemented cease-fire agreement: an Abkhazia and South Ossetia in which additional Russian forces and border guards have withdrawn, and security is provided by a neutral international security presence working closely with local authorities.
 - *Support Georgia at the World Trade Organization:* US and European officials should address Georgia's concerns about Russia's accession to the World Trade Organization (WTO) and urge Russia to agree to an international regime to monitor trade along the border-crossing points between the international borders of Georgia and Russia. If Russia fails to meet WTO terms, US policy should not allow Georgia to become isolated.
- **Improve security and defense cooperation.** US efforts to strengthen security and defense cooperation with Georgia are critical in order to promote Georgia's regional security and to ensure that it remains on the path toward Euro-Atlantic integration. US officials should take the following measures:
- *Advance Georgia's NATO aspirations:* US officials should use the 2012 NATO summit in Chicago to advance the Alliance's commitment to Georgia's membership aspirations by agreeing to an intensified package of cooperation, making clear that the NATO-Georgia Commission and Georgia's Annual National Programme (ANP) are the mechanisms through which Georgia can achieve membership, and hosting the first-ever leader-level meeting of the NATO-Georgia Commission in Chicago.
 - *Bolster the US footprint in Georgia:* Georgia's security strategy is premised on deterrence. In the absence of formal security guarantees, the United States should engage the Georgians to develop credible defense plans and to augment a small military footprint associated with its program to train Georgian forces for coalition operations, support to NATO's Partnership for Peace Training Center, and facilities and logistics to handle transit from Afghanistan and Central Asia.
 - *Normalize military-to-military relations:* US officials should normalize military-to-military relations with Georgia, including restarting defensive arms sales and Special Forces training. The United States should link this decision to Georgia's continuing commitment to its nonuse-of-force pledge, coordinate implementation with NATO allies, and ensure transparency in all defense cooperation with Georgia.
 - *Join the EU Monitoring Mission (EUMM):* Working off the precedent of the European Union Rule of Law Mission in Kosovo (EULEX), the United States should participate in the EUMM.
- **Support Georgia's economic development.** The United States can bolster Georgia's economy by targeting its aid, investments, and diplomacy to:
- *Facilitate Western investment:* Overseas Private Investment Corporation (OPIC) financing should continue to buffer the political risk of long-term investments in Georgia, but US officials should make clear that tax disputes with investors and loose property rights endanger US efforts to facilitate greater investment into Georgia.
 - *Support job creation:* US donor agencies and international financial institutions (IFIs) should work with Georgia to strengthen agribusiness and reinvigorate its agricultural sector in order to tackle high rural unemployment. Georgia should redesign its Millennium Challenge Corporation (MCC) proposal for a university to ensure that it improves Georgia's educational system and generates skilled labor.
 - *Launch a US-Georgia Free Trade Agreement (FTA):* The US Trade Representative (USTR) should launch negotiations for a US-Georgia FTA.
 - *Back IFI investment along the lines of occupation:* The United States should wield its voting power in the IFIs to support projects that spur cross-border contacts

and commerce on the Georgian-controlled side of the occupation lines with Abkhazia and South Ossetia.

While US leadership is critical to Georgia's success, ultimately Georgia's future lies in Europe. The EU's ability to influence domestic reforms in neighboring countries has been limited to neighbors with clear membership prospects. In order to articulate a policy for neighbors for whom membership is a distant goal, the EU launched the Eastern Partnership (EaP) with Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. Yet, EaP remains an underutilized tool, and EU officials have focused greater attention on its nearest neighbors (Moldova, Ukraine, and Belarus), even though Georgia outperforms these countries on many counts.¹ Instead of wielding the EaP as a tool for deeper engagement in Georgia, EU officials dampen their influence with rhetoric that discounts Georgia's Euro-Atlantic ambitions. A more proactive EU policy toward Georgia that offers clear incentives could have a big impact on Georgia's reform process. The EU and European leaders should take the following measures to bring Georgia into Europe's fold, advance its security, and support its internal transformation:

■ **Strengthen EaP policy to support Georgia's internal reforms.** The EU should take the following measures to advance democracy and European integration in Georgia:

- *Ramp up engagement and propose a road map for visa-free travel:* EU rhetoric that promotes a vision of Georgia as part of a Europe that is whole, free, and at peace will help Georgians build the political will to carry out difficult reforms. The EU should reinforce its stated policy of "more for more" by proposing to Georgia a road map for visa-free travel, as it already has to Moldova and Ukraine, in order to demonstrate that the EU is willing to reward Georgia, based on its own merits, if it continues on a path of reform.
- *Support Georgia's democracy:* The proposed European Endowment for Democracy should disburse aid to Georgian civil society to monitor EaP policy toward Georgia. The EU should ensure that its assistance is coordinated with US efforts, so that they are complementary and not duplicative.
- *De-link EaP from Russia policy:* The EU should emphasize that EaP countries have a right to choose

their own political destinies and to pursue integration with EU institutions. The EaP should remain a distinct neighborhood policy, and not become a function of policy toward Russia. The EU should avoid Russian interference in EaP policy toward Georgia.

■ **Support Georgia's territorial integrity.** The EU should ensure security near its borders by supporting Georgia's territorial integrity through the following measures:

- *Push Russia on noncompliance and expand the EUMM:* European leaders should consistently insist that Russia comply with the terms of the EU-brokered cease-fire, including EUMM access to the occupied territories. Europe should work with the United States to encourage Russia to issue a nonuse-of-force pledge. The EU should build on the good faith the EUMM has earned to seek approval to increase the number of monitors and invite third-party participation from the United States. The EU should push for EUMM access to Gali, Kodori, and Akhgori, areas where cross-border movement is in most demand.
- *Clarify engagement without recognition:* The EU should clarify how engagement—and, particularly, travel—for residents of Abkhazia and South Ossetia will be coordinated with Georgian authorities. EU efforts to provide humanitarian aid and improve people-to-people ties with the populations in Abkhazia and South Ossetia should be pursued on a status-neutral basis.

■ **Promote Georgia's deepening economic integration with Europe.** The EU should take the following steps to help Georgia transform its economy and to deepen its ties with the EU:

- *Open negotiations for a Deep and Comprehensive Free Trade Agreement (DCFTA):* The EU should open negotiations with Georgia on a DCFTA this year, and revise negotiations to balance harmonization and development priorities.
- *Foster economic ties:* The EU should provide risk insurance for European investors to foster economic ties and promote investments into Georgia.

In turn, Georgia's leadership should recognize that with great expectations comes great responsibility. Georgia's

¹ Georgia is classified as a transitional/hybrid regime, along with Ukraine and Bosnia. Georgia's 2011 Freedom House score of 4.86 is worse than Ukraine's 4.61, but better than Moldova's 4.96. Armenia and Azerbaijan have scores of 5.43 and 6.46 respectively (Freedom House, "Nations in Transit 2011," www.freedomhouse.org/template.cfm?page=678). Georgia's per capita GDP is \$2,620, about \$1,000 higher than Moldova's per capita GDP, which is \$1,631 (The World Bank. GDP [Per Capita] 2010. <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>).

significant contributions to NATO operations are remarkable but ultimately, a nation earns its place in the West through its transformation at home. Before Georgia can join NATO and the EU, it must undertake the democratic and economic reforms required of other nations that have been invited to join NATO and the EU. Yet Georgia—not any of its neighbors—must be able to determine its destiny and choose its own alliances. Currently, Georgia lags behind the democracy rankings of the Baltic countries, Romania, and Bulgaria, when they achieved NATO membership.² Euro-Atlantic integration will be a long road, and Georgia's leadership should set its expectations and that of the Georgian public accordingly. When faced with binary choices, Georgia's leaders will have to make tough decisions to secure a Euro-Atlantic future for Georgia. US leadership is a prerequisite, but the United States cannot secure NATO, and even less so, EU membership for Georgia. Only Georgia's leadership can instill confidence among European leaders about its commitment to democracy and security in the Euro-Atlantic space. EU integration in particular is a technical process. To merit greater EU attention, Georgia must develop itself as an attractive place for investors in the EU and harmonize further with EU standards. A commitment to European values of democracy and human rights will be equally important.

Georgia's government and civil society should work together to undertake the following reforms to transform Georgia internally:

■ **Bolster Georgia's democratic institutions.** Georgia's government and civil society should implement the following measures in advance of important elections:

- *Empower the parliament:* To facilitate oversight over Tbilisi-based ministries, the new parliament in Kutaisi should address how it will enhance institutional development and outreach, policy debate, and oversight so that foreign donors have a better sense of how they can best support those efforts.
- *Strengthen judicial independence:* The government should promote judicial independence by coupling its plan to introduce jury trials with a significant training program on jury-pool selection and measures to increase citizen confidence in jury trials.

- *Participate in the democratic process:* Georgian civil society organizations should avoid boycotting negotiations with the government and engage in the political process, including lobbying the government to live up to existing freedom-of-information laws.
- *Facilitate free media:* The government should close a loophole in the new media ownership law that could allow owners to avoid the law's financial-reporting requirements and its restriction on foreign ownership. The government should subsidize infrastructure investments for regional television stations in advance of Georgia's move to a digital platform in 2015.
- *Support a competitive electoral environment:* Georgia should allow for ample public debate and seek international advice on electoral reform. Under the new election-code reform agreement, majoritarian districts should be apportioned in a more equitable manner to reflect the principle of one person, one vote. The government should deter interference in opposition financing. In order to truly decentralize governance and empower local politicians, Georgia should introduce direct mayoral elections nationwide as was already done in Tbilisi.

■ **Work with allies to protect territorial integrity.**

Georgia should pursue the following diplomatic efforts to build political capital and support for its territorial integrity:

- *Convince the skeptics:* Georgia's leadership should undertake quiet efforts to mend relations with policymakers in key European capitals and elsewhere who are skeptical about Georgia's leaders, its reforms, and its actions during the war.
- *Foster regional integration while managing sensitive relations transparently:* A policy of regional cooperation and development in the Caucasus will only strengthen Georgia's drive toward the Euro-Atlantic community. Nonetheless, Georgia should be transparent with US and European allies when managing relations with difficult neighbors, such as Belarus, Iran, and the North Caucasus, and should articulate how it will ensure that visa-free travel does not increase security threats along its borders.

² Latvia, Lithuania, and Estonia had democracy scores of 2.17, 2.13, and 1.92 respectively when they entered NATO in 2004. Romania and Bulgaria had democracy scores of 3.58 and 3.25 respectively when they entered NATO that same year (Freedom House, "Nations in Transit 2011," www.freedomhouse.org/template.cfm?page=678).

- *Rally support around Sochi for Georgia's territorial integrity:* Georgia should use the 2014 Sochi Olympics to rally support for its territorial integrity. Georgia should work with US and European allies to use the Olympics as an opportunity to press Russia to allow international access into Abkhazia.
- *Facilitate humanitarian aid and build bridges:* Georgia should agree with international donors on arrangements to allow humanitarian aid and bottom-up engagement with the people of the occupied territories.
- *Coordinate WTO policy with Western allies:* Georgia should work closely with allies to secure Russia's compliance with the proposal for an international crossing regime at the Roki Tunnel and Psou River.
- *Don't let insecurity sidetrack reforms:* In the wake of recent Russian-backed provocations in Georgia, Tbilisi must avoid falling into the trap of allowing a sense of insecurity to derail its commitment to reforms that will accelerate a democratic, prosperous, and European Georgia.

■ **Foster sustainable economic growth.** To ensure broad-based economic growth over the long term, the government and private sector should undertake the following measures:

- *Reinforce role as key energy-transit country:* Georgia's government should encourage investments in hydropower generation and in the EU's gas pipeline projects that would strengthen Georgia's position as an energy-transit country.
- *Focus on job creation:* The government should use investments and IFI loans to spur growth in industries that generate low- and medium-skilled employment opportunities. Georgia should work with donors to modernize the agricultural sector, maximize output, and reduce high rural unemployment.
- *Strengthen investment climate:* Georgia should move fast to resolve instances of tax abuse against investors, empower the new tax ombudsman, and improve auditing rules. It should protect its business-friendly image to entice investors and counter Russian efforts to derail reforms in Georgia.

- *Improve regulatory environment and promote trade with Europe:* Georgia's leaders should ensure Georgia's labor code and practices are compatible with international labor organization standards, and that trade negotiations with the United States remain in sync with negotiations with the EU on trade.

While a long-term horizon is required to achieve the goal of a Georgia that is fully embedded in the West and its institutions, and united with its occupied territories, a coherent, active strategy is required today in order to advance this vision. That is why a formal nonrecognition policy is important. US, European, and Georgian policy needs to foster ties across the occupation lines such that the internal dynamic within Georgia denies Russia the option of annexing the occupied territories. The strategy must aim at eventual reintegration. Western policy must lay the groundwork for the long term on the occupied territories, while aiming to advance Georgia's Euro-Atlantic integration in the near term regardless of Russia's trajectory. Georgia's leaders also should view democratic advances as bolstering security.

Elections in 2012 and 2013 will be the key test of whether Georgia remains on a democratic path. The next two years will help determine the extent to which the United States and Europe respond in kind by intensifying their efforts to assist Georgia on its path toward democracy and Euro-Atlantic integration. The stakes are high for Georgia. To be successful, Georgia's reforms must continue to be the result of Georgia wanting to reform itself. But as the West encourages Georgia to continue to make tough decisions, a Western policy of "hold close, push hard" is most effective—that is, a policy in which the United States and Europe unequivocally embrace the vision of a Georgia that is integrated into the Euro-Atlantic community, and, in turn, can be demanding when it comes to Georgia's domestic performance so that it meets the high expectations it sets for itself.

To get Georgia right, the US lead is critical in order to set the pace and tone of Western policy. The United States can play a decisive role in security, helping to mitigate any sense of vulnerability that could serve as a drag on reforms. But the EU must deliver the most tangible benefits to the average Georgian citizen as Georgia becomes more European.

