

Monitoring Report Caucasus 6-7 August 2024

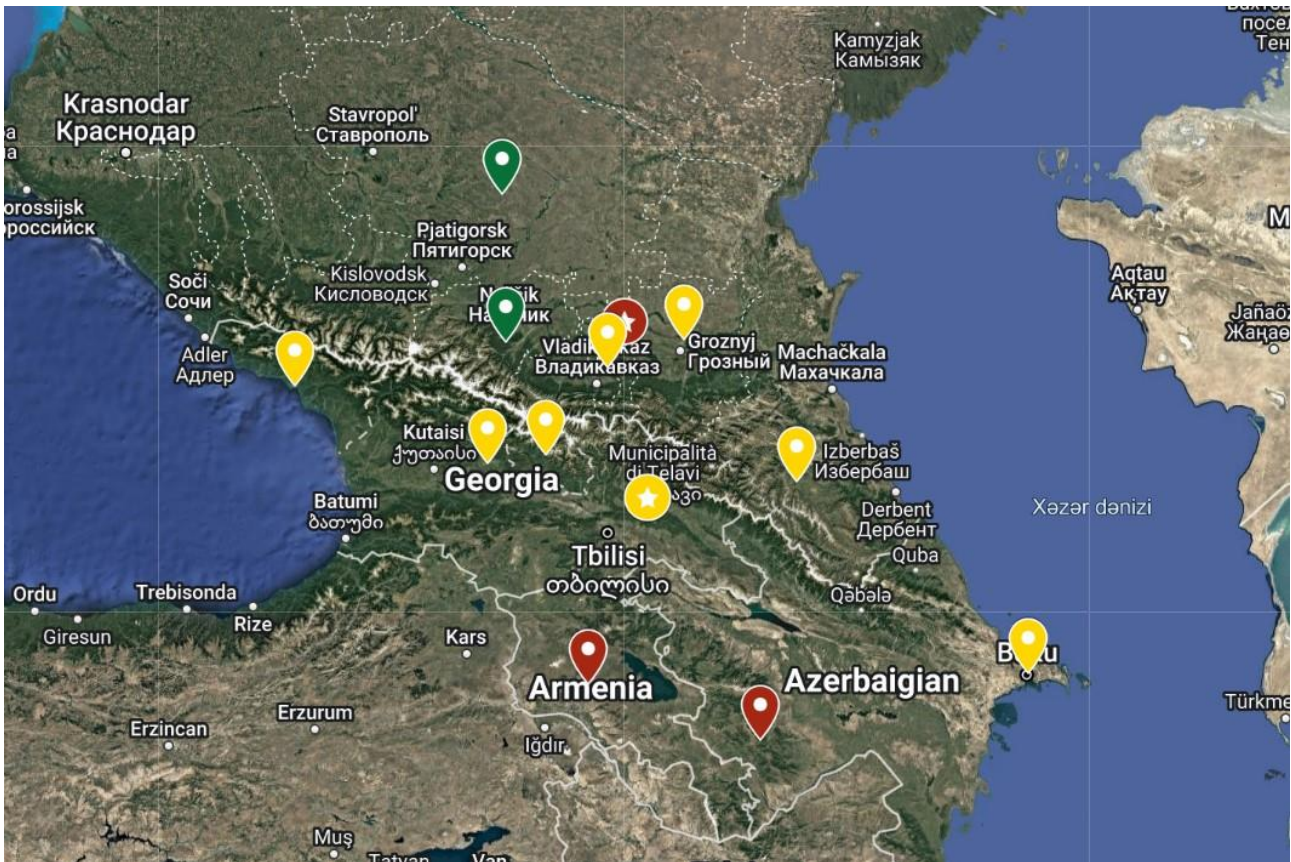


Figure 1 The Caucasus Region - SpecialEurasia Monitoring and Risk Map ([View at this LINK](#))

Azerbaijan

Background Information

On 7 August 2024, Azerbaijani President **Ilham Aliyev** met with **Sergei Shoigu**, Russia's Security Council Secretary, to discuss strengthening Baku-Moscow relations for regional security. Aliyev emphasised positive trends in bilateral cooperation. Meanwhile, **Elchin Amirbekov**, a special representative for Aliyev, confirmed progress towards a **peace agreement with Armenia** aimed at stabilising the region.

Iranian sources suggest that Shoigu's visit also cautioned Azerbaijan against actions that could heighten tensions with Iran, particularly considering Iran's ongoing conflict with Israel.

