

Brussels, 15 May 2012

ENP Country Progress Report 2011 – Azerbaijan

The European Commission and the High Representative of the Union for Foreign Affairs and Security Policy published on 15 May 2012 the annual “neighbourhood package”, consisting of a joint communication (“Delivering on the new European Neighbourhood Policy”) making an assessment of the first year of implementation of the new ENP adopted in 2011, a separate joint communication proposing an “Eastern Partnership Roadmap”, a report on the “Partnership for Democracy and Shared prosperity” with Southern Mediterranean (including a roadmap for future action), an Eastern Partnership progress report, 12 country reports (on developments in 2011 and with a set of recommendations for the future), including one on Azerbaijan, and a statistical annex.

The EU-Azerbaijan ENP Action Plan (ENP AP) has expired on 31/12/2011. The EU and Azerbaijan have agreed to an open-ended extension, until the Association Agreement, currently under negotiation, is signed.

In 2011, the negotiations on an Association Agreement progressed at a slow pace. The negotiations on a Deep and Comprehensive Free Trade (DCFTA) could not start as Azerbaijan is not a member of WTO which is a pre-condition to the start of DCFTA negotiations.

On the basis of this year’s report and with a view to sustained implementation of the ENP Action Plan in 2012, Azerbaijan is invited to:

- Extend full cooperation to the Council of Europe Parliamentary Assembly on political prisoners.
- Swiftly implement the Human Rights Action Plan adopted in December 2011.
- Step up efforts together with Armenia to reach agreement on the Madrid Principles in accordance with the commitments made by the Presidents of Armenia and Azerbaijan in the framework of the Minsk Group.
- Provide unconditional access for representatives of the EU to Nagorno Karabakh and surrounding regions.
- Ensure transparency in implementing the laws governing the process of demolitions, expropriations and forced evictions in Baku and the regions.
- Adopt the draft law on defamation which provides for the abolition of criminal liability for defamation and insult.
- Bring legislation on elections, freedom of assembly, freedom of association and media freedom into line with international standards and ensure its full implementation.

- Step up reform efforts in all aspects of the judicial system: prosecution, trial, sentencing, detention and appeals.
- Address outstanding issues in public financial management, notably on transparency and accountability in relation to the budget cycle.
- Implement with determination comprehensive measures to tackle corruption and to improve the business and investment climate, including reducing the oligopolistic structure of the economy.

Political dialogue and reform

- Azerbaijan needs to make significant further efforts to meet the Action Plan commitments in the field of **deep and sustainable democracy**, including **electoral processes**, the protection of **human rights** and fundamental **freedoms** and the **independence of the judicial system**.
- The heavy handed suppression of a wave of moderate protest actions in March and in particular the rally in Baku on 2 April signalled an important **setback on the democratisation and human rights** front and non compliance with the commitments taken towards the EU and in the framework of the Council of Europe and OSCE.
- Azerbaijan has launched a welcome **anti-corruption campaign** in early 2011, but its impact has been modest. It made progress in the fight against organised crime, terrorism, illicit trafficking and money laundry.
- Negotiations on the **Nagorno-Karabakh conflict** within the Minsk Group led to no tangible results in 2011. Amidst increasing tension along the Line of Contact, mediation efforts resulted in marginal progress on the investigation of the violation of the ceasefire agreement.

Economic and social reform

- After exceptionally rapid growth in the pre-crisis period driven by Azerbaijan's oil economy, real GDP growth almost stalled (**+0.1%**) in 2011. An increase in government spending and higher international food prices pushed up **inflation** to about **8.1%** in 2011, from 5.7% in 2010.
- Despite the economic slowdown, Azerbaijan made further progress towards achieving the relevant objectives of the Action Plan, i.e. it broadly maintained macroeconomic **stability**, **reduced poverty** and encouraged the **diversification** of the economy.
- However, the robust growth in the non-oil economy was largely driven by **oil-financed public spending** rather than by self-sustained development in the private sector. Further vigorous structural reforms are necessary to boost private sector development by improving economic governance and opening-up competition.
- Registered **unemployment** remained low at about **1%** of the labour force, but the real unemployment rate is higher (estimated at around 5.5%). In June, Azerbaijan adopted an Action Plan (2011-2015) on implementation of the State Programme on Poverty Reduction and Sustainable Development. In February,

Azerbaijan established the State Labour Inspection Service (SLIS) under the Ministry of Labour and Social Protection of Population.

Trade-related issues, market and regulatory reform

- Compared to 2010, EU **imports** from Azerbaijan increased by 52.2%, and EU **exports** to Azerbaijan rose by 22%. However, there were no improvements in terms of **diversification** of Azerbaijan's exports, as 99.5% of EU imports from Azerbaijan consisted of fuels and mining products.
- Azerbaijan made only very limited progress towards accession to the **WTO**, which is the first pre-condition for the EU to consider starting negotiations on a DCFTA.
- Azerbaijan continued to benefit from the **GSP+** within the EU Generalized System of Preferences (GSP) in 2011 but needs to take further measures to comply with the conventions on core labour standards that lay the basis for the preferential treatment and to increase the GSP+ utilisation rate.
- Azerbaijan made some progress on the **free movement of goods and technical regulations**, notably with the adoption of international standards on energy and food products. **Business climate, the right of establishment and company law** did not improve.

