

**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES**  
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**EU relations with  
Armenia and Azerbaijan**

**AFET**



## IN-DEPTH ANALYSIS

# EU relations with Armenia and Azerbaijan

### ABSTRACT

The EU is currently reshaping its relationship with Armenia and Azerbaijan through new agreements for which the negotiations ended (Armenia) or started (Azerbaijan) in February 2017.

After Yerevan's decision to join the EAEU (thereby renouncing to sign an AA/DCFTA), the initialling of the CEPA provides a new impetus to EU-Armenia relations. It highlights Armenia's lingering interest in developing closer ties with the EU and provides a vivid illustration of the EU's readiness to respond to EaP countries' specific needs and circumstances. The CEPA is also a clear indication that the EU has not engaged in a zero-sum game with Russia and is willing to exploit any opportunity to further its links with EaP countries.

The launch of negotiations on a new EU-Azerbaijan agreement – in spite of serious political and human rights problems in the country – results from several intertwined factors, including the EU's energy security needs and Baku's increasing bargaining power. At this stage, Azerbaijan is interested only in forms of cooperation that are not challenging the political *status quo*. However, the decline in both world oil prices and domestic oil production in this country is creating bargaining opportunities for the EU in what promises to be a difficult negotiation.

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## Introduction

The European Union (EU) is currently reshaping its relationship with Armenia and Azerbaijan (two South Caucasus countries included in the European Neighbourhood Policy (ENP) and the Eastern Partnership) through new agreements for which the negotiations ended (Armenia) or started (Azerbaijan) in February 2017.

Against this background, the present briefing analyses the EU's current relations with Armenia and Azerbaijan. In both cases, the report starts with an analysis of the broader context of relations. It then scrutinises the key elements included (or, in the case of Azerbaijan, that should be included) in the agreement with the EU. Finally, the briefing offers recommendations on how the EU should take forward its relationship with Armenia and Azerbaijan, respectively.

# 1 EU-Armenia relations

## 1.1 The broader context of EU-Armenia relations

In recent years, relations between the European Union (EU) and the Republic of Armenia have undergone substantial changes in the legal framework succeeding the Partnership and Cooperation Agreement (PCA) in force since 1999. Like Georgia, Moldova and Ukraine, Armenia engaged in negotiations for an Association Agreement (AA) together with a Deep and Comprehensive Free-Trade Area (DCFTA) with the EU. While it completed negotiations for the AA/DCFTA in July 2013, the country did not sign the agreements and instead joined the Russia-driven Eurasian Economic Union (EAEU) in January 2015. The Comprehensive and Enhanced Partnership Agreement (CEPA) which was negotiated in 2015-2017 and initialled on 27 March 2017 is expected to be 'an important step to broaden the scope of bilateral relations'<sup>1</sup> between the European Union and the Republic of Armenia. Importantly, the CEPA marks the end of a sequence of uncertainty in EU-Armenia relations.

On 3 September 2013, the Armenian president Serzh Sargsyan decided to engage his country in the Russia-led Eurasian integration process, thereby renouncing the EU-Armenia Association Agreement which should have been initialled during the Eastern Partnership (EaP) Vilnius Summit in November 2013. Sargsyan's decision was made in the wake of an increasing (yet broadly unnoticed by the EU until early September 2013) Russian pressure over Armenia since early 2013<sup>2</sup>. The Russian Federation then concluded a massive arms sale deal (USD 4 billion) with Azerbaijan<sup>3</sup>, Armenia's adversary in the Nagorno-Karabakh conflict. This was a clear signal to Yerevan that Russia's South Caucasus policy (premised on a strategic alliance with Armenia) could change should Armenia's further integration with the EU materialise. In addition, Russia threatened to substantially increase energy prices for Armenia and to deport Armenian migrants working on its territory. It also allegedly warned about possible political upheavals in the country if Armenia signed the Association Agreement with the EU.

