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JOINT STAFF WORKING PAPER

**Implementation of the European Neighbourhood Policy in 2010
Country report: Azerbaijan**

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1. OVERALL ASSESSMENT

Azerbaijan and the EU first established contractual relations in 1996 through a Partnership and Cooperation Agreement which entered into force in 1999. On that basis, the EU-Azerbaijan European Neighbourhood Policy Action Plan (ENP AP) was approved in November 2006 for a period of five years.

In 2010, EU-Azerbaijan meetings took place at the level of the Cooperation Council, the Cooperation Committee and the three subcommittees. The subcommittee on Justice, Freedom and Security and Human Rights and Democracy met for the first time during the year.

This document reports on the progress made in implementing the EU-Azerbaijan ENP AP between 1 January and 31 December 2010, although developments outside this reporting period are also taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Azerbaijan. For information on regional and multilateral sector processes, please refer to the sectoral report.

Within the Eastern Partnership (EaP), the EU and Azerbaijan continued to strengthen their relations. Following the adoption of negotiating directives for an Association Agreement (AA), the negotiations were launched in July 2010 in Baku and have made good progress during the reporting period. This Agreement is conceived by both Parties as illustrating the most advanced and ambitious approach to the Eastern Partnership vision of association, including a Deep and Comprehensive Free Trade Area (DCFTA) and a comprehensive programme of approximation to EU *acquis*. The negotiations on a DCFTA will start, in the same framework, once the necessary conditions have been met. These include Azerbaijan's joining of WTO. In this respect, no progress has been made in the negotiations on Azerbaijan's accession to the World Trade Organisation (WTO).

Overall, Azerbaijan made some progress in implementing the ENP AP, in particular in the area of macro-economic stability and efforts to address poverty and attain socio-economic equilibrium.

However, Azerbaijan needs to make significant further efforts to meet the Action Plan commitments in the field of democracy, including electoral processes, the protection of human rights and fundamental freedoms and the independence of the judiciary. In this respect the EU noted with concern an increasing number of reported arrests of youth activists in the country in February, March and April 2011 and other measures of intimidation as well as restrictions on the freedom of expression and assembly.

Azerbaijan has launched an anti-corruption campaign in early 2011 and will need to continue efforts in this context.

Progress was noted in the fight against organised crime, terrorism and illicit trafficking. Progress was also made on gender equality with the adoption of a law on domestic violence.

Azerbaijan suffered less than the other Eastern neighbourhood countries from the global economic crisis, and was less constrained in achieving the objectives of the AP. However, while the general economic policy stance was prudent and broadly adequate, little was achieved in the area of structural transformations. The main macroeconomic challenge remains the diversification of the economy away from the hydrocarbon sector and the monopolisation of the economy.

Good progress was made in the field of energy cooperation, including Azerbaijan's support to the Southern Gas Corridor. In January 2011, during the visit of European Commission President Barroso to Baku, a Joint Declaration on the Southern Corridor was signed, demonstrating the commitment of both sides to ensuring energy supplies to the European gas market.

Negotiations on a peaceful solution of the Nagorno-Karabakh conflict continued at the highest level, with some progress, in particular regarding the exchange of prisoners of war, as a necessary confidence building measure to further advance the process. An increased number of incidents of exchanges of fire and casualties on the line of contact continued to be reported. This remains a cause for serious concern.

2. POLITICAL DIALOGUE AND REFORM

Democracy and rule of law

The conduct of the parliamentary **elections** held on 7 November 2010 was not sufficient to constitute meaningful progress in the democratic development of the country. A large number of international observers monitored the elections. Several shortcomings were observed in the course of the electoral process, including the high rejection rate of registration of opposition candidates and the restricted campaign environment, with intimidation of opposition candidates and their supporters. Changes in the electoral code in June 2010 meant a shortening of the election period from 75 to 60 days and a reduction in the campaign period which started 23 days before the election day. Amendments also included the abolition of state funding for candidates, who had to resort to other means to finance the campaigns. Overall, these measures prevented the creation of a level playing field for all candidates. In addition, on election day, additional shortcomings were observed including ballot stuffing, multiple voting and flawed counting of votes. There was no progress regarding the concerns raised by the Council of Europe (CoE) Venice Commission in the context of bringing the law on the municipalities into line with the constitutional amendments introduced in 2008.

Apart from the implementation of a number of training programmes, no tangible progress was made with respect to **civil service reform**. However, recognising the need to advance further in this field, the EU and Azerbaijan, in the context of the EaP, took steps towards the launching of the Comprehensive Institution Building (CIB) programme, aimed at strengthening key areas of the Azerbaijani civil service.

The Constitutional Law on Normative Legal Acts was adopted in June 2010. The purpose of this law is to combine in a single legal instrument all the important rules for producing state norms. It addresses the preparation, drafting, adoption, publication and bringing into force of normative legal acts and facilitates the regulation of legislative work and cooperation between

the legislative and executive branches of power. The law is expected to improve the legal, material and formal quality of Azerbaijan's legislation.