In the 1990s, many officials were skeptical that the Baltic countries would one day be members of NATO and the EU. Yet the performance of these states, and clear US

leadership on the issue, shifted the debate in the West, transforming the idea of their membership from a radical idea to a natural outcome. Georgia today can draw from that lesson. Previous transitions demonstrate the importance of political leadership. At the same time, a democratic transfer of power is a necessary step before any nation attains

NATO and EU membership. President Mikheil Saakashvili's handing over authority through elections would be the greatest testament to his democratic credentials. Georgia holds the power through its own actions to transform debates in Brussels and Washington, thereby walking through an open door to NATO and eventually the EU.



Georgia in the West: A Policy Road Map to Georgia's Euro-Atlantic Future

Georgia stands at a crossroads in its transition to democracy and faces significant security challenges in its neighborhood. As a nation committed to joining the Atlantic community, Georgia's success is an important litmus test for US and European policy, and US and EU efforts to project soft power and propel democratic reforms in Europe's eastern neighborhood.

The Challenge

Georgia has continued to transform itself from a failed state rife with corruption and destabilized by violent political and criminal factions and separatist conflicts into a free market democracy embedded in the West and its leading institutions, NATO and the European Union. This vision is an audacious one. What is striking in Georgia is that this is not just the transformative vision of one person or an elite; rather, it is shared by almost all Georgians, according to an array of opinion surveys.

To be sure, Georgia is not there yet. While Georgia's democracy has progressed since independence, it still has serious shortcomings, with a ruling party too powerful, a parliamentary opposition too weak, and parties that have unfortunately refused to engage in the country's political process. Georgia continues to be plagued by the political volatility that has characterized its politics since independence, and has yet to undergo a transfer of power through the ballot box. After flourishing through remarkable deregulation and weathering the 2008 war with Russia (thanks to its reforms and international support), Georgia's economy is vulnerable. Today, Georgia must work to strengthen democratic institutions and culture, and lay the groundwork for sustainable and broad-based economic growth and job generation.

Against this ordinary backdrop of a nation in transition, Georgia is confronted with the extraordinary legacy of its 2008 war with Russia and continued Russian provocations since then. The conflict resulted in Russian occupation of Georgia's Abkhazia and South Ossetia, the devastation of Georgia's armed forces, and the albatross of increased risk premiums for foreign direct investments. Furthermore, increasing acceptance of Russia's continued violation of the French-negotiated cease-fire agreement risks making Georgia and its aspirations an inconvenient truth to an international community unable to uphold the terms that brought peace.

Georgia has many supporters in the West, but it also has its skeptics. To forge a broader consensus on policy toward Georgia, it is important to understand the perspective of both. The skeptics acknowledge Georgia's economic

TASK FORCE ON GEORGIA

In 2010, the Atlantic Council created a high-level, bipartisan task force on Georgia, co-chaired by Senator Jeanne Shaheen (D-NH) and Senator Lindsey Graham (R-SC), to assess policy toward Georgia and to make recommendations for a bipartisan policy that advances Georgia's Euro-Atlantic integration. The task force seeks to reinvigorate Western policy toward Georgia and lay out a road map for Georgia's democratization and Euro-Atlantic integration.

The task force's objective is to forge a consensus on policy among Democrats and Republicans in Washington and across political and national spectrums in Europe. The task force also aims to propose recommendations that the Georgian government, political opposition, and civil society can embrace.

reforms, but worry that it is becoming increasingly undemocratic. They recognize that Georgia continues to face a Russian threat, but perceive Georgia—and President Saakashvili in particular—as having at times provoked that threat. Skeptics believe Tbilisi has mismanaged relations with Europe, by overemphasizing relations with the United States and by prompting concerns over human rights and relations with Russia that furthered Georgia's sense of isolation.

Although the road from failed post-Soviet state to an independent Georgia embedded in the Euro-Atlantic community would never have been easy or direct, many today are questioning whether this path is even feasible for Georgia. The Atlantic Council Task Force on Georgia believes that it is not only a preferable outcome for Georgia and the West, but that it is also viable. Furthermore, the more Georgians believe that the West shares a common view of the end goal, the more confidence they will have when it comes to making the tough internal decisions that are necessary, despite regional insecurity. The task force recognizes that there are important steps the United States, Europe, and, most importantly, Georgia must take to turn ambition into reality. This report sets out the reasons why Georgia matters in the first place, analyzes the current policy situation, and makes recommendations for policymakers in Washington, Brussels, other European capitals, and Tbilisi.

Why Does Georgia Matter?

As a small country of 4.6 million people, Georgia may seem insignificant when compared to other US foreign policy priorities. Getting Georgia right, however, will have strategic implications for the United States and the greater Black Sea region, where US influence is in question. First, Georgia is part of an important energy-transit corridor between Europe and Asia, and its stability has ramifications for European energy security and trans-Caspian energy connections. In addition, gas shipped across Georgia and the Black Sea in the future could be part of a global liquefied natural gas (LNG) market. Second, Georgia provides reliable access for military equipment and personnel involved in US and NATO operations in Afghanistan through the alternative Northern Distribution Network. Third, Georgia has made remarkable contributions to operations in Iraq and Afghanistan, acting as if it were already an ally.

Getting Georgia right also matters because it is a reform-minded partner with Euro-Atlantic ambitions. The United States and Europe cannot ignore those ambitions; in fact, their response should make clear their continuing

commitment to an open door policy in NATO and the EU for Europe's East. The Georgian people and government have made clear their preferences, and have taken significant steps toward meeting the relevant standards. The United States and Europe should support that desire and provide guidance and assistance in the development of Georgia's free market democracy. By doing so, they will demonstrate their willingness to support those who make tough decisions to adhere to Western values. They will also continue to make clear that there is no external veto over Alliance decisions, including about who joins, and when.

Establishing a road map for Georgia's democratization and Euro-Atlantic integration could drive a more active US and European engagement throughout the region. The United States and Europe would be well served by an engagement policy for Europe's East premised on sustained cooperation and integration that promotes institution-building, market access, and people-to-people contact, rather than exclusively transactional exchanges based on short-term interests, such as energy resources. Conversely, failing to engage actively with Georgia and to bolster its democratic process and security could set off negative repercussions in a region that is already witnessing democratic backsliding and growing instability.

Such Western engagement would also demonstrate an alternative to the oligarchic and autocratic governments of Georgia's neighbors. The success of Georgian reforms can have a positive influence on the political and economic development of other countries in the neighborhood, including Russia. It would help to counter any impressions that the United States and Europe would accept Russia's occupation of Abkhazia and South Ossetia. Ambivalence about a Western commitment to Georgia's territorial integrity and its Euro-Atlantic aspirations would set a dangerous precedent for Russia's pursuit of a sphere of privileged interests.

Why Now?

In a little over a decade, Georgia has transformed itself from a failed state to a transitional, Western-oriented democracy. Democracy, however, is not built overnight. Georgia has work to do to improve its democratic credentials. While Georgia has strengthened good governance and fought corruption, it has also backtracked on civil society and media freedoms, and faces economic hurdles. The next two years are critical, as the 2012 parliamentary elections and the 2013 presidential elections present a historic opportunity

to witness the first peaceful and democratic transfer of power in an independent Georgia.

Georgia's leaders have no room for bad decision-making. The United States and its European allies are tightening their belts on foreign assistance and focusing limited resources on transitions throughout the Middle East and North Africa. With Russian elections looming, Russian leaders may find it convenient to stir up nationalist rhetoric against Georgia, and Russian provocations may continue or even increase. In the face of significant challenges that could derail progress, Georgia's leaders must stay focused on the transformation of their country into a prosperous and democratic nation that is attractive for all citizens, including those in Abkhazia and South Ossetia. This strategy, combined with Western support, will be the best guarantor of Georgia's security and territorial sovereignty. If Georgia is to achieve its own vision for its future, active US and European engagement will be critical to help advance reforms, consolidate democracy, and offer a sense of security in Georgia during this critical period.

After the Rose Revolution, the United States pushed for Georgia's Euro-Atlantic integration, but this approach hit roadblocks as US and European policies diverged. Growing skepticism about enlargement in general, coupled with concerns over Georgia's 2007 crackdown and the 2008 war, dampened the mood in Europe regarding Georgia's European integration prospects, and about President Saakashvili's democratic credentials. Within NATO, an open door policy still exists on paper, but efforts to engage Georgia heightened tensions with Russia and split opinion within the Alliance. NATO's November 2010 Lisbon summit reaffirmed a commitment to Georgia's membership, but allies are still unable to reach consensus on offering Georgia a Membership Action Plan (MAP). Not insignificantly, Georgia is the only NATO aspirant that has gone to war with Russia. This poses serious concerns for many allies that must be addressed. Despite these challenges, a coordinated US and European policy can have a big impact on Georgia, where an overwhelming majority of the population envisions a future in the West. US and European policy toward Georgia requires a new sense of common purpose and clarity.



Findings and Recommendations

Georgian Policy

Political Reforms

Georgia's acceptance in the Euro-Atlantic community will be premised first and foremost on its democratic reforms. For over a decade, Georgia has taken steps to move closer to the West, bringing in Western investors, including through the construction of the landmark Baku-Tbilisi-Ceyhan pipeline, and strengthening integration with NATO and the EU. Since 2003, Georgia has undertaken dramatic reforms to accelerate that process. After the Rose Revolution, governance and transparency improved and citizens gained trust in the education, law enforcement, and tax systems. The economy was revitalized and foreign investment grew, improving the quality of life of Georgian citizens. Yet, the Rose Revolution's hallmark achievement—the emergence of a strong central government—also presents serious challenges to Georgia's long-term success as a Western democracy. While the speed of reform in Georgia has been impressive, the long and arduous tasks of building strong and independent institutions, restoring a healthy civil society, and ensuring a competitive electoral environment will be critical in cementing the legacy of the Rose Revolution and Georgia's transformation into a mature democracy.

After the Rose Revolution, Georgia's government professionalized many public institutions, installing young, Western-educated ministers and cultivating a new

generation of public servants. At the same time, steps were taken to centralize presidential powers. According to a 2009 poll, when asked who holds the “real power” in Georgia, 86 percent said the president, and 30 percent said the Ministry of Internal Affairs/police.³ Important institutions lack sufficient independence to ensure a strong system of checks and balances. The judiciary, despite the recent introduction of institutional safeguards and an increase in public trust, continues to lack sufficient independence. Meanwhile, given that it is dominated by the president's party, parliament is not effectively playing the role of a balancing institution.

Trying to reverse this concentration of powers in the presidency, the Georgian government passed a set of constitutional amendments in 2010 that shifts powers to the prime minister and parliament. Although the Council of Europe's Venice Commission welcomed some of the constitutional reforms, it found that the changes failed to restore important budgetary powers that are critical to the parliament's clout.⁴ The reforms were also passed without political buy-in from the opposition, some of whom failed to respond to the government's engagement and others who felt that their concerns were not addressed. With United National Movement's (UNM) overwhelming parliamentary majority, opposition leaders viewed the reforms as a potential avenue for President Saakashvili to become prime minister. The government's decision to move parliament to Kutaisi as a way to decentralize government has also raised concerns. The government contends that it will facilitate

3 National Democratic Institute, “Public Attitudes towards Elections in Georgia,” November 2009 (www.ndi.org/node/16440).

4 European Commission for Democracy through Law (Venice Commission), “Final Opinion on the Draft Constitutional Law on Amendments and Changes to the Constitution of Georgia, Opinion No. 543/2009,” Council of Europe, October 15, 2010 ([http://www.venice.coe.int/docs/2010/CDL-AD\(2010\)028-e.pdf](http://www.venice.coe.int/docs/2010/CDL-AD(2010)028-e.pdf)). In a resolution passed on November 16, the NATO Parliamentary Assembly welcomed constitutional reform in Georgia, but expressed regret that consultancy of the Venice Commission was not fully used by Tbilisi in the process (NATO Parliamentary Assembly, “Resolution 382 on the Situation in Georgia,” November 16, 2010. www.nato-pa.int/default.asp?SHORTCUT=2245).

intergovernmental communication through the use of e-government capabilities and a Tbilisi-Kutaisi bullet train. Yet, Georgia's mountainous terrain challenges the feasibility of a train to offset logistical constraints, and limited Internet service casts doubt on the workability of e-government in the near term.⁵

The government has also moved to reform the judiciary, including by introducing jury trials. While judicial efficiency has improved in civil cases, judges are still subjected to executive pressure for criminal cases.⁶ Public trust in the judiciary and its independence remains low.⁷ The fact that very few criminal trials end in acquittals demonstrates the severe reliance of judges on the prosecution.⁸ Plea-bargaining has expedited criminal cases, but watchdog groups have raised concerns about the fairness of the practice.⁹ Georgia's recent introduction of jury trials is likely to bolster judicial independence and public confidence in the judicial system over the long run.

Meanwhile, Georgia's civil society rankings have slipped since the Rose Revolution, and public trust in the media and political parties is low.¹⁰ Soon after the Rose Revolution, the government took controversial steps to centralize power. The breaking point was the November 2007 street protests and subsequent crackdown on the Imedi TV station. The violent confrontation between the government and protesters tarnished the government's reputation and set off a trend toward greater restrictions on media and opposition activity. Significant political protests occurred in 2009 in a more peaceful atmosphere, despite some incidents. In 2011, human rights groups criticized police behavior during small-scale, albeit violent, rallies by the most radical opposition groups. The government views the radical opposition's efforts to stoke civil unrest and evidence of Russian involvement in their activities as a security

problem, but opposition leaders claim that the government has curtailed civil liberties in order to limit dissent. Instances of hostility between government officials and some NGO representatives hurt Georgia's image. Activists argue that engagement with the government is limited and that decision-making is insufficiently transparent, citing lack of access to government information.

Limited freedom of information is also attributed to an undeveloped media environment. A 2009 report found Georgia's media to be less free than it was before the Rose Revolution.¹¹ TV is by far the most dominant source of news in Georgia, and two pro-government stations capture two-thirds of the viewership. Lack of transparency over media ownership fuels suspicions of backroom deals between the government and investors to maintain pro-government editorial lines. Meanwhile, contracting, regulation, and funding of the Georgian Public Broadcaster limit its independence. Some stations claim to be under government pressure to shut down, citing instances of coverage limitations, arbitrary fines, and harassment.¹² They also struggle to demonstrate commercial viability in a small market. Most independent TV and print media attract little advertising revenue, and are almost entirely reliant on foreign assistance. Foreign aid also funds independent news websites, but Internet penetration in Georgia remains low.¹³

Georgia's political scene offers few alternatives to the Georgian electorate. Many opposition leaders focus on personal attacks against the ruling party and refuse to participate in the political process as long as President Saakashvili is in power. The electoral environment remains uncompetitive, and media access for the opposition is limited. Opposition leaders accuse the government of discouraging businesses from funding opposition media

5 A poll found that only 8 percent of Georgians thought the measure would bring the Parliament closer to all of Georgia, and 30 percent viewed it as a waste of money (National Democratic Institute, "Public Attitudes towards Elections in Georgia," November 2009. www.ndi.org/node/16440).

