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Cooperation Implementation Report on Azerbaijan

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1. Introduction and summary

In line with the revised European Neighbourhood Policy (ENP), this report outlines key reforms and developments in Azerbaijan's relations with the European Union (EU) since the publication of the previous implementation report of 11 March 2019¹. The report focuses on the priority areas set out in the EU-Azerbaijan Partnership Priorities²: i) strengthening institutions and good governance; ii) economic development and market opportunities; iii) connectivity, energy efficiency, environment and climate action; iv) mobility and people-to-people contacts. A Partnership Priorities Facility worth EUR 27 million of EU funding was set up to help Azerbaijan in implementing the Partnership Priorities, focusing in the medium term on the economic resilience of the country in the context of the COVID-19 pandemic crisis. The Facility is a key part of the EU response to COVID-19 in Azerbaijan.

Since July 2019, no progress has been made in the negotiations of the new EU-Azerbaijan comprehensive agreement nor in the negotiations of the EU-Azerbaijan Aviation agreement.

The partnership in connectivity continues to play an important role in EU-Azerbaijan cooperation. On 29 February 2020, the meeting on the Memorandum of Understanding of EU-Azerbaijan Azerbaijan strategic partnership³ in the energy field took place in Baku to discuss ways to improve energy security and diversification of energy supplies as well as the ongoing implementation of the Southern Gas Corridor. The Sixth Ministerial Meeting of the Southern Gas Corridor Advisory Council took place in Baku on 28 February 2020. The completion of the Southern Gas Corridor between Azerbaijan and Europe and the first dispatch of gas is envisaged by the end of 2020. Furthermore, the EU and Azerbaijan will be working towards providing additional gas supplies to the EU and to the Western Balkans by extending the capacities of the TANAP (Trans-Anatolian) - TAP (Trans-Adriatic) pipelines and building additional pipeline connections towards Western Balkans and EU.

The EU remains Azerbaijan's first trading partner, accounting for 36.7% of Azerbaijan's total trade in 2019⁴. More specifically, the EU is Azerbaijan's biggest export and second biggest import market with a 51 % share in Azerbaijan's exports and a 16 % share in its imports. Azerbaijan's exports to the EU remain very heavily dominated by fuels, which represented 98.4 % of its total exports to the EU in 2019⁵. The EU is also one of Azerbaijan's largest foreign investors, both in the oil and non-oil sectors⁶. Over the last five years, the EU invested more than EUR 15 billion in Azerbaijan⁷. Over 400 EU companies were doing business in Azerbaijan in 2019⁸.

¹ SWD(2019) 107 final: https://eeas.europa.eu/sites/eeas/files/2019_report_on_eu-azerbaijan_relations_in_the_framework_of_the_revised_european_neighbourhood_policy_0.pdf

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

³ http://www.europarl.europa.eu/meetdocs/2009_2014/documents/dsca/dv/dsca_20130321_14/dsca_20130321_14en.pdf

⁴ <https://ec.europa.eu/trade/policy/countries-and-regions/countries/azerbaijan/>

⁵ https://eeas.europa.eu/sites/eeas/files/eap_factsheet_azerbaijan_eng.pdf

⁶ https://eeas.europa.eu/sites/eeas/files/eap_factsheet_azerbaijan_eng.pdf

⁷ https://eeas.europa.eu/sites/eeas/files/eu_business_climate_report_2019.pdf

⁸ https://eeas.europa.eu/sites/eeas/files/eu_business_climate_report_2019.pdf

The EU supports the economic diversification of Azerbaijan and promotes reforms to improve the business climate in the country, including through assistance for agriculture and rural development as well as vocational education and training. The EU also remains the largest foreign donor supporting civil society in Azerbaijan.

The EU continued to fully support the agreed conflict resolution format of the Organisation for Security and Cooperation in Europe (OSCE) Minsk Group Co-Chairs. In the reporting period, the President of the European Council and the EU High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission (HR/VP) supported continued efforts towards peace. This included bilateral contacts with the leaders of Armenia and Azerbaijan and providing support through the EU Special Representative for the South Caucasus and the crisis in Georgia. Such EU engagement with Armenia, Azerbaijan, the Minsk Group Co-Chairs and regional actors has been particularly active in response to the outbreak of large scale hostilities in the Nagorno-Karabakh conflict zone on 27 September 2020. On 1 October the European Council called for their immediate cessation and re-engagement of Armenia and Azerbaijan in substantive negotiations without preconditions. The HR/VP issued statements, as well as declarations on behalf of the EU on 11 October and 19 November⁹. The EU welcomed the cessation of hostilities in and around Nagorno-Karabakh following the Russia-brokered ceasefire of 9 November agreed between Armenia and Azerbaijan and called for strict respect of the ceasefire. The cessation of hostilities is only a first step to end the long-standing Nagorno-Karabakh conflict. The EU considered that efforts must be renewed for a negotiated, comprehensive and sustainable settlement of the conflict, including on the status of Nagorno-Karabakh. The EU reiterated its full support to the international format of the OSCE Minsk Group led by its Co-Chairs and to the Personal Representative of the OSCE CiO to pursue this objective. The EU stands ready to effectively contribute in the shaping of a durable and comprehensive settlement of the conflict, including where possible through support for stabilisation, post conflict rehabilitation and confidence building measures.

The EU has provided in total EUR 3.9 million in humanitarian funding, including the initial allocation of EUR 0.5 million to the International Committee of Red Cross (ICRC) and EUR 0.4 million to the International Federation of Red Cross and Red Crescent (IFRC) for the Armenian Red Cross and Red Crescent Society of Azerbaijan.

Following the outbreak of the COVID-19 pandemic in Azerbaijan the government introduced a strict lockdown of the country (including restrictions to commercial flights), which has since been prolonged several times with a varying degree of restrictions and continues to be in force until 1 December 2020. Several public events were cancelled, including the Baku Forum, UEFA 2020 Cup and Formula 1 Race. The government adopted an Action Plan aimed to strengthen the medical resilience and to provide socio-economic assistance measures resulting from the double crisis of COVID-19 and dropping oil prices. Azerbaijan also established a State Fund to fight Covid-19 based on private and corporate donations. The Ministry of Economy has published a package of measures on 1 April 2020 aiming to assist most vulnerable individuals and most affected businesses. Entrepreneurs who have suffered certain losses as a result of a pandemic were provided with tax benefits and were temporarily exempted from property tax

⁹ <https://www.consilium.europa.eu/en/press/press-releases/2020/10/11/nagorno-karabakh-declaration-by-the-high-representative-on-behalf-of-the-european-union/> ; <https://www.consilium.europa.eu/en/press/press-releases/2020/11/19/nagorno-karabakh-declaration-by-the-high-representative-on-behalf-of-the-european-union/>

and land tax. The interest rate on unpaid taxes, as well as mandatory state social insurance and unemployment insurance fees were deferred for a certain period.

The COVID-19 pandemic hit Azerbaijan in March 2020, causing human and economic loss. The government took measures to address the health emergency and to inject liquidity into the economy. On 18 March, the European Commission and the HR/VP adopted a Joint Communication¹⁰ on the future of the Eastern Partnership, which includes proposals on EU support to public health in the partner countries. On 8 April, they issued a Joint Communication on the global EU response to COVID-19¹¹ inter alia stressing solidarity with the Eastern partners, address immediate needs, mitigate the impact of the crisis and stimulate recovery. Since the outbreak of the COVID-19 pandemic in March 2020, the EU has provided EUR 31.6 million in COVID-19 related assistance to Azerbaijan. This is complemented by other EU regional support such as medical equipment supplied to Azerbaijan via the World Health Organisation. On an international level, on 4 May 2020, President Aliyev chaired an online Non-Alignment Movement (NAM) Contact Group Summit which focused on the fight against COVID-19. Azerbaijani President successfully follow through his initiative to organize a special session of the UNGA on COVID-19 in September 2020. Azerbaijan also acted as a donor country, with about USD 5 million to the World Health Organisation, USD 5 million to Iran, sending medical supplies to Xian City and Mianyang of China, and humanitarian aid to Bosnia and Herzegovina to support their fight against coronavirus pandemic.