Armenia's decision to join the Eurasian Economic Union was made despite the apparent lack of clear economic benefits for the country. In fact, accession to the EAEU even entails costs for Armenia. The Eurasian Customs Union (ECU)'s initial common external tariff was broadly aligned to Russia's tariff schedule and therefore much higher than that of Armenia's. Like Kyrgyzstan, the country had to substantially increase its average tariff (from 5.2 % to 8.5 %<sup>4</sup>) to align with the common tariff. Therefore, applying EAEU tariffs was expected to result in an increase in the price of imported goods in Armenia. In addition, the country faced possible renegotiations of tariffs with those WTO members affected by tariff adjustments. However, both the impact of adjusting to EAEU tariffs and the actual scope of renegotiations with WTO members remain to be ascertained over the long term. This is due to the fact that the EAEU's average common external tariff is currently decreasing (as a result of the gradual implementation by Russia of its WTO commitments)<sup>5</sup>. Moreover, Armenia has attempted to mitigate the costs resulting from accession to the EAEU by securing a high number of exemptions (approximately 800) during the accession

<sup>1</sup> Joint Press Release by the European Union and Republic of Armenia on the initialling of the EU-Armenia Comprehensive and Enhanced Partnership Agreement, Yerevan, 21 March 2017.

<sup>2</sup> European Parliament, Motion for a Resolution on the pressure exerted by Russia on Eastern Partnership countries (in the context of the upcoming Eastern Partnership Summit in Vilnius) (2013/2826(RSP)), Plenary sitting, 9 September 2013.

<sup>3</sup> S. Ananicz, 'Armenia turns away from the EU', OSW Analyses, 4 September 2013 <<https://www.osw.waw.pl/en/publikacje/analyses/2013-09-04/armenia-turns-away-eu>> accessed 13 June 2017.

<sup>4</sup> World Trade Organisation, World Tariff Profiles, Geneva, 2013 and 2015.

<sup>5</sup> D. Tarr, 'The Eurasian Economic Union among Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: Can it Succeed Where its Predecessor Failed?', Eastern European Economics 54 (1), 2016, p.1, p.8.

negotiations. As a result, the country will not have to comply fully with EAEU tariffs (and some other EAEU requirements) before 2022.

By contrast, if signed and implemented the DCFTA would have entailed a 2.3 % increase in Armenia's Gross Domestic Product (GDP) in the long run; it would also have resulted in a 15.2 % increase in Armenian exports and an 8.2 % increase in imports in the long run, thus leading to an improvement in Armenia's trade balance in relative terms<sup>6</sup>. Moreover, the DCFTA would have offered increased opportunities for foreign investment and it would also have enhanced the competitiveness of Armenia's economy based upon regulatory convergence with the EU's technical standards. After negotiations for an AA and a DCFTA were opened (in 2010 and 2012 respectively), the country had made substantial reforms to approximate its legal and policy framework with EU norms and standards. In many respects, between 2010 and 2013 Armenia performed better than other Eastern Partnership countries engaged in DCFTA negotiations<sup>7</sup>. Yet regulatory convergence with the EU *acquis* was halted after the decision to join the EAEU. This is despite the fact that the EU's offer for deep economic integration was regarded as an attractive and highly legitimate template for modernisation, while the EAEU is not perceived as a credible vector in this respect.

However, and importantly, EAEU membership is associated with less apparent benefits (whether economic or political). In fact, it allegedly protects Armenia (even if only in the short term) from the retaliatory measures that Russia would have introduced if the AA/DCFTA had been initialled and signed (as was the case for Moldova and Ukraine). In particular, the decision to join the Eurasian integration process enabled Armenia to maintain cheap energy prices for Russian gas as is the case for Belarus<sup>8</sup> and preserved the country from the harsher migration policy introduced by Russia in 2014. These 'benefits' (in fact, the mere possibility of maintaining economic links with Russia) are regarded as key by the Armenian authorities in light of the country's high dependence on both Russian gas and remittances from Armenian labour migrants in the Russian Federation<sup>9</sup>.

