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JOINT STAFF WORKING DOCUMENT

**Report on EU - Azerbaijan relations in the framework of the revised European
Neighbourhood Policy**

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1. Introduction and summary

This report focusses on the efforts by Azerbaijan to carry out reforms looking at key developments in the country's relations with the European Union since the publication of the previous report on EU-Azerbaijan relations on 20 December 2017¹, in particular in the priority areas identified in the EU-Azerbaijan Partnership Priorities².

The EU-Azerbaijan Cooperation Council under the Partnership and Cooperation Agreement (PCA) held its fifteenth meeting on 9 February 2018, for the first time since 2013. The meeting took place following an intensification of relations between the EU and Azerbaijan, which included the launch of negotiations in 2017 of a new bilateral agreement. The Cooperation Council — co-chaired by the High Representative for Foreign Affairs and Security Policy / Vice-President of the European Commission (HR/VP) and Azerbaijan's Foreign Minister — completed the cycle of PCA sub-committee and committee meetings held in 2017-2018. It reviewed the state of EU-Azerbaijan relations in the framework of the European Neighbourhood Policy (ENP) and the Eastern Partnership (EaP) and followed up on the EaP summit held in Brussels on 24 November 2017.

On 28 September 2018, the EU-Azerbaijan Partnership Priorities were endorsed by the EU-Azerbaijan Cooperation Council by written procedure. The document guides bilateral cooperation in four key areas: i) economic development and market opportunities; ii) strengthening institutions and good governance; iii) connectivity, energy efficiency, environment and climate action; and iv) mobility and people-to-people contacts. EU assistance in 2018-2020 will support these areas.

The EU-Azerbaijan Subcommittee on Justice, Freedom and Security and the Human Rights Dialogue met on 5-6 February 2019 in Baku. Issues related to human rights situation in the country, including the situation of people considered political prisoners, were systematically raised during bilateral meetings with the leadership of Azerbaijan. Longer-term stability, security and prosperity in Azerbaijan will also depend on ensuring respect for human rights and fundamental freedoms, where significant challenges remain. The challenge of ensuring freedom of expression and association and an enabling environment and legislation for civil society to operate is particularly acute.

The EU continued to fully support the confidence/peace-building and conflict prevention activities of the Co-Chairs of the OSCE Minsk Group (Organisation for Security and Cooperation in Europe). This included support through the EU Special Representative

¹ SWD(2017) 485 final: https://cdn1-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/RXovvo1KKH1VyJMjNf_abScnOMa3isNAa23-IHjBBLQ/mtime:1513694250/sites/eeas/files/report_on_eu-azerbaijan_relations_in_the_framework_of_the_revised_enp.pdf.

² https://eeas.europa.eu/headquarters/headquarters-homepage/48244/partnership-priorities-between-eu-and-azerbaijan-reinforce-bilateral-agenda_en.

(EUSR) for the South Caucasus and the crisis in Georgia. The HR/VP supported continued efforts towards peace, which included holding bilateral meetings with the leadership of Azerbaijan and Armenia, and providing support through the EUSR.

The EU's Strategic Energy Partnership with Azerbaijan³ to improve energy security and the diversification of energy supplies was followed up by the ongoing implementation of the Southern Gas Corridor. Although substantial progress was made in 2017 with negotiations on an EU-Azerbaijan civil air transport agreement almost finalised, no progress could be reported in 2018. The first high-level transport dialogue between the EU and Azerbaijan took place on 19 February 2019.

The EU remains Azerbaijan's first trading partner, representing 36.2 % of Azerbaijan's total trade in 2017⁴. The EU is also a key foreign investor in Azerbaijan⁵. Over the last 10 years, it invested around 18 billion EUR in Azerbaijan (24 % of the total foreign direct investments in the country). Currently, around 385 EU companies are doing business in Azerbaijan. Azerbaijan's economy is slowly recovering from the oil price shock and the subsequent policy response in 2015-2017, which included exchange rate devaluations and a tightening of fiscal and monetary policies. The EU supports the economic diversification of the country and promotes reforms to improve the business climate in Azerbaijan, including through assistance for agriculture and rural development as well as vocational education and training. The EU Business Climate Report Azerbaijan presented in June 2018⁶ suggested that the business climate was on an upward trend.

2. Strengthening institutions and good governance

2.1. Good governance, democracy, rule of law and human rights

The legislation on non-governmental organisations (NGOs) adopted in January 2017 is still in place, maintaining the 'single window' procedure for registering grant agreements. The operating space for **civil society** continues to remain restricted⁷; the space for freedom of expression is further shrinking, whereas a number of civil society organisation (CSO) activists have been detained or arrested for their postings on social media. Several NGO representatives continued to face travel bans or have their accounts frozen; new criminal or fiscal charges were brought against some NGO representatives. Over the reporting period, most — but not all — EU grant contracts with NGOs resulting from calls for proposals for rural development, education and regional development were registered.

The situation on human rights and fundamental freedoms remains challenging. As a result of the decision to call for early presidential elections on 11 April 2018, a number of opposition rallies took place. During these rallies, dozens of participants, including activists from

³ Memorandum of Understanding on a Strategic Partnership between the European Union and the Republic of Azerbaijan in the field of energy (2006): http://www.europarl.europa.eu/meetdocs/2009_2014/documents/dsca/dv/dsca_20130321_14/dsca_20130321_14en.pdf.

⁴ https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_azerbaijan_en.pdf.

⁵ <https://tradingeconomics.com/azerbaijan/foreign-direct-investment>.

⁶ https://eeas.europa.eu/delegations/azerbaijan_en/46055/EU%20Business%20Climate%20Report%20Azerbaijan%202018.

⁷ <https://www.osce.org/odihr/elections/azerbaijan/377617?download=true>.

political opposition movements, were summoned to police stations and faced administrative arrests. The final report⁸ of 18 July 2018 by the OSCE's Office for Democratic Institutions and Human Rights (ODIHR) Election Observation Mission states that 'the space in which civil society organisations, including those involved in election observation, can operate is increasingly confined by restrictive legislation, including provisions for foreign funding'. The report also notes that 'the media operate in a highly restrictive legal framework that challenges the freedoms of expression and the press'. In a statement delivered on 12 April 2018, the spokesperson of the HR/VP noted that 'the EU expects the Azerbaijani authorities to take on board and implement the OSCE/ODIHR recommendations in relation to these and previous elections'⁹.

In 2018, court cases against human rights defenders and journalists as well as arrests and detentions of political opposition movement activists continued¹⁰. A criminal case on the financing of the Popular Front Party was brought against its leader and members. The Republican Alternative Party (ReAl) faced obstacles finding premises to hold a constituent assembly¹¹.

Freedom of assembly continued to be restricted; opposition activists were detained throughout 2018 or threatened on numerous occasions, including in May-July of that year during activities organised to commemorate the centenary of the Azerbaijan Democratic Republic (ADR). This continued in January 2019 with 30 cases of detention of activists at opposition rallies¹².

Freedom of opinion and expression, mainly in social media, continued to be restricted, resulting in a number of activists and bloggers being detained and in several cases being opened against editors of independent websites. Also, in 2018 a number of websites and social media pages of opposition representatives and bloggers were hacked and deleted. Some were unblocked for a few hours. Others still remain blocked¹³.

Defamation remains a criminal offence that can lead to high fines or imprisonment. Some Azerbaijani journalists living in exile complain of the pressure that is brought to bear on them or their family members living in Azerbaijan. The most notable example is Afgan Mukhtarli who in January 2018 was sentenced to 6 years in prison¹⁴. In a statement on 14 January 2018, the spokesperson of the HR/VP recalled the need for Azerbaijan to review all cases of incarceration resulting from the exercise of fundamental rights and to release all those concerned, in line with international commitments¹⁵.