With respect to the functioning of the judiciary, the lack of independence, inefficiency, lack of transparency and levels of corruption remained serious concerns which need to be addressed. Nevertheless, some steps were taken in the area of **judicial reform**. The Law on Courts and Judges was amended to decentralise the justice administration, including through the establishment of Serious Crimes Courts in all regions. The establishment of Administrative Courts also constitutes a further important development.

Amendments were also made to the Law on Lawyers and Advocates by lifting the bar examination for lawyers and judges who want to become advocates and introducing provisions on the organisation of the bar on ethical standards. Provisions were also introduced to entrust execution officers with implementing decisions of all courts and imposing fines for non-execution of court decisions. Additionally, an increase in the number of judges by 25 % up to 600 was decided. Despite this positive development, even more judges are needed. The Judicial Legal Council was strengthened. The establishment of the Academy of Justice made slow progress. Meanwhile, there was no progress at all with regard to the establishment of a system of specialised **juvenile justice**.

Uneven progress was made in the fight against **corruption**. Progress is noted in meeting several of the 2006 recommendations of the Group of States against Corruption (GRECO) with regard to public sector human resources management issues. However, in its 2010 evaluation focusing on incriminations and transparency of party funding, GRECO concluded that significant shortcomings remain in the legislation and its effective application, particularly regarding the criminalisation of the phenomenon. There is a perception that the level of corruption has increased over the last three years, with Azerbaijan being ranked the highest among CIS countries for corruption. It is noted, however, that an anti-corruption campaign was launched by the president in early 2011.

Human rights and fundamental freedoms

The Commissioner for **Human Rights** (Ombudsman) was reappointed for a second seven-year term in May 2010. The same person may hold the post for not more than two terms. The regional centres of the Ombudsman's office were also strengthened.

No progress or even deterioration of the situation was noted in the field of **freedom of expression** and **media freedom**. Since 2009 the ranking of press freedom¹ in the country dropped by six points. The overall situation of media in the country was characterised by lack of media pluralism and a pro-government bias of mainstream media outlets, harassment of and violence against journalists, questionable judicial proceedings against media representatives.

A parliamentary vote in December 2010 rejected a plan to create an Ombudsman for news and information, although the 2005 Right to Information Law stipulates that such a function should be established six months after its enactment. There was no progress in amending the criminal code to abolish defamation, which constitutes a legal barrier to freedom of expression in the country. Cases of harassment of journalists and political activists expressing independent views continue to be regularly reported. The Press Council remains under the

¹ Reporters without Borders (October 2010)

strict control of the authorities. Furthermore, the existence of a “blacklist” of newspapers published by the Press Council allows discriminatory actions to be taken. But in November 2010 the two youth activists, who had been imprisoned for two and a half years charged with hooliganism, were released following an appeal. At the same time no progress was noted in implementing the ruling of the European Court of Human Rights of 22 April 2010 with respect to an imprisoned journalist whose rights to freedom of expression and information and right to a fair trial had been violated.

Further progress was made in upgrading the material infrastructure of the **prison/penitentiary system** and the conduct of law enforcement staff improved. However, widespread torture and ill-treatment continued to be reported. No progress was made in the direction of the right to individual complaints under Article 22 of the UN Convention against Torture.

No progress was observed with respect to **freedom of assembly**. In addition to restrictions for political parties and rallies in relation to the parliamentary elections (*see above*), the breaking up of demonstrations and gatherings of religious or non-political nature was also noted during the reporting period. No progress was made regarding **freedom of association**. Following the amendments made in 2009 to the Law on non-governmental organisations (NGOs), difficulties continued to be observed with respect to registration of NGOs. Following legal amendments introduced in May 2009 regarding the law on **freedom of religion**, religious groups were obliged to register by 1 January 2010. In the course of the year, there were several reported cases of harassment of religious groups in relation to religious meetings or the distribution of religious literature.

The lack of protection of **property rights** is a matter of concern. There are reports of illegal expropriation and evictions without residents’ consent in connection with large-scale infrastructure developments, particularly in Baku.

In the area of **gender equality** and **empowerment of women**, progress was noted as the Law on Prevention of Domestic Violence and Protection of Victims of Domestic Violence was adopted in October. According to the law, domestic violence complaints will be considered by the relevant authorities and prosecution will be carried out in accordance with criminal procedures. Furthermore, the law foresees the establishment of special shelters for victims of domestic violence. In addition, the parliamentary elections in November 2010 led to an increase in the share of female candidates from 11% to 16%, compared to the previous parliamentary elections. The number of female members of parliament increased from 14 to 20 members as a result. In October 2010 the CoE Convention on Action against Trafficking in Human Beings entered into force.

Cooperation on foreign and security policy; conflict prevention and crisis management

Since June 2007, Azerbaijan has been invited to align with CFSP declarations on a case by case basis. In 2010, Azerbaijan aligned with 18 out of 44 CFSP declarations which it was invited to join. There was intense political dialogue with the government in 2010, including through two Political and Security Committee **political dialogue** meetings in June and September 2010.