2. Foreign and security policy

Azerbaijan's foreign and security policy pursues a **multi-vector approach** maintaining close relations with its neighbours Turkey, Russia, Iran and Georgia, as well as with countries in Asia (China, India, Pakistan, etc.), Europe and the U.S. President Aliyev's visit to China on 24 April 2019 paved the way for strengthening Azerbaijan's cooperation with China notably in the framework of the Belt and Road initiative¹². The outbreak of hostilities in and around Nagorno-Karabakh that started on 27 September 2020 has witnessed strong Turkish support for Azerbaijan and a further strengthening of the strategic partnership between Azerbaijan and Turkey.

Azerbaijan actively participates in **alliances with neighbours and regional blocs** (the Caspian Sea, the Commonwealth of Independent States and the Cooperation Council of Turkic Speaking States). Azerbaijan hosted the 18th Summit of the Non-Aligned Movement in October 2019 in Baku and took over the chairmanship of the Non-Aligned Movement for 2019-2022, with international peace and security featuring at the top of its agenda. On 4 May 2020, an online Summit of the Non-Aligned Movement (NAM) states "United Against COVID-19" was held at the initiative of Azerbaijani President.

Azerbaijan's **relations with the EU** continue within bilateral and multilateral frameworks. High-level bilateral visits took place: Azerbaijani President visited Brussels on 13 May 2019; the President of the European Council visited Baku on 9 July 2019 and the Commissioner for

¹⁰ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/joint_communication_on_the_eap_policy_beyond_2020.pdf

¹¹ https://ec.europa.eu/international-partnerships/system/files/joint-comm-2020-eu-global-response_en.pdf

¹² <https://en.president.az/articles/32852>; <https://en.president.az/articles/34246>

Neighbourhood and Enlargement on 13 June 2019. Azerbaijan participated in the celebrations of the 10th anniversary of the Eastern Partnership on 13 May 2019 in Brussels and continued to take part in the activities of its platforms and panels. The 2nd EU-Azerbaijan High-level dialogue on security was held in Baku on 19 December 2019. On 17 February 2020, a meeting of the EU-Azerbaijan Subcommittee on Trade, Economic and Related Legal Issues took place. On 4-5 March 2020 the 8th EU-Azerbaijan Subcommittee on Justice, Freedom, Security and Human Rights and Democracy took place. A video-conference of the leaders of the Eastern Partnership with participation of the Azerbaijani President with focus on the COVID-19 response took place on 18 June 2020. A videoconference of the Commissioner for Neighbourhood and Enlargement and the 6 Foreign Ministers of the Eastern partner countries was held on 1 July. Bilateral discussions between the Commissioner for Neighbourhood and Enlargement and the Azerbaijani Foreign Minister took place on 18 February, 6 July and 18 September. An EU-Azerbaijan Cooperation Committee took place on 19 November 2020. Following an EU-Azerbaijan Cooperation Council meeting on 4 April 2019, the next meeting of the Cooperation Council will be held in Brussels on 18 December 2020.

In the field of **civil protection**, Azerbaijan participates in the third phase of the regional programme for prevention, preparedness and response to natural and man-made disasters in the Eastern neighbourhood, which aims to enhance cooperation among partner countries on disaster risk management as well as their cooperation with the EU Civil Protection Mechanism (UCPM). The action was launched in October 2020.

On the **Nagorno-Karabakh conflict**, the EU continued to fully support the agreed conflict resolution format led by the OSCE Minsk Group Co-Chairs. The Co-Chairs and the Personal Representative of the OSCE Chairperson-in-Office followed up on the meeting between the President of Azerbaijan and the Prime Minister of Armenia on 29 March 2019 in Vienna and facilitated subsequent Foreign Ministers meetings held under their auspices. The Foreign Ministers of the co-chair countries stressed that the status quo is unacceptable and there can be no military solution to the conflict, and called on both sides to engage in the substantive negotiations in good faith and without creating unnecessary delays or conditions¹³.

Discussions on humanitarian measures between Armenia's and Azerbaijan's leaders, in Vienna on 28 June 2019, led to an exchange of prisoners. Reciprocal visits of Azerbaijani and Armenian journalists took place in November 2019. On 30 January 2020, the Co-Chairs and both Foreign Ministers met in Geneva and discussed possible next steps to prepare the populations for peace, principles and elements forming the basis of a future settlement, and timing and agenda for advancing the settlement process¹⁴. The leaders of Azerbaijan and Armenia held public debate on the Nagorno-Karabakh at the February 2020 Munich Security Conference.

Following up on the clashes on 12-13 July 2020 along the international border of Armenia and Azerbaijan, the HR/VP held separate telephone calls with the Foreign Ministers of both countries on 13 July and, for the first time, a trilateral phone call with both ministers on 22 July. He urged both sides to stop the armed confrontation and to refrain from actions and rhetoric that provoke tension. He also encouraged them to make use of the existing mechanism for direct

¹³ <https://www.osce.org/minsk-group/441242>

¹⁴ <https://www.osce.org/minsk-group/445114>

communication and to re-engage in substantive negotiations on the key aspects of the Nagorno-Karabakh conflict settlement under the auspices of the Co-Chairs¹⁵.

Reacting to the large scale hostilities in and around the Nagorno-Karabakh conflict zone, which broke out on 27 September 2020, the EU actively engaged in efforts to de-escalate the situation, including through frequent contacts at the level of the President of the European Council and the HR/VP. On 27 September the HR/VP spoke to the Foreign Ministers of Armenia and Azerbaijan and issued a statement¹⁶. On 1 October the European Council also called for an immediate cessation of hostilities, urged parties to engage in substantive negotiations without preconditions and supported the Co-Chairs¹⁷. The President of the European Council spoke to the President of Azerbaijan and the Prime Minister of Armenia, and met in Brussels with the President of Armenia on 22 October. The HR/VP remained in constant contact with the Foreign Ministers of both sides throughout the months of October and November¹⁸. He also spoke with the Foreign Ministers of France, Russia, the US and Turkey.

The EU supported the humanitarian ceasefire agreements reached on 10 October in Moscow, on 17 October with the mediation of France and on 25 October in Washington and stated that continued fighting is unacceptable¹⁹. The EU condemned attacks on civilians and civilian installations, irrespective of their origin and reminded the sides to the conflict of their obligations to protect civilian lives under international humanitarian law²⁰.

After the cessation of hostilities, the EU called on all parties to continue to strictly respect the ceasefire. It urged all regional actors to refrain from any actions or rhetoric that could jeopardise the ceasefire, as well as called for the full and prompt withdrawal of all foreign fighters from the region. It will follow closely the implementation of the provisions of the ceasefire, especially with regard to its monitoring mechanism. The EU recalled its firm opposition against the use of force, in particular the use of cluster ammunitions and incendiary weapons, as a mean

¹⁵ https://eeas.europa.eu/headquarters/headquarters-homepage/83266/armenia-azerbaijan-hrvp-borrell-convenes-call-two-foreign-ministers_en

¹⁶ <https://www.consilium.europa.eu/media/45910/021020-euco-final-conclusions.pdf>

¹⁷ <https://twitter.com/josepborrell/status/1312820337386622977?lang=en>;
https://eeas.europa.eu/headquarters/headquarters-homepage_en/87158/Nagorno-Karabakh:%20Statement%20by%20the%20High%20Representative/Vice%20President%20Josep%20Borrell;
https://eeas.europa.eu/headquarters/headquarters-homepage_en/88648/Nagorno-Karabakh:%20High%20Representative/Vice-President%20Josep%20Borrell%20spoke%20to%20the%20Foreign%20Ministers%20of%20Azerbaijan%20and%20Armenia

¹⁸ https://eeas.europa.eu/headquarters/headquarters-homepage/88476/nagorno-karabakh-statement-high-representativevice-president-josep-borrell-cessation_en; [https://eeas.europa.eu/headquarters/headquarters-homepage/87708/nagorno-karabakh-statement-spokesperson-recent-attacks-targeting-civilians_en](https://eeas.europa.eu/headquarters/headquarters-homepage_en/87158/Nagorno-Karabakh:%20Statement%20by%20the%20High%20Representative/Vice%20President%20Josep%20Borrell)