⁸ <https://www.osce.org/odihr/elections/azerbaijan/388583>.

⁹ https://eeas.europa.eu/headquarters/headquarters-homepage/42873/statement-spokesperson-presidential-elections-republic-azerbaijan_en.

¹⁰ <https://smdtaz.org/en/emds-preliminary-statement-on-findings-of-monitoring-the-11-april-2018-early-presidential-election-in-azerbaijan/>.

¹¹ <http://www.turan.az/ext/news/2018/4/free/politics%20news/en/70435.htm>.

¹² <http://www.assembly.coe.int/LifeRay/JUR/Pdf/DocsAndDecs/2019/AS-JUR-2019-01-EN.pdf>.

¹³ <http://openazerbaijan.org/en/latestnews/4-more-websites-blocked/>.

¹⁴ <http://iphronline.org/high-price-speaking-azerbaijani-journalist-sentenced-six-years-prison-trumped-charges.html>.

¹⁵ https://eeas.europa.eu/headquarters/headquarters-homepage/38212/statement-spokesperson-sentencing-journalist-afgan-mukhtarli-azerbaijan_en.

In May 2018, presidential pardons were announced on the occasion of the 100th anniversary of the Azerbaijan Democratic Republic. Of the 634 prisoners pardoned¹⁶, only 2 were considered political prisoners, and their sentences were ending a few weeks later. None was active in a political organisation. The most prominent opposition figure, Ilgar Mammadov, was released conditionally in August. He is not allowed to leave the country, and his political rights have not been restored.

Since 1 January 2018, when the amendments to the Law on the Bar Association came into force, lawyers of human rights defenders have faced further pressure from disciplinary procedures that in some cases led to their disbarment or suspension of their licence¹⁷. No independent lawyers having experience with politically sensitive human rights cases were admitted to the Bar Association in 2018.

According to reports on Azerbaijan by the Council of Europe's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment, 'torture and other forms of physical ill-treatment by the police and other law enforcement agencies, corruption in the whole law enforcement system and impunity remain systemic and endemic'¹⁸.

On 11 July 2018, the United Nations Human Rights Council adopted the Report of the Working Group on the Universal Periodic Review (UPR) for Azerbaijan¹⁹. The UPR outcomes for Azerbaijan were adopted on 20 September 2018²⁰; of the 259 recommendations received, Azerbaijan accepted 179 and reported that it would set up a working group of deputy ministers to ensure their implementation.

On **gender equality**, the government continued to support the development of women entrepreneurship²¹. The country has yet to take steps towards ratifying the Istanbul Convention²² and enforcing the prohibition of sexual harassment, in line with the objectives of the EaP 20 deliverables for 2020²³. The State Committee for Family, Women and Children Affairs is currently developing a Gender Action Plan to be submitted to the Government for adoption.

The Ministry of Labour and Social Protection together with the State Committee for Family, Women and Children Affairs continued awareness-raising activities to prevent gender-

¹⁶ http://iphronline.org/wp-content/uploads/2018/06/Letter-to-PACE-on-AZ-political-prisoners_12-June-final-1.pdf.

¹⁷ <http://ehrac.org.uk/wp-content/uploads/2018/07/EHRAC-Summer-2018-Eng-WEB.pdf> ; http://gozetc.az/article/index/8819?l=en_US ; <https://www.rferl.org/a/azerbaijan-lawyers-disbarred-defending-opposition/29020982.html> ; <http://www.turan.az/ext/news/2018/6/free/Social/en/72894.htm> ; <https://www.icj.org/azerbaijan-human-rights-lawyers-asabali-mustafayev-and-nemat-karimli-must-be-allowed-to-practice-their-profession/> ; <http://iphronline.org/statement-in-support-of-azerbaijani-human-rights-lawyer-elchin-sadigov.html>.

¹⁸ https://www.coe.int/de/web/cpt/news-2018/-/asset_publisher/F4MCR6Bvx1tS/content/azerbaijan-torture-impunity-and-corruption-highlighted-in-new-anti-torture-committee-publications?_101_INSTANCE_F4MCR6Bvx1tS_languageId=en_GB.

¹⁹ <https://documents-dds-ny.un.org/doc/UNDOC/GEN/G18/210/88/PDF/G1821088.pdf?OpenElement>.

²⁰ <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=23600&LangID=E>.

²¹ Currently, there are more than 170 000 women entrepreneurs in Azerbaijan:

<https://www.stat.gov.az/source/gender/?lang=en>.

²² Council of Europe Convention on preventing and combating violence against women and domestic violence.

²³ https://eeas.europa.eu/sites/eeas/files/20_deliverables_for_2020.pdf.

selective abortions and other practices resulting from son preferences. Women's participation on the labour market has to be improved. Family law has yet to be modernised²⁴.

EU-supported social counselling for vulnerable children and their families is now being incorporated into the development of a more comprehensive social services strategy and package under the Ministry of Labour and Social Protection of the Population.

In May 2018, the President of Azerbaijan approved a national action plan on early prevention and treatment of childhood disabilities for 2018-2020. During the same month, the country's parliament adopted a law on 'Protection of children from information harmful to their health and development'. On 18 July 2018, the President signed a Law on Rights of Persons with Disabilities, which is in line with the standards outlined in the UN Convention on the Rights of People with Disabilities²⁵.

In August 2018, a new Agency for Sustainable and Operational Social Security (DOST) was established²⁶ to improve the transparency of the public social services (employment, labour, social protection and the security system) through a single window with a simple and accessible procedure using information technologies.

Pursuant to a presidential decree of 5 February 2018, the 'Civil Service Development Strategy for 2019-2025' will be prepared in Azerbaijan²⁷. The strategy will seek to support the institutional reforms of the civil service. These are reforms aimed at the continuous professional development of civil servants, improvement of personnel policy in the civil service, the development of an electronic public service and the establishment of an advanced incentive system for civil servants. The State Agency for Public Services and Social Innovations (ASAN) has been tasked to create an IT tool to manage human resources in the civil service. For e-government, ASAN has been assigned²⁸ as the single coordination authority. The e-government portal provides 436 electronic services.

There have been some developments in the field of **decentralisation**, such as the creation of the Council of Farmers under the responsibility of the Ministry of Agriculture. The main objective of the Council is for the Ministry of Agriculture to develop closer contact with farmers and better understand local challenges. Also, agrarian development centres are expected to be established under the agriculture departments of each district. This is intended to increase the efficiency of agriculture-related services in the districts.

The EU and Azerbaijan deepened their cooperation on **inter-religious and inter-cultural dialogue**. Azerbaijan has made a significant effort to promote its secular state model. A series of high impact outreach cultural events (such as film festivals, the Imagine Euro Tolerance Festival, visits of Azerbaijani religious clergy to Brussels, conferences on inter-faith dialogue, etc.) were held in Azerbaijan at the initiative of the EU Delegation.

²⁴ <https://rm.coe.int/azerbaijan-barriers-remedies-and-good-practices/168075fd51>.

²⁵ [https://www.unog.ch/80256EDD006B9C2E/\(httpNewsByYear_en\)/9DA42D4176B838D7C125830E003570C4?OpenDocument](https://www.unog.ch/80256EDD006B9C2E/(httpNewsByYear_en)/9DA42D4176B838D7C125830E003570C4?OpenDocument).