There were no developments in the direction of accession to the Rome Statute of the **International Criminal Court (ICC)**.

Parliament adopted the Law “on participation of the Republic of Azerbaijan in peacekeeping operations” in May 2010. The law provides for Azerbaijan's participation in peace-keeping

operations in line with the UN Charter, thus observing the principles of international law and international agreements.

Strengthening regional cooperation

The Southern Caucasus Integrated Border Management (SCIBM) promoted by the EU among Georgia, Armenia and Azerbaijan started in March 2010 (*See chapter on cooperation on justice, freedom and security*). The Regional Environmental Centre (REC) for the Caucasus carried out regional activities in 2010, including in the fields of information and public participation, environmental policy and local environmental action plans (*See chapter 6, part on environment*).

Contributing to a peaceful solution of the Nagorno-Karabakh conflict

Negotiations within the Minsk Group for a peaceful settlement continued with the Presidents of Armenia and Azerbaijan holding three bilateral meetings in 2010. At their meeting in Astrakhan in November, both Presidents agreed to exchange prisoners of war and bodies of dead servicemen. However, courageous steps by both sides will be needed if a resolution to the conflict is to be found.

In autumn 2010, the Minsk Group Co-Chairs intensified their activities with a visit to the Line of Conduct. A Field Assessment Mission to the territories surrounding Nagorno-Karabakh also took place. A joint statement by the OSCE Minsk Group together with the Presidents of Azerbaijan and Armenia during the OSCE Summit in Astana in December 2010 stressed that the *"time has come for more decisive efforts to resolve the Nagorno-Karabakh conflict"* and that a peaceful resolution to the conflict is the only way to bring real reconciliation to the peoples of the region. However, tensions remain and the situation continues to be fragile. An increased number of incidents of exchanges of fire and casualties on the line of contact continued to be reported and remains a cause for concern.

In support of the negotiations led by the OSCE Minsk Group, an EU-funded project to contribute to the peaceful resolution of the Nagorno-Karabakh conflict was launched in June 2010. The project supports activities in the area of media, public policy and conflict affected groups.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

In 2010, real GDP growth slowed to 5% compared with 9.3% GDP growth in 2009. The slowdown was mainly due to weak expansion in oil production, following the rapid rise in 2009 which had been driven principally by increased production from the Azeri-Chirag-Guneshli oilfields in the Caspian Sea. Growth in the non-oil sector outpaced growth in the oil sector (7.9% against 1.8% in real terms). The oil sector had driven exceptional growth rates in recent years. It expanded by an annual average of 37% in the period 2005-2009 and currently accounts for around half of country's GDP and over nine-tenths of its exports. Both exports and investment bounced back after contracting in 2009. Exports in 2010 rose by 14.5% driven by increasing global demand and higher oil and gas prices. Investment rose by 6% linked to a slight recovery in foreign direct investment (FDI). The relatively small services sector, which makes up approximately 30% of GDP, continued to expand, mainly driven by hotels,

restaurants and the communications sector. The agricultural sector contracted by 2.5 % following poor yields in potato and grain products related to heavy flooding.

Despite the weak expansion in oil production, the trade balance ran a surplus of around 38% of GDP in 2010, compared to 34% of GDP in 2009. Higher oil prices boosted export revenue and dwarfed increases in import spending. The assets of the State Oil Fund of the Republic of Azerbaijan (SOFAZ, the overseas windfall fund) rose to Manat 17.4 billion (EUR 16.3 billion) at the end of 2010, making the fund roughly equal to 40% of GDP. The current account surplus rose above 26% of GDP compared to 23% in 2009. External public debt remains low at about 10% of GDP. Higher international commodity prices and the adverse impact of flooding earlier in the year contributed to a steep rise in inflation (7.4% compared to 0.6% in 2009). Food products were most affected.

In response to the inflationary pressure, the Central Bank of Azerbaijan (CBA) raised the refinancing rate by one percentage point to 3% in November 2010 and to 5% in March 2011. The increase followed a period of significant monetary easing, in which from October 2008 the refinancing rate had been reduced by 13 percentage points. In spite of the reduction in the refinancing rate, average lending interest rates remain high at around 20%; high financing costs remain an obstacle to development, particularly for smaller enterprises. The Manat remained stable against the Euro and the US dollar, helped by higher oil prices and a growing current account surplus.

The Government's 2010 budget targeted a narrowing of the non-oil deficit at the same time as allowing for tax cuts. The budget deficit remained broadly similar to 2009 at around 15% of the GDP, excluding transfers from SOFAZ. When SOFAZ transfers were taken into account, the deficit was 0.9% of GDP. Government consumption was reined back in 2010 after the marked expansion in 2009. This supported the government's pledge not to increase expenditure despite rising oil revenues in order to promote greater fiscal sustainability in line with the Action Plan objective of maintaining a stable non-oil fiscal deficit. Revenue declined as a percentage of GDP compared to 2009, under the influence of several tax reductions which took effect from January 2010. These included cutting the rate of profit tax from 22% to 20%; lowering the maximum rate of income tax to 30% from 35%; and raising the threshold at which small firms are subject to profit tax.