While the decision to join the EAEU ruled out the signature of AA/DCFTA, it has not altered Armenia's commitment to a strong partnership (even if in a different form) with the EU. In fact, the EU has continuously been regarded as a crucial partner both in the country's foreign policy and reform process. However, after the 3 September 2013 decision a key challenge was to identify the possible scope for a new EU-Armenia agreement, taking into account the country's commitments under the EAEU. Yet the scoping exercise undertaken in 2014-15 turned out to be more difficult than expected<sup>10</sup>. This is primarily due to the climate of uncertainty around the Eurasian integration process. Even though the scoping exercise started after the completion of Armenia's accession negotiations to the EAEU, the exact scope of obligations to which the country had committed remained unclear. This results from several factors that are closely intertwined. Despite the ambitious objectives proclaimed when the EAEU was launched, there are still a number of exemptions from the Single Customs Tariff, while progress in harmonising rules and removing barriers within the Eurasian Union has been modest. Moreover, EAEU member states (primarily Russia) have gradually taken precedence over supranational institutions and emerged as the major players within the Union, thereby shaping (and limiting) integration on the basis of their own interests. The lack of

<sup>6</sup> ECORYS/CASE, Trade Sustainability Impact Assessment in support of Negotiations of a DCFTA between the EU and the Republic of Armenia. ECORYS/CASE: Rotterdam, 2013, p.13.

<sup>7</sup> L. Delcour, K. Wolczuk, 'The EU's Unexpected 'Ideal Neighbour'? The Perplexing Case of Armenia's Europeanisation', *Journal of European Integration* (37)4, 2015.

<sup>8</sup> Armenia obtained a 30 % discount on Russian gas upon deciding to join the EAEU. M. Russell, 'Eurasian Economic Union. The Rocky Road to integration', *European Parliamentary Research Service Briefing*, April 2017, p.7.

<sup>9</sup> According to the World Bank, remittances from the Russian Federation represent approximately 65 % of the total remittances received in Armenia and they make up for roughly 9 % of the country's GDP. World Bank, *Bilateral Remittances Matrix*, 2014, Washington: The World Bank Group.

<sup>10</sup> Final Statement and Recommendations, EU-Armenia Parliamentary Cooperation Committee 15<sup>th</sup> meeting, 19-20 March 2015, Yerevan.

commitment to further integration on the part of EAEU member countries (first and foremost Russia) has been identified as a key factor behind the limited progress noted in recent years<sup>11</sup>. Therefore, the degree of flexibility enjoyed by Armenia as an EAEU member remains to be ascertained, owing both to the discrepancy between the theory and the practice of Eurasian integration and to Russia's reliance on bilateral relations to influence developments in EAEU member countries.

Next to the effort in deepening general political, economic and sectoral cooperation, the Armenian government gives importance to the EU's role in the peaceful resolution of the Nagorno-Karabakh conflict. Armenia expects the EU to criticise the belligerent rhetoric and the (threat of) use of military force by Azerbaijan, as this impedes progress towards the resolution of the conflict. As a result of Azerbaijani rhetoric and action, the Armenian society doubts that the Azerbaijani elite is genuinely interested in reaching a peace deal. In addition to supporting the mediation efforts of the Co-Chairs of the OSCE Minsk Group, the Armenian side encourages the EU to develop a status-neutral engagement with the society of Nagorno-Karabakh, facilitate people-to-people contacts, provide humanitarian and development aid and support on-going democratic developments. In Armenia's view, the implementation of any decision taken during the OSCE negotiations will require the participation of Nagorno-Karabakh.

## 1.2 Analysis of the Comprehensive and Enhanced Partnership Agreement<sup>12</sup>

Overall, the new agreement between the EU and Armenia has emerged as a test case in three respects.

First, the CEPA is a test case for the new EU approach under the European Neighbourhood Policy. The 2015 ENP review<sup>13</sup> placed the emphasis on differentiation, defined as a hallmark of the future policy. The revised neighbourhood policy is expected to start not from the EU's offer and experience, but from partner countries' needs and expectations *vis-à-vis* the EU. The CEPA is a case in point, since it was tailor-made to Armenia's specific circumstances as an EAEU country willing to develop its relations with the EU to the greatest possible extent.