6 Open Society Georgia Foundation, "European Neighborhood Policy: Implementation of the Objectives of the EU-Georgia Action Plan," December 2010 (www.europarl.europa.eu/meetdocs/2009_2014/documents/dsca/dv/dsca20100323_08/dsca20100323_08en.pdf).

7 Six percent of Georgians believe the judiciary is independent (United Nations Development Programme, "Judiciary System in Georgia: Basic Knowledge and Perceptions," 2009. www.undp.org/files/24_861_740597_judiciary-survey-eng.pdf). An EBRD report shows 38 percent of respondents in Georgia trust the courts (European Bank for Reconstruction and Development, "Georgia: Life in Transitions Survey," 2010).

8 US Department of State, "2010 Human Rights Report: Georgia," April 8, 2011, p. 21 (www.state.gov/g/drl/rls/hrrpt/2010/eur/154425.htm).

9 Transparency International, "Plea Bargaining in Georgia: Negotiated Justice," December 15, 2010 (http://transparency.ge/sites/default/files/post_attachments/Plea%20Bargaining%20in%20Georgia%20-%20Negotiated%20Justice.pdf).

10 Georgia's FH ranking since 2004 has continued on a downward trend, from 3.5 in 2004 to 3.75 in 2010 (Freedom House, "Nations in Transit 2011," www.freedomhouse.org/template.cfm?page=678).

11 Transparency International, "Television in Georgia: Ownership, Control and Regulation," November 20, 2009, p. 1 (<http://transparency.ge/sites/default/files/Media%20Ownership%20November%202009%20Eng.pdf>).

12 Interview with *Batumelebi* and Channel 25.

13 Georgia had 30.5 Internet users per 100 people in 2009 (The World Bank, "Internet Users [per 100 people]," 2009. <http://data.worldbank.org/indicator/IT.NET.USER.P2>).

or campaigns, and of using administrative resources in advance of elections. Despite these limitations, moderate parties—including the Christian Democratic Movement and the Free Democrats—engage constructively in public debates regarding reforms, and have started building distinct political platforms and improving their outreach to local constituencies. Opinion polls show that support from Georgian citizens grows as parties engage more in the political process, demonstrating a desire from the electorate for parties to express their views through democratic means.

Georgia's first wave of reforms effectively addressed corruption and governance. In the second wave, Georgia must find the right balance between modernization and democratization, balancing the pace of reform with a greater focus on building institutions and bolstering plurality. Georgia's political stability will ultimately rest on the government's ability to allow for public dissent and participation in a more-inclusive political process.

Recommendations:

- **Empower the parliament.** To strengthen parliament, Georgia's recent constitutional changes must be coupled with efforts to empower legislators. Plans to move parliament to Kutaisi will make it more difficult for parliamentarians to exercise oversight over Tbilisi-based ministries and the executive. To maximize its ability to exercise new authorities, Georgia's parliament should address how it will enhance institutional development and outreach, policy debate, and oversight so that foreign donors have a better sense of how they can best support those efforts.
- **Strengthen judicial independence.** While the government merits recognition for its efforts to professionalize judges, lifetime appointment after a three-year review period begs the question: Is independence achievable during the review period, and is this a necessary caveat? The government should promote judicial independence by coupling jury trials, with a significant training program that would include training on jury-pool selection and measures to increase citizen confidence in jury trials.
- **Participate in the democratic process.** Georgian NGOs should lobby the government to live up to existing freedom-of-information laws in order to contribute to the policymaking process and to monitor government actions more effectively. Georgian opposition and civic groups that boycott or obstruct negotiations with the government should rethink their policy, which lacks popular support, and use existing channels for dialogue to engage in the political process through democratic means. The government should continue to build bridges with civil society and welcome their input in government initiatives, as they have done through the NGO liaison office in the Georgian parliament.
- **Facilitate free media.** A diverse media landscape is in Georgia's best interest in order to attract Western-oriented investors that could promote a more robust and professional media industry. The Georgian parliament recently passed a media transparency law, which is a positive step forward. The Georgian government should close a potential loophole in the new law that would permit owners to lease stations to third parties, thereby avoiding the new law's stringent financial-reporting requirements and its restriction on foreign ownership. The government should also provide funds for infrastructure investment to regional television stations, which provide key coverage of national events from a local perspective. These funds would offset the comparative advantage of national stations, which have sufficient paid advertising to invest in infrastructure, and help local stations to prepare for Georgia's move from an analog to a digital platform in 2015.
- **Support a competitive electoral environment.** Georgia should allow for ample public debate and seek international advice on electoral reform. Under the new election-code reform agreement, majoritarian districts should be apportioned in a more equitable manner to reflect the principle of one person, one vote. The government's agreement with leading opposition parties on government financing of political parties is an important step forward. The government should build on this agreement and also deter any interference in nongovernmental opposition campaign financing.
- **Decentralize politics by directly electing mayors.** Following the election of the Tbilisi mayor, Georgia's government should deliver on earlier promises to introduce direct mayoral elections nationwide. This measure enjoys popular support, and would truly decentralize politics by empowering local politicians and bolstering grassroots citizen participation.

Security and Regional Relations

Tensions between Russia and Georgia have existed since both became independent states with the collapse of the Soviet Union. After the Rose Revolution, Russia sought to thwart Georgia's Euro-Atlantic integration. The conflict came to a head in the 2008 war, in which Russia invaded and occupied Abkhazia and South Ossetia. Today, Georgia's security remains under threat from Russian maneuvers to destabilize Georgia politically and to normalize its creeping annexation of the occupied territories.

Three years after the war, Russia continues to violate the EU-brokered cease-fire and remains an occupying force in Abkhazia and South Ossetia. Approximately 130,000 Georgians fled the territories to other parts of Georgia after the war, joining roughly 280,000 that were displaced during the conflicts of the 1990s.¹⁴ After fifteen rounds of the Geneva talks, incremental progress includes Russia's withdrawal from the village of Perevi and increased technical cooperation to address humanitarian concerns. The joint incident prevention and response mechanism provides a level of stability, but the recent series of bombings and attempted bombings inside Georgian-controlled territory have again raised tensions. These serious incidents, as well as other flare-ups along the occupation lines, illustrate a precarious security situation that could escalate if not addressed by a more-comprehensive international security presence, or, at a minimum, international observers. In spite of Western calls for greater transparency, Russia has vetoed the continuation of the Organization for Security and Cooperation in Europe (OSCE) monitoring mission in South Ossetia and the United Nations Observer Mission in Georgia in Abkhazia. The EU Monitoring Mission (EUMM) observes activity along the Georgian side of the occupation lines. Although its mandate includes Abkhazia and South Ossetia, Russia blocks its access to the occupied territories, in violation of the terms of the cease-fire agreement.

In November 2010, Georgia's president made a unilateral nonuse-of-force pledge in front of the European Parliament in Strasbourg, but Russia declined to follow suit, claiming that it is not a party to the conflict.¹⁵ Instead, Russia wants the international community to "accept the new reality"—that is, Russia's illegal recognition of Abkhazia and South Ossetia as independent states. Nevertheless, it is clear

from its actions on the ground that Russia is pursuing a policy of occupation. There are at least 1,500 Russian troops deployed to South Ossetia and Abkhazia. Some analysts contend that Russia has deployed as many as 3,700 regular and 900 border troops into South Ossetia in the past two years. Russia has also deployed advanced air and missile defense assets in South Ossetia, including Smerch (Tornado) multiple-launch rocket systems and Tochka-U (SS-21 Scarab B) short-range tactical ballistic missiles. Russia has also increased the mobility and speed of its forces in South Ossetia, replacing T-72 battle tanks with T-90s and BMP-1 armored personnel carriers with BMP-2s. In Abkhazia, Russia has concluded an agreement with Sukhumi to base 1,700 troops for forty-nine years and deployed the S-300 air defense missile system.¹⁶

In response, the Georgian government launched a "Strategy on the Occupied Territories" that calls for the international community to formally acknowledge and condemn Russia's occupation of Abkhazia and South Ossetia. The strategy seeks support from the international community to oblige Russia to accept legal responsibility for the human rights of people in the occupied territories and the return of internally displaced persons and refugees. The US government has condemned Russia's occupation on numerous occasions, and the US Senate has adopted a resolution formalizing its view of the situation as an occupation. Some of Georgia's European allies have made public statements or passed resolutions defending Georgia's territorial integrity, but have stopped short of referring to Russia's presence as an occupation. Georgia has also expanded diplomatic relations with countries in Latin America and elsewhere to ensure international support for nonrecognition, and to counter Russia's efforts to secure additional recognitions of Abkhazia and South Ossetia as independent states.

As Georgia articulates its strategy, the question of international humanitarian access to the occupied territories will be instrumental. If a long-term occupation policy requires Russian provision of humanitarian aid, it should be coupled with an obligation by Russia and Georgia to allow international donor access to the territories. The Georgian State Ministry for Reintegration has launched initiatives to engage with and offer basic services to residents of Abkhazia and South Ossetia, independently from authorities

14 Transparency International, "Internally Displaced Persons in Georgia: Issues of Concern," April 3, 2009, p. 1 ([http://transparency.ge/sites/default/files/IDPs%20in%20Georgia%20-%20Issues%20of%20Concern%20\(April%202009\)%20ENG_0.pdf](http://transparency.ge/sites/default/files/IDPs%20in%20Georgia%20-%20Issues%20of%20Concern%20(April%202009)%20ENG_0.pdf)). Internal Displacement Monitoring Center, "Georgia Overview," 2010 (www.internal-displacement.org/publications/global-overview-2010-europe-georgia.pdf).

15 "Moscow Responds to Saakashvili's Non-Use of Force Pledge," *Civil Georgia*, November 24, 2010 (www.civil.ge/eng/article.php?id=22891).

16 "Russian Troop Numbers to Reach 3,000 in S. Ossetia, Abkhazia," *RIA Novosti*, May 8, 2009 (en.rian.ru/russia/20090805/155733463.html).

in Sukhumi and Tskhinvali. Given the high levels of distrust among the populations in Abkhazia and South Ossetia toward Georgian officials, however, they are more inclined to accept Russian assistance and outreach over Georgian-led efforts.

Georgia and its international partners have yet to agree upon a policy that would allow the EU and other international actors to provide humanitarian assistance in the territories and avoid further isolation and assimilation of the population by Russia. Georgian authorities are concerned about the implications of the EU's stated policy of "engagement without recognition." As a result, the vast amounts of donor money that poured into Georgia after the war did not make its way into the territories due to concerns of legitimizing the *de facto* authorities.¹⁷ As Russia continues to build up a military and economic presence in the occupied territories, Georgia and the international community must articulate jointly agreed upon measures to facilitate informal engagement with residents in Abkhazia and South Ossetia. US and European officials should also use the 2014 Sochi Olympics as an opportunity to raise international support for Georgia's territorial integrity and make a diplomatic push to demand international access to Abkhazia.

Georgia's grievances with Russia over the occupied territories have also affected Georgian policy on a number of other regional and international issues. As part of Russia's negotiations for membership in the WTO, Georgia has insisted that Russia accept greater customs transparency along Georgia and Russia's internationally recognized border as a precondition for accepting Russia's WTO entry. Georgia has agreed to a Swiss-mediated proposal for an international regime that would monitor trade on the border crossings between Russia and the occupied territories. So far, the United States has refrained from weighing in publicly on Georgia and Russia's bilateral WTO negotiations, but if Russia fails to agree to the current proposal, Georgia's partners must step in to back up its demands for a workable solution. Otherwise, Russia may attempt to portray Georgia as a spoiler in order to divert attention from other serious shortcomings in its candidacy. If Russia rejects the latest proposal for an international monitoring regime, the United States and Europe should insist on Russia's compliance with customs standards before allowing it to join the WTO, and should make clear that Russia's refusal to accept a mediated solution was the reason for the failed talks.

In an effort to garner support from its neighbors, Georgia has strengthened ties and encouraged tourism and investment from Ukraine, Azerbaijan, Armenia, and Turkey. Georgia's effort to move toward the West is strengthened, not diverted, by policies that promote regional development and cooperation through greater commercial and people-to-people ties. In addition, Georgia has reached out to Russia's North Caucasus with an engagement policy that includes opening up visa-free travel and airing Russian-language broadcasts in the North Caucasus. Georgia contends that the policy facilitates interaction and commerce among the peoples of Caucasus, while Russia accuses Georgia of fomenting instability.

Over the past year, Georgia has made a few regional diplomatic moves that raised concerns among its Western partners. In the summer of 2010, President Saakashvili was perceived as offering Belarusian dictator Alyaksandr Lukashenka support when he was under significant pressure from Moscow. Even though Georgia condemned the post-electoral crackdown in Minsk and reportedly privately tried to persuade Lukashenka to release political detainees, Georgia must be careful not to demonstrate its gratitude for Lukashenka's refusal to bend to Russian pressure to recognize Abkhazia and South Ossetia as independent states by aligning Georgia with a leader shunned by the West for his authoritarianism and violent post-election crackdown. Georgia also has stepped up diplomatic outreach to Iran, offering visa-free travel to Iranian citizens and establishing direct flights with Tehran, at a time when the international community is tightening sanctions on Iran for its illicit nuclear program. Nonetheless, in the past decade, Tbilisi has collaborated with Western services to tackle nuclear proliferation, including the smuggling of highly enriched uranium in the region. It is important that this cooperation remains intact and that this outreach continues to be done with full transparency to Washington and Brussels.