¹⁹ https://eeas.europa.eu/headquarters/headquarters-homepage/87141/azerbaijan-statement-spokesperson-strikes-city-ganja_en; [https://eeas.europa.eu/headquarters/headquarters-homepage/87708/nagorno-karabakh-statement-spokesperson-recent-attacks-targeting-civilians_en](https://eeas.europa.eu/headquarters/headquarters-homepage_en/87158/Nagorno-Karabakh:%20Statement%20by%20the%20High%20Representative/Vice%20President%20Josep%20Borrell)

²⁰ <https://www.consilium.europa.eu/en/press/press-releases/2020/11/19/nagorno-karabakh-declaration-by-the-high-representative-on-behalf-of-the-european-union/>

to settle disputes. The EU stressed that international humanitarian law must be respected and called on the parties to implement the agreements on the exchange of prisoners of war and the repatriation of human remains reached within the OSCE Minsk Group Co-Chairs format on 30 October in Geneva. The EU underlined the importance of guaranteeing humanitarian access and the best possible conditions for the voluntary, safe, dignified and sustainable return of the displaced populations in and around Nagorno-Karabakh. It underlined the importance of preserving and restoring the cultural and religious heritage in and around Nagorno-Karabakh. Any war crimes that may have been committed must be investigated. Already providing significant humanitarian assistance to address the immediate needs of the civilian populations affected by the conflict, the EU and its Member States stated their readiness to provide further assistance. Highlighting the need for a negotiated, comprehensive and sustainable settlement of the conflict, the EU confirmed its availability to effectively contribute to such a settlement including, where possible, through support for stabilisation, post-conflict rehabilitation and confidence building measures²¹.

3. Strengthening institutions and good governance

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

The main **public administration reforms** focused on implementing the **2019-2025 Civil service development strategy**. These reforms are targeted towards the professional development of civil servants. The State Examination Centre leads the administration reform process. In 2020, it focused on implementing a competency based selection system for civil servants. In 2020, Azerbaijan opened five additional ASAN (“Azerbaijan Service and Assessment Network”) service centres, a one-stop-shop public services platform, reaching a total of 21 centres in the country. These centres provide easy access to public services and streamlines government-to-citizen communication.

Municipal elections were held on 23 December 2019, and a number of irregularities were reported²². 15,075 municipal members were elected to 1,597 municipal councils. The number of women and youth elected as municipal members increased to 5,847 women (38.8%, representing 11% more compared to 2014 municipal elections) and 6,012 young persons (39.9 %, representing 10.3% more compared to 2014 municipal elections)²³. In the 2020 budget, the amount of subsidies and subventions allocated to the municipal budget has been increased by 50% compared to 2019, totalling AZN 1.7 million²⁴.

Following a request from the ruling New Azerbaijan Party (YAP) to dissolve the Azerbaijani parliament, President Aliyev signed a decree to hold **early parliamentary elections** on 9 February 2020. Candidates from the ruling New Azerbaijan Party (YAP) party won 65 of 125 seats in the single-chamber parliament. According to the OSCE Office for Democratic Institutions and Human Rights (ODIHR)’s final report²⁵, despite a high number of candidates, the restrictive legislation and political environment prevented genuine competition in the

²¹ <https://jam-news.net/azerbaijan-heads-to-the-polls-in-the-most-unusual-municipal-elections-in-its-history/>;
<https://jam-news.net/results-of-azerbaijan-municipal-elections-approved-amid-claims-of-falsification/>

²² <https://jam-news.net/azerbaijan-heads-to-the-polls-in-the-most-unusual-municipal-elections-in-its-history/>;
<https://jam-news.net/results-of-azerbaijan-municipal-elections-approved-amid-claims-of-falsification/>

²³ <https://meclis.gov.az/imagemanager/images/hesabat/17.04.2020.pdf>

²⁴ http://sai.gov.az/upload/files/2020_REY.pdf

²⁵ https://www.osce.org/files/f/documents/7/e/457585_0.pdf.

elections. Some opposition parties boycotted the elections due to the restrictive environment, several prospective nominees could not stand for the elections due to un-expunged criminal records despite relevant judgements of the European Court of Human Rights (ECtHR). The OSCE/ODIHR observed significant procedural violations during the ballot count and the tabulation²⁶.

The **electoral legal framework** remains to be revised to bring it in line with international standards and obligations, guarantee constitutionally protected rights and freedoms, eliminate gaps and ambiguities and address pending ODIHR and Venice Commission recommendations, starting with strengthening the independence of electoral commissions.

Safeguarding **human rights and fundamental freedoms** continues to be of concern²⁷. The 2017 **legislation on non-governmental organisations has not been amended**, maintaining the ‘single window’ procedure for registering grant agreements. As of November 2019, there were around 4,000 registered Civil Society Organisations (CSOs) in Azerbaijan, a relatively small number compared to other Eastern Partnership countries. While some travel bans were lifted and some bank accounts unblocked, the operating space of CSOs remains restricted.

The **grant registration procedure** remains long and challenging for most CSOs, hindering EU support to civil society in Azerbaijan. In February 2020, the President approved the National Action plan for 2020-2022 on the Promotion of an Open Government. CSOs were consulted during the elaboration of the action plan that includes a section on measures to enhance the activities of civil society members, and increase public control and participation. At this moment, it is too early to assess the implementation and real impact of the action plan.

The Council of Europe expressed deep concern over the freedom of association, including the legislation on NGOs, freedom of assembly, freedom of expression and media freedom as well as the plight of reported political prisoners²⁸.

Freedom of assembly continues to be restricted. The police disrupted several opposition parties’ meetings, including at regional level. The police also violently dispersed a number of unauthorised rallies organised in the centre of Baku. In response, the EU²⁹ and the Commissioner for Human Rights of the Council of Europe³⁰ issued statements denouncing the

²⁶ https://eeas.europa.eu/headquarters/headquarters-homepage/74461/azerbaijan-statement-spokesperson-early-parliamentary-elections_en

²⁷ <https://www.hrw.org/world-report/2020/country-chapters/azerbaijan?fbclid=IwAR1Fa5mOOQohhVOC1Tk97DBHtXQmEULhSEY9R67QmlkvuIjqIJK3APRDvEU>

²⁸ CoE state of implementation report on Azerbaijan covering the period 2017 – 2019 / <https://rm.coe.int/report-on-the-visit-to-azerbaijan-from-8-to-12-july-2019-by-dunja-mija/168098e108>;

<http://semantic-pace.net/tools/pdf.aspx?doc=aHR0cDovL2Fzc2VtYmx5LmNvZS5pbmQvbnceveG1sL1hSZWYvWDJILURXLWV4dHIuYXNwP2ZpbGVpZD0yODMyMCZsYW5nPUVO&xsl=aHR0cDovL3NlbWFudGljcGFjZS5uZXQvWHNsdC9QZGYvWFJIZi1XRC1BVC1YTUwyUERGLnhzbA==&xsltparams=ZmlsZWlkPTI4MzIw>

<http://semantic-pace.net/tools/pdf.aspx?doc=aHR0cDovL2Fzc2VtYmx5LmNvZS5pbmQvbnceveG1sL1hSZWYvWDJILURXLWV4dHIuYXNwP2ZpbGVpZD0yODU4NCZsYW5nPUVO&xsl=aHR0cDovL3NlbWFudGljcGFjZS5uZXQvWHNsdC9QZGYvWFJIZi1XRC1BVC1YTUwyUERGLnhzbA==&xsltparams=ZmlsZWlkPTI4NTg0>

²⁹ https://eeas.europa.eu/headquarters/headquarters-homepage/69107/statement-spokesperson-latest-developments-azerbaijan_en

³⁰ <https://www.coe.int/en/web/baku/-/commissioner-raises-concerns-about-police-conduct-and-people-s-right-to-peaceful-protest-in-azerbaijan>

excessive and unprovoked force reportedly used to disperse crowds and arrest participants, and recalling the importance of ensuring the full exercise of the right to freedom of assembly. It can be noted that since the outbreak of hostilities in the Nagorno-Karabakh conflict zone, there have also been spontaneous ad hoc rallies in the city in support of the action of the Azerbaijani Armed Forces.