Second, the CEPA is a test for Russia's readiness to accept other EAEU members' foreign policy choices<sup>14</sup> and for Armenia's capacity to preserve some degree of autonomy. In the case of Armenia, Russia officially indicated that a new agreement between Armenia and the EU would not contradict cooperation with the EAEU and Russia, provided that it is compatible with the commitments taken by Armenia as part of the EAEU<sup>15</sup>. In fact, as underlined by the Russian Ministry of Foreign Affairs, all EAEU members have developed bilateral ties with the EU over the past two decades and negotiated agreements (for instance, the Enhanced Partnership and Cooperation Agreement signed with Kazakhstan in December 2015). However, in the Russian narrative this cobweb of agreements should eventually turn into a bloc-to-bloc dialogue involving the EU and the EAEU on an equal footing. The preference for a bloc-to-bloc dialogue is shared by the Armenian authorities, yet it is framed in a different way. The Armenian elites emphasise the role of the EU

<sup>11</sup> R. Dragneva, K. Wolczuk, 'The Eurasian Economic Union: Deals, Rules and Exercise of Power', Chatham House Research Paper, May 2017.

<sup>12</sup> The main caveat of this study lies in the fact that the authors were not given access to the text of the CEPA as it is currently under the legal scrubbing and is not available. Therefore, this study relies on secondary data collected through in-depth interviews with the negotiators and those aware of the process.

<sup>13</sup> European Commission/High Representative of the Union for Foreign and Security Policy. Review of the European Neighbourhood Policy, 18 November 2015.

<sup>14</sup> L. Delcour and K. Wolczuk, 'Armenia is Becoming an Important Test-Case for Relations between the EU and the Eurasian Economic Union', London School of Economics EUROPP Blog, 13 May 2015.

<sup>15</sup> 'MID : dogovor Armenii i ES ne protivorechit vzaimodejstviju s Rossiej' [Russian Ministry of Foreign Affairs: Armenia's agreement with the EU does not contradict cooperation with Russia], RIA Novosti, 23 October 2015

<<http://ria.ru/world/20151023/1306967152.html>> accessed 23 June 2016.



as a model for EAEU integration and as a template for the modernisation of its member states. In fact, the extensive reforms which were conducted in 2010-13 as part of the AA/DCFTA negotiations are broadly seen as an asset for Armenia in the Eurasian integration project. As a result of both its early WTO membership and especially its substantial adoption of EU templates in 2010-13, Armenia is regarded as a frontrunner compared to other EAEU members<sup>16</sup>. Interestingly, the Eurasian Economic Commission has also referred to Armenia as an example to follow in a number of sectors<sup>17</sup>. The Armenian government intends to exploit this advanced status to 'act as a bridge' between the EU and the EAEU<sup>18</sup> and more specifically to promote EU standards (whenever possible) within the EAEU<sup>19</sup>.

Last but not least, the CEPA is a test for the EU's capacity to influence domestic developments in those Eastern Partnership countries that have not signed an Association Agreement. In particular, since Armenia's membership in the EAEU constrains the scope of the new agreement on trade-related issues, political, judicial and sectoral cooperation is expected to gain salience in EU-Armenia relations. This is especially important in light of both the Armenian authorities' very mixed record in democratisation and the rule of law, and the depleted public trust in political elites. Recent developments in the country point to controversial attempts by the elite to ensure its political survival through proposing a set of constitutional amendments (adopted by referendum in December 2015) turning the country into a parliamentary regime. This is especially worrying since the Eurasian integration process is not conducive to further progress in political reforms. In fact, Armenia's integration choice only buttresses the incumbent authorities' attempts to ensure their political survival and therefore fuels the Armenian public's frustration with the lack of deep political reforms. Thus, the EU has a crucial role to play in fostering these reforms. Admittedly, the EU's influence on Armenia's democratisation process has been limited thus far. The EU has criticised marred elections (including the parliamentary elections conducted in April 2017) and the use of violence by the authorities in response to demonstrations (especially in the wake of the 2008 presidential elections). Yet during the early years of the Eastern Partnership, the EU has focused on a dialogue with the government and on trade-related conditionality as part of the preparation for AA/DCFTA negotiations. By contrast, the EU has made limited use of political conditionality in Armenia<sup>20</sup> and it has not done enough to encourage the involvement of non-governmental actors (e.g. civil society organisations and the private sector) in a dialogue with the Armenian government, in particular during the AA/DCFTA negotiations. While democratisation is only made more difficult in the context of Eurasian integration, the CEPA (together with assistance and the future visa dialogue) also represents a 'second chance'<sup>21</sup> for the EU to step up its role in this respect<sup>22</sup>.

The EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) follows the structure of the Association Agreements and the DCFTAs that the EU prepared with Armenia and concluded with Georgia, Moldova and Ukraine. The CEPA is comprehensive in its coverage and in many areas the agreement is substantively ambitious. The CEPA refers to the EU *acquis* in the fields where there is no compatibility issue with Armenia's commitments *vis-à-vis* the EAEU. Armenia initially asked for a carve-out clause to be

<sup>16</sup> This is particularly due to Armenia's accession to the WTO in early 2003, i.e. much earlier than the founding members of the Eurasian Customs Union. While Belarus is not a WTO member, Russia joined in 2012 and Kazakhstan in 2015. Among current EAEU members, only Kyrgyzstan acceded earlier than Armenia.

<sup>17</sup> Authors' interviews, Eurasian Economic Commission, Moscow, May 2015 and December 2016.

<sup>18</sup> Authors' interviews, Ministry of Foreign Affairs, Yerevan, March 2015 and November 2015.

<sup>19</sup> Authors' interviews, Ministry of Foreign Affairs, Yerevan, March 2015 and November 2015.

<sup>20</sup> Political conditionality was included in GSP+.

<sup>21</sup> H. Kostanyan, R. Giragosian, 'EU-Armenia relations. Seizing the Second Chance', CEPS Commentary, 31 October 2016.

<sup>22</sup> In the wake of April 2017 elections, the EU Ambassador to Yerevan questioned the credibility of the government-controlled Central Electoral Commission. For the first time, the EU was criticised (inter alia by the Justice Minister) for meddling in Armenian internal affairs. This is a clear signal of the ruling elite's resistance to the EU's political leverage. N. Sahakian, A. Bedevian, 'EU Envoys Rejects Criticism from Armenian Government', RFE/RL, 20 June 2017

<<https://www.azatutyun.am/a/28569008.html>> accessed 27 August 2017.

included in the CEPA. The carve-out clause would have enabled Armenia to opt out of the implementation of those CEPA provisions which may come into conflict with the new commitments that Armenia might take in the framework of the EAEU. The EU, however, rejected the proposal and the CEPA has to be fully implemented. This is why the negotiators aimed to agree on a text which can be implemented in light of Armenia's commitment toward the EAEU<sup>23</sup>. The EU and Armenian negotiators used the draft EU-Armenia Association Agreement and DCFTA as baseline texts. Going through the agreement, the negotiators identified those commitments that could be preserved in the new agreement and those provisions that were not in line with Armenian's membership in the EAEU<sup>24</sup>. First, in a number of areas such as the political dialogue and in the majority of the sectoral chapters (e.g. environment), the commitments included in the draft Association Agreement remain almost unchanged and are thus very ambitious. Second, in the core trade policy issues such as sanitary and phytosanitary measures (SPS) the commitments enshrined in the CEPA are drastically reduced as compared to those of the DCFTA. Third, in some specific areas the timetable for implementation is extended.

The four major substantive parts of CEPA that are analysed below include political dialogue and cooperation in foreign and security policy; justice, freedom and security (JFS); trade; and sectoral cooperation.