²⁶ <https://en.trend.az/azerbaijan/politics/2938802.html>.

²⁷ <https://en.trend.az/azerbaijan/politics/2857315.html>.

²⁸ Presidential decree on the development of e-government and the transformation to digital government issued on 14 April 2018.

2.2. Foreign and security policy

Azerbaijan pursues a balanced, multi-vector foreign policy, building alliances with several regional blocs. Its ultimate goal is to raise the pressure for a solution to the Nagorno-Karabakh conflict. This approach has resulted in good working relations with countries or regional groupings, including Turkey, Russia, Iran, countries that are members to the Organisation of Islamic Cooperation, Georgia but also Israel, the Commonwealth of Independent States, the EU and the US.

The Convention on the legal status of the Caspian Sea was signed by the Presidents of all Caspian countries on 12 August 2018 in Aktau (Kazakhstan) and approved by the President of Azerbaijan on 23 February 2019²⁹. Bilateral delimitation with Turkmenistan and Iran is still pending.

The country's relations with the EU were positive in 2018, as illustrated by the visit of President Aliyev to Brussels in July and the three visits of Foreign Minister Mamadyarov in February, May and July.

Azerbaijan continued to take part in the activities of the EaP Panel on Security, Common Security and Defence Policy (CSDP) and Civil Protection and participated in several CSDP / Common Foreign and Security Policy events. On 11-15 June 2018, Azerbaijan hosted for the first time the CSDP Orientation course, which it organised with the European Security and Defence College.

With support from the EU-funded Prevention, Preparedness and Response to Natural and Man-made Disasters (PPRD) programme, national inter-institutional working groups for flood and disaster risk assessment were established and launched in 2018. Similarly, the national inter-institutional working group for host nation support was established, and its inaugural meeting was held on 26 September 2018.

On 27-30 August 2018, Azerbaijan took part as observer in the Union Civil Protection Mechanism BALEX Delta 2018 (marine pollution exercise) and participated in the 6th EU Civil Protection Forum in Brussels on 5-6 March 2018.

In the **fight against terrorism**, the Counter-Terrorism Committee Executive Directorate, acting on behalf of the UN Security Council Counter-Terrorism Committee, conducted a visit to Azerbaijan in July 2018. This follow-up visit focused on Azerbaijan's progress in implementing the Committee's 2009 visit recommendations and on measures introduced to implement UN Security Council resolutions 1624 (2005), 2178 (2014), 2396 (2017) and other relevant Council resolutions.

In the field of **non-proliferation, disarmament and arms export control**, Azerbaijan is not a party to the Mine Ban Treaty, the Convention on Conventional Weapons, or the Arms Trade Treaty.

On the **Nagorno-Karabakh conflict**, the OSCE Minsk Group Co-Chairs have been engaged in substantial mediation. The EU has continued to back fully their mediation efforts to de-

²⁹ <https://en.president.az/articles/29674>.

escalate tensions and proposals to advance the peace process. On 11 July 2018, the Co-Chairs of the OSCE Minsk Group hosted an introductory meeting between the Foreign Ministers of Armenia and Azerbaijan in Brussels. It was the first high-level meeting between the sides in this format since elections in Armenia and Azerbaijan³⁰. On 25-27 September 2018, the Co-Chairs and the Ministers met in New York, discussed the situation in the region and sought clarification on statements and incidents of concern. The Co-Chairs cautioned the Ministers about the dangers of escalation and called on the parties to engage constructively and to avoid inflammatory rhetoric. The Co-Chairs underscored that a comprehensive settlement will require compromises on all sides. The Ministers confirmed the importance of taking measures to intensify the negotiation process and take additional steps to reduce tensions³¹. On 28 September 2018, the President of Azerbaijan and the Prime Minister of Armenia addressed the situation during a conversation on the side-lines of the Commonwealth of Independent States Summit held in Dushanbe. The Ministers met again on 6 December 2018, on the margins of the OSCE Milan Ministerial Council meeting, and together with the Heads of Delegation of the OSCE Minsk Group Co-Chair Countries adopted a statement on the way forward³². The OSCE Minsk group Co-Chairs visited Azerbaijan on 21 February 2019.

The lack of progress towards peace continued to impact on the population displaced by the conflict. According to the United Nations High Commissioner for Refugees, there were 612 785 internally displaced persons in Azerbaijan in May 2018³³.

The conflict, which needs a political settlement in accordance with international law, was addressed during high-level EU-Azerbaijan bilateral meetings. Following the meeting of the resumed Cooperation Council between the European Union and Azerbaijan on 8 February 2018, the HR/VP addressed this matter in a statement³⁴. On 18 January 2019, the spokesperson of the HR/VP issued a statement³⁵ welcoming recent developments toward the peaceful settlement of the conflict. The EU Special Representative for the South Caucasus and the crisis in Georgia visited the region regularly for high-level meetings and maintained frequent contacts with the Co-Chairs and other relevant interlocutors. The EU has continued to call on the parties to refrain from actions and statements that could heighten tensions and undermine the peace process and to promote an environment conducive to settling the conflict, encouraging and supporting activities that promote confidence and people-to-people contacts. The EU has continued to support people-to-people contacts across the conflict divide in peacebuilding activities, notably through the European Partnership for the peaceful settlement of the conflict over Nagorno-Karabakh (EPNK). The EU continued to call for unimpeded access to Nagorno-Karabakh for EU representatives engaged in conflict transformation activities in support of and complementing the OSCE Minsk Group's mediation effort.

Azerbaijan is not a party to the Rome Statute of the **International Criminal Court**.

³⁰ <https://www.osce.org/minsk-group/387683>.

³¹ <https://www.osce.org/minsk-group/397700>.

³² <https://www.osce.org/minsk-group/405479>.

³³ https://unazerbaijan.org/wp-content/uploads/2018/05/Factsheet_Aze_1-May-2018-v1.pdf.

³⁴ https://eeas.europa.eu/headquarters/headquarters-homepage/39659/remarks-high-representativevice-president-federica-mogherini-following-eu-azerbaijan_kk.

³⁵ https://eeas.europa.eu/headquarters/headquarters-homepage/56817/statement-spokesperson-recent-developments-toward-peaceful-settlement-nagorno-karabakh_en.

2.3. Justice, freedom and security

The State Programme on **Justice** 2019-2023 was adopted by presidential decree on 18 December 2018. The program contains a detailed action plan in a wide range of areas including the legal framework and transparency of the justice system, legal aid, improved human resources management and use of information and communications technology (ICT) as well as modernisation and enhanced efficiency of the country's court management system.

Improved citizen satisfaction is equally included as a strand in the State Program. The findings of a satisfaction survey of the justice services were announced in July 2018³⁶. The survey — carried out through the ‘Judicial Services and Smart Infrastructure’ project funded by the government of Azerbaijan and the World Bank — suggests that on average 63 % of respondents were satisfied with the judicial services (73 % with access to courts, 57.8 % with transparency and 58.1 % with efficiency).

The Cabinet of Ministers was instructed³⁷ to allocate funds to the Bar Association and to provide new offices to the Bar and for legal consultations across the country. There are plans to increase the number of lawyers by holding regular exams and ensuring their training in order to increase the quality of legal services. With some 9 lawyers per 100 000 inhabitants, Azerbaijan has 18 times fewer law professionals than the EU average and less than in any other Council of Europe member³⁸.

Regarding alternative dispute resolution, the Mediation Law and the Statute for setting up Mediation Councils were drafted and are envisaged to be submitted to the Presidential Administration. Also, a Roadmap on setting up a mediation system in Azerbaijan, developed with EU support, was finalised and is being implemented. In June 2018, the piloting of the mediation system in the Baku Yasamal Court was launched.