To be sure, Georgia is in tough terrain surrounded by undemocratic neighbors. These recent overtures might be justifiable efforts to expand Georgia's regional ties and to establish practical engagement with neighbors. However, considering the behavior of the leadership in Tehran and the security concerns posed by the North Caucasus, Georgia should articulate a compelling rationale for its efforts and carefully coordinate its actions with allies in Washington and European capitals to demonstrate Tbilisi's reliability as an

17 "Georgians in Abkhazia: The Plight of the Mingrelians," *The Economist*, May 24, 2011 (www.economist.com/blogs/easternapproaches/2011/05/georgians_abkhazia)

ally in the neighborhood. Overtures to President Lukashenka have no justification given the current political situation in Belarus.

Recommendations:

- **Convince the skeptics.** Georgia's leadership should undertake quiet efforts to mend relations with policymakers in key European capitals and elsewhere who are skeptical about Georgia's leaders, its reforms, and its actions during the war. It will take those who most believe in Georgia to push its Euro-Atlantic agenda forward and ensure its territorial sovereignty. In order for progress to be made, a critical mass must be convinced that Georgia is moving in the right direction. Given its limited resources, instead of launching new diplomatic missions, Georgia should mobilize its diaspora and international NGOs to raise awareness and counter misperceptions about Russian actions against Georgia.
- **Promote regional integration and manage sensitive relations transparently.** Georgia should promote regional cooperation and development in the South Caucasus through greater commercial and people-to-people ties. By improving neighborly relations, including supporting diplomatic efforts in conflict zones such as Nagorno-Karabakh, Georgia can accrue much-needed political capital in the region and bolster its security. Understandably, Georgia is in a tough neighborhood. Yet, Georgia should be transparent with US and European partners when managing relations with difficult neighbors, such as Belarus, Iran, and the North Caucasus, and should articulate how it will ensure that visa-free travel does not increase security threats along its borders.
- **Rally support around Sochi for Georgia's territorial integrity.** Georgia should use the 2014 Sochi Olympics to rally support for greater stability and peace in Georgia, including respect for its territorial integrity. Georgia should work with US and European allies to use the Olympics as an opportunity to press Russia to allow international access into Abkhazia. NGOs should also raise awareness to avert any potential social and environmental upheaval in Abkhazia from Russia's Olympics construction projects.
- **Facilitate humanitarian aid and build bridges.** Georgia should agree with international donors on arrangements to provide humanitarian aid to the people of the occupied territories. Current government initiatives are laudable,

but given the level of distrust among the occupied populations toward Georgian authorities, a bottom-up approach would reap greater results. Georgia should continue to allow international donors and NGOs to engage these communities through business, cultural, educational, and other informal exchanges. IFI projects should be designed to promote freedom of movement, facilitate agricultural trade, and spur economic development along the occupation lines.

- **Coordinate WTO policy with Western partners.** Georgia should proceed in close coordination with US and European partners on Russia's WTO negotiations. Georgia should work closely with the United States and Europe to secure Russia's agreement to the Swiss-mediated proposal for an international crossing regime at the Roki Tunnel and Psou River. If Russia fails to meet requirements to ensure customs transparency along Georgia and Russia's internationally recognized borders, Georgia should work with its partners to ensure that the reasons for the failed talks are properly communicated to the broader public so that Georgia is not blamed.
- **Don't let insecurity sidetrack reforms.** Georgia's path to the West and greater security is through its reform agenda. The recent spate of attacks and attempted attacks in which Russian security officials have been implicated has increased security concerns in Tbilisi, and should be investigated. However, the Georgian government must avoid falling into the trap of allowing a sense of insecurity to derail its commitment to reforms that will accelerate a democratic, prosperous, and European Georgia.

Economic Reforms

One of the Rose Revolution's main achievements has been Georgia's impressive economic growth. As the government seeks to build a vibrant and resilient Western-oriented economy, officials must balance pro-growth priorities with efforts to build institutions and generate broad-based prosperity. Georgia's future is in the EU, and as such, its economic policies should be in line with EU standards.

The Georgian government increased its fiscal capacity by tackling rampant corruption, which has plagued the country since independence. The fight was successful because it started from the top and included drastic measures, such as the wholesale firing of the traffic police. A 2010 poll found that 77 percent of Georgians believe the government is effective in fighting corruption—the highest rate in all

eighty-six countries surveyed around the world.¹⁸ Authorities also acted to improve tax administration, which increased revenue collection, streamlined taxes, and lowered rates to attract foreign investment. As a result, the government enhanced delivery of services to citizens, pensions were increased, and education and other public services improved. Increased government revenue, supplemented by heavy foreign aid, went toward public works to modernize Georgia's infrastructure and attract investment and tourism. A liberal monetary policy and aggressive privatization spurred Georgia's economic growth. Nominal gross domestic product grew from \$5 billion to almost \$12 billion from 2004-2010.¹⁹ Georgia went from being one of the most dysfunctional to one of the most business-friendly economies in the former Soviet Union. The World Bank's ease-of-doing-business report consistently ranks it as a top reformer.²⁰

Georgia's government has also continued to strengthen Georgia's critical role as an energy-transit country in the Caspian and Black Sea region. The government has actively encouraged investments in hydropower generation by providing purchasing agreements for commercially attractive tariffs per kWh. The construction of new high-voltage power lines to Turkey should increase Georgia's hydropower exports to Turkey and, through electricity swaps, to EU member states. This effort will improve European energy security and provide clean power to help the EU to meet its 20/20/20 energy priorities.²¹ With construction of additional power lines under way, Georgia may also become a large-scale electricity-transit country between Russia and Turkey and between Azerbaijan and Turkey. If the EU moves forward with plans to build a gas pipeline to Azerbaijan, Georgia can also play an instrumental role as a transit country.

Despite these positive developments, Georgia's current economic prospects raise questions about the sustainability of previous growth. Georgia weathered the shocks of the

2008 war and the global downturn due to its previous reforms and foreign assistance, but the government also assumed a large debt burden. The government could become cash-strapped if new investments do not replace these revenue streams. Meanwhile, current investments—primarily in non-labor-intensive industries—are insufficient to alleviate Georgia's high unemployment rate. Job creation is the most salient issue on the minds of Georgians, particularly the rural poor and internally displaced communities. In a 2010 poll, 65 percent of Georgians said jobs were the most important national issue, and 83 percent identified jobs as the most important local issue.²² Meanwhile, Georgia has neglected its agricultural sector and remains a major food importer, exposing it to inflation from spikes in global food prices. Some economists attribute Georgia's high inflation to government spending on buildings and infrastructure.²³

In recent years, the government has been more successful in attracting investors from Turkey, the region, the Gulf, and offshore tax havens, less so with US and European investors, who can bring in greater know-how and Western business practices. These trends may be changing in a constructive direction. However, the government recently experienced difficulties with Western investors who reported cases of tax abuse. Foreign and domestic companies were reportedly levied unexpected tax hikes, accused of noncompliance, and had employees held and jailed in exchange for plea bargains to settle the debts. Some observers saw these instances as efforts to make up budget shortfalls (although amounts collected were not consequential to budget gaps), while others described them as politically motivated acts to choke resources from opposition parties.²⁴ Irrespective of the merits of each case, such allegations damage Georgia's business-friendly reputation. The recent appointment of a tax ombudsman is a welcome first step by the government to address these issues and other concerns of the business community.

18 At 78 percent, Georgia has by far the highest rate of people who claim that corruption has "decreased a lot" or "decreased" in the past three years. By comparison, 7 percent of Ukrainians thought corruption had decreased, and 16 percent thought their government was effective in fighting corruption (Transparency International Georgia, "Global Corruption Barometer 2010," December 9, 2010. <http://transparency.ge/en/post/gcb2010>).

19 Georgia's GDP was \$5.125 billion in 2004 and \$11.667 billion in 2010. The World Bank, "GDP [Current US\$]," 2004-2010 (<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>).

20 International Finance Corporation and The World Bank, "Economy Rankings: Ease of Doing Business," 2011 (www.doingbusiness.org/rankings).

21 The EU's 20/20/20 targets are: a reduction in EU greenhouse gas emissions of at least 20% below 1990 levels; 20% of EU energy consumption to come from renewable resources; a 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency.

22 National Democratic Institute, "Public Attitudes towards Elections in Georgia," July 2010, pp. 3-7 (http://www.ndi.org/files/Public_Attitudes_Georgia_July_2010.pdf).

23 Vladimer Papava, "Foreign and Domestic Factors behind Georgia's High Inflation Rate," *Georgia Today*, Issue 548, February 11-17, 2011 (http://www.georgiatoday.ge/article_details.php?id=8700).

24 Transparency International Georgia, "The Georgian Taxation System: An Overview," May 2010 (<http://transparency.ge/en/post/report/georgian-taxation-system-overview>).

Georgia must also address concerns about its commitment to European economic norms, and ensure that any reforms to limit government interference in the economy are balanced with the need to implement regulations as part of the process of harmonization with the EU *acquis communautaire*. The Georgian government should also address concerns about Georgia's labor code and labor practices, and their compatibility with some international labor organization (ILO) standards.

Recommendations:

■ **Reinforce role as key energy-transit country.**

Georgia's government should keep its tariff-related commitments for investments in hydropower generation to continue to strengthen Georgia's role as an electricity transit country and bolster its ongoing contributions to the development of an energy-transit infrastructure for Caspian resources. If the EU moves forward with negotiations to extend a gas pipeline through Georgia to Azerbaijan, Georgia should use the opportunity to strengthen its cooperation with the EU and reinforce its position as a key transit country that shares Europe's strategic interest in diversifying its energy supply and thus strengthening regional energy security.

- **Focus on job creation.** The government should attract investment and use IFI loans to spur growth in industries that generate low- and medium-skilled employment opportunities in order to reduce persistently high unemployment rates. Recent efforts to promote

tourism are helpful, but the government and private sector should also target other industries that are not as vulnerable to external factors. Georgia should work with donors to build up human resources and improve vocational training.

- **Build an agricultural strategy.** Given the number of Georgians employed or potentially employed in agriculture, Georgia should work with foreign investors and donors to modernize the sector, maximize output, and reduce particularly high rural unemployment. Georgia's upcoming Agriculture Development Strategy will be an important road map to guide future aid efforts in this sector.
- **Improve efforts to eliminate tax abuse.** Complaints from domestic and foreign businesses of tax abuse and politically motivated harassment tarnish Georgia's business-friendly image. Georgia should empower the tax ombudsman and move fast to resolve instances of tax abuse against investors. Georgia should also strengthen its tax compliance and auditing rules.
- **Improve regulatory environment and promote trade with Europe.** Georgia's leaders should address union concerns to ensure that Georgia's labor code and practices are compatible with ILO standards. Georgia and the United States should ensure that bilateral trade negotiations remain in sync with Georgia's negotiations with the EU on trade.

US Policy

Political Support

Georgia's success is an important litmus test for US engagement in the region. Georgia's leadership has made difficult decisions to pursue a pro-West reform agenda in a neighborhood dominated by Russian influence. Sustained US support will be critical in ensuring that Georgia continues to move toward Euro-Atlantic integration, and to demonstrate that the United States is a credible partner capable of delivering benefits to its allies in the region. The US-Georgia Charter on Strategic Partnership (first signed in January 2009 and reaffirmed in October 2010) provides a framework for an enhanced bilateral relationship, which should propel Georgia's democratic transformation, protect its territorial integrity, and restore its Euro-Atlantic integration prospects (see Annex A). In formulating a coherent policy toward Georgia that bolsters bilateral ties and advances the Charter's principles, the United States should support Georgia's political, security, and economic future. US policy should put equal importance on the deepening of Georgia's democracy, the promotion of Georgia's security, and the advancement of its economic development—areas that are inherently related and mutually reinforcing.

In the aftermath of the 2008 war, US assistance ensured that Georgia remained on a viable path of reform in spite of a deep sense of insecurity. The US government's postwar \$1 billion aid package demonstrated a strong US commitment to shoring up Georgia and its economy during this difficult period. Recognizing that democracy and economic growth are Georgia's best line of defense against Russian manipulation, the United States has continued to support Georgia's transformation into a country that is attractive to all of its citizens, including those in the occupied territories.

The Charter on Strategic Partnership includes democracy as a pillar of the US-Georgia relationship, stating that "democracy is the chief basis for political legitimacy, and therefore, stability" in Georgia.²⁵ In response to previous cuts in democracy assistance to Georgia, the US government has significantly increased support for democracy programming as part of current US assistance to Georgia. Over \$81 million is currently available for democracy assistance, about six times more than what

was provided the year before the war.²⁶ The 2011 budget indicates sustained increases in funding for democracy and economic growth (see Annex B).²⁷ The upcoming two years in advance of presidential elections in Georgia will be a crucial time for US assistance to address deficits in Georgia's electoral environment and civil society.

While US assistance has bolstered Georgia's ongoing domestic reforms, Georgia's insecurity still threatens to derail its internal progress. The 2008 war was the first time Russia used military means against a post-Soviet state. The war provided few political gains for Russia, and did not achieve its goal of toppling Georgia's president. Comparatively, Russia's attempts to influence domestic politics and exert political and economic leverage over other neighbors have been more successful ventures. Consequently, Russia is more likely to continue to foment instability inside Georgia, though efforts to aggravate or provoke Georgia by military means cannot be ruled out. At the same time, US and European governments have failed to challenge Russia's military buildup and creeping annexation of the occupied territories, leaving the country deeply vulnerable and Russia confident that its military actions have succeeded. This dynamic has to be reversed if the West is to avoid establishing a dangerous precedent for Russian behavior toward its neighbors in the future.

As a result, US assistance for Georgia's domestic reform agenda must be coupled with proactive diplomatic efforts to defend Georgia's sovereignty and territorial integrity. The Charter on Strategic Partnership states that the United States and Georgia share a "vital interest" in a "strong, independent, sovereign, unified, and democratic Georgia." The Charter also states a commitment to "foster continued contacts between the residents of Abkhazia and Tskhinvali region / South Ossetia and the rest of Georgia."²⁸ These principles were reaffirmed in a resolution passed by the US Congress calling on the United States to support Georgia's territorial integrity and to challenge Russia's violation of the 2008 cease-fire agreement. US officials should continue to reiterate these commitments in public statements. US rhetoric carries weight in the region and can serve as a credible deterrent. Conversely, a perceived lack of US resolve could leave the door open for Russian manipulation against Georgia. As a result, strong language should be coupled with credible actions.