Cooperation on justice, freedom and security

- Azerbaijan still lacks a comprehensive Integrated **Border Management** Strategy. Negotiations between Azerbaijan and FRONTEX on the conclusion of a Working Arrangement continued.
- An EU Migration Mission to Azerbaijan took place in June, which allowed for in-depth exchanges on migration-related issues. Negotiations on **visa facilitation and readmission agreements** were launched in March 2012.
- Progress was registered in the fight against **trafficking of human beings**, through further implementation of the National Action Plan 2009-2013. Regarding the fight against **money laundering**, Azerbaijan joined the Egmont Group in July. The first EU-Azerbaijan **Drugs** Dialogue took place in September.

Transport, energy, environment, the information society, research and development

- **Transport:** Azerbaijan continued to focus on the improvement of the road infrastructure and the upgrading of railways and took first steps to join the Convention Intergovernmental Organisation for International Carriage by Rail.
- **Energy:** Under their Memorandum of Understanding on a strategic energy partnership, Azerbaijan and the EU intensified cooperation in particular with a view to developing the strategic Southern Gas Corridor. European Commission President Barroso and Azerbaijani President Aliyev signed a Joint Declaration to establish this corridor. Azerbaijan and Turkey agreed transit and gas sale terms regarding the Azerbaijani Shah Deniz II gas field, the development of

which is expected to make Azerbaijan a substantial contributor to – and enabler of – the Southern Gas Corridor. The EU, Azerbaijan and Turkmenistan launched negotiations for developing a Trans-Caspian gas pipeline system, which should ensure additional supplies from Turkmenistan into the corridor. In December 2011, Azerbaijan participated in the EU's Gas Coordination Group. Azerbaijan confirmed its commitment to the Extractive Industry Transparency Initiative, which aims to bring transparency to oil and gas revenues. Azerbaijan launched preparations for a renewable energy strategy until 2020 and inaugurated a first pilot renewable park with a training centre in the Gobustan region. A EUR 14 million budget support programme assists the Ministry of Energy in developing a legislative and regulatory framework for renewables and energy efficiency.

- **Climate change:** Azerbaijan submitted its Second National Communication to the UN Framework Convention on Climate Change. Azerbaijan is encouraged to engage in the new carbon market mechanism to be developed following the UNFCCC COP 17, as well as to fully implement the Cancun and Durban agreements.
- **Environment:** Together with the other parties to the Framework Convention for the Protection of the Marine Environment of the Caspian Sea, Azerbaijan signed the Convention's Protocol concerning region preparedness, response and cooperation in combating oil pollution incidents. The Regional Environmental Centre for the Caucasus continued its activities in 2011; its founders want to see its role enhanced in the years to come and tried to find a solution to its debt problem.
- **Research and innovation:** Azerbaijan continued to increase participation in the 7th Framework Programme, although the number of applications remained relatively low (13 projects).

People-to-people contacts, education and health

- **Education:** In July, a commission was established to prepare a new education development strategy until 2021. Higher education reform continued to benefit from EU-Azerbaijan cooperation and support via the Tempus IV programme (five additional projects), the Erasmus Mundus programme (42 scholarships and mobility grants) and the Marie Curie scheme (three institutions and one individual researcher).
- **Culture:** Azerbaijan adopted in mid-2011 the State Program on Azerbaijani **Youth** in 2011-2015. Youth organisations continued benefitting from the exchange opportunities offered by the Youth in Action programme (59 projects targeting 156 Azerbaijani participants).
- **Health:** Azerbaijan pursued sector reform, in particular by constructing and refurbishing health care facilities, and adopted a national strategy to address mental health.

EU–Azerbaijan – BACKGROUND

THE POLICY

The **European Neighbourhood Policy** governs the relations between the EU and Azerbaijan. Since 2009 the EU implements the **Eastern Partnership**, the Eastern dimension of the ENP framework, aiming at substantially upgrading engagement with the six Eastern neighbours via:

- a Bilateral track, whose objectives include the establishing of Association Agreements with Deep and Comprehensive Free Trade Areas, once conditions have been met, as well as progress on visa and mobility issues, and
- a Multilateral track (i.e. intergovernmental platforms and Flagship Initiatives).

This approach allows for gradual political association and deeper economic integration.

FACTS AND FIGURES

1999: Entry into force of the EU-Azerbaijan Partnership and Cooperation Agreement.

2006: Approval of the EU-Azerbaijan Action Plan.

2006: EU-Azerbaijan Memorandum of Understanding on a strategic partnership in the field of energy.

2009: Azerbaijan ratified the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions

2009: Neighbourhood Investment Facility - Azerbaijan is eligible for three regional projects for a total value of EUR 24 million in support of the energy and the private sectors

2007-2010: The ENPI¹ envelope for Azerbaijan stands at EUR 88 million

2011-13: The new National Indicative Programme (NIP) 2011-13 for Azerbaijan was adopted in May 2010 and has a budget of EUR 122.5 million. The programme is geared towards supporting the achievement of key policy objectives as outlined in the EU-Azerbaijan Action Plan and pursues three priorities: (1) democratic structures and good governance, (2) socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform and (3) Partnership and Co-operation agreement and ENP Action Plan implementation, including in the in the areas of energy security, mobility and security.

2011: Joint EU – Azerbaijan Declaration on the Southern Gas Corridor.

More info at:

http://ec.europa.eu/world/enp/documents_en.htm

http://eeas.europa.eu/azerbaijan/index_en.htm

http://eeas.europa.eu/enp/index_en.htm

¹ the European Neighbourhood Partnership Instrument