Freedom of opinion and expression continues to be restricted. Several cases against activists, bloggers and editors of independent websites are still ongoing. Websites and social media pages of opposition representatives and bloggers remain blocked³¹. While in 2019, **travel bans** were lifted for a number of journalists, several still remain in place³². **Defamation** remains a criminal offence that can lead to imprisonment, despite the calls including by the Council of Europe Commissioner for Human Rights recommended to Azerbaijan to decriminalise defamation.³³ On 27 September following the outbreak of hostilities, the Azerbaijani President declared martial law which introduced a general curfew from 9pm to 6 am. The use of the internet and social media platforms (Whatsapp, Youtube, etc) in Azerbaijan has also been widely restricted on security grounds since 27 September 2020.

According to the **2020 World Press Freedom Index**³⁴, Azerbaijan lost three positions compared to 2018, ranking 168 out of 180 countries (166 in 2019). The **2020 Freedom on the net report** classified the internet in Azerbaijan as ‘not free’³⁵, representing a step back from 2018 when it was classified as ‘partially free.’ The situation of the media freedom in Azerbaijan was also criticised in the January 2020 Parliamentary Assembly of the Council of Europe, which adopted a Resolution on the ‘Threats to media freedom and journalists’ security in Europe’.

Intimidation, arrests, detentions and court cases against defenders of human rights, journalists and political opposition activists continues³⁶. On 30 January 2020, the Parliamentary Assembly of the Council of Europe adopted a Resolution on ‘Reported cases of political prisoners in Azerbaijan’³⁷ outlining the existence of a ‘*troubling pattern of arbitrary arrests and detention of government critics, civil society activists and human rights defenders through retaliatory prosecutions and misuse of criminal law in defiance of the rule of law.*’

During the reporting period, an increase in **administrative detentions** was observed, linked amongst others to the unsanctioned protests of October and November 2019 and July 2020, but also to alleged violations of COVID-19 quarantine rules by opposition activists, mainly from the Popular Front, as well as human rights activists.

³¹ <https://rsf.org/en/azerbaijan>

³² <https://smdtaz.org/en/the-number-of-activists-who-have-travel-ban-is-26-list/>

³³ <https://www.coe.int/en/web/commissioner/-/commissioner-mijatovic-urges-the-azerbaijani-authorities-to-respect-freedom-of-expression-improve-access-to-lawyers-and-uphold-the-rights-of-internall>

³⁴ <https://rsf.org/en/azerbaijan>

³⁵ https://freedomhouse.org/country/azerbaijan/freedom-net/202011/11042019_Report_FH_FOTN_2019_final_Public_Download.pdf;

³⁶ <https://rm.coe.int/report-on-the-visit-to-azerbaijan-from-8-to-12-july-2019-by-dunja-mija/168098e108>

³⁷ <http://semantic-pace.net/tools/pdf.aspx?doc=aHR0cDovL2Fzc2VtYmx5LmNvZS5pbmQvL253L3htbC9YUmVmL1gySC1BTUNvbXB1bmRpdW0uYXNwP2ZpbGVpZD0yODMyMCZsYW5nPWVv&xsl=aHR0cDovL2Fzc2VtYmx5LmNvZS5pbmQvbnceG1sL3hzbC1mby9YUmVmLUFNQ29tcGVuZG11bS1YTUwyUERGLnhzbA==&xsltparams=WG1sSWQ9RU5fQ0VHQ0dFRkk>

Positive developments during the reporting period include a decree signed by President Aliyev in March 2019, pardoning 431 people, including political party and NGO representatives, bloggers and journalists. In a statement on 17 March 2019, the HR/VP spokesperson welcomed this initiative and expressed the expectation that further similar steps will follow in line with Azerbaijan's international commitments. In March 2019, Azerbaijani anti-corruption blogger Mehman Huseynov was released after two years of imprisonment. New charges against him were dropped following large-scale demonstrations in Baku in his support and the adoption of a European Parliament resolution calling for his immediate release³⁸. In September 2019, the Supreme Court upheld the prison sentences for two Popular Front Party (PFPA) activists and slightly reduced the prison sentence for another party in the PFPA criminal financing case. In March 2020, Azerbaijani investigative journalist Afghan Mukhtarli was released from prison ahead of term based on a court decision, which replaced the prison sentence with a fine. On 23 April 2020, the Supreme Court also fully acquitted the Chairman of the Republican Alternative Party (ReAl), Ilgar Mammadov and human rights defender and ReAl board member Rasul Jafarov. This judgement, was a welcome step that finally fully implemented the respective decisions of the European Court of Human Rights. Other decisions of the European Court of Human Rights, however, still need to be implemented³⁹.

On 6 April 2020, in the framework of the measures taken to avoid the spread of the Corona virus, President Alyiev signed a Decree whereby 176 detainees aged over 65 were pardoned. Earlier, 260 convicts whose prison term would have expired in the next three months were also released.

During the reporting period, the **Bar Association** disbarred a renowned human rights lawyer, Shahla Humbatova⁴⁰ and initiated a number of disciplinary proceedings against other human rights lawyers that have since been dropped⁴¹. Yet, disciplinary procedures continue to be reportedly used as a means to put pressure on lawyers. No independent lawyers having experience with politically sensitive human rights cases have been admitted to the Bar Association in 2019 and 2020⁴².

The Council of Europe recommended the Azerbaijani Bar Association to strengthen the procedural safeguards to ensure that proceedings against lawyers are transparent and fair and to uphold lawyers' right to express their views on matters of public interest⁴³.

In relation to a number of previous and ongoing cases, **torture** and other forms of physical ill-treatment against detainees by the police and other law enforcement agencies were reported⁴⁴.

³⁸<https://www.rferl.org/a/azerbaijani-blogger-released-from-jail-after-serving-two-years/29799681.html>
http://www.europarl.europa.eu/doceo/document/RC-8-2019-0056_EN.pdf

³⁹ https://ec.europa.eu/neighbourhood-enlargement/news_corner/news/azerbaijan-statement-spokesperson-acquittal-ilgar-mammadov-and-rasul-jafarov_en

⁴⁰ <http://contact.az/ext/news/2019/12/free/Social/en/85828.htm>; <https://barassociation.az/en/news/500>

⁴¹ <https://en.trend.az/azerbaijan/society/3125988.html>;
<https://www.turan.az/ext/news/2020/9/free/Social/en/127975.htm>

⁴² One lawyer has passed the written test and is awaiting invitation to the oral exam.

⁴³ <https://www.coe.int/en/web/portal/-/commissioner-mijatovic-urges-the-azerbaijani-authorities-to-respect-freedom-of-expression-improve-access-to-lawyers-and-uphold-the-rights-of-internall>

⁴⁴ During meetings with several interlocutors, the EUD received information about cases of torture and ill-treatment by the police and law enforcement bodies.

Although Azerbaijani multiculturalism welcomes expressions of cultural identity, increased restrictions on democracy, absence of comprehensive legislation and consultative mechanisms for **national minorities** have prevented them from fully exercising their rights according to the Council of Europe Advisory Committee on the Framework Convention for the Protection of National Minorities⁴⁵. The protection and promotion of native languages of ethnic minorities is not encouraged or supported by local authorities, except for the Russian and Georgian languages.

The rights of communities such as the lesbian, gay, bisexual, transgender, and intersex (**LGBTI**) are not fully recognised.

On **gender equality**, the State Committee for Family, Women and Children Affairs prepared a Gender action plan and submitted it for the approval of the Cabinet of Ministers. On 24 February 2020, the National Action Plan 2020-2025 on the Prevention of Gender Biased Sex Selection was endorsed by the Government. During the reporting period, the government continued to support the development of women entrepreneurship⁴⁶. Although Azerbaijan has a robust legal framework protecting women's rights in general, including the rights of working women⁴⁷, the country has yet to ratify the **Council of Europe Istanbul Convention** on preventing and combating violence against women and domestic violence and has not enforced the prohibition of sexual harassment, in line with the objectives of the Eastern Partnership 20 deliverables for 2020⁴⁸. The State Committee for Family, Women and Children Affairs developed a package including the proposal to join the Istanbul Convention and submitted it in March 2020 for the approval of the Presidential Administration.