In order to diversify the economy, the authorities continued to improve the business environment and enhance competitiveness. Transport infrastructure was further improved, in particular the railway corridors.

Employment and social policy

The official **unemployment** rate rose slightly from 0.9% in 2009 to 1.0% in 2010. According to the survey-based ILO methodology 6% of the total labour force is without a job.

On the basis of an inquiry by the Human Rights Commissioner (Ombudsman), the Constitutional Court included imperative clauses in the Labour Code providing for the preservation of salaries of juveniles during vocational and in-service training. The Law "On Compulsory Insurance against Occupational Accidents and Loss of the Ability to work as a Result of Professional Diseases" was adopted.

Informal employment makes up an important segment of the economy in Azerbaijan and labour rights are often violated, especially in the private sector. Occupational accidents are a

cause for concern. The Law on Compulsory Insurance against Occupational Accidents is therefore a positive addition to the existing Labour Code.

In September 2010 Azerbaijan took several measures to reduce **poverty**, including increasing allowances to Internally Displaced Persons (IDPs) and to other low income groups, and raising the minimum salary and basic pension of workers in certain public sector institutions.

In September 2010, the president also signed a decree to strengthen the social security of those on low incomes. Allowances will be granted to people with health problems that are related to work, industrial accidents or military service, and to disabled children.

On **social inclusion and protection**, new rules on the pension system entered into force in July 2010. The retirement age for men will be raised incrementally to 63 years by 2012, and that of women will be raised from 57 to 60 years by 2016. The base pension was increased as of September 2010. The Azerbaijani parliament adopted several amendments to the law on pensions, which took effect from 1 January 2010.

During the reporting period, no significant developments occurred regarding the implementation of the part of the ENP AP related to **agriculture**.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

After the 2009 decline, **bilateral trade** bounced back during the reporting period: compared to the previous year exports of Azerbaijani products to the EU increased by 33%, while EU exports to Azerbaijan rose by 45.6%. However, there were no improvements in terms of diversification of exports, as 99.2% of Azerbaijani exports to the EU still consist of mineral fuels.

Azerbaijan made only limited progress towards accession to the WTO, which is the first pre-condition for the EU to consider starting negotiations with Azerbaijan on a DCFTA. The eighth meeting of the Working Party took place in December 2010.

No significant developments occurred as far as the implementation of the **customs** related part of the ENP AP is concerned. The revised Customs code has yet to be adopted. The customs service still needs to make additional efforts as far as the enforcement of the existing legal framework and the implementation of the concept of trade facilitation are concerned.

Azerbaijan made some progress on the **free movement of goods** and **technical regulations**. Since January 2010 Azerbaijan has become an observer in the European Committee for Standardisation (CEN).

Regarding **sanitary and phytosanitary** issues, Azerbaijan continued to work towards accession to the WTO and harmonisation with the norms of the *Codex Alimentarius*. This process included some approximation with EU rules. The upgrading of laboratories and training of experts continued in 2010. In order to meet the AP objectives, facilitate trade and prepare for a possible future DCFTA with the EU, Azerbaijan would have to make considerable further progress, particularly with regard to approximation of legislation, its effective implementation and the enforcement and strengthening of administrative capacity.

Azerbaijan took the first steps in the implementation of the "Action Plan on the re-organisation of education on **accounting** and **audit** at high schools and secondary schools,

and application of a certification system verifying the professional level of education in 2010-2012 in view of transition to the international and national accounting standards". The plan is the last stage of the reform launched in 2003.

Concerning **financial services**, the CBA reduced the reserve requirements for domestic and foreign currency deposits of commercial banks from 12% to 0.5%, and increased deposit insurance coverage from 6,000 to 30,000 manat (EUR 28 000), to ensure sufficient liquidity and strengthen confidence in the banking sector. In a sign of potential weakness, non-performing loans rose sharply in 2010, approaching 5% of all loans, albeit from a low base. A new law on non-bank credit institutions was implemented in February 2010, creating a legal framework and strengthening the central bank's supervision of this embryonic sector.

The CBA was also working on plans to further consolidate the banking system in Azerbaijan and to enhance competition among banks. The law on non-bank credit organisations was promulgated in February 2010. It created a legal framework for non-bank credit institutions and strengthened the CBA's supervision of the sector. The non banking credit organisations require licensing by the CBA and those mobilising collateral deposits must seek approval for opening branch offices. CBA has been given the responsibility to define the prudential standards and requirements, such as minimum capital or loan loss provisions, under the aegis of the current law. In November 2010, the president approved the law on investment funds.

Other key areas

In September 2010 the ministry of **taxes** approved a regulation on tax appeals. Under the terms of this regulation a Board, composed by members to be appointed by the minister, will examine appeals on tax matters, including allegations of corruption and tax audits and report to the minister. Azerbaijan continued to expand the network of agreements on avoidance of double taxation with EU member states: two agreements entered into force in 2010, one with Luxembourg and one with Italy, bringing the number of agreements to 17.