Since 1 December 2017, the Probation Service has become an independent agency. The structure and human resources of the Probation Service have been approved. Probation Units have been piloted in Ganja and Sumgayit. In total, 102 staff members have been assigned to the Probation Service in Baku and the regions. Throughout 2018, the EU and the Ministry of Justice organised a series of capacity-building training activities on organising and performing community work for all probation officers and representatives of Executive Authorities in Baku and the regions. On 10 April 2018, the Cabinet of Ministers approved the Decision on the Approval of Electronic Control Means and the rules on its application to convicted persons and persons in pre-trial. Electronic bracelets are currently being tested and are being used by 900 offenders. The number of imprisoned persons decreased by 25% since the adoption of the Presidential Executive Order on Improvement of operation of penitentiary, humanization of penal policies and extension of application of alternative sanctions and non-custodial procedural measures of restraint in February 2017.

With EU support, the Council of Europe continued its training of judges on European Human Rights standards and further strengthened and enlarged the pool of trainers at the Academy of

³⁶ https://courts.gov.az/en/main/displaynews/Results-on-satisfaction-survey-conducted-among-judicial-and-justice-service-users_267.

³⁷ Presidential decree on ‘Additional Measures for the Advancement of Advocacy in the Republic of Azerbaijan’ signed on 22 February 2018.

³⁸ <https://eurasianet.org/s/azerbaijan-moves-to-dramatically-cut-number-of-lawyers>.

Justice capable to conduct the curriculum in this domain that contains the so-called HELP-methodology.

On 13 February 2018, the country's parliament approved amendments to the Code of Administrative Offences envisaging new penalties in the fight against terrorism³⁹. This was a follow-up to the recommendations by the Committee of Experts on the Assessment of **Money Laundering** and Terrorism Financing of the Council of Europe (MONEYVAL)⁴⁰. According to the amendments, legal entities, individuals and government agencies that do not take the necessary measures or fail to comply with the decision to freeze the assets of the financial monitoring body will be subject to administrative liability.

In May 2018, the EU and the Council of Europe provided investigators, prosecutors and judges with training in anti-money laundering investigative techniques. To implement outstanding MONEYVAL recommendations, work was underway to review the compliance of national legislation with international standards. The legislation under review includes the Law on Banks, the Law on Non-Bank Credit Institutions, the Law on Insurance Activity, the Law on the Securities Market, and the Law on Investment Funds. Based on a more effective national system for anti-money laundering and combating the financing of terrorism which is fully compliant with the international standards, a new Financial Intelligence Unit was established as a result of consultations with the Egmont Group.

According to the Transparency International Corruption Perceptions Index 2018⁴¹, Azerbaijan's score on **anti-corruption** dropped by six points from 31 in 2017 to 25 in 2018 and the country ranked 152nd among 180 countries. With EU support, the Azerbaijan Anti-Corruption Academy continued to deliver training activities on 'Ethics and Anti-Corruption techniques' for civil servants in Baku and the regions. Those activities were delivered by certified national trainers, who have completed the Training-of-Trainers courses within the EU/Council of Europe joint project on 'Strengthening capacity to fight and prevent corruption in Azerbaijan'. The National Action Plan on Promotion of Open Government for 2016-2018 has been implemented for 89%.

On the **trafficking of human beings**, in 2018 the government identified 144 trafficking cases and 4 forced labour cases. 13 criminal groups were neutralised and 98 victims of trafficking were provided with reintegration support⁴². In June 2018, the government approved standard activity procedures (SAP) on the national referral mechanism. SAP were developed through the EU-funded project 'Consolidation of Migration and Border Management Capacities in Azerbaijan' which was implemented by the International Organisation for Migration (IOM).

³⁹ <https://report.az/en/milli-majlis/parliament-approves-draft-envisaging-new-penalties-in-fight-against-terrorism/>.

⁴⁰ <https://rm.coe.int/moneyval-report-of-the-54th-plenary-meeting-/168076c28a>.

⁴¹ <https://www.transparency.org/cpi2018>.

⁴² <https://mia.gov.az/?/en/news/view/1218/>.

3. Economic development and market opportunities

3.1. Economic development

Azerbaijan's economy is boding well, mainly thanks to an upturn in oil prices and economic awakening at the end of 2018. The GDP grew by 1.4% in 2018⁴³. Robust growth of agricultural output and increases of retail turnover and industrial production were largely offset by a sharp decrease of fixed capital investments in the oil sector. The economy's dependence on oil remains high, with the hydrocarbon sector representing 44 % of GDP, 90 % of goods exports and 50 % of fiscal revenues⁴⁴.

More favourable oil prices have helped the authorities to maintain the local currency stable in the course of 2018. Supported by exchange rate stability, muted domestic demand and a favourable base effect, consumer price inflation moderated sharply to 2.3% in 2018⁴⁵. Given the rapid disinflation and still weak economic activity, the Central Bank reduced the key policy rate four times since the start of 2018 — by a cumulative 5.25 percentage points to 9.75 %⁴⁶ as of the end of October 2018.

A higher transfer from the State Oil Fund of Azerbaijan (SOFAZ) to the national budget contributed to strong revenue growth in the 9 months of 2018. As a result, the state budget recorded a surplus of AZN 0.4 billion in January-September 2018 compared with a AZN 0.7 billion deficit in the same period of 2017⁴⁷. Given the higher-than-envisaged price of crude oil, the country's parliament approved a budget revision in June 2018 that set the 2018 state budget deficit target at AZN 0.95 billion (1.3 % of the projected GDP)⁴⁸. In August 2018, the authorities introduced a new fiscal rule, which is expected to reduce the country's dependency on volatile oil revenue and tighten fiscal discipline. Based on the country's net financial assets, the rule sets a mechanism for calculating upper limits on oil proceeds to be spent during the fiscal year and on consolidated budget expenditure⁴⁹.

Favourable oil prices and solid growth in non-oil exports helped Azerbaijan increase its current account surplus to EUR 2.9 billion in the first half of 2018 from EUR 0.7 billion in the same period of 2017⁵⁰. The country's foreign assets rose in the course of 2018, thus strengthening the country's external balance sheet. Gross international reserves held by the central bank rose in the first 8 months of 2018 and reached EUR 4.7 billion at the end of August 2018⁵¹. Assets held by SOFAZ, the country's sovereign wealth fund, added EUR 3.2 billion in the first 9 months of 2018 to EUR 33.7 billion at the end of September 2018⁵².

The devaluations of 2015 have put Azerbaijan's **financial sector** under strain, and it is only gradually recovering. On 30 April 2018, the total capitalisation of 30 banks in Azerbaijan reached AZN 3 871.7 million (4.4 % higher than at the beginning of the year). The authorities

⁴³ <https://www.focus-economics.com/countries/azerbaijan>.

⁴⁴ <http://abc.az/en/news/14178>.

⁴⁵ <https://www.azernews.az/business/143261.html>.

⁴⁶ <https://countryeconomy.com/key-rates/azerbaijan>.

⁴⁷ <http://www.maliyye.gov.az/en/static/105/information-on-the-state-budget-execution>.

⁴⁸ <http://www.maliyye.gov.az/en/news/5227/milli-majlis-approves-amendments-to-2018-state-budget>.

⁴⁹ <http://www.maliyye.gov.az/en/news/5246/new-fiscal-rule-signed-in-to-law>.

⁵⁰ <https://tradingeconomics.com/azerbaijan/current-account>.