Scenario Context

Azerbaijan is actively **deepening its strategic ties with Russia** across defence, transport, and trade. The **22 February 2022 Declaration on Allied Interaction** between Azerbaijan and Russia formalised this trend, enhancing military-technical cooperation.

Strategic Implications & Risk Assessment

- **Security Risks:** Increased Azerbaijani-Russian military cooperation may provoke tensions with Western actors and Iran, destabilising regional security.
- **Economic Impact:** Closer ties with Moscow may affect Azerbaijan's Western energy partnerships, particularly in the **Caspian energy market**.

- **Business Outlook:** Companies involved in energy, defence, and logistics should monitor shifts in **sanctions policies** and **trade routes**, particularly concerning the Trans-Caspian corridor.

Recommendations

1. Businesses with interests in Azerbaijan should **assess geopolitical exposure**, especially in energy and logistics sectors.
2. Governments and policymakers should prepare for **potential geopolitical frictions** between Azerbaijan, Iran, and Western powers.

Armenia

Background Information

Armenia has started **defence reforms with U.S. help**, aligning its armed forces with NATO standards. This includes advisory support from the U.S. and other Western allies.

Scenario Context

Armenia's closer ties with Western defence forces show a major change in its alliances, which could weaken Russia's power. Since **Nikol Pashinyan's** rise to power in 2018, Armenia has increasingly distanced itself from **Russia and the CSTO**, reflecting deeper geopolitical realignments.

Strategic Implications & Risk Assessment

- **Regional Stability Risks:** Russia may retaliate by increasing support for Azerbaijan or reducing economic and security assistance to Armenia.
- **Impact on Investments:** Armenian infrastructure and defence contracts may shift towards **Western suppliers**, affecting Russian businesses.
- **Diplomatic Tensions:** Growing **U.S.-Armenia cooperation** may lead to **sanctions risks** for companies dealing with Russian or Armenian defence entities.

Recommendations

1. Defence contractors and logistics firms should **evaluate new opportunities** within Armenia's Western-aligned military restructuring.
2. Investors should monitor **Russia's economic leverage over Armenia**, particularly regarding energy supplies and trade routes.

Chechnya / Russia

Background Information

Chechen leader **Ramzan Kadyrov** announced the procurement of **1,000 quadcopters** for the **Northern Military District**, enhancing reconnaissance and combat capabilities. He also introduced advancements in the **Akhmat-mobile**, a Chechen-produced armoured vehicle, reinforcing Chechen military units.

Scenario Context

Chechnya's military expansion aligns with Russia's broader **defence modernisation efforts**, particularly in the ongoing war in Ukraine. Kadyrov's initiatives highlight **Chechnya's growing autonomy within the Russian defence framework**.

Strategic Implications & Risk Assessment

- **Security Concerns:** Strengthening Chechen forces could **intensify regional militarisation** in the North Caucasus, potentially increasing volatility.
- **Impact on Defence Sector:** Increased drone and vehicle production presents **supply chain opportunities and risks** for defence contractors.
- **Geopolitical Ramifications:** Chechnya's enhanced military role may indicate **broader trends in Russian defence restructuring**, impacting future military engagements.

Recommendations

1. Defence sector firms should **assess supply chain risks and opportunities** in unmanned aerial vehicle (UAV) and military vehicle markets.
2. Security analysts should **monitor Chechnya's military posture**, particularly in relation to Ukraine and broader Russian military strategies.

Abkhazia

Background Information

On 6 August 2024, **President Aslan Bzhania appointed Raul Lolua Secretary of the Security Council of Abkhazia**, replacing Sergei Shamba, whom he appointed Minister of Foreign Affairs.

Scenario Context

The recent leadership appointments suggest **Bzhania is consolidating political power and aligning Abkhazia's strategic interests with Russia**. Abkhazia remains a key component in Moscow's **Black Sea strategy**, particularly after establishing a **Russian naval base in Ochamchire**.

Strategic Implications & Risk Assessment

- **Security Concerns:** The Russian military presence in Abkhazia could increase **Western-NATO tensions in the Black Sea region**.
- **Political Stability:** Leadership changes may signal **internal power struggles**, affecting the **region's stability and investment climate**.
- **Energy & Trade:** Abkhazia's strategic location could impact **Black Sea trade routes**, influencing logistics and infrastructure investments.

Recommendations

1. Investors should **assess political risks** linked to **Russian-backed leadership shifts** in Abkhazia.
2. Governments should prepare for **potential military escalations in the Black Sea**, impacting maritime security and energy exports.

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