In the field of the **competition policy**, draft amendments to the competition law continued to be discussed in the parliament.

There is a minor development to report on the legal or institutional framework for **intellectual property rights** as the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs entered into force in December 2010. Azerbaijan ranked 8th in the software piracy study conducted by an independent expert organisation in May 2010, with 88% of pirated software in use.

The **public procurement** system is over 10 years old and well established, but requires modernisation, as demonstrated by tenderers' complaints of lack of transparency. SIGMA, carried out at the request of the State Procurement Authority, a needs assessment to identify required reforms.

In 2010 a Global Assessment of the National System of Official **Statistics** of the Republic of Azerbaijan was jointly undertaken by the European Commission, the European Free Trade Association (EFTA), and the UN Economic Commission for Europe (UNECE). A three-year action plan for the implementation of 1993 SNA and 2008 SNA was initiated in 2009. The dissemination of statistics via Internet has recently significantly increased.

On **enterprise policy**, the implementation of the State Programme on Socio-Economic Development for 2009-2013 continued in 2010. The private sector continued to suffer from

bureaucratic obstacles in registration and licensing procedures and from corruption, which affected small and medium-sized enterprises (SMEs) in particular.

In spite of the need to improve inspection systems in the area of **public internal financial control**, there were no new developments in the period under review.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

A first meeting of the EU-Azerbaijan Subcommittee on Justice, Freedom and Security and Human Rights and Democracy was held in Baku during two days in November and December 2010, underlining the strong mutual willingness to deepen relations in these policy areas.

Azerbaijan continued to participate in the Southern Caucasus Integrated **Border Management** (SCIBM) regional programme, the implementation of which began in March 2010. The Border Service Academy was inaugurated in August 2010 to train officers and border guard staff in modern border management techniques and approaches. New and reconstructed border crossing points were opened during the year. In September 2010, Azerbaijan signed an agreement on its state border with the Russian Federation, as well as an addendum on its delineation.

On **migration**, Azerbaijan tightened visa issuance procedures with the entry into force of the Presidential Decree on Matters Concerning Issuance of Visas for Foreigners and Stateless Persons Arriving in Azerbaijan, which restricts the categories of travellers who may receive a visa on arrival into the country. These rules differ from EU legislation and practice. For the first time, Azerbaijan enforced a labour immigration quota of 10.700 in 2010.

Regarding the **fight against organised crime and terrorism**, in March 2010 Azerbaijan ratified the CoE Convention on Cybercrime which entered into force in July. The signature of the Additional Protocol concerning the criminalisation of acts of a racist and xenophobic nature committed through computer systems is still pending. Moreover, the CoE Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse, which Azerbaijan signed in 2008, has not yet been ratified.

Work continued in the fight against **trafficking in human beings** in the context of the National Action Plan to Fight against Trafficking in Human Beings (2009-2013). The ministry of interior and the State Committee for Family, Women and Children's Affairs organised a roundtable with civil society input and contributions in September 2010. Azerbaijan signed and ratified the 2005 CoE Convention on Action against Human Trafficking, which entered into force in October 2010.

With regard to the fight against **drugs**, Azerbaijan continued to implement the five year action programme (2007-12) on combating drug addiction with a particular emphasis on law enforcement and cooperation with its partners of the Community of Independent States (CIS). In July 2010, it attended a CIS expert meeting on drug trafficking and organised crime with a view to developing future cooperation programmes on capacity building. In October 2010, Azerbaijan participated in the ENP regional seminar on the EU drug monitoring system organised by European Monitoring Centre for Drugs and Drug Addiction and the European Commission in Brussels.

Azerbaijan continued the fight against **money laundering** within the context of the 2009 Anti-Money Laundering law. The financial intelligence unit under the Central Bank began

addressing the issues highlighted by CoE Moneyval committee during the previous year, which resulted in some improvement in the country's control regime. As was the case in 2009, the CoE Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism remained unsigned. Moreover, Azerbaijan did not sign the 2003 Protocol to the CoE Criminal Law Convention on Corruption, which criminalises the active and passive bribery of domestic and foreign arbitrators and jurors. There is a continuing need to expedite cooperation with relevant experts and international financial institutions in order to address all issues of concern.

With regard to cooperation in **criminal and civil law matters**, the signature of the Second Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters is still pending. No further developments took place regarding Azerbaijan's accession to the 1980 Hague Convention on the Civil Aspects of International Child Abduction and to the 1996 Convention on Parental Responsibility and the Protection of Children. Moreover, Azerbaijan did not sign the Additional Protocol to the CoE Convention on the Transfer of Sentenced Persons nor ratify the European Convention on the Transfer of Proceedings in Criminal Matters.