²⁵ US Department of State, "United States-Georgia Charter on Strategic Partnership," January 9, 2009. See full text in Annex A.

²⁶ Daniel Rosenblum, "Foreign Operations Assistance for Georgia," September 2010, p. 8.

²⁷ Daniel Rosenblum, "Foreign Operations Assistance for Georgia," September 2010, p. 5.

²⁸ US Department of State, "United States-Georgia Charter on Strategic Partnership," January 9, 2009. See full text in Annex A.

US support and foreign assistance should be backed up by a long-term US policy that sustains Western resolve against Russian efforts to erode Georgia's territorial integrity over time. US officials, and their European counterparts, must work together to challenge Russia's violation of the 2008 cease-fire terms and to counter its efforts to absorb the occupied territories and undermine Georgia's sovereignty and stability. US support for Georgia's Strategy on the Occupied Territories should include efforts to contribute to greater transparency along the occupation lines by establishing an expanded international humanitarian and security presence in Abkhazia and South Ossetia. Though progress at the Geneva negotiations has been limited, the United States should continue to work with European allies to keep all parties at the table, working to obtain incremental progress to address the humanitarian and security situation in the occupied territories. The US administration must also calibrate policy to address important Georgian concerns in the international arena, notably on Russia's possible WTO accession.

Successful US policy toward Georgia cannot be a function of US policy toward Russia. US officials should reject any attempts by Russian officials to link areas of US-Russia cooperation to US policy on Georgia. The US government must remain resolute in challenging Russia on its occupation and advancing Georgia Euro-Atlantic integration, regardless of its cooperation with Russia on other issues. The United States should make clear that any aggression against Georgia will undermine any efforts to deepen and broaden the US working relationship with Russia beyond narrowly defined interests.

Recommendations:

- **Put democracy assistance at the core of foreign aid.** The United States should prioritize democracy assistance in its aid to Georgia over the long term. The parliament and civil society can play a role in monitoring and assessing the aid. Concrete and diverse measures should include the following listed below.
 - *Support civil society:* A new multimillion-dollar USAID program to support civil society development recognizes the importance of this sector in advance of elections. Georgian civil society could contribute to the policymaking process and monitor government actions more effectively if they had freer access to information. The United States should help the government ramp up IT capabilities so that it might respond to freedom-of-information requests

in a timely fashion, and so that more information can be made available to citizens. US assistance should also bolster interaction between parliamentarians and citizens.

- *Make clear the importance of electoral reform:* US officials and NGOs involved in the electoral reform process should encourage the government to apportion majoritarian districts in a more equitable manner to reflect the principle of one person, one vote. During the election period, US officials should weigh in against any signs of abuse of administrative funds or biased limitations on opposition activity or campaign financing.
 - *Bolster free media:* The United States should urge the Georgian government to close the loophole in the new media ownership law that would permit owners to lease stations to third parties, and to give funds to local stations for infrastructure investments—particularly in advance of Georgia's move to a digital platform in 2015. US assistance should continue to provide support and technical expertise to improve the professionalization of investigative reporting.
- **Protect Georgia's territorial integrity and deter Russia's creeping annexation of Abkhazia and South Ossetia.** In order to bolster Georgia's ability to pursue democratic reforms, the United States must also address Georgia's growing sense of insecurity as Russia builds up its military and economic presence in Abkhazia and South Ossetia, closes off the occupied territories from the international community, and foments instability. The following measures should be pursued to ensure Georgia's security and territorial integrity over the long term:
- *Use rhetoric as a deterrent:* US officials should issue strong calls against Russian meddling in Georgian internal politics, particularly in advance of elections in Georgia and Russia. Senior US officials should take every opportunity to meet with Georgian officials, and civil society representatives, in international forums. Such gestures signal US support for Georgia and its people, and their right to choose their own political future.
 - *Hold Russia accountable for its occupation:* Given that the West must be prepared to sustain its policy long after policymakers' memories of the 2008 war, US officials should enshrine US policy

for the long term via an executive order, policy statement, and/or report to Congress which formally labels Russia's presence in Abkhazia and South Ossetia an occupation and memorializes US policy denying Abkhazia and South Ossetia recognition as independent states. Such an approach should also hold Russia to account for its legal obligations as an occupying force. US and European officials should consistently bring up Russia's noncompliance with the cease-fire agreement in meetings with Russian officials, including the need to withdraw Russian forces, and demand that Russia provide the EUMM access to the territories and readmit the OSCE into South Ossetia. The United States should work with Europe to push for the internationalization of ethnic Georgian-populated areas of Gali and Kodori in Abkhazia and the Akhagori region of South Ossetia. The United States should work with its European allies to persuade Russia to issue a nonuse-of-force pledge in Georgia and the occupied territories. Washington should also support Georgia's diplomatic efforts to maintain international support for nonrecognition of Abkhazia and South Ossetia.

- *Propose an international security presence in the occupied territories:* As part of an effort to go on the offense diplomatically, the United States should work with its allies to lay out a clear vision of what security arrangements should be in the context of a fully implemented cease-fire agreement: an Abkhazia and South Ossetia in which additional Russian forces and border guards have withdrawn and security is provided by a neutral international security presence working closely with local authorities.
- *Endorse principles of Shaheen-Graham resolution:* The administration should welcome the passage by Congress of the Shaheen-Graham resolution on Georgia, confirming that US policy is guided by the principles of the resolution: 1) support Georgia's territorial integrity and the inviolability of its borders, and recognize Abkhazia and South Ossetia as regions of Georgia occupied by the Russian Federation; 2) call upon Russia to fulfill the 2008 cease-fire agreements between Georgia and Russia; 3) urge Russia and the authorities in control of South Ossetia and Abkhazia to allow for the return of internally displaced persons and international missions to the territories of Abkhazia and South Ossetia; 4) support confidence-building measures between the Georgian government

and the authorities in control in South Ossetia and Abkhazia; and 5) affirm that finding a peaceful resolution to the conflict is a key priority for the United States in the Caucasus region (see Annex C for the full text of the Senate resolution passed in August 2011).

- *Keep parties in the Geneva negotiations:* The United States should continue to push for incremental progress in the Geneva talks to address humanitarian issues and minimize flare-ups along the occupation lines. The talks serve as an important confidence-building measure, even if only incremental steps are accomplished.
- *Support Georgia at the WTO:* The United States should work with European allies to address Georgia's legitimate concerns about Russia's WTO accession and to ensure that Georgia is not left isolated in the endgame negotiations. The United States and Europe should insist that Russia accept the Swiss-mediated proposal for an international regime to monitor trade along the border-crossing points between the borders of Georgia and Russia. The United States and Europe should propose that the mandate of the EUMM be expanded to include this monitoring role. The World Customs Organization could also fill this role, but it may be easier to enforce and expand the EU's existing mandate in the occupied territories.

Security and Defense Cooperation

Georgia is a valuable US partner, which faces serious security threats that inhibit its efforts to determine its own political future. Georgia is an important contributor of troops to the International Security Assistance Force (ISAF) in Afghanistan, and provides reliable access for military equipment and personnel transit through the alternative Northern Distribution Network. An aspiring NATO member, Georgia has made significant strides in reforming its security and defense sectors. Further efforts to strengthen US-Georgia security cooperation and to support Georgia's security and defense-sector reform will be critical as Georgia moves forward on the path toward NATO integration.

Though the Charter on Strategic Partnership does not make any security guarantees to Georgia, it does reiterate NATO's affirmation that Georgia will become a member, and reinforce the shared goal among the United States and its allies of Georgia's integration into European and transatlantic political, economic, security, and defense

institutions. However, since the 2008 war, Georgia's security situation remains tenuous, and its NATO aspirations have become a long-term prospect. The Bucharest and Lisbon summits affirmed Georgia's eventual NATO membership, but they stopped short of offering Georgia a Membership Action Plan (MAP).

Nonetheless, NATO has agreed that the NATO-Georgia Commission will have a "central role to play in supervising the process set in hand at the Bucharest Summit." Furthermore, Alliance leaders agreed that "without prejudice to further decisions which must be taken about MAP, we have agreed that under the NATO-Georgia Commission . . . Annual National Programmes [ANPs] will be developed to help Georgia . . . advance [its] reforms, which will be annually reviewed by the Allies."²⁹ The NATO-Georgia Commission, therefore, provides the logical avenue through which Georgia should pursue membership, with the ANP process fulfilling the requirements of NATO's MAP process. Indeed, Georgia is already preparing ANPs, which are, in effect, MAPs.

At the May 2012 NATO summit in Chicago, Alliance leaders should again reaffirm the Bucharest commitment that Georgia will become a member, as they did at the April 2009 Strasbourg-Kehl summit, and the November 2010 Lisbon summit. But Alliance leaders should use the Chicago summit to advance NATO-Georgia policy beyond this reaffirmation. Leaders should endorse a package of intensified NATO-Georgia cooperation and explicitly agree that the NATO-Georgia Commission and its ANP will be used to implement the substance of MAP, and is the mechanism through which Georgia can pursue membership. In other words, Georgia would not need to pass through MAP to gain membership, given that it will be engaged in the same substance as MAP. Indeed, most allies became allies without MAP, which was only created after Poland, the Czech Republic, and Hungary joined the Alliance. However, no other nations aspiring to membership have had the benefit of a dedicated bilateral structure (like the NATO-Georgia Commission) to guide their efforts. To mark this decision, plan additional next steps, and provide further impetus to Georgia's reform efforts, the Chicago summit should feature the first-ever NATO-Georgia Commission summit meeting.

Current US policy supports Georgia's efforts to professionalize its military and strengthen its defense capacity as an aspiring NATO member. However, sales of weapons to Georgia on the part of the United States and NATO allies ceased after the 2008 war in an effort to deter any escalation of conflict in the region. US training of Georgian Special Forces also stopped. Meanwhile, aggressive Russian diplomacy closed off traditional arms markets to Georgia, such as Central European and Southeast European nations, Ukraine, and Israel. Although Russian efforts to impose a formal arms embargo on Georgia have failed, Georgia has not been able to reach any new, known arms-procurement arrangements on the international market since 2008. Russian allegations of significant re-arming of Georgia have been repeatedly denied by US officials.

This US policy of forgoing arms sales to Georgia began under the Bush administration in the aftermath of the war, and has continued into the Obama administration. The present administration's reasoning is that there is no viable military option as a solution to Georgia's problems. Therefore, the argument goes, Georgia's energies and resources should be directed to other efforts. Instead of seeking to re-arm Georgia, the current US strategy, known as "brains before brawn" ("B3"), focuses on professionalizing the Georgian military. The strategy addresses deficiencies identified in NATO and US European Command (EUCOM) assessments of Georgia's performance during the war, especially in maintaining command and control and secure communications. EUCOM's assessment found that Georgian defense institutions, strategies, doctrine, and military education programs were "somewhat deficient."³⁰ As part of this effort, Georgia is modernizing its military structure and education system, and has drafted its Annual National Programme for reform to meet NATO standards, along with a new general defense plan and a new national military strategy. US officials assert that B3 reforms are required to ensure that Georgia's military can adequately absorb additional military assistance.

Georgia continues to receive considerable US assistance through programs such as the Foreign Military Financing (FMF) program, which totaled \$16 million in 2010. In August 2009, the United States augmented the B3 strategy and began training and equipping Georgian soldiers for

29 NATO, "Final Communiqué: Meeting of the North Atlantic Council at the level of Foreign Ministers held at NATO Headquarters, Brussels," December 03, 2008 (www.nato.int/cps/en/natolive/official_texts_46247.htm).

30 Merle David Kellerhals Jr., "United States Reaffirms Commitment to Georgia's Sovereignty," *US Policy*, August 5, 2009 (www.uspolicy.be/headline/united-states-reaffirms-commitment-georgia%E2%80%99s-sovereignty).

deployment to Afghanistan as part of the NATO mission. To date, these efforts have trained approximately 3,000 soldiers and provided substantial nonlethal equipment to Georgian forces. In fact, US FMF is currently at its highest level ever (much greater than prewar levels), and the US has approved the export of up-armored Humvees (HMMWVs) to Georgia.

Following on three years of “brains over brawn,” the United States should transition from the B3 and normalize its defense relations with Georgia, including allowing sales of defensive military equipment. A normalized US defense relationship will encourage other allies to follow suit, enabling Georgia to resume purchasing armaments from Central European allies. The reality is that Georgia never received significant armaments from the United States or US companies. Rather, Washington facilitated procurement from Central European and Balkan countries for modest, affordable weapons, such as small arms, AK-47s, and light machine guns. Yet US pronouncements after the 2008 war also led NATO allies to shut off Georgian weapons purchases.

Such a decision would build on current US efforts to assist Georgia in building a modest, affordable, and transparent defensive capability. Indeed, transparency—including greater US participation in Georgian defense planning—should be part of the framework of normalization. More transparent military cooperation could also help to promote stability. With such US support, Georgia is more likely to have confidence in following through on its plans to reduce the size of its standing army, to provide greater transparency to the international community, and to forgo excessive nationalization of Georgian defense policy.

The Obama administration is close to normalizing defense relations with Georgia, yet action has been delayed by interagency decision-making. The administration has an opportunity to shape its own policy and build logically on three years of “brains over brawn.” By moving forward now, the Obama administration can underscore bipartisan support for an evolutionary and prudent approach to helping Georgia defend itself, participate in coalition operations, and attain NATO standards.

To move forward with such a policy, US officials must address concerns from NATO allies about the risk of escalated violence and poor decision-making by Georgia's leadership. Encouraging transparency and confidence-building between Georgia, the United States, and NATO allies should be a key objective in normalizing defense cooperation with Georgia. As such, US officials should push

for Georgia to undertake security-sector reforms that will strengthen transparent and accountable decision-making throughout Georgia's institutions. In particular, Georgia should address concerns of potential overreach by the Ministry of Interior. These types of reforms will be critical for Georgia's NATO integration.