⁵¹ <https://www.ceicdata.com/en/indicator/azerbaijan/foreign-exchange-reserves>.

⁵² https://www.azernews.az/oil_and_gas/142177.html.

continued to take steps to resolve systemic **banking vulnerabilities**⁵³. In June 2018, the Financial Market Supervisory Authority (FIMSA) reported that no banks have had their licence revoked in 2018⁵⁴. In August 2018, a Strategy on the Management of Public Debts for Medium-term and Long-term was adopted⁵⁵ which aims at maintaining the sustainability of public debts.

In May 2018, the non-performing loans (NPL) taskforce led by the Financial Market Supervision Authority of Azerbaijan presented a first draft of the collective agreement for the NPL resolution programme⁵⁶.

The **securities market** reported a total of AZN 12.45 billion worth of transactions in the first 6 months of 2018, an increase of 2.4 times from the same period a year earlier⁵⁷. In a move to align to **international standards** in the securities sector, Azerbaijan applied for membership in the International Organization of Securities Commissions (IOSCO) in April 2018. The Financial Market Supervisory Authority of Azerbaijan was admitted to IOSCO as an associate member in June 2018⁵⁸.

The European Commission's Technical Assistance and Information Exchange (TAIEX) instrument supported the Financial Market Supervisory Authority of Azerbaijan on four occasions from late 2017 to 2018⁵⁹. This included three expert visits on topics including the participation of banks in **capital markets**, and one study visit on **insurances**.

For the fourth consecutive year, the EU organised the **EU-Azerbaijan Business Forum** in June 2018. About 700 people attended from the private and public sectors (40 % more than in 2017). This reflects both an increased interest from the EU private sector to explore business opportunities in the country and an explicit interest and commitment of high-level government officials to engage in a public-private dialogue.

During the Forum, the 2018 **EU-Azerbaijan Business Climate Report** was presented. This annual survey gauges the sentiment among the 400 leading EU companies doing business in Azerbaijan, and the 2018 report suggests that the current business climate is more optimistic. The ASAN⁶⁰ e-visa and the prolonged moratorium on business inspections were regarded as the most effective reforms implemented. The EU businesses surveyed said a key concern was the need to improve transparency in customs, tax systems and legal systems while ensuring availability of skilled people to meet the labour market needs.

These findings are largely in agreement with the World Bank report 'Doing Business 2018'⁶¹. The World Bank ranks Azerbaijan 25 out of 190 countries, giving it high ranks for 'protecting

⁵³ IMF. Regional Economic Outlook, May 2018:

<https://www.imf.org/en/Publications/REO/MECA/Issues/2018/04/24/mreo0518>.

⁵⁴ [https://www.fimsa.az/assets/upload/files/Cap%20market_june%202018\(1\).pdf](https://www.fimsa.az/assets/upload/files/Cap%20market_june%202018(1).pdf).

⁵⁵ http://cesd.az/new/?page_id=15.

⁵⁶ <https://www.fimsa.az/en/press-reliz/459>.

⁵⁷ <https://www.fimsa.az/en/press-reliz/483>.

⁵⁸ <https://www.fimsa.az/en/press-reliz/469>.

⁵⁹ <https://webgate.ec.europa.eu/TMSWebRestrict/resources/js/app/#/library/list>.

⁶⁰ Functioning network for simplified access to government services run by the State Agency for Public Service and Social Innovations under the President.

⁶¹ http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf.

minority investors' (2), 'starting business' (9), 'registering property' (17) and 'getting credit' (22), but with challenges in the areas of 'dealing with construction permits' (61), 'getting electricity' (74) and 'trading across borders' (84).

The mandate of the Agency for the Development of **Small and Medium-Sized Businesses** (SMB Agency) was formally adopted on 28 June 2018⁶². A total of AZN 5 million has been allocated to the Agency in 2018 from the State budget, and the amount will be doubled by 2019. Setting up the SME Agency was one of the priorities in the strategic roadmap adopted in December 2016⁶³ and implemented with EU support. EU technical assistance is being prepared for the newly established Agency.

On 1 August 2018, the Azerbaijan National Fund for Entrepreneurship Support (ANFES) was restructured⁶⁴ and renamed the Entrepreneurship Development Fund. The new Fund will be supervised by a multi-ministerial council that includes representatives of the Ministry of the Economy, the Ministry of Finance, the Ministry of Taxes, the Ministry of Labour and Social Protection and the Financial Markets Supervisory Chamber.

On 14 February 2018, 'The State Programme on Improvement of the Official **Statistics** in the Republic of Azerbaijan in 2018-2025' was adopted⁶⁵. The State Statistical Committee is to coordinate the work of the State programme. The EU continues to support the Committee with technical assistance.

The **agriculture** and food sector contributes 6.8 % to GDP, 6.2 % to export earnings and accounts for 38 % of employment⁶⁶. Of the total number of women in the labour market, 43 % work in the agriculture sector while men in the sector represent 32 % in the labour market⁶⁷. Following the 2018 presidential elections, the new agricultural administration identified its priority areas under the agriculture chapter of the strategic roadmap: (i) evidenced-based agricultural policy, (ii) e-agriculture and technology transfer as part of innovation in agriculture, (iii) education and (iv) more contact with (small) farmers.

An agricultural research centre was set up under the Ministry of Agriculture⁶⁸. Its first task is to analyse to what extent the land and water resources are used efficiently. The aim is to promote regional specialisation and provide domestic support to farmers for an optimal and sustainable use of land. The State Agro Trade Company LLC was created in June 2018 to link small producers to processors and markets more effectively. Azerbaijan increased its domestic support to the sector in 2018 by 37.9 % to AZN 714 million (3.1 % of the total budget expenditure). This is equivalent to 15 % of agricultural GDP. The EU continued to provide extensive support to the agriculture sector and, more broadly, to rural/regional development in the country in order to reduce regional differences. The EU launched EU4Lankaran in 2018, a new EUR 13.5 million programme to support the competitiveness of fruit and vegetable production and rural development in the Lankaran region.

⁶² Presidential decree signed on 28 December 2017: <https://en.trend.az/azerbaijan/politics/2841938.html>.

⁶³ <http://cis-legislation.com/document.fwx?rgn=91715>.

⁶⁴ <https://en.trend.az/business/economy/2935984.html>.

⁶⁵ <https://en.trend.az/azerbaijan/politics/2861031.html>.

⁶⁶ https://www.indexmundi.com/azerbaijan/economy_profile.html.

⁶⁷ <https://data.worldbank.org/indicator/SL.AGR.EMPL.FE.ZS?view=chart> ;

<https://data.worldbank.org/indicator/SL.AGR.EMPL.MA.ZS?view=chart>.

⁶⁸ Presidential decree signed on 22 May 2018: <https://en.trend.az/azerbaijan/politics/2906885.html>.

Regional development remained one of the country's priorities. In the first 6 months of 2018, 76 presidential decrees were signed, allocating AZN 982.6 million for the implementation of socio-economic projects in the regions. As of February 2019, 17 agro-parks have been in place covering 104 000 hectares.

Several State programmes in support of different agricultural and other non-oil sectors were adopted in 2018: paddy culture (9 February), tea planting (12 February), citrus fruit (13 February), winemaking (13 February) and beekeeping (5 March).

The growth in **tourism** these last few years continued in 2018. The number of tourists visiting Azerbaijan in the first 4 months of 2018 totalled 847 600 persons (out of which 32,000 originated from EU Member States), 13.4 % more than the same period in 2017 (respectively 12.4 % regarding arrivals from EU Member States)⁶⁹.