The ministry of justice signed a Memorandum of Understanding with the Dutch ministry of justice on cooperation in criminal matters in August 2010. In September 2010, Azerbaijan hosted a meeting of the heads of security services of CIS countries. However, in 2010 Azerbaijan had not yet signed two important Hague Conventions on international judicial cooperation, namely the 1965 Convention on the Service of Documents and the 1970 Convention on the Taking of Evidence Abroad in Civil or Commercial Matters.

As regards **data protection**, in May 2010 Azerbaijan signed and ratified the 1981 CoE Convention on the Protection of Individuals with regard to Automatic Processing of Personal Data. Azerbaijan has yet to sign and ratify the 2001 Additional Protocol on supervisory authorities and trans-border data flows. Azerbaijan adopted the Law on Personal Data, which regulates the collection, processing and protection of personal data and lays down the responsibilities of state bodies, local authorities and other entities dealing with these data.

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

In the **transport** sector, improving infrastructure remains an important priority for Azerbaijan. Azerbaijan stepped up investments and signed major loan agreements both to improve road infrastructure (in particular to expand the Baku-Shemakha highway) and to modernise railway infrastructures and upgrade rolling stock.

In the railway sector, Azerbaijan approved, in February 2010, regulations transforming Azerbaijan Railways into a closed joint-stock company with the view to converting it into a holding company at a later stage. In July 2010 the Government approved the "State program on development of the railway system in Azerbaijan in 2010-2014". Azerbaijan Railways also acquired more powers in decision making and in attracting investors. A computerised ticket sales system was introduced in August 2010. In the road sector, Azerbaijan amended the law on traffic rules in July 2010 in order to introduce lower speed limits. In the aviation sector the process on preparation of negotiations on the aviation agreement EU- Azerbaijan has been initialised. In the maritime sector, Azerbaijan continued to invest in improving its maritime fleet, maritime ports and their hinterland connections. In March 2010, Azerbaijan launched

the construction of a new shipbuilding plant in the Garadagh district of Baku. Also in March 2010, Azerbaijan signed a project to construct a Baku Bay marine bridge aimed at closing the centre of the city for cargo traffic.

Azerbaijan and the EU stepped up **energy** cooperation including on the basis of their Memorandum of Understanding on a strategic partnership in the field of energy. In April 2010, the Energy Commissioner visited Baku. Azerbaijan confirmed that, although it is pursuing export diversification, the EU remains its priority destination for energy exports. Azerbaijan sustained oil and gas exports particularly through the oil and gas pipelines Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum. In 2010, oil from Turkmenistan was shipped over the Caspian Sea and exported through the BTC pipe. In June 2010, Azerbaijan and Turkey reached agreement on a framework for gas pricing and transit through Turkey. This is a key step in the development of the major Shah-Deniz-II gas field and the strategic Southern Gas Corridor. In September 2010, negotiations started on future gas exports from Shah-Deniz II. Azerbaijan continued the exploration and development of new gas and oil fields. It actively participated in the Caspian Development Corporation study funded by the EU, the European Investment Bank and the World Bank.

In January 2011, on a visit to Azerbaijan, Commission President Barroso and President Aliyev signed a Joint Declaration on gas delivery for Europe.

In September 2010, the Heads of State of Azerbaijan, Georgia and Romania, as well as the Hungarian Prime Minister, endorsed the AGRI (Azerbaijan-Georgia-Romania Interconnection) project. Its aim is to export liquefied natural gas from Azerbaijan, through a Georgian Black Sea terminal, to Romania and beyond. A feasibility study is being conducted. In September 2010, SOCAR (State Oil Company of Azerbaijan) and Russian Gazprom agreed to increase gas exports to Russia in 2011 to two billion cubic metres. Azerbaijan, Georgia, Lithuania, Poland and Ukraine continued work towards a Euro-Asian Oil Transportation Corridor. Azerbaijani, Bulgarian and Georgian companies further studied the possibilities of developing compressed natural gas supply to the EU across the Black Sea from the Georgian coast. In July 2010, Turkey and SOCAR agreed to construct a gas pipeline for supplies to Nakhichevan via Turkey. Azerbaijan consolidated its participation in the Extractive Industry Transparency Initiative, aiming at transparency of oil and gas revenues.

Azerbaijan continued to implement its state programme on fuel-energy complex development for 2005-2015, including by further preparing new energy sector legislation. SOCAR strengthened its presence in the region, for example by establishing further petrol stations in Georgia, opening its first station in Ukraine and developing plans to build a refinery in Turkey. In 2010, Azerbaijan also constructed and rehabilitated its electricity and gas infrastructure. It initiated the construction of the Black Sea Electricity Transmission Line (Azerbaijan-Georgia-Turkey).

Azerbaijan remained committed to using more renewable energy. In 2010, the new State agency of alternative and renewable energy sources, established in 2009, became operational. In Gobustan region, it started to develop a pilot renewable park of 5 MW based on wind, solar and biogas power. It continued implementing energy efficiency measures and started preparing an energy efficiency strategy. In January 2010, Azerbaijan amended the rules on the storage and the use of radioactive materials and also trained nuclear experts.