The United States should also work with European allies to push Russia for greater international access to the occupied territories, including by going on the offense diplomatically by proposing an international security presence in Abkhazia and South Ossetia. The United States should also consider joining the EUMM; transparency along and across the occupation lines will be critical to defusing tensions between Georgia and Russia over the long term.

The development of Georgia's democracy and economy are dependent on basic security. One of the most effective roles the United States can play in Georgia's development is to help create a stronger sense of security within Georgia, and to ensure that Georgia remains on the path toward NATO integration. To do so, America should take both symbolic and declarative steps, including the concrete measures outlined below.

Recommendations:

- **Advance Georgia's NATO aspirations.** US officials should use the NATO summit in Chicago to advance NATO's commitment to Georgia's membership aspirations in practical ways, including by adopting a package of intensified cooperation, reiterating that Georgia will become an ally, and making clear that the NATO-Georgia Commission and Georgia's Annual National Programme are mechanisms through which Georgia can eventually achieve membership. US officials should also support the first-ever leader-level meeting of the NATO-Georgia Commission at the Chicago summit. Ongoing defense cooperation with Georgia should continue to strengthen interoperability with NATO and make progress on defense-sector reforms that promote greater NATO integration.
- **Bolster the US footprint in Georgia.** Georgia's security strategy is premised on deterrence. Any US presence in Georgia helps to augment that deterrence, and just as importantly, reinforces a psychological sense of security among the population. In the absence of formal security guarantees, the United States should augment a small military footprint associated with its: 1) program to train Georgian forces for coalition operations; 2) support

to NATO's Partnership for Peace Training Center; and 3) facilities and logistics to handle transit of forces and equipment from Afghanistan now and, in smaller numbers, in the future, and to serve as a logistics hub for access to Central Asia.

- **Normalize military-to-military relations.** US officials should normalize military-to-military relations with Georgia, including restarting defensive arms sales and Special Forces training. Any procurement agreements should help Georgia to better defend itself, participate in coalitions operations, and meet NATO Partnership Goals. These efforts should proceed in a manner that makes clear that the US decision is linked to the Georgian government's continuing commitment to its nonuse-of-force pledge; is in coordination with NATO allies to avoid surprises among potentially skeptical allies, and to ensure similar moves by allies who have had traditional defense relationships with Georgia; and ensures transparency in all US defense cooperation with Georgia.
- **Join the EU Monitoring Mission.** The EUMM has won the respect of all actors, including Russia, and is in a position to expand its role to ensure greater transparency along the occupation lines. Working off the precedent of the European Union Rule of Law Mission in Kosovo (EULEX), the United States should consider participating in the EUMM, along with other third parties.
- **Warn Moscow against promoting instability.** US officials give credence to allegations of Russian efforts to promote instability in Georgia, including financing actors prepared to press for regime change through street demonstrations, as well as involvement in a recent spate of attempted or aborted attacks. US officials have and must continue to weigh in with their Russian counterparts, condemning any such actions and the risk such action poses to US-Russian cooperation.

Economic Engagement

Economic engagement is an important part of the US-Georgia relationship and critical to Georgia's continued economic transformation. A prosperous and thriving Georgian economy will be a boon to regional development, and a safeguard against Russian efforts to derail Georgia's internal reforms. In fact, a strong Georgian economy is likely

to attract Russian investors and tourists, which could have a positive impact on Russia's domestic developments and its views of Georgia over the long term. Such developments would be in the interest of Georgia, and in the US interest to promote stability and cooperation in the Black Sea region.

The United States is invested in Georgia's economic success as one of its biggest donors, and, increasingly so, as an investor. The Charter on Strategic Partnership opened the door for measures to deepen bilateral US-Georgia cooperation through an enhanced bilateral investment treaty, a liberalized visa regime, and potentially, a free trade treaty over the long term. So far, important progress has been made. US exports to Georgia totaled \$301 million in 2010, while imports from Georgia totaled \$187 million. Despite the fact that this number represents a decline in trade growth since the 2008 war, it is resuming a growing trend, and is a massive increase since 2003.³¹ Recently, the United States also extended its visa terms for Georgian citizens.

US assistance has been instrumental in supporting Georgia's economic development and attracting Western investors to Georgia. USAID and other agencies have bolstered Georgia's agribusiness through small loans, and improved Georgia's energy independence. Currently, \$115 million has been allocated to two large-scale energy-infrastructure projects—the reconstruction of the high-voltage Senaki power line, and the rehabilitation of the East-West natural gas pipeline.³² These efforts reinforce Georgia's traditionally proactive role in the development of the energy-transit infrastructure for Caspian resources, thus contributing to energy security in the Black Sea region and in Europe.

As a result of Georgia's successful reforms, the Georgian government also received a five-year Millennium Challenge Corporation (MCC) compact worth \$295.3 million from 2006–2011.³³ The compact focused primarily on Georgia's roads, improving access to markets, and providing a key transport corridor to Turkey and Armenia through the rehabilitation of the Samtskhe-Javakheti Road. In 2011, Georgia became one of only two countries approved for a second compact, for which the government has identified two proposals: 1) completion of the road to Batumi between Khulo and Akhaltsikhe (primarily for tourism purposes); and 2) a university in Batumi. The prime minister is managing the

31 US Census Bureau, "Trade in Goods with Georgia," 2011 (www.census.gov/foreign-trade/balance/c4633.html).

32 Daniel Rosenblum, "Foreign Operations Assistance for Georgia," September 2010, p. 9.

33 Millennium Challenge Corporation, "Millennium Challenge Compact between the United States of America Acting through the Millennium Challenge Corporation and the Government of Georgia," (<http://www.mccg.ge/?l=1&i=1&i2=0>).

proposal and has garnered feedback from a consortium of NGOs in order to refine the government's application before the MCC's final review at its board meeting in December 2011. In the process, it has become evident that the first proposal would have too narrow an economic impact. The initial draft of the second proposal as a regional university that would offer a US-accredited curriculum raised concerns about tuition costs and the project's ability to strengthen Georgia's existing educational system. However, the university proposal can bolster Georgia's investment in human capital if it is redesigned to have a broad impact on Georgia's technical and vocational education.

US private-sector investors are also turning to Georgia, including its nascent tourism industry in the Black Sea port of Batumi, and the wine region around Signaghi. In March 2011, Donald Trump became the first major US developer in Georgia, after signing a \$300 million deal to build a Trump Tower in Tbilisi, and a large-scale luxury complex in Batumi. However, though Georgia continues to lure US and other foreign investors, business leaders point to the precarious security situation as the greatest political risk they face when doing business in Georgia. Notwithstanding these concerns—and the fact that the United States is unlikely to become Georgia's key trade partner—there are numerous areas in which the US government, through its aid, trade, and diplomacy, can support the development of Georgia's economy. These include the measures below.

Recommendations:

■ **Facilitate Western investment.** US officials and business representatives should continue to attract Western investors to Georgia. However, insecurity is a factor impacting decisions on economic investment. Long-term deals in particular are hamstrung without sovereign risk backing. Given Georgia's political risk from an uncertain security situation and an uneven track record on investor rights, continued Overseas Private Investment Corporation (OPIC) financing is critical for long-term investments. US policy should also bolster Georgia's security situation to facilitate greater

investments (see security section above). Officials should also make clear that harassing foreign investors endangers US efforts to encourage investment in Georgia. Wobbly private-property rights—as evidenced in the government's recent use of eminent domain to allow redistribution of property for the construction of a new resort in Anaklia—impede foreign investment and investor confidence. The United States should raise cases with the government that call into question its commitment to the rule of law.

- **Support Georgia's agricultural sector.** One of Georgia's greatest economic challenges is persistently high unemployment, particularly in rural areas. US donor agencies should work with Georgia to strengthen agribusiness and reinvigorate its agricultural sector, especially once Georgia launches an Agriculture Development Strategy.
- **Focus on human capital.** Georgian and US officials should redesign the university proposal before the MCC board's final review in order to maximize its linkages with Georgia's existing university system and strengthen its focus on technical and vocational training. These efforts should ensure that the project has broader impact on Georgia's educational system and generates skilled labor to spur job creation.
- **Launch negotiations on US-Georgia FTA.** The United States Trade Representative (USTR) should launch negotiations for a US-Georgia Free Trade Agreement. The launch of FTA negotiations, even if it becomes a long-term prospect, could increase investor confidence in Georgia and attract greater foreign direct investment.
- **Back international financial institution investment along the lines of occupation.** Use US voting power in the IFIs to support financing of projects on the Georgian-controlled side of the occupation lines with Abkhazia and South Ossetia to promote people-to-people cross-border contacts and commerce.

European Policy

Political Support

Although US policy must lead efforts to anchor Georgia in the Euro-Atlantic community, ultimately Georgia's future lies in Europe. The European Union is also among Georgia's most active partners inside Georgia, given its management of the EUMM and responsibility for the cease-fire agreement.

Georgia's transformation after the Rose Revolution has been premised on its aspirations to pursue integration with the EU (and NATO) as long-term goals. Though EU membership is neither imminent nor guaranteed, EU engagement should assist Georgia's efforts to embrace the values and practices of the European mainstream—democracy, free markets, open media, individual liberties, and rule of law. As Georgia delivers on internal reforms, the EU should offer intermediate rewards in the form of closer integration to incentivize Georgia's further transformation into a Western democracy.

Georgia is part of the EU's Eastern Partnership, launched by Poland and Sweden in 2009 to deepen bilateral and multilateral engagement with Europe's eastern neighborhood.³⁴ The EaP is meant to accelerate measures such as visa facilitation and association agreements, leading to eventual Deep and Comprehensive Free Trade Agreements. However, the EU has been clear that EaP does not offer membership prospects to its eastern neighbors. While the EU need not make explicit guarantees about membership, the EaP has yet to articulate a road map for engagement based on conditionality and intermediate rewards. As a result, EaP remains an underutilized tool for wielding EU influence on EaP countries. EaP funding remains limited, and greater attention has been placed on Moldova, Ukraine, and Belarus, without clear metrics that justify deeper engagement with these EaP neighbors. If the EaP is to succeed in encouraging Europe's eastern neighbors to undertake pro-West reforms, it must offer incentives that demonstrate the benefits of moving toward Europe. After all, the EU has an active interest in pursuing a policy in its eastern neighborhood that ensures prosperity and stability along its current borders. The EU's European Neighborhood Policy review released in May 2011 delineates

a “more for more” approach that would tie conditionality on democratic reforms to greater rewards. However, the pace of negotiations with Georgia remains slow on several issues.

In its relations with Georgia, the EU has offered more demands than rewards, even though Georgia has performed on par with or exceeded Ukraine and Moldova in a number of areas, from curbing corruption to improving border management and governance. In corruption indices, Georgia also surpasses Albania, which gained visa-free travel to the Schengen area last year.³⁵ In January 2011, the EU concluded an agreement on visa facilitation with Georgia. While the agreement is an important milestone, Georgia's negotiations with the EU were slower than the EU's negotiations with Ukraine and Russia, which have enjoyed a visa-facilitation agreement with the EU since 2008 and 2007, respectively. As Georgia moves forward with the EU on further visa-facilitation measures, Georgia's consistent progress should be rewarded at a pace that is consistent with its pace of reform. The EU should also bear in mind that efforts to move further on visa facilitation with Russia sooner than with Georgia would implicitly reward Russia's policy of issuing Russian passports to residents of Georgia's occupied territories, as they would gain greater freedom of movement within the EU before other Georgian citizens.

Though Georgia's reform process is far from complete, active EU engagement can ensure that Georgia remains anchored in the West and continues on a path of pro-Western reforms. Currently, EU and other European officials lead with pessimism when talking about Georgia's integration prospects. This is due in part to domestic pressures and waning public support for enlargement throughout Europe after the financial crisis, and the difficulties of the latest accession round that brought Romania and Bulgaria into the EU. However, negative rhetoric on the part of the EU only serves to undercut Europe's influence in Georgia and the region. It dampens Georgian governmental support and public perceptions about the benefits of pursuing the difficult reforms that would lead to greater European integration. Instead, the EU should exercise greater ambition, energy, and creativity in its efforts to engage Georgia and cultivate it as a model for success, particularly in the midst of backsliding throughout

34 The EaP includes engagement along four platforms: democracy, good governance, and stability (platform 1); economic integration and convergence with EU policies (platform 2); energy security (platform 3); and contacts between people (platform 4) (Council of the European Union, “Joint Declaration of the Prague Eastern Partnership Summit,” May 7, 2009).

35 Georgia's corruption score is 4.75 compared to Albania's 5.00 (Freedom House, “Nations in Transit 2011,” www.freedomhouse.org/images/File/nit/2011/NIT-2011-Georgia.pdf).

the region. Recognizing that each country in transition will experience uneven reforms, the EU should be flexible in delivering incentives to Georgia for specific reforms, while also supporting Georgia as it tackles areas that need improvement.

Importantly, Georgia lacks a champion within the EU that could push for a more-proactive engagement policy. Georgia's relationships in Central and Eastern Europe have grown complicated as a number of countries, including Poland and Lithuania, attempt to restart relations and build practical cooperation with Russia. Some EU member states remain wary of accelerating EU relations with Georgia at the risk of upsetting EU relations with Russia, with which many EU member states have entrenched economic and energy relations. Though Poland's EU presidency will build upon the modest gains of the EaP, and move forward important EU negotiations with Georgia, the eastern neighborhood faces stiff competition over the long term from Europe's southern neighborhood, where EU resources have been redirected to address growing demands.