The Ministry of Culture and the State Tourism Agency were established on the basis of the former Ministry of Culture and Tourism⁷⁰.

On **industrial policy**, steps have been taken to implement the Law on Free Economic Zones within the area of the new Baku International Sea Trade Port⁷¹. The EU provides technical assistance to help develop the new Baku Port and implement the Free Economic Zone. This technical assistance takes the form of support for legal, regulatory and capacity building.

As for **consumer policy**, the State Agency for Antimonopoly Policy and Supervision of the Consumer Market was set up as a central executive body. This was done by reorganising the State Service for Antimonopoly Policy and Consumer Rights Protection under the Ministry of Economy⁷².

For **external auditing**, a new Law on the Chamber of Accounts was adopted by the country's parliament in May 2018⁷³. The changes in the law mainly concern the responsibilities and functions of the Chamber, the fight against corruption, and the conduct of audits. Improving the legal framework will allow the Chamber to tighten financial discipline and financial control over public funds.

On **taxation**, the number of registered taxpayers reached 40 706 (6 330 legal entities and 34 673 individuals) in the first half of 2018⁷⁴. Amendments to the Tax Code were adopted in July 2018⁷⁵, increasing the excise rate for cigars and cigarettes produced from tobacco and its substitutes. Excise tax exemption for individuals importing alcoholic beverages decreased; it also decreased for tobacco products.

⁶⁹ <https://www.azernews.az/travel/132479.html>.

⁷⁰ Presidential decree was signed on 20 April 2018: <https://en.trend.az/azerbaijan/politics/2891047.html>.

⁷¹ <https://www.azernews.az/business/138145.html>.

⁷² Presidential Order signed on 20 April 2018 on '*measures to improve management in the sphere of consumer market monitoring, standardization, metrology and protection of intellectual property rights*': <https://en.trend.az/azerbaijan/politics/2891053.html>.

⁷³ <https://www.azernews.az/nation/132221.html>.

⁷⁴ <http://abc.az/en/news/13817>.

⁷⁵ <https://www2.deloitte.com/content/dam/Deloitte/az/Documents/tax/aze/Deloitte%20Azerbaijan%20Tax%20News,%2028%20June%202018.pdf>.

Since July 2018, the Tax Ministry's administration structure has been reformed for more transparency, a more favourable business environment based on a system of direct tax administration, and more effective anti-corruption measures.

Pension reforms are under way to: minimise non-contributory liabilities in the pension system; (ii) earn pension rights on the basis of adequate insurance provision; (iii) make the system less costly; (iv) introduce 'open accounts' on a voluntary basis; and (v) raise the pension age to reflect longer life expectancy. The pensions of about 90 000 servicemen and persons with special military ranks increased⁷⁶. The minimum monthly wage in Azerbaijan increased to AZN 130 in 2018 from AZN 116 in 2017⁷⁷.

The **unemployment** rate in Azerbaijan remained unchanged at 4.9 % in 2018⁷⁸. In 2017, 4.4 % of the men and 5.7 % of the women of working age were unemployed⁷⁹. A new employment strategy for 2017-2030 has set 16 targets for 2030⁸⁰. These targets aim to reduce the number of young people not in employment, education or training, lower unemployment rates and increase employment in SMEs. Increasing the scope and scale of training and self-employment measures is also a priority as is validating skills acquired in non-formal and informal learning.

The EU continued to provide Twinning support to **reform the financing of the health sector** by developing the legal and economic frameworks for introducing a compulsory medical insurance system in Azerbaijan. The EU also provided support through TAIEX to neonatal care in Azerbaijan.

Progress was made in implementing the International Health Regulations. Sustained efforts are needed, especially if core capacities are to be developed, to improve global health security and ensure that the country is prepared to respond to serious public health risks with a cross-border dimension and health risks linked to tobacco.

3.2. Trade and trade-related matters

The State Committee for Standardisation, Metrology and Patents was abolished. This was done in accordance with the order 'On measures to improve management in the sphere of consumer market monitoring, standardisation, metrology and protection of intellectual property rights' signed on 20 April 2018 and referred to in Section 3.1.. Most of its functions have been transferred to the new State Agency for Antimonopoly Policy and Supervision of the Consumer Market that will be responsible for the core of the quality infrastructure and the overall system of technical regulations. It will have a central role in coordinating the adoption of technical regulations and the development of cross-cutting policies (and sub-laws) and practices.

Changes were made to the way in which the State **Customs** Committee was operating. The EU continues to provide technical assistance to support customs management and

⁷⁶ Presidential decree signed on 25 June 2018: <http://abc.az/en/news/12065>.

⁷⁷ <https://tradingeconomics.com/azerbaijan/minimum-wages>.

⁷⁸ <https://www.ceicdata.com/en/indicator/azerbaijan/unemployment-rate>.

⁷⁹ <https://data.worldbank.org/indicator/SL.UEM.TOTL.FE.ZS?view=chart> ;
<https://data.worldbank.org/indicator/SL.UEM.TOTL.MA.NE.ZS?view=chart>.

⁸⁰ <https://www.etf.europa.eu/en/regions-and-countries/countries/azerbaijan>.

preparations for the country's possible accession⁸¹ to the EU-Common Transit Convention⁸². Also, the EU continues to support the activities of relevant border management projects⁸³.

The draft Competition Code, finalised with EU support in 2017, has still not been adopted by the country's parliament.

The **Intellectual Property** Agency was established by reorganising the Copyright Agency and the Patent and Trademark Centre in April 2018.

To continue supporting Azerbaijan's preparations for joining the **World Trade Organisation** (WTO), a new EU technical assistance project was launched in 2018. Also, in the context of the negotiations of a new comprehensive agreement with Azerbaijan launched in 2017, a trade negotiation round took place in December 2018.

On **e-commerce**, the EU continues to support the Ministry of Transport, Communications and High Technologies by implementing a technical assistance project on developing e-commerce more widely in Azerbaijan. An assessment of the sector's needs and of recommendations by EU experts was presented at the 'Baku E-commerce Forum' on 24-25 September 2018.

On **sanitary and phytosanitary** (SPS) matters, the previously⁸⁴ decreed establishment of a new independent Food Safety Agency (AFSA) materialised on 1 January 2018. The Agency unifies what was previously a fragmented food safety mandate including veterinary and phytosanitary controls⁸⁵. AFSA has meanwhile installed a single window⁸⁶ for SPS-related border controls⁸⁷.

A new **food safety** law significantly aligned with the principles underlying EU food safety policy is being drafted and a State programme on food safety for 2018-2025 was drawn up. EU assistance has been provided to support these reforms and further assistance towards strengthening AFSA's operational capacity is envisaged.

The Azerbaijan Food Safety Authority and the EU organised the first Baku International Food Safety Conference in May 2018. The conference helped to recognise that a modern, risk-based and integrated food safety system is a pre-requisite for Azerbaijan's agri-food industry to develop a wider export base while defending the market share at home.

⁸¹ Azerbaijan currently has observer status; https://eeas.europa.eu/delegations/azerbaijan/48646/closing-event-project-titled-support-state-customs-committee-preparation-accession-common_en.

⁸² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A111025>.

⁸³ <http://www.eap-ibm-capacitybuilding.eu/en/about/project>.

⁸⁴ Presidential Decree on additional measures to improve the food safety system in Azerbaijan adopted on 10 February 2017.

⁸⁵ Presidential Decree of 1 May 2018 on Amendments to the Decree of the President of the Republic of Azerbaijan 'On ensuring activities of the Food Safety Agency of the Republic of Azerbaijan' No 1681 dated 13 November 2017.