### 1.2.1 Political dialogue

The Political Dialogue title of the CEPA is almost a copy and paste of the very ambitious text of the draft EU-Armenia Association Agreement. It focuses on both domestic reform and foreign and security policy. At the heart of the CEPA's domestic reform-related chapter are democratic values, good governance and respect for fundamental freedoms, human rights and rule of law. These are defined as 'essential elements' of the CEPA. Accordingly, if these principles are violated, the agreement can be suspended. A limited number of reforms outlined in the agreement are detailed in the Partnership Priorities, a complementary document to the CEPA.

The CEPA will refer to strengthening the democratic institutions. This is important for Armenia's domestic politics as the checks and balances between the executive, legislative and judiciary branches of power do not function well. An excessively strong executive dominates the legislative branch of power whereas the judiciary has remained largely dependent on the executive branch. The CEPA reaffirms Armenia's commitments on judicial and legal reform with the aim of ensuring the independence and impartiality of judiciary and law enforcement structures. Strengthening the democratic institutions is also timely as Armenia prepares its transition to a parliamentary system of government in 2018.

Free and fair elections, judicial reform, human rights and fundamental freedoms are the core elements of the democratic development that the CEPA is likely to address. Most of the elections in Armenia since its independence of 1991 have been marred (to varying degrees) with fraud and other shortcomings. These are well documented in the reports produced by the OSCE Office for Democratic Institutions and Human Rights (ODIHR), the monitoring work of which the EU has consistently supported.

The latest Parliamentary elections of 2 April 2017 were considered of particular importance. They jumpstarted Armenia's transition from the semi-presidential to parliamentary political system. The preliminary conclusions of the international observation mission assessed the elections as well-administered and respecting the fundamental freedoms. However, the report points to vote-buying and the use of administrative resources through pressure on civil servants, including in schools and hospitals. The intimidation of voters and interference by party representatives and police further tainted the

<sup>23</sup> Interview, 20 July 2017.

<sup>24</sup> R. Giragosian, H. Kostanyan, 'EU-Armenia relations. Seizing the Second Chance'.

elections. Such violations further undermined public trust in the election process<sup>25</sup>. As was the case in all elections held in Armenia since the independence of the country, the EU called on Armenian authorities to address the election shortcomings<sup>26</sup> and stressed 'the need for a proper investigation and follow-up of all alleged (pre-) electoral violations and to ensure a level playing field for all candidates'<sup>27</sup>.

The CEPA will provide a basis for enhancing the existing EU-Armenia cooperation in foreign policy and for developing cooperation in security and defence. In particular, the agreement is expected to provide a legal basis for Armenia to take part in the missions under the EU's Common Security and Defence Policy (CSDP). This will complement Armenia's longstanding contribution to NATO-led operations, particularly in Afghanistan.

The CEPA is likely to promote the Rome Statute which established the International Criminal Court dealing with genocide, war crimes and crimes against humanity. Armenia signed this Statute in 1998 but has not yet ratified it. The agreement is also expected to encourage regional stability and the peaceful resolution of the Nagorno-Karabakh conflict. To this end, the agreement is likely to reaffirm the EU's support to the Madrid Principles, as well as the mediation of the Co-Chairs of OSCE Minsk Group, the efforts of the UN and other international organisations.

## 1.2.2 Justice, freedom and security (JFS)

Respect for human rights and fundamental freedoms are identified as the guiding principles of cooperation in freedom, security and justice. The promotion of the rule of law, including the right to fair trial and access to an independent judiciary, is central in this title of the CEPA. The EU and Armenia express their willingness to cooperate in law enforcement and administration of justice.