There are no major developments to report regarding children's rights.

3.2. Justice, freedom and security

Persisting challenges related to the **independence, impartiality and effectiveness of the judiciary** remain.

A presidential decree strengthening reforms in **the judicial-legal system** was adopted on 3 April 2019, aiming at increasing the independence, efficiency and transparency of the judiciary⁴⁹. Some 40 implementing acts have been drafted so far, targeting the establishment of specialised courts, improving mechanisms to prevent interference in courts, creating a single judicial practice, digitalising judicial activities, and ensuring social protection of judges, judicial examination and the enforcement of decisions.

⁴⁵ <https://www.coe.int/en/web/baku/-/national-minorities-in-azerbaijan-new-report-published>

⁴⁶ Currently, there are more than 180,000 women entrepreneurs in Azerbaijan: <https://www.stat.gov.az/source/gender/?lang=en>

⁴⁷ <http://unazerbaijan.org/wp-content/uploads/2019/01/Women-in-the-private-sector-in-Azerbaijan.pdf>

⁴⁸ https://eeas.europa.eu/sites/eeas/files/20_deliverables_for_2020.pdf

⁴⁹ It includes decriminalisation measures; simplified access of entrepreneurs to courts and the establishment of specialised courts; increasing salaries of judges and court clerks; learning from international best-practice on increasing effectiveness in civil and commercial disputes; setting-up a hotline under the Judicial Legal Council for facts related to interference into court proceedings; monitoring compliance of the courts and judges; applying random allocation of court cases to judges; enforcing court decisions, including consideration of private entities; using forensic expertise by private entities; promoting mediation and effective arbitration; and recruiting 200 new judges.

The **Mediation law** was adopted on 3 April 2019, allowing mediation in civil, economic⁵⁰, family, labour and administrative disputes. A Mediation Council has been established in February 2020 and training of mediators is ongoing aiming to train 300 mediators by the end of 2020.

A presidential executive order abolishing the existing economic-administrative courts and establishing **new commercial and separate administrative courts** in Baku and five regions was adopted on 19 July 2019. Civil disputes related to entrepreneurial activities will be considered by the new commercial courts, while disputes between entrepreneurs and the state and administrative bodies will fall under the competence of administrative courts. In accordance with the executive order mentioned above, the Law on Courts and Judges was also amended to increase judges' wages. In the reporting period, the Judicial Legal Council adopted rules on conducting evaluation of judges' performance that will be a key indicator for the career development and the identification of training needs to improve service quality.

The 2019 **Corruption Perception Index of Transparency International** ranked Azerbaijan 126th out of 180 countries, an improvement since 2018 when Azerbaijan was ranked 152nd⁵¹. According to the monitoring of Deliverable 9 (Anti-corruption) in the EaP deliverables for 2020, Azerbaijan should mainly focus on introducing an asset declaration system and strengthening their anti-corruption bodies, together with establishing an asset recovery office.

The second GRECO⁵² compliance report on the Fourth Evaluation Round for Azerbaijan, targeting **corruption** prevention in respect of members of parliament, judges and prosecutors, was published in March 2019⁵³. The report notes progress in implementing recommendations addressed to Azerbaijan. Of the 21 recommendations, 13 have been implemented satisfactorily, 5 have been partly implemented and 3 have not been implemented. The main outstanding recommendations concern the composition of the Judicial Legal Council, the appointment of judges, the competitive selection of prosecutors to senior positions, and the asset disclosure of parliamentarians, judges and prosecutors.

The National Action Plan for the Promotion of an Open Government for 2020-2022, approved on 27 February 2020, envisages measures to prevent corruption and enhance transparency in the activities of state bodies, measures to ensure financial transparency, combat money laundering and terrorism financing, and measures on accountability and transparency and other relevant activities.

On 25 June 2020, a new chapter on recognition and enforcement of court judgments or other final decisions of foreign jurisdictions was included into the Criminal Procedure Code of Azerbaijan. The new chapter provides procedures for recognition of foreign court judgments.

On 12 June 2020, a new Department for Coordination of Special Confiscation Issues was established under the General Prosecutor's Office.

⁵¹ https://www.transparency.org/files/content/pages/2019_CPI_Report_EN.pdf

⁵² Group of States against Corruption, established in 1999 by the Council of Europe to monitor States' compliance with the organisation's anti-corruption standards.

⁵³ <https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/168094f9b1>

4. Economic development and market opportunities

4.1. Economic development

In the second half of 2019, a major **government reshuffle** took place bringing to the forefront the objective of strengthening economic reforms, fight corruption, monopolies and the shadow economy, and eliminating unfair competition.

In 2019, Azerbaijan's economy sustained the **positive momentum** observed in 2018 as a result of heightened activity in the service sector (in particular IT and communication services) and a strong agricultural output. GDP grew by 2.2% in real terms, up from 1.4% in 2018⁵⁴. The non-oil sector expanded by 3.5%, while the hydrocarbon industry observed a modest rise of 0.4%.

In 2019, Azerbaijan's current account surplus remained high, sustained by hydrocarbon exports. As a result, Azerbaijan further boosted its reserve assets. International reserves held by the Central Bank of Azerbaijan rose by 11% to exceed USD 6.3 billion⁵⁵. Assets held by the State Oil Fund of the Republic of Azerbaijan (SOFAZ), the country's sovereign wealth fund, increased by 12.5% in 2019 to USD 43.3 billion at the end of the year⁵⁶.

The **budget deficit** for 2019 was at AZN 0.2 billion (0.3% of GDP), or well below the initial ceiling set by the government of AZN 2 billion. This was largely the result of strong revenue performance, in particular from customs revenue. At the same time, despite a significant increase in public sector wages and pensions, state spending came in below projections.⁵⁷ In November 2019, the parliament approved the 2020 budget that set spending at AZN 26.9 billion and revenues at AZN 24.1 billion⁵⁸. A modified budget that set spending at AZN 24,12 billion and expenditures at 27,492 billion was adopted in August 2020. The budget is consistent with the new fiscal rules that entered into force in 2019. The State Budget 2020 was initially calculated based on 55 USD per barrel, and later (August 2020) revised to 35 USD per barrel, significantly higher than the current prices.

In January-September 2020, nominal GDP amounted to AZN 52 billion (USD 30.6 billion), a 3.9% decrease in comparison to the same period in 2019. A decline was observed in both oil and non-oil GDP which fell by 6.4% and 2.4% year-on-year, respectively, provoked by the lockdown measures taken to address the COVID-19 pandemic and by the plunge in oil prices, which triggered OPEC+ oil production cuts.

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In 2020, in the context of the COVID-19 pandemic and lockdown measures taken, economic activity started contracting rapidly as of March. A trough of nearly 10% year-on-year decline in output in real terms was reached in May. While economic performance started improving

⁵⁴ <https://www.stat.gov.az/news/macroeconomy.php?page=1&lang=en>

⁵⁵ https://www.cbar.az/infoblocks/money_reserve_usd?year=2019

⁵⁶ <https://www.oilfund.az/storage/images/sknfkh3hp5.pdf>

⁵⁷ <http://www.maliyye.gov.az/en/news/5416/information-on-state-and-consolidated-budget-execution-in-2019>

⁵⁸ <http://www.maliyye.gov.az/en/news/5403/milli-majlis-approves-law-on-2020-state-budget-of-the-republic-of-azerbaijan>

afterwards, the economy remains in contractionary mode. The IMF projects GDP growth for 2020 to reach - 4%.

The tourism sector was hit hardest with its share in GDP decreasing from 2.6% in January to 1.3% in September 2020. Quarantine measures were re-imposed and extended until 1 December 2020, limiting land, air, and public transport. Over the first 9 months of 2020, cargo and passenger transport remained significantly reduced as a result leading to a fall in transportation services by 18.5% for cargo and by 37.4% for passengers compared to the same period in 2019. Total services output also decreased by 25.7% in September 2020 compared to January 2020. In contrast, the agriculture and ICT sectors recorded growth of 7.6% and 2.7%, respectively.