Recommendations:

- **Speak with ambition.** EU officials should step up their language when referring to Georgia's future within Europe. Georgians understand that membership is a long-term and uncertain prospect. However, EU rhetoric that promotes a vision of Georgia as part of a Europe that is whole, free, and at peace will help Georgians build the political will to carry out difficult reforms as they move down the path toward European integration.
- **Ramp up engagement and propose a road map for visa-free travel.** Like the "regatta" approach in the Balkans, the EU should reward solid performers like Georgia and pay greater attention to its internal reforms, in order to reinforce the EaP's stated policy of "more for more." It is no secret that the EU has set the bar higher for its eastern neighbors, but there is no reason to hold Georgia to a higher standard than other EaP countries. The EU should propose to Georgia a road map for visa-free travel, as it already has to Moldova and Ukraine, in order to demonstrate that it is willing to reward Georgia, based on its own merits, if it continues on a path of pro-West reforms.
- **Support Georgia's democracy.** The EU should strengthen the democracy component of the EaP's platform on democracy, good governance, and stability by supporting civil society input and monitoring of the EaP process, including EU negotiations with Georgia. The proposed European Endowment for Democracy should disburse aid to Georgian civil society to empower it in monitoring Georgia's progress in areas of democratic reform. The EU should ensure that democracy assistance to Georgia is coordinated with US efforts to ensure it is complementary, not duplicative.
- **De-link EaP from Russia policy.** The EU should clarify that all EU engagement in the EaP region is independent from EU policy toward Russia. The EU should emphasize that all EaP countries have a right to choose their own political destinies and to pursue further integration with EU institutions. EU engagement in the EaP region should remain transparent, and encourage cooperation whenever possible with its Strategic Partnership with Russia. However, being that the EaP is a distinct neighborhood policy, the EU should be clear that Russia's policy stances should not interfere with EaP policy or EU relations with EaP countries such as Georgia.

EU Security Policy

The EU plays an important role in ensuring peace and stability in Georgia and defusing tensions in the region. The EU took the lead in brokering a cease-fire after the Georgia-Russia war, demonstrating that it has a real and active interest in ensuring security along its borders. However, European leaders have since demonstrated little political will to push Russia to comply with the terms of the cease-fire agreement, including allowing access by the EU Monitoring Mission (EUMM) to the occupied territories. Lack of EU resolve is partly due to entrenched interests with Russia. It is also due to the fact that some EU leaders have expressed skepticism about the democratic credentials and aspirations of Georgia's leadership, and President Saakashvili in particular. European skeptics believe that Georgia's leaders recklessly endangered Georgia's security interests by entering into a war with Russia. As a result, many EU leaders remain wary of sparking tensions with Russia or of taking measures that they believe might condone actions on the part of Georgia's leaders that could escalate violence along the occupation lines.

Along with the United States, the United Nations, and the OSCE, the EU plays a role in the Geneva talks, which seek progress on security and humanitarian issues in Abkhazia and South Ossetia. The EU also has a stated policy of "engagement without recognition," which allows for greater EU engagement with the populations in Abkhazia and South

Ossetia to avoid further isolation of these communities. However, EU policy on the territories remains devoid of specific action points and has encountered resistance from the Georgian government, which is wary that EU engagement in the territories might undermine Georgia's nonrecognition policy.

The most significant EU contribution after the war has been the establishment of the EUMM, whose mandate is to "monitor the implementation of the cease-fire agreements of August 12 and September 8, 2008, to contribute to the stabilization and the normalization of the situation in the areas affected by the war, and to observe compliance with human rights and the rule of law." However, Russia continues to block EUMM access to the occupied territories, seriously hindering the EUMM's ability to ensure transparency and to guarantee that human rights are respected in the occupied territories. Despite these limitations, the EUMM has so far contributed positively to defusing tensions along the occupation lines. The EUMM remains the only international monitor, as Russia has vetoed mandates for the OSCE mission in South Ossetia and the UN Observer Mission in Georgia (UNOMIG). The EUMM has won respect from all sides to the conflict, and should capitalize on its credibility to expand its mission and operations. It is better placed to do so than trying to bring in another body such as the OSCE or UN, which would prove more controversial and close to impossible with Russia's effective veto.

Recommendations:

- **Push Russia on noncompliance.** As the peace-broker in the Georgia-Russia war, the EU has an obligation to hold Russia accountable to the cease-fire. Russia's noncompliance should be consistently raised by European leaders during meetings with Russian officials, including at NATO and the OSCE, where European leaders should demand that the EUMM be allowed into the occupied territories and the OSCE mission be readmitted into South Ossetia. Europe should work with the United States to push Russia to reciprocate Georgia's nonuse-of-force pledge with a Russian nonuse-of-force pledge, and to allow the safe return of Georgian IDPs to the occupied territories.
- **Internationalize and expand EUMM.** The key to ensuring security along the occupation lines is transparency. The EU should build on the good faith the EUMM has earned to beef up its presence. It

should seek approval from all parties to increase the number of monitors, and to invite third-party participation from the United States and others that may be seen as more-neutral arbiters by both sides, such as the countries that have participated in the EU Rule of Law Mission in Kosovo, and Serbia, which has solid experience doing peacekeeping operations and maintains good relations with Russia and Georgia. The EU should push Russia to allow a monitoring presence inside the occupied territories, especially in advance of elections in Russia and Georgia, when the risk of provocations may increase. The EU should attempt to expand its mandate incrementally, seeking to internationalize the crossing regime along the occupation lines and to delineate the rights of monitors. The EU should launch an initiative to ensure EUMM access to Gali, Kodori, and Akhgori. These areas are home to traditionally large number of ethnic Georgians, where the most egregious ethnic cleansing occurred, and are the areas where cross-border movement is in most demand.

- **Warn Moscow against promoting instability.** European officials have been less transparent in their discussions with Russia, but any US message denouncing Russian mischief-making or the promoting of violence in Georgia must be reinforced by a united, clear European warning against such actions as well.
- **Clarify engagement without recognition.** The EU should clarify what its policy of "engagement without recognition" means in practice. It should lay out a plan of action that elaborates on how engagement, and particularly travel, for residents of Abkhazia and South Ossetia will be coordinated with Georgian authorities. Recent agreement with Georgian authorities over the establishment of travel-neutral documents is a positive step. EU efforts should provide humanitarian aid and improve people-to-people ties with the populations in Abkhazia and South Ossetia on a status-neutral basis.

Economic Engagement

As Georgia's economic reforms move forward, Georgia will face important questions that will determine its commitment to pursue a European economic model that facilitates Georgia's eventual European integration. After the Rose Revolution, Georgia followed pro-growth economic reforms that focused on deregulating the economy. Georgia's open economy attracted foreign investment

and boosted trade with the EU. Today, the EU is Georgia's main trading partner, accounting for approximately 32 percent of Georgia's external trade.³⁶ Yet, as negotiations move forward with the EU, Georgia will need to balance its liberal economic policies with efforts to bring Georgia's economic policies and legislation in line with the EU *acquis*. Georgia can look to the experience of the Baltic countries as an example of how liberal economies were brought in line with EU standards as part of the process of European integration. Harmonization with the EU *acquis* is a very technical endeavor, and Georgia's leaders understand that integration efforts are part of a long-term process. However, Georgia's progress down this arduous path has been further complicated by an EU policy that has set additional burdens above and beyond the requirements set for other EU neighbors.

Georgia's ambitious economic reforms after the Rose Revolution led to important steps to intensify cooperation with the EU. In 2006, Georgia signed a European Neighborhood Action Plan (ENP) with the EU, which included the establishment of a free trade agreement. A feasibility study in 2008 advocated for an eventual Deep and Comprehensive Free Trade Agreement between the EU and Georgia. Negotiations with Georgia on an Association Agreement started in 2010, but trade talks have been stalled due to increased demands on the part of the EU. After the 2008 war, the EU laid out a set of preconditions that the Georgian government must meet before starting DCFTA negotiations. EU demands include a complex set of requirements on industrial technical norms, sanitary and phytosanitary measures, and intellectual property, which set the bar higher for Georgia compared with what has been asked of other countries before opening negotiations on a DCFTA. The EU's current preconditions unrealistically ask Georgia to pursue steps that in practice would seriously impede Georgia's economic development and induce Georgian producers to seek trade with non-EU countries.³⁷

Public statements by Georgian government leaders declaring a stated interest in transforming Georgia into a "Singapore" or "Dubai" of the Caucasus have prompted some skeptics to question Georgia's commitment to establishing a European economy that prioritizes Western investors and is anchored in democratic values.

However, Georgia's leaders often underscore that there is no alternative for Georgia to the European model. EU integration will provide greater benefits to Georgia and the EU as the two partners establish denser levels of trade and investments. At the moment, however, Georgia has attracted primarily non-Western investors. As a result, some Europeans speculate that Georgia might continue to cultivate relationships with less-demanding economic partners that do not impose conditionality on its domestic reforms, at the expense of pursuing greater integration with the EU.

If Georgia is to succeed in establishing an economy that generates sustainable and broad-based growth, it would be better served by pursuing further integration with Europe and undergoing reforms that promote institution-building and the rule of law, in order to attract greater investment from the EU. In turn, the EU should be more ambitious and flexible in establishing the terms for engagement with Georgia and encourage an integration process that encourages rather than deters further growth in Georgia. The EU should wield DCFTA as a tool to promote prosperity and institution-building in the Eastern neighborhood, and Georgia in particular. A proactive EU economic policy toward Georgia that encourages further integration with Europe would demonstrate to others in the region the benefits of pursuing European integration instead of other economic alternatives offered by Russia and other nondemocratic trade partners.

Recommendations:

- **Open negotiations for a DCFTA.** Georgia has made more than sufficient progress to start negotiations for a DCFTA, having lifted all relevant trade barriers and achieved governance reforms on par with current EU members. The EU should move to open EU negotiations for a DCFTA with Georgia, along with Moldova. The EU should seek to revise the terms of the DCFTA negotiations with Georgia and other EaP countries to ensure that the requirements to be undertaken balance EU harmonization with the development priorities of EaP economies.
- **Facilitate European investment.** Georgia is economically vibrant and has a thriving Black Sea port

36 European Commission, "Georgia: Trade Statistics," June 10, 2011 (http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113383.pdf).

37 Patrick Messerlin, Michael Emerson, Gia Jandieri, and Alexandre le Vernoy, "An Appraisal of the EU's Trade Policy towards its Eastern Neighbours: The Case of Georgia" (Brussels: The Centre for European Policy Studies, 2011), pp. 38–102 (<http://www.ceps.eu/book/appraisal-eu%E2%80%99s-trade-policy-towards-its-eastern-neighbours-case-georgia>).

at the crossroads of Europe and Asia. The opportunities for EU investment seem undervalued. The EU should promote greater investments in Georgia, and consider measures to lower the barriers to market entry. One option would be to provide risk insurance for European investors along the lines of the US Overseas Private Investment Corporation (OPIC).

Conclusion

While a long-term horizon is required to achieve the goal of a Georgia that is fully embedded in the West and its institutions, and united with its occupied regions, a coherent, active strategy is required today in order to advance this vision. That is why a formal nonrecognition policy is important. It may be taken for granted that Western nations would never recognize Abkhazia and South Ossetia as independent states, but a decades-long Russian strategy to promote their independence (or annexation) could erode Western resolve over the long term if sufficient markers are not put in place today. The United States' Cold War-era nonrecognition policy of the Soviet Union's annexation of the Baltic countries helped to build the case for their independence when geopolitical circumstances changed.

US, European, and Georgian policy must be reinvigorated to embolden Georgia's democratic path and foster ties across the occupied lines such that the internal dynamic within Georgia denies Russia the option of annexing the occupied territories. The strategy must aim at eventual reintegration. Western policy must lay the groundwork for the long term on the occupied territories, while aiming to advance Georgia's Euro-Atlantic integration in the near term, regardless of Russia's domestic trajectory. Georgia's leaders should also view democratic advances as bolstering Georgia's security.

Elections in 2012 and 2013 will be the key test of whether Georgia remains on a democratic path. As such, the next two years will help determine the extent to which the United States and Europe respond in kind by intensifying their efforts to assist Georgia on its path toward democracy and Euro-Atlantic integration. The stakes are high for Georgia.

To be successful, Georgia's reforms must continue to be the result of Georgia wanting to reform itself. But as the West encourages Georgia to continue to make tough decisions, a Western policy of "hold close, push hard" is most effective—that is, a policy in which the United States and Europe unequivocally embrace the vision of a Georgia that is integrated into the Euro-Atlantic community, and, in turn, can be demanding when it comes to Georgia's domestic performance so that it meets the high expectations it sets for itself.

To get Georgia right, the US lead is critical to set the pace and tone of Western policy. The United States can play a decisive role on security, helping to mitigate any sense of vulnerability that could serve as a drag on reforms. But the EU must deliver the most tangible benefits to the average Georgian citizen as Georgia becomes more European.

In the 1990s, many officials were skeptical that the Baltic countries would one day be members of NATO and the EU. Yet the performance of these states, combined with clear US leadership, shifted the debate in the West, transforming the idea of their membership from a radical idea to a natural outcome. Georgia today can draw from that lesson. Previous transitions demonstrate the importance of political leadership. At the same time, a democratic transfer of power is a necessary step before any nation attains NATO and EU membership. President Mikheil Saakashvili's handing over authority through elections would be the greatest testament to his democratic credentials. Georgia holds the power through its own actions to transform debates in Brussels and Washington, thereby walking through an open door to NATO and eventually the EU.



Annex A

United States-Georgia Charter on Strategic Partnership

Bureau of European and Eurasian Affairs
January 9, 2009

Preamble

The United States of America and Georgia:

1. Affirm the importance of our relationship as friends and strategic partners. We intend to deepen our partnership to the benefit of both nations and expand our cooperation across a broad spectrum of mutual priorities.
2. Emphasize that this cooperation between our two democracies is based on shared values and common interests. These include expanding democracy and economic freedom, protecting security and territorial integrity, strengthening the rule of law and respect for human rights, including the right of dignified, secure, and voluntary return of all internally displaced persons and refugees, supporting innovation and technological advances, and bolstering Eurasian energy security.
3. Stress our mutual desire to strengthen our relationship across the economic, energy, diplomatic, scientific, cultural, and security fields.

Section I: Principles of Partnership

This Charter is based on core basic principles and beliefs shared by both sides:

1. Support for each other's sovereignty, independence, territorial integrity, and inviolability of borders constitutes the foundation of our bilateral relations.
2. Our friendship derives from mutual understanding and appreciation for our shared belief that democracy is the chief basis for political legitimacy and, therefore, stability.
3. Cooperation between democracies on defense and security is essential to respond effectively to threats to peace and security.
4. A strong, independent, sovereign, and democratic Georgia, capable of responsible self-defense, contributes to the security and prosperity not only of all Georgians, but of a Europe whole, free, and at peace.
5. An increasingly democratic Georgia can unleash the full creative potential of its industrious citizens, and thereby catalyze prosperity throughout the region and beyond.
6. The United States encourages efforts by Georgia to deepen its political, economic, security, and social ties with other nations of the Euro-Atlantic community.
7. The partners declare that their shared goal is the full integration of Georgia into European and transatlantic political, economic, security, and defense institutions as Georgia meets the necessary standards.