The JFS title of the new agreement is both ambitious and important for Armenia. The country's justice sector, including law enforcement, is in dire need of reform, as recently illustrated by the so-called 'Erebuni Crisis'. In July 2016, a radical armed opposition group seized the police station in Erebuni district of Yerevan and entered into a standoff with the law enforcement agencies. When protesters turned up in support of the group, the police made an excessive use of force against peaceful demonstrators and assaulted journalists who were covering the developments on the scene. Moreover, 'the authorities arbitrarily detained dozens of protest leaders and participants, pressing unjustified criminal charges against them and denying some of them basic rights of detainees'<sup>28</sup>. In general, ill-treatment of people in custody has been an issue in Armenia and on several occasions investigations into alleged misconduct by the police did not yield any results. In the recent EU-Armenia Cooperation Council, the EU focused on the need for 'an impartial, credible and effective investigation' in all human right violations including the wrongdoings by the police during the 2016 Erebuni Crisis<sup>29</sup>.

Other items prioritised by the EU in the latest human rights dialogue with Armenia include ensuring free

<sup>25</sup> International Election Observation Mission, Republic of Armenia – Parliamentary Elections, Statement of Preliminary Findings and Conclusions, 2 April 2017

<<http://www.osce.org/office-for-democratic-institutions-and-human-rights/elections/armenia/309156?download=true>> accessed 22 June 2017.

<sup>26</sup> EU-Armenia Cooperation Council, Brussels, 23 May 2017 <[http://www.consilium.europa.eu/en/meetings/international-ministerial-meetings/2017/05/23/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Main%20results%20-%20EU-%20Armenia%20Cooperation%20Council%2C%2023/05/2017](http://www.consilium.europa.eu/en/meetings/international-ministerial-meetings/2017/05/23/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Main%20results%20-%20EU-%20Armenia%20Cooperation%20Council%2C%2023/05/2017)> accessed 22 June 2017.

<sup>27</sup> Press Release: 8th Human Rights Dialogue between the European Union and Armenia', 30 May 2017

<[https://eeas.europa.eu/headquarters/headquarters-homepage\\_en/27119/Press%20Release:%208th%20Human%20Rights%20Dialogue%20between%20the%20European%20Union%20and%20Armenia](https://eeas.europa.eu/headquarters/headquarters-homepage_en/27119/Press%20Release:%208th%20Human%20Rights%20Dialogue%20between%20the%20European%20Union%20and%20Armenia)> accessed 22 June 2017.

<sup>28</sup> Human Rights Watch, 'Armenia Events of 2016' <<https://www.hrw.org/world-report/2017/country-chapters/armenia>> accessed 22 June 2017.

<sup>29</sup> EU-Armenia Cooperation Council, Brussels, 23 May 2017.

trial for all and countering discrimination on all grounds, speedily adopting and implementing legislation against discrimination and domestic violence<sup>30</sup>. In particular, the EU encourages Armenia to adopt a stand-alone law against domestic violence as well as the international treaties related to preventing and combating violence against women. It also recommends that Armenia set up mechanism to support victims<sup>31</sup>.

The CEPA is also expected to address cooperation in the fight against organised crime, the supply of illicit drugs and terrorism. The EU and Armenia pledge to fight corruption and money laundering, which are of key importance in Armenia. In particular, corruption remains a serious challenge as indicated by Transparency International's Corruption Perceptions Index 2016, where Armenia ranks 113 among 176 countries<sup>32</sup>. The 2016 Global Business Bribery Risk Index by Trace International ranks Armenia 64th among 199 countries and Armenia is 38th among 190 countries<sup>33</sup> in the World Bank's Doing Business Index<sup>34</sup>.

Beyond the CEPA, the EU has consistently supported and encouraged the fight against corruption in Armenia. A recent action by the EU includes assistance to a 'Multi-Faceted Anti-Corruption Promotion' project aimed to increase the role of civil society organisations (CSOs) in the promotion of anti-corruption reforms through strengthening their capacity to monitor and oversee the reforms. Moreover, the programme aimed at establishing a sustainable dialogue between CSOs and the government in order to improve the mechanisms for fighting corruption<sup>35</sup>. Early achievements of the project include the establishment of the CSO Anti-Corruption Coalition of Armenia, the criminalisation of illicit enrichment and drafting of two independent anti-corruption agency models<sup>