Consumer prices increased by 2.9% in January-September 2020 against the same period in 2019. From January to September 2020, investments in the non-oil sector decreased by 14.1% while they rose by 15.2% in the oil and gas sector. Consequently, overall investments decreased by 3.8%.

The nominal monthly wage for the January-August 2020 period amounted to AZN 710 which constitutes an increase of 20.5% compared to the same period in 2019.

Despite its dependence on the oil sector revenues, the country has significant liquidity buffers to face an exogenous shock, as the combined official foreign exchange reserves of the Central Bank and assets of the State Oil Fund are approximately equal to the country's GDP.

The Azerbaijan Investment Holding (AIH) was established in August 2020 to help control the country's state-owned enterprises (SoE) under one umbrella, to accelerate the liberalization process, and raise governance efficiency and management of the non-oil sector.

The authorities took further steps in 2019 to strengthen **public finance management**, by publishing a detailed preliminary budgetary statement ahead of discussions on the 2020 budget, developing measures to improve quality and transparency of recording public debt as well as launching a project to establish a budgetary data management system⁵⁹.

Concerns over the health of the banking sector and supervision remain⁶⁰. In November 2019, the authorities liquidated the recently established financial market regulator and transferred its activities back to the Central Bank of Azerbaijan. Azerbaijan's financial sector will also be challenged by the consequences of the COVID-19 pandemic.

The improvement in the business climate was reflected in the 2020 international rankings. Azerbaijan ranked 34th out of 190 countries in the **World Bank's Doing Business ranking for 2020**⁶¹. Azerbaijan ranked 1st for getting credit and 9th for starting a business. However, the country came 105th in terms of protecting minority investors and 83rd in trading across borders.

Azerbaijan improved its ranking in the **World Economic Forum's Global Competitiveness Index 2019**, with a high score in infrastructures and business dynamics and a somehow lower score on innovation.

⁵⁹ <http://www.maliyye.gov.az/en/news/category/5/news-archive>

⁶⁰ <https://www.imf.org/en/Publications/CR/Issues/2019/09/18/Republic-of-Azerbaijan-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-48684>

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

In June 2019, the EU organised the fifth **EU-Azerbaijan Business Forum**. The findings of the 2019 EU-Azerbaijan business climate report was presented at the forum. It commended the reforms linked to ASAN e-visa, e-customs services and the revised tax legislation⁶². Further efforts are needed in making the customs system more transparent. According to the report, further efforts are also needed in ensuring that labour skills meet labour market needs. The 2020 EU-Azerbaijan Business Forum was postponed due to COVID-19. FDI inflows increased in 2019 to 1,54 billion USD; up from 1,4 billion USD in 2018⁶³

To further support SMEs, Azerbaijan passed a law exempting **Micro and Small-Sized Enterprises** from the requirement to be audited⁶⁴.

A new preferential lending scheme was launched in July 2020 to provide support to entrepreneurs affected by the coronavirus pandemic, especially micro, small and medium businesses.

Presidential decrees on agricultural subsidies⁶⁵ and agricultural insurance⁶⁶ were also adopted. Agrarian development centres have been established to increase the efficiency of agriculture-related services in the districts. Driven by an increased overall state support and a bundle of COVID-19 specific measures, the agriculture and food sector continued to perform well in the reporting period⁶⁰, with an increased agricultural output of 8 % for the period from January to September 2020 year on year. Agricultural exports were maintained at 2019 levels. The share of 2020 agricultural GDP in overall GDP for the period increased from 6.2% to 7.6%, also helped by falling oil prices.

On **employment**, on 9 March 2020, the **General Collective Agreement** for 2020-2022 was signed between the Government, the Confederation of Trade Unions and the National Confederation of Entrepreneurs (Employers)⁶⁷. The Agreement is an integral part of the social partnership system and forms the basis for the development and conclusion of specific field agreements.

On 13 February 2020, the President approved a new **Action Plan for years of 2020-2025 on implementation of the 2019-2030 Employment Strategy**⁶⁸. The goal of the strategy is to increase the employment level of population, support decent work and increase labour productivity.

Several legislative acts related to employment and skills development were adopted: i) the **Occupational Safety Fund** was established⁶⁹ on 27 September 2019 to provide financial and

⁶² https://eeas.europa.eu/sites/eeas/files/eu_business_climate_report_2019.pdf

⁶³ https://unctad.org/system/files/non-official-document/wir20_fs_az_en.pdf

⁶⁴ Effective as of 26 May 2019. <https://assets.kpmg/content/dam/kpmg/az/pdf/LegislativeUpdate/legislative-update-newsletter-may-june-2019.pdf>

⁶⁵ Decree of the President of the Republic of Azerbaijan of 27th June 2019 on establishing 'REGULATION of Subsidising Production Of Agricultural Products.' Crops (area, output based and seeds), Livestock (animal husbandry, apiculture and sericulture) and Agriculture production facilities (machinery irrigation system and breeding animals) are subsidised.

⁶⁶ " Presidential decree of June 27 2019 on the application of the Law of the Republic No. 1617-VQ 'on Agricultural Insurance' and the establishment of the Agrarian Insurance Fund.

⁶⁷ <https://nk.gov.az/az/document/4342/>

⁶⁸ <https://president.az/articles/35787>

⁶⁹ <https://nk.gov.az/az/document/4039/>

technical support to labour safety measures; ii) **Rules for development, updating, approval, registry and prolongation of occupational and qualification standards**⁷⁰ were developed with the assistance of an EU project and adopted on 12 December 2019; iii) **Sector Committees for skills development** were established⁷¹ on 12 December 2019, constituting a substantial formal mechanism for ensuring the labour-market relevance of qualifications; iv) **Rules of organising self-employment for unemployed**⁷² were approved on 13 May 2020.

Azerbaijan approved the ‘**2019-2023 State programme on the socioeconomic development of the regions of Azerbaijan**’ on 29 January 2019, giving priority to non-oil sector development. In 2019, AZN 8.2 billion were allocated for the implementation of the first year of the State programme. The increase of GDP in non-oil sector was 3.5% and in the industry of non-oil sector was 14%. Loans in the amount of AZN 175 million were given to 1573 entrepreneurs. In 2019, as the result of the state support programmes, the export of agricultural products increased by 14%. Development of 16 agro-parks in the regions was completed in 2019.

According to a Presidential order, 50% of the collected tax income was kept for the use of **local executive authorities** to reduce their dependence on central government. In 2019, the total amount of such income received by executive authorities was AZN 28 million⁷³.

Growth in **tourism** continued in 2019 reaching an unprecedented level of 3 million visitors from 192 countries, an increase of more than 11% compared the same period in 2018. During the reporting period, the number of tourists who came from the EU increased by 22%⁷⁴. A 2019-2023 Tourism strategy was adopted in February 2019. In 2020, the tourism sector faced serious challenges. Despite the fact that there was around 20% increase in arrivals in January and February of 2020, the number of arrivals in March 2020 dropped by 62% due to the COVID-19 pandemic.

On **taxation**, deductions and exemptions, as well as a cut in the personal income tax rate were introduced⁷⁵.

On **statistics**, Azerbaijan has worked on the revision of the national statistical law in line with the Generic Law on Official Statistics and is implementing the State Programme on Development statistics 2018-2025.