Regarding **climate change**, Azerbaijan continued preparing its Second National Communication to the UN Framework Convention on Climate Change.

Azerbaijan took steps to prepare Clean Development Mechanism (CDM) projects, even if so far no CDM project has been registered at the UN level. Azerbaijan is encouraged to fully implement the Cancun agreement and in particular devise a low carbon development strategy including update information on target or actions that it will implement. The EU continued to provide support to Azerbaijan to implement the Kyoto Protocol.

In the field of **environment**, the President of Azerbaijan declared the year of 2010 “The Year of Environmental Protection in Azerbaijan” and launched a campaign to plant 30 million trees for environmental restoration. The National Environment Action Plan is still under preparation. The legislative framework continues to require further development, in particular as regards implementing legislation. Azerbaijan submitted a National Implementation Plan for 2007–2020 under the Stockholm Convention on Persistent Organic Pollutants. Continued attention is required in order to implement existing strategies and plans and to further enhance monitoring and enforcement.

Azerbaijan established the State Commission for Integrated Water Management and strengthened the environmental authorities. Further strengthening of administrative capacity remains a major challenge, and coordination between authorities continues to require attention. Azerbaijan took some steps to promote the integration of environmental considerations into other policy sectors, such as energy.

Azerbaijan continued to carry out some other activities to provide information to the public. Procedures and consultation with the public in the context of environmental assessments and licensing remain inadequate.

There were no significant developments as regards ratification of, or accession to, the outstanding relevant Protocols to the UNECE Conventions. Furthermore, the implementation of several agreements that have already been ratified requires particular attention. Azerbaijan participated in regional cooperation under the Framework Convention for the Protection of the Marine Environment of the Caspian Sea, the Caspian Environment Programme and also the EU Water Initiative. Cooperation and information exchange took place between the EU and Azerbaijan, including on water, forestry, waste management, management of environmental information, nature protection and air quality.

The **REC for Caucasus** carried out regional activities in 2010 including in the fields of information and public participation, environmental policy and local environmental action plans. REC also further improved its internal management, fund-raising and visibility in 2010. Nevertheless, it carries over a financial shortfall from previous years which is hampering its activities.

Concerning developments in the field of **civil protection**, there are activities under the EaP framework. (*please see the sectoral report*). As regards the **Information Society**, in August 2010 Azerbaijan approved the ‘State Program on development of communication and information technology for 2010-2012 (*Electronic Azerbaijan*)’. This includes the privatisation of state owned enterprises, the creation of an independent regulator and the liberalisation of the market. Azerbaijan also adopted an “Action Plan for the Establishment of E-government in the Republic of Azerbaijan in 2010-2011”. There is no clear separation between the commercial activities and the regulatory role of the ministry of communications and information technologies (MCIT). The state involvement in the sector has decreased only slightly, thus hampering the emergence of competition in the fixed and broadband markets.

MCIT plans to assess the use of 4G mobile technologies, implement number portability (where a draft is discussed with the operators), and implement the Central Equipment Identity Register; e-signature will be implemented by the end of 2010. As part of the State programme 'e-Azerbaijan', by September 2010 the ministry of health had issued approximately 300.000 electronic health cards.

Progress can be reported on the digitalisation of the telecommunication network (now approximately 90%) and in the reconstruction of the fixed network. Regarding newer technologies, WiMAX wireless Internet access services have become available since the launch of commercial operation.

Investment and capacity in **research** continue to remain modest. Azerbaijan continued to increase the level of participation in the 7th Framework Programme (FP7), although the overall numbers of applications remained low. Applications involving 13 Azerbaijani research groups were successful; as of November 2010 they received EUR 500.000 in EU support.

Azerbaijan continued to participate actively in the International S&T Cooperation Network for Eastern European and Central Asian countries (FP7 IncoNet EECA project), which aims to support a bi-regional EU-EECA policy dialogue on science and technology and to increase EECA participation in FP7.

Azerbaijan is a target country under the new FP7 International Cooperation Network for Central Asia and South Caucasus countries (FP7 IncoNet CA/SC) which was launched in April 2010 and which aims to strengthen and deepen the EU's S&T cooperation with the CA/SC countries, as well as with the Republic of Moldova.

Azerbaijan is also actively participating in the Black Sea ERA-NET project, which aims to contribute to the coordination of EU member states' and partner countries' research programmes targeting the extended Black Sea region.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

In 2010, work began on a gradual review of the legislative framework for the various education sub-sectors following the adoption of a framework education law in 2009. In this regard, the ministry of education adopted new regulations on life-long learning in September 2010 establishing an approach to human resource development, continuing education and adaptation of skills to labour market needs. The ministry also established a Working Group on the National Qualifications Framework in May 2010 alongside a Department for Accreditation dealing with quality assurance in **education**. Per capita financing was applied to higher education also in order to improve quality and enhance inter-university competition. While overall investment in education increased in 2010, it remains insufficient to ensure adequate development of human capital that can contribute to economic diversification.