⁸⁶ Presidential Decree of 3 May 2018 on Amendments to the Decree No 12 of the President of the Republic of Azerbaijan 'On introduction of the principle of 'single window' for the inspection of the goods and transport means crossing check points at the State Borders of the Republic of Azerbaijan' of 11 November 2008.

⁸⁷ Resolution No 303 of 16 July 2018 of the Cabinet of Ministers approved regulations regarding the registration of food business operators. The charter and structure of the Food Safety Institute, whose responsibilities include assessing food safety-related risks, were approved based on the Cabinet of Ministers Decision No 220 of 16 May 2018.

An EU-funded Twinning project with the State Veterinary Control Service (SVCS) on the prevention and control of animal diseases and zoonoses successfully ended during the reporting period. The project is expected to improve food safety and public health increasing Azerbaijan's prospects for exporting live animals and products of animal origin in the medium term.

4. Connectivity, energy efficiency, environment and climate action

In January 2018, the State Maritime Administration and the State Civil Aviation Agency were included in the structure of the Ministry of **Transport**, Communications and High Technologies. The EU and Azerbaijan agreed on establishing a High Level Transport Dialogue and its first meeting took place on 19 February 2019.

Following the resumption of negotiations on an **EU-Azerbaijan common civil aviation area agreement** in July and October 2017, no new round of negotiations took place in 2018.

The European Maritime Safety Agency received agreement from the State Maritime Agency under the Ministry of Transport, Communications and High Technologies of Azerbaijan to conduct an inspection visit to verify compliance with the requirements of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers. The inspection visit took place in October 2018. The results of the inspection will serve as a basis for the European Commission's reassessment of the training and certification system in Azerbaijan.

Azerbaijan intends to deploy **high-speed trains** from Baku to Ganja, Baku to Gabala and Baku to Astara in the coming years. The high-speed trains to Ganja were launched on 29 December 2018.

In the sphere of **information and communication technologies**, a Data Processing Centre of the Ministry of Transport, Communications and High Technologies became an associate partner of the EU Future Trust project in June 2018. This will simplify the process of mutual recognition of electronic signatures between Azerbaijan and EU Member States.

In May 2018, the Commission for Information Security was established⁸⁸. It is to assess challenges to the information security of Azerbaijan and determine their main sources, directions, forms and possible damage. The Commission will also identify the sources of false information disseminated on the internet against the national interests of Azerbaijan and inform the relevant State bodies. The State Agency for Special Communication and Information Security has been acting as the Commission's secretariat under the Special Service of State Protection to ensure the Commission's activities.

Azerbaijan's overarching policy document, 'Azerbaijan 2020: Look to the Future', integrates **environmental** concerns. It is accompanied by the action plan on improving the environment and using natural resources efficiently for 2015-2020. In line with national priorities, cooperation has covered several areas, such as environmental governance, information management, the green economy, water management, and biodiversity and forest protection.

⁸⁸ <https://www.azernews.az/nation/132702.html>.

The Ministry for the Environment and Natural Resources plans to conduct an internal audit to further optimise its operations. The EU continues to support the upgrading of the National Environmental Monitoring System through an ongoing Twinning project.

The EU continues to support Azerbaijan's ongoing efforts to adopt a water strategy based on the EU Water Initiative. These efforts include: (i) institutionalising the main principles of integrated water resource management and river-basin planning in line with the EU Water Framework Directive, (ii) developing and implementing a plan in a selected pilot river basin, (iii) improving water monitoring and assessment systems, and (iv) finalising and adopting targets under the Protocol on Water and Health.

The Law on Environmental Impact Assessment (EIA), which also provides a legislative framework for strategic environmental assessment in Azerbaijan, entered into force in July 2018. However, it falls short of the international benchmarks in certain instances, such as in: (1) defining and setting up procedures for transboundary environmental impact assessment; and (2) specifying the roles and responsibilities of the public authorities, in particular in preparing EIA documentation, ensuring public participation and taking into account the results of the EIA. The pilot strategic environmental assessment (SEA) of the national strategy on the use of alternative and renewable energy sources 2015-2020 helped to build capacity to apply SEA in Azerbaijan. EU support has been provided to make progress in this area.

In 2018, Azerbaijan issued its first report based on a set of internationally recognised green growth indicators. The report presents the state of, and progress towards, greening the national economy. It also highlights challenges and provides recommendations for setting up a national green measurement system. Besides helping to prepare the report, EU support was used to facilitate the work of an Inter-Ministerial Working Group on green economy measurement.

The EU is also helping Azerbaijan to implement the principles and practices of the shared environmental information system through the Shared Environmental Information System (SEIS II) East regional project⁸⁹.

In the sphere of **energy**, Azerbaijan's oil production has remained stable in recent years and is expected to continue that way at approximately 41 million tonnes per year over 2017-2018. Gas production has remained stable or slightly declined in recent years at around a maximum 29 billion cubic meters (bcm), of which around 19 bcm are commercially available (whereas annual commitments are as high as 23 bcm). Starting in 2019, production in the Shah Deniz 2 field is to be ramped up, initially by 9 bcm and then by 16 bcm. The first exports are to go to Georgia and Turkey, with deliveries to the EU via the Southern Gas Corridor expected to start in 2020. Proven gas reserves were reported to have risen to 2.6 trillion cubic metres.

Large segments of the Southern Gas Corridor, the Shah Deniz 2 field structures and the South Caucasus Pipeline extension were completed during the reporting period. Certain stretches of the Southern Gas Corridor benefited initially from EU grants through the 'Connecting Europe Facility'. The European Investment Bank (EIB) and the European Bank for Reconstruction

⁸⁹ <https://eni-seis.eionet.europa.eu/east>.

and Development (EBRD) are supporting the project with substantial loans. Progress on the Southern Gas Corridor is reviewed regularly by the Advisory Council. The Fourth and Fifth Ministerial Meetings of the Advisory Council of the Southern Gas Corridor took place in Baku respectively on 15 February 2018 and 20 February 2019.

Azerbaijan remains confident it will reach the goals it set itself in the national strategy for the development of renewable energy sources (2011-2020)⁹⁰, i.e. 20 % of electricity and 9.7 % of total energy consumption must be met by renewable energy sources. The Ministry of Energy has stepped up its efforts to find funding for green electricity generation projects.

With support from the EU4Energy programme⁹¹, Azerbaijan concluded work on a revised draft Law on **Energy Efficiency**, underpinned by the EU via the Energy Community Secretariat and the Energy Charter. The draft law has been submitted to the Cabinet of Ministers. At the same time, Azerbaijan started to develop a comprehensive national energy strategy.

Also, an independent energy regulator has been set up by the Azerbaijan authorities with the help of the EBRD.

Azerbaijan still lacks a legal framework on **climate change** that defines institutional mandates and coordination. With no flagship climate legislation or policy in place, climate change mitigation and adaptation are dealt with through different sectoral laws and policy documents, particularly in the energy sector. Azerbaijan has not yet updated its nationally determined contribution under the Paris Agreement. An adaptation strategy is under development, but no date for publication has been announced.

5. Mobility and people-to-people contacts

The EU-Azerbaijan **Visa Facilitation Agreement (VFA) and Readmission Agreement (RA)** have been in force since 1 September 2014.

Since the VFA's entry into force, the Azerbaijani side has not yet been technically ready to issue multiple-entry visas (MEV) of long validity. While electronic business and tourist visas have already been available to EU citizens, on 6 July 2018, Azerbaijan added the work visa to the list of visa types to be delivered through the ASAN visa system⁹².