Youth unemployment is decreasing but remains high (12.4% in 2019) against an overall low level on unemployment (4.8%)⁷⁶. A new Youth Employment Programme was launched in April 2019. In June, a presidential order increased the **monthly minimum wage to AZN 250** as of 1 September 2019. A presidential decree of July 2019, established a **National Observatory on Labour Market and Social Protection** under the Ministry of Labour and

⁷⁰ <https://nk.gov.az/az/document/4128/>

⁷¹ <https://nk.gov.az/az/document/4129/>

⁷² <https://nk.gov.az/az/document/4439/>

⁷³ <https://economy.gov.az/article/regionlarin-2019-2023-cu-illerde-sosial-iqtisadi-inkishafi-dovlet-proqraminin-icrasinin-birinci-ilinin-yekunlarina-hesr-olunan/30687>

⁷⁴ <https://en.trend.az/business/tourism/3166801.html>

⁷⁵ <https://www.imf.org/en/Publications/CR/Issues/2019/09/18/Republic-of-Azerbaijan-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-48684>

⁷⁶ <https://databank.worldbank.org/>

Social Protection of Population⁷⁷. Following the establishment of a new Agency for Sustainable and Operational Social Security (DOST) as a one-stop shop for all public social services, including employment services, regional centres are being set-up, with a targeted total number of 31 by 2025.

Amendments to the **Health insurance** law were approved by the parliament⁷⁸. A new institution, the Management Union of Medical Territorial Units, was established to implement **mandatory health insurance** in the country⁷⁹. The payment of compulsory medical insurance premiums has been postponed until January 2021. According to the Law of the Republic of Azerbaijan “On Amendments to the Law of the Republic of Azerbaijan On Health Insurance” of 30 March 2020⁸⁰, the countrywide implementation of compulsory health insurance has been postponed until 2021.

Following the outbreak of the COVID-19 pandemic, in terms of **medical infrastructure**, the Azerbaijani authorities made substantial financial allocations to improve the country’s existing medical capacity.

4.2. Trade and trade-related matters

According to year-on-year estimates for January-August 2020, imports decreased by 42.2% and exports by 8.9%. The export of non-oil and gas products amounted to USD 1.2 billion, a decrease by 9.7% compared to the same period of the previous year. As a result, the foreign trade surplus amounted to USD 2.8 billion lying 22.2% below the level recorded in 2019 for the same period.

Total trade between the EU and Azerbaijan amounted to EUR 12.435 billion in 2019. The **EU remains Azerbaijan’s first trading partner**⁸¹.

The Standardisation law was adopted on 19 July 2019. The Technical regulations law, for which EU provided support since 2008, passed its third reading in the parliament on 30 September 2019. The **Competition code** has not yet been adopted.

On **customs**, 193 companies had joined Azerbaijan’s ‘green corridor system’ by the end of 2019. The EU continues to support the State Customs Committee on its accession to the Convention on a Common Transit Procedure, to the Convention on Simplification of Formalities in Trade in Goods and in the implementation of the New Computerised Transit System.

Little progress can be reported in Azerbaijan's preparations to accede to the **World Trade Organization** (WTO), for which the EU has been providing technical assistance since 2018.

The 2019-2025 **Food safety** programme was approved in April 2019, which aims to align Azerbaijan’s food safety system with international food safety standards. Registration of food

⁷⁷<http://sosial.gov.az/en/>

⁷⁸ The Law defines two packages of services: basic and additional. The basic package of services includes primary health care services, emergency medical assistance service, while the additional part covers specialized medical care. The citizens of Azerbaijan, foreigners having permanent or temporary residence permit in Azerbaijan and stateless persons are entitled to the basic package of services. The basic package of services is free of charge. <https://its.gov.az/bloq/tibbi-sigorta-haqqinda-qanuna-deyisiklikler-edilib>

⁷⁹ <https://its.gov.az/bloq/agentliyin-nezdinde-yeni-qurum-tebib-yaradilir>; <https://its.gov.az/page/tabib>

⁸⁰ <https://its.gov.az/uploads/law/84/965381.pdf>

⁸¹ <https://ec.europa.eu/trade/policy/countries-and-regions/countries/azerbaijan/>

business operators is a critical component of the programme as it provides the basis for traceability and risk based inspection. During the reporting period, the number of food business operators registered rose from 11,000 to around 18,000 out of an estimated 50,000 requiring registration.

5. Connectivity, energy efficiency, environment and climate action

A meeting of the EU-Azerbaijan subcommittee on energy, transport and environment was held on 3 December 2019 in Baku.

Azerbaijan continued internal analysis of several provisions of the draft **EU-Azerbaijan common civil aviation area agreement**. In July 2020, an exchange of letters on this matter took place.

Azerbaijan launched **high-speed train** links from Baku to Ganja. Two other destinations Baku-to-Gabala and Baku-to-Astara are planned.

Azerbaijan made progress in implementing priority projects identified under the Indicative TEN-T investment action plan and is close to completing the indicative core TEN-T network, which was extended, in March 2019, to Azerbaijan together with other five countries in the EaP. The EU continues to support the Port of Baku (part of TEN-T) to reinforce its capacities in the implementation of a Green Port Concept and to expand the digital platform to connect the whole supply chain along the Middle Corridor.

In **energy**, Azerbaijan's oil production decreased by 3.3% during 2019 compared to 2018 to approximately 37.5 million tonnes. Azerbaijan exported 31.2 million tons of oil in 2019, which is 4.3 % lower than in 2018. As the Shah Deniz II gas field was coming into operation, gas production increased by 16.3% in 2019 reaching 35.6 bcm. The hydrocarbon sector accounts for some 41% of GDP, 90.7% of exports, and 65% of fiscal revenues. At the more granular four-digit Harmonized Tariff System code level, crude oil represented Azerbaijan's most valuable exported product in 2019 at 75.4% of the country's total global sales. In the first nine months of 2020, nationwide natural gas production increased by 5,9% compared to the same period of 2019 and amounted to 27.5 billion cubic meters, while oil production declined by 2.1 million tons to 26.1 million tons. The Trans-Adriatic Pipeline (TAP), the final segment of the Southern Gas Corridor is now substantially complete. The first gas deliveries to Europe via TAP are expected to start by the end of 2020. Furthermore, the EU and Azerbaijan will be working towards providing additional gas supplies to the EU and to the Western Balkans by extending the capacities of the TANAP (Trans-Anatolian) - TAP (Trans-Adriatic) pipelines and building additional pipeline connections towards Western Balkans and EU.

On 29 May 2019, the President of Azerbaijan signed an order on accelerating reforms in the energy sector. The draft Law on "Use of Renewable Energy Sources for Electricity Generation" has been submitted to the Presidential Administration, and the National Energy Efficiency Action Plan (NEEAP), developed with the financial support of the EU within the EU4Energy Governance programme, has been submitted to the Ministry of Energy.

The EU continues to support the drafting a the "**Long-Term Energy Strategy for Azerbaijan**" document, prepared by the COWI/Exergia consortium, which analyses various policy options and scenarios until 2050, based on a robust assessment of energy supply, demand and the potential for renewables and energy efficiency, taking into account COVID-19 impact.

Azerbaijan joined the E5P Eastern Europe Energy Efficiency and Environment Partnership in November 2019.

As regards **the environment**, the Presidential order on 15 April and 27 July 2020 introduced measures to ensure efficient use of water resources. The Action plan on the rational use of water resources 2020-2022 was approved, aiming to improve the water supply and quality for all water users. The Ministry of Ecology and Natural Resources is in charge of the implementation of the plan. The adoption of the EU assisted Water strategy is inscribed in the above action plan.

6. Mobility and people-to-people contacts

The fifth meeting of the EU-Azerbaijan Joint Readmission Committee was held on 9 September 2019. Overall, a good implementation of the agreement was observed, taking into account the satisfaction of EU Member States with the readmission cooperation by the Azerbaijani authorities, but also the significant increase in the return rate (based on Eurostat data – from 54 % in 2017 to 91 % in 2018 and 97 % in 2019).

The EU-Azerbaijan Joint Visa Facilitation Committee took place in Baku on 6 November 2019. Positive cooperation in the implementation of the agreement was observed, while a number of issues for improvement were identified. The refusal rate has decreased (from 13.1% in 2017 to 10.5% in 2018) and the percentage of Schengen visas allowing for multiple entries has been steadily increasing reaching 40.4% in 2018. During the COVID-19 pandemic, EU Member States have as a rule not been issuing multiple entry Schengen visas but there were some exceptions (e.g. periodic medical treatment). Since July/August, EU Member States have resumed issuing national single entry visas for specific reasons. Azerbaijan still requires EU citizens to obtain a visa to travel and enter its territory and will continue to apply the agreement on a reciprocal basis. The country has put in place an electronic system for issuing e-visas (whose beneficiaries include EU citizens), for single entry and for a stay of up to 30 days.