Higher education reform in Azerbaijan continued to benefit from cooperation under **Tempus**, with two projects selected under the third Call for Proposals of Tempus IV. For the first time a project will be coordinated by an Azerbaijani higher education institution (Azerbaijan University of Languages).

One Azerbaijani student received a scholarship for an **Erasmus Mundus** Masters Course under Erasmus Mundus Action 1 for the academic year 2010-11. Academic and student mobility was further facilitated under Erasmus Mundus Action 2 during the same period

through the expected award of 30 mobility grants. For the first time, a Jean Monnet grant for an interdisciplinary module was awarded to the Azerbaijan Diplomatic Academy, providing a basis for future quality public service training. Azerbaijan is encouraged to make full use of the available opportunities under Erasmus Mundus.

In the area of **vocational training**, work continued on the adoption of State curriculum standards for initial vocational training; strategic planning guidelines for training institutions as well their renovation and upgrading. Challenges remain with regard to modernisation of technical infrastructure and development of teacher competences. Capacity for reform remains limited, particularly in the context of an ageing teaching workforce, while the issue of relevance and quality in training provision needs urgent examination. The Labour Market Review undertaken by the European Training Foundation in the context of the EaP in September 2010 provided pointers for future policy planning.

In the area of **culture**, Azerbaijan participated in one project under the 2010 Special Action for ENP countries under the Culture Programme. To advance its regional cooperation in the framework of the EaP and the Kyiv Initiative, Azerbaijan should ratify the 2000 European Landscape Convention and the 2005 CoE Framework Convention on the Value of Cultural Heritage for Society.

Azerbaijani young people and **youth** organisations continued to benefit from the opportunities offered by the Youth in Action Programme, through exchanges, voluntary service and youth cooperation activities in non-formal education.

Azerbaijan pursued **health** sector reform, including in the areas of healthcare financing and medical insurance. In February 2010, in the context of last year's influenza A(H1N1) epidemic, the EY and Azerbaijan established communication channels for the exchange of epidemiological information in the event of a public health emergency of international concern. Azerbaijan attended the EU's global health conference in June 2010.

8. FINANCIAL COOPERATION – 2010 KEY FACTS AND FIGURES

Cooperation framework

The Mid-Term Review of the programming document confirmed that the Country Strategy Paper adopted in 2007 remains a valid framework for cooperation with Azerbaijan. 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 AP 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 AP implementation, including in the areas of energy security, mobility and security.

The NIP 2011-13 includes a specific appropriation to finance new actions under the EaP, notably a Comprehensive Institution Building programme (CIB) (with a minimum allocation of EUR 19.2 million for Azerbaijan) and the Regional Development Pilot Programme (with a minimum of EUR 9.3 million).. The CIB Framework Document was signed in January 2011 and identified the following key institutions for support: ministry of foreign affairs, ministry of economic development, ministry of justice, Civil Service Commission.

Implementation

Implementation of the measures covered by the Annual Action Programmes (AAP) for 2007, 2008 and 2009 is under way. The AAP 2007 main programme was the Sector Budget Support (SBS) in the area of energy efficiency and renewable energies, and substantial progress in the implementation of this programme was made in 2010. Furthermore, in December 2010, Azerbaijan launched the implementation of the SBS on justice related to the AAP 2008. This Programme is aimed at enhancing the regional courts, the Academy of Justice and the penitentiary sector. In August 2010, the Financing Agreement related to AAP 2009 was countersigned by the government.

In 2010 a total of EUR 7 million was committed to Azerbaijan under the bilateral envelope of the European Neighbourhood and Partnership Instrument (ENPI). The 2010 AAP focused on governance. Twinning projects on agriculture, employment and social affairs, health, finance and trade have been identified and are currently under preparation. Considerable resources have been devoted to the financing of twinning operations. At the end of 2010, there were four twinning operations ongoing and a further 12 in preparation.

In addition to the bilateral allocation, Azerbaijan also benefited from cooperation activities financed under the ENPI inter-regional and regional programmes.

Under the ENPI-financed Neighbourhood Investment Facility (NIF), one regional project for which Azerbaijan is eligible, the "Eastern Partnership-SME Finance Facility", was approved in 2010, committing EUR 15 million for technical assistance and risk capital. This multi-country project is expected to leverage EUR 135 million in loans from European Finance Institutions (EIB, EBRD and KfW) to support SMEs in the Eastern neighbourhood region.

Other EU instruments supplement the ENPI assistance package. Azerbaijan benefited from cooperation activities financed under horizontal instruments such as the European Instrument for Democracy and Human Rights (EIDHR), focusing on media freedom and freedom of expression, and the Development Co-operation Instrument (DCI) thematic programmes, including the Non-State Actors and Local Authorities in Development (NSA-LA), focusing on poverty reduction and sustainable development strategies.

Donor coordination

In 2010, the EU Delegation in Azerbaijan ensured the coordination of assistance activities both within the EU and with other donors. The donor coordination matrix contributed to identifying good synergies with the World Bank in the area of public finance.