Section II: Defense and Security Cooperation

Our two countries share a vital interest in a strong, independent, sovereign, unified, and democratic Georgia. The United States recognizes Georgia's important contributions to Coalition efforts in Iraq as demonstrating Georgia's potential as a net provider of security. Deepening Georgia's integration into Euro-Atlantic institutions is a mutual priority, and we plan to undertake a program of enhanced security cooperation intended to increase Georgian capabilities and to strengthen Georgia's candidacy for NATO membership. In this connection, we note the Alliance's affirmation at its Bucharest Summit in April 2008 that Georgia will become a member of NATO.

1. Working within the framework of the NATO-Georgia Commission, the United States and Georgia intend to pursue a structured plan to increase interoperability and coordination of capabilities between NATO and Georgia, including via enhanced training and equipment for Georgian forces.
2. Recognizing the persistence of threats to global peace and stability, and recalling the Georgian and Russian commitment within the August 12 cease-fire agreement to the nonuse of force, the United States and Georgia intend to expand the scope of their ongoing defense and security cooperation programs to defeat these threats and to promote peace and stability. A defense and security cooperation partnership between the United States and Georgia is of benefit to both nations and the region.
3. Acknowledging the growing threat posed by the proliferation of weapons of mass destruction, the United States and Georgia pledge to combat proliferation of weapons of mass destruction and dangerous technologies through adherence to international nonproliferation standards, effective enforcement of export controls, and strengthened enforcement of such controls.
4. Building on the existing cooperation among their respective agencies of defense and armed forces, the United States supports the efforts of Georgia to provide for its legitimate security and defense needs, including development of appropriate and NATO-interoperable military forces.

Section III: Economic, Trade, and Energy Cooperation

The United States and Georgia intend to expand cooperation to enhance job creation and economic growth, support economic/market reform and liberalization, continue to improve the business climate, and improve market access for goods and services. We recognize that trade is essential to promoting global economic growth, development, freedom, and prosperity. We welcome the emergence of a Southern Corridor of energy infrastructure. The United States endeavors to facilitate the integration of Georgia into the global economy and appropriate international economic organizations.

1. Acknowledging the importance of increased investment to economic growth and development, the United States and Georgia intend to pursue an Enhanced Bilateral Investment Treaty, to expand Georgian access to the General System of Preferences, and to explore the possibility of a Free-Trade Agreement.
2. The United States is committed to assisting the postwar reconstruction and financial stabilization of Georgia. We intend to work together to respond to the needs of the Georgian people, implement policies and programs that reduce poverty in the country, and promote the welfare of all Georgian citizens through investments and sustained improvements in the health and education systems.
3. Recognizing the importance of a well-functioning, market-oriented energy sector, the United States and Georgia intend to explore opportunities for increasing Georgia's energy production, enhancing energy efficiency, and increasing the physical security of energy transit through Georgia to European markets. We intend to build upon over a decade of cooperation among our two countries and Azerbaijan and Turkey, which resulted in the Baku-Tbilisi-Ceyhan and Baku-Supsa oil pipelines and the Baku-Tbilisi-Erzurum natural gas pipelines, to develop a new Southern Corridor to help Georgia and the rest of Europe diversify their supplies of natural gas by securing imports from Azerbaijan and Central Asia.

Section IV: Strengthening Democracy

Recognizing Georgia's significant achievements to date, our two countries commit to work together to strengthen media freedom, parliament, judicial reform, the rule of law, civil society, respect for human rights and fundamental freedoms, and anticorruption efforts. We rededicate ourselves to our shared values of democracy, tolerance, and respect for all communities, and intend to cooperate as follows:

1. The United States and Georgia pledge cooperation to bolster independent media, freedom of expression, and access to objective news and information, including through assistance to journalists and media outlets.
2. The United States and Georgia pledge cooperation to strengthen further the rule of law, including by increasing judicial independence. In this regard, the United States intends to provide assistance in this process, including training of judges, prosecutors, defense lawyers, and police officers. Through enhanced law-enforcement and judicial-branch relationships, we plan to address common transnational criminal threats such as terrorism, organized crime, trafficking in persons and narcotics, money laundering, and cyber crime.
3. The United States and Georgia plan to work together to promote good governance by increasing the transparency and accountability of Georgia's executive branch and legislative processes, and expanding citizen and media access to government deliberation.
4. The United States and Georgia pledge to work together to increase political pluralism in Georgia, including by encouraging the development of political parties, think tanks, and nongovernmental organizations, with their participation in developing legislation and enacting reforms to create a more competitive electoral environment.
5. The United States and Georgia plan to work together to strengthen the capacity of Georgian civil society to develop and analyze public policy, advocate on behalf of citizen interests, participate in the legislative process, and provide oversight of public officials.

Section V: Increasing People-to-People and Cultural Exchanges

The United States and Georgia share a desire to increase our people-to-people contacts and enhance our cultural, educational, and professional exchange programs that promote democracy and democratic values and increase mutual understanding.

1. Recognizing the importance of increased contact between the people of the United States and Georgia, both sides intend to promote further cultural and social exchanges and activities through initiatives such as the Fulbright Program, the Future Leaders Exchange Program (FLEX), Undergraduate Exchange (UGRAD), Legislative Education and Practice (LEAP), the International Visitor Leadership Program, and the English Language Teaching and Learning Program.
2. Stressing the necessity of innovation and dynamism to the future of our two countries, the United States and Georgia intend to promote increased cooperation in higher education, business, and scientific research. The United States plans to facilitate the application process for US visas consistent with US laws and procedures so that qualified individuals in cultural, educational, business, and scientific activities are given the opportunity to participate.
3. In Georgia's postwar environment, the United States and Georgia intend to restore damaged cultural-heritage sites and media outlets, and to foster continued contacts between the residents of Abkhazia and Tskhinvali Region/South Ossetia and the rest of Georgia.

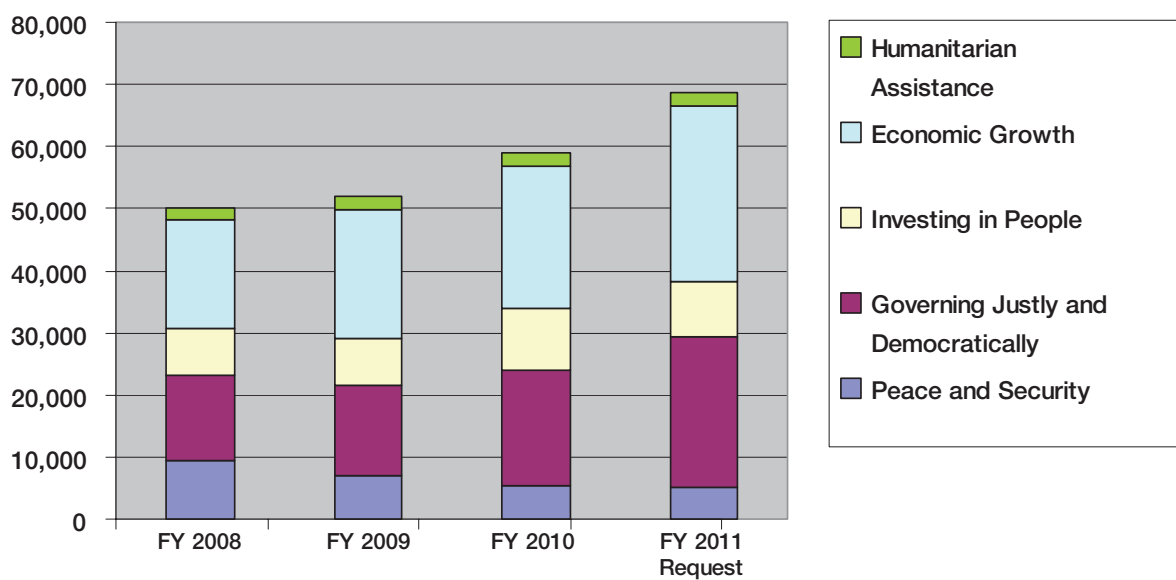
Signed at Washington, D.C., on January 9, 2009.

For the United States of America:	For Georgia:
Condoleezza Rice	Grigol Vashadze
Secretary of State	Minister of Foreign Affairs

Annex B

Europe, Eurasia and Central Asia (AEECA) Funding for Georgia by Program Objective FY 2008–FY 2011

(USD Thousands)³⁸



Program Objective	FY 2008	FY 2009	FY 2010	FY 2011 Request
Peace and Security	9,320	7,027	5,280	5,115
Governing Justly and Democratically	13,765	14,629	18,750	24,150
Investing in People	7,489	7,315	10,010	9,115
Economic Growth	17,717	20,829	22,850	28,080
Humanitarian Assistance	1,800	2,200	2,110	2,200

³⁸ Daniel Rosenblum, "Foreign Operations Assistance for Georgia," September 2010, p. 5.



Annex C

111TH CONGRESS
2D SESSION S. RES.

Expressing the sense of the Senate with respect to the territorial integrity of Georgia and the situation within Georgia's internationally recognized borders.

IN THE SENATE OF THE UNITED STATES

Mrs. SHAHEEN (for herself and Mr. GRAHAM) submitted the following resolution; which was referred to the Committee on _____

RESOLUTION

Expressing the sense of the Senate with respect to the territorial integrity of Georgia and the situation within Georgia's internationally recognized borders.

Whereas, since 1993, the territorial integrity of Georgia has been reaffirmed by the international community and 36 United Nations Security Council resolutions;

Whereas the Helsinki Final Act resulting from the Conference on Security and Cooperation in Europe in 1975 states that parties "shall regard as inviolable all one another's frontiers" and that "participating States will likewise refrain from making each other's territory the object of military occupation";

Whereas the United States-Georgia Strategic Charter, signed on January 9, 2009, underscores that "support for each other's sovereignty, independence, territorial integrity and inviolability of borders constitutes the foundation of our bilateral relations";

Whereas, in October 2010, at the meeting of the United States-Georgia Charter on Strategic Partnership, Secretary of State Clinton stated, "The United States will not waiver in its support for Georgia's sovereignty and territorial integrity";

Whereas the White House released a fact sheet on July 24, 2010, calling for "Russia to end its occupation of the Georgian territories of Abkhazia and South Ossetia" and for "a return of international observers to the two occupied regions of Georgia";

Whereas Vice President Joseph Biden stated in Tbilisi in July 2009 that the United States "will not recognize Abkhazia and South Ossetia as independent states" and went on to "urge the world not to recognize [Abkhazia and South Ossetia] as independent states";

Whereas the August 2008 conflict between the Governments of Russia and Georgia resulted in civilian and military casualties, the violation of the sovereignty and territorial integrity of Georgia, and large numbers of internally-displaced persons;

Whereas the August 12, 2008, ceasefire agreement, agreed to by the Governments of Russia and Georgia, provides that all Russian troops shall be withdrawn to pre-conflict positions;

Whereas the August 12, 2008, ceasefire agreement provides that free access shall be granted to organizations providing humanitarian assistance in regions affected by violence in August 2008;

Whereas the International Crisis Group concluded in its June 7, 2010, report on South Ossetia that “Moscow has not kept important ceasefire commitments, and some 20,000 ethnic Georgians from the region remain forcibly displaced”;

Whereas Human Rights Watch concluded in its World Report 2010 that “Russia continued to exercise effective control over South Ossetia and Abkhazia, preventing international observers’ access and vetoing international missions working there”;

Whereas, in October 2010, Russian troops withdrew from the small Georgian village of Perevi;

Whereas the withdrawal of Russian troops from Perevi is a positive step, but it does not constitute compliance with the terms of the August 2008 Russia-Georgia ceasefire agreement;

Whereas, on November 23, 2010, before the European Parliament, Georgian President Saakashvili committed Georgia to not use force to restore control over the Georgian territories of Abkhazia and South Ossetia;

Whereas Secretary of State Clinton stated in Tbilisi on July 5, 2010, “We continue to call for Russia to abide by the August 2008 cease-fire commitment including ending the occupation and withdrawing Russian troops from South Ossetia and Abkhazia to their pre-conflict positions.”;

Whereas the Russian Federation vetoed the extension of the Organization for Security and Co-operation in Europe (OSCE) Mission to Georgia and the United Nations Observer Mission in Georgia, forcing the missions to withdraw from the regions of South Ossetia and Abkhazia;

Whereas Russian troops stationed in the regions of Abkhazia and South Ossetia continue to be present without a mandate from the United Nations or other multilateral organizations;

Whereas the Senate supports United States efforts to develop a productive relationship with the Russian Federation in areas of mutual interest, including non-proliferation and arms control, cooperation concerning the failure of the Government of Iran to meet its international obligations with regard to its nuclear programs, counter-terrorism, Afghanistan, anti-piracy, economics and trade, and others; and

Whereas the Senate agrees that these efforts must not compromise longstanding United States policy, principles of the Helsinki Final Act, and United States support for United States allies and partners worldwide: Now, therefore, be it

Resolved, That the Senate—

- (1) affirms that it is the policy of the United States to support the sovereignty, independence, and territorial integrity of Georgia and the inviolability of its borders and to recognize the areas of Abkhazia and South Ossetia as regions of Georgia occupied by the Russian Federation;
- (2) calls upon the Government of Russia to take steps to fulfill all the terms and conditions of the 2008 ceasefire agreements, including returning military forces to pre-war positions and ensuring access to international humanitarian aid to all those affected by the conflict;
- (3) urges the Government of Russia and the de facto authorities in the regions of South Ossetia and Abkhazia to allow for the full and dignified return of internally-displaced persons and international observer missions to the territories of Abkhazia and South Ossetia;
- (4) supports constructive engagement and confidence-building measures between the Government of Georgia and the de facto authorities in the regions of South Ossetia and Abkhazia; and
- (5) affirms that the path to lasting stability in this region is through peaceful means and long-term diplomatic and political dialogue.

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