On **education**, the government approved the classifications for a Bachelor's degree on 12 February 2019 and the classifications for a Master's degree on 10 May 2019⁸². The new classification entered into force for the start of the new academic year in September 2019⁸³.

Partnerships with employers are progressing, the government signed a memorandum of cooperation with several large enterprises. The State Agency for **Vocational Education** (SAVE) initiated more than 100 cooperation agreements between agencies, schools and the private sector. The Vocational Education Development Fund was established⁸⁴. The Fund is a public legal entity that supports the development of vocational education. Budget allocation to Vocational Education and Training (VET) was increased in 2019 (by AZN 11.7 million more than in 2018) but VET still has a very low share in the education budget.

Azerbaijan signed eleven Horizon 2020 grant agreements and received a contribution of EUR 488,300 from the EU in the area of inclusive, innovative and reflective societies, and in the area of food and sustainable agriculture. Currently Azerbaijan is benefitting least out of all EaP partners from the opportunities offered under Horizon 2020.

⁸² <http://www.e-qanun.az/framework/42257>

⁸³ <https://cabmin.gov.az/az/document/3426/print/>

⁸⁴ <https://nk.gov.az/az/document/4694/>

The EU Delegation to Azerbaijan organized, in partnership with 8 EU Member States and third countries as well as local partners, the 2nd edition of the “Fantazia” Cultural Heritage Festival from 1 to 15 November 2019 in Baku, Ganja and Nij village of Gabala.

7. EU financial assistance

In October 2019, the EU adopted a **Partnership Priorities Facility**, combining funds from Azerbaijan’s 2019 and 2020 bilateral allocations for a total amount of EUR 27 million, to support the implementation of the Partnership Priorities in a number of key areas, including governance, economy, connectivity and people-to-people contacts. The Facility is a key part of EU response to COVID-19 in Azerbaijan.

EU bilateral assistance to Azerbaijan continues in a wide range of sectors, including **agriculture & rural development and education**. The ‘EU4Lankaran programme’ accounted for EUR 13.5 million of support to fruit and vegetable producers in the Lankaran region, and the ‘Education for Employment programme’ accounted for EUR 13.5 million of further support in improving the education system, in particular on skills development.

In **judicial governance**, the EU supported improvements to the efficiency of the judiciary, establishment of a mediation system, legal aid and improving prison services.

The EU continues to provide **financial support to civil society**. Funding under thematic programmes continued to be channelled through international organisations (Unicef, OHCHR, UNDP), while direct grants to Civil Society Organisations (CSOs) are provided under bilateral sectoral programmes in education, rural development and domestic violence. Also, through the regional Civil Society Facility, a EUR 3 million contribution agreement was signed with UNDP in November 2020 to support social entrepreneurship in Azerbaijan.

Azerbaijan continues to use **Twinning and TAIEX**, with 6 ongoing twinning projects and participation in a large number of TAIEX events in 2020. Since the COVID-19 pandemic started, TAIEX assistance focused on adapting the public administration to the new context, working on sectors such as higher education, food safety and the rule of law. The Twinning instrument supports sectors such as standardisation, business statistics, higher education, agriculture, customs and fight against domestic violence.

Azerbaijan benefits from a number of EU regional programmes, including **EU4Business, EU4Energy, EU4Environment, EU4Climate, EU4Youth, EU4Digital**, Statistics Through Eastern Partnership (STEP), **Council of Europe Partnership for Good Governance and CyberEast project**.

EU assistance at local level took place under the **Covenant of Mayors for Climate and Energy** and the **Mayors for Economic Growth (M4EG)**. Currently, the Covenant has two signatories and M4EG has ten signatories from Azerbaijan.

In February 2020, the EU launched the EU project “Strengthening capacity of the Ministry of Labour and Social Protection of Population of Azerbaijan in the area of skills anticipation and workforce planning” that supports the establishment of a National Observatory.

Azerbaijan also benefits from EU programmes such as **ERASMUS+** and **HORIZON 2020**. Ten ongoing Erasmus+ projects help the Azerbaijani higher education system and institutions build their capacity to align with the European Higher Education Area.

Under the last call of the **Capacity Building for Higher Education**, 6 projects with participation of 24 universities from Azerbaijan were selected. The Baku Business University will coordinate one of these projects.

During 2015-2020, Azerbaijan universities participated in 19 projects with total budget of EUR 8.8 million that represents 10.1% of the total among 6 EaP countries.

In **research and innovation**, the participation of Azerbaijan's institutions in Horizon 2020 is limited to two regional coordination and support actions (Black Sea Horizon and EaP Plus), a single research and innovation action (SIM4NEXUS) and two Marie Skłodowska Curie actions.

Azerbaijan's **Shamakhy Astrophysical Observatory** is a partner of the Project "Physics of Extreme Massive Stars" (POEMS) co-funded by the Horizon 2020 programme under the Marie Skłodowska-Curie Research and Innovation Staff Exchanges RISE.

Azerbaijan has two ongoing bilateral **Neighbourhood investment platform** operations with the European Bank for Reconstruction and Development (EBRD): i) Regional road reconstruction project (EUR 3.4 million grant, EUR 681 million loan), and ii) Azerbaijan Agricultural Finance Facility (EUR 1.6 million grant, USD 40 million loan). In November 2019, Azerbaijan joined the Eastern Europe energy efficiency and environment partnership (E5P) programme.

Azerbaijan participates in 7 projects as part of the EU Chemical Biological Radiological and Nuclear Risk Mitigation Centres of Excellence Initiative as well as from projects on nuclear security under the umbrella of the Instrument contributing to Stability and Peace (IcSP).

Azerbaijan benefited from regional EU support to fight the COVID-19 pandemic, including the delivery of PPEs (10,000 face shields, 10,000 protective goggles, 140,000 respirators and 8,000 isolation gowns) delivered to health facilities across the country, scaling up testing capacity and training 400 health care workers.

The **European Partnership for the peaceful settlement of the conflict over Nagorno-Karabakh** continued to fund innovative peacebuilding activities to positively influence the Nagorno-Karabakh conflict settlement process. In addition, a complementary regional **EU4Dialogue** programme was approved in 2019 aiming to contribute to peacebuilding in the EaP region, including Nagorno-Karabakh. Moreover, the EU has provided in total EUR 3.9 million in humanitarian funding following the outbreak of hostilities in the Nagorno-Karabakh conflict zone on 27 September 2020.

8. Conclusion and outlook

Over the reporting period, major reform processes in Azerbaijan pursued the objective of further diversifying and modernising its economy and expanding trade opportunities. The country also adopted major socioeconomic measures and is looking to strengthening its governing institutions. The EU will continue supporting the economic diversification and recovery of Azerbaijan and promoting reforms - including of the judiciary - to improve the business climate in the country and benefit the people – all the more important in the context of the COVID-19 pandemic.

The conclusion of the new EU-Azerbaijan agreement remains not only a political priority reflecting the importance of the EU-Azerbaijan partnership, but it will also support the

Government's efforts to diversify Azerbaijani economy. The EU stands ready also to continue negotiations on the EU –Azerbaijan Aviation Agreement, which has the potential to contribute significantly to the post COVID-19 recovery by generating increases in connectivity allowing to bring both tourists and investors to the country.

The European Union will also continue its cooperation and dialogue with Azerbaijan to address challenges related democracy and human rights in the country. This is particularly important in the specific context of the coronavirus pandemic where containment measures against COVID-19 have exacerbated more structural and wider issues linked to the respect of the fundamental freedoms and respect for human rights, including arbitrary detentions or administrative arrests.

The current wave of the pandemic is expected to deepen the negative socio-economic effects that set in during the first wave. Due to relatively stable oil prices, the Azerbaijani economy is expected to remain robust in the face of the pandemic, however the economic impact of the large scale hostilities in the Nagorno-Karabakh conflict zone are difficult to predict.