According to the information provided by Azerbaijan at the meeting in Brussels on 18 September 2018 of the Joint Committee set up by the VFA, the overwhelming majority of EU citizens — over 80 % — obtained an ASAN (single-entry) e-visa to travel to Azerbaijan in 2017. Of those EU citizens who applied for a visa at Azerbaijani embassies, more than half of them received a MEV (multiple-entry visas). While welcoming this progress, the European Commission asked Azerbaijan to ensure that EU citizens are informed that it is still possible to apply for a visa at an Azerbaijani consulate and that the VFA provisions apply.

⁹⁰ <http://www.iea.org/policiesandmeasures/pams/azerbaijan/name-36534-en.php>.

⁹¹ <https://www.euneighbours.eu/en/east/stay-informed/projects/eu4energy-programme>.

⁹² www.evisa.gov.az.

On the other hand, the rate of refused visas for entering EU Member States increased⁹³. This was also connected with the more difficult economic situation in the country these last couple of years. On readmission, there were positive developments showing that the return rate has been steadily increasing since 2014⁹⁴. So far, no implementing protocol (IP) to the EU-Azerbaijan Readmission Agreement has been concluded.

For the first 8 months of 2018, the number of asylum seekers reached 2 255⁹⁵. With a recognition rate below 20 %, this surge in asylum applications has already translated into an increased number of return decisions.

The EU has been assisting Azerbaijan in building effective institutional mechanisms for the reintegration of returned migrants. The Interagency Working Group set up in December 2016 and led by the State Migration Service (SMS) meets twice a year and ensures coordination between relevant State agencies, including for the further referral of returnees. Between January and June 2018, 255 citizens of Azerbaijan were readmitted from EU Member States under the Readmission Agreement⁹⁶.

The number of refugees in Azerbaijan has increased since 2017: currently, 75 persons reside in Azerbaijan, compared to 61 persons in 2017.

In July 2018, the Advisory Council under the State Migration Service was established with the participation of local and foreign entrepreneurship confederations and representatives of big companies. The aim of the Advisory Council is to increase transparency in issuing work permits to foreigners.

Amendments to the Migration Code entered into force in July 2018. These amendments prolonged the deadline for registration at the place of residence for foreigners and stateless persons from 10 to 15 days following their arrival in the country. A new five-year migration management strategy (2019-2023) is currently being developed with EU financial support provided through the International Organisation for Migration (IOM).

In 2018, Azerbaijan actively participated in the **Eastern Partnership Panels** on Migration, Mobility and Integrated Border Management under the EaP Platform 4 ‘Mobility and people-to-people contacts’. The country has proactively proposed to host a panel in the beginning of 2019. Arrangements for this are already underway.

The EU-Azerbaijan **Mobility Partnership** (MP) signed in December 2013 provides a basis for closer cooperation on migration and mobility (including migration management, trafficking in human beings, visas, readmission, border management, asylum and international protection). The EU has supported the implementation of the MP, including on migration and border management.

⁹³ Schengen visa statistics available here: <https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/borders-and-visas/visa-policy/docs/2017-consulates-schengen-visa-stats.xlsx>.

⁹⁴ 2014: 38.9 %, 2015: 40.8 %, 2016: 49.0 %, 2017: 51.4 %.

⁹⁵ Comparison with previous years: figure more or less stable between 2008 and 2015 (2 000 – 3 000), rose significantly in 2016 (5 700) and slightly decreased in 2017 (4 700).

⁹⁶ Eurostat data: <http://ec.europa.eu/eurostat/web/asylum-and-managed-migration/data/database>.

Azerbaijan does not have an **integrated border management (IBM) strategy** and action plan, but it takes part in the EaP-IBM capacity-building project led by the European Border and Coast Guard Agency under the EaP flagship initiative on IBM. Also, through the MOBILAZE project⁹⁷, several activities on document security are being implemented in close cooperation with Azerbaijani migration and border management authorities.

The EU is providing additional support to bolster the country's capacity to address trafficking in human beings and smuggling of migrants. With support from an EU-funded project implemented by the IOM, work is underway to develop the fourth national action plan to combat trafficking for 2019-2020⁹⁸.

An EU Twinning project on **culture** was completed. This was a project that supported the transition of the Ministry of Culture and Tourism towards a more strategic approach in the administration of the culture sector, with a particular focus on cultural heritage, was completed.

In the area of **education**, the national qualification framework for lifelong learning was approved on 18 July 2018. This step supports Azerbaijan's convergence to the European higher education area and is aligned with the European qualifications framework for lifelong learning. The EU supports the implementation of the qualification framework through a technical assistance project.

In April 2018, the first Law on **Vocational Education and Training (VET)** was adopted. The Law introduces: (i) a multilayer VET system (initial, technical, higher vocational); (ii) additional incentives for employers to engage in cooperation with VET schools; (iii) incentives for qualified staff to become involved in the VET sector; (iv) an opportunity for local and international legal entities to establish VET centres; and (v) definitions of sources for financing the VET schools. The EU continued to support VET reforms in Azerbaijan through a technical assistance project and four grant projects, and a new EUR 13.5 million programme on education for employment was approved in 2018 providing further substantial EU support in this area.

In **higher education**, over 150 Erasmus+ projects have continued to support student and academic staff exchanges. Also, seven ongoing projects are helping the Azerbaijani higher education system and institutions build their capacity to align with the European Higher Education Area. A new EU Twinning project 'Support to the Higher Education System in Azerbaijan' started in April 2018.

A State programme on developing **inclusive education** for persons with disabilities for 2018-2024 was endorsed on 14 December 2017. The programme envisages a conceptual transition from the medical model to the social model of education. Inclusive education at primary education level is being introduced in six pilot schools. The EU supports the development of inclusive education in Azerbaijan through three grant projects and technical assistance provided by the United Nations Children's Fund (UNICEF).

⁹⁷ <https://www.icmpd.org/our-work/capacity-building/regions/eastern-europe-and-central-asia/ongoing-projects/mobilaze-support-to-the-implementation-of-the-mobility-partnership-with-azerbaijan/>.

⁹⁸ <https://developmentfund.iom.int/supporting-enhancement-national-capacities-combat-human-trafficking-azerbaijan-snct>.

In the field of **research and innovation** Azerbaijan participated actively in the annual conference of the Eastern Partnership Panel on Research and Innovation, EU4Innovation: Fostering Research/Industry links, which was held in Tbilisi on 1 October 2018. New Horizon 2020 National Contact Points were appointed and a training event was held in Baku in order to boost Horizon 2020 participation by entities from Azerbaijan. Overall, Azerbaijan signed seven Horizon 2020 contracts and received a contribution of EUR 88,000 from the EU in the area of inclusive, innovative and reflective societies, and in the area of food and sustainable agriculture.

6. Concluding remarks and outlook for the future

Negotiations on a new bilateral comprehensive agreement between the EU and Azerbaijan are ongoing. The agreement will support Azerbaijan's efforts to diversify its economy and will also provide a good basis for further cooperation in view of sustainable socio-economic development. Joining the World Trade Organisation would represent a considerable step forward in this regard.

The EU will continue to express a positive attitude towards cooperating with and supporting Azerbaijan in all areas of mutual interest, in full respect of all the values and commitments shared by both sides. The EU will continue to pay close attention to the situation in the field of human rights and fundamental freedoms.

The Partnership Priorities, endorsed on 28 September 2018, provide the necessary guidance for broad cooperation between the EU and Azerbaijan and serve as a basis for future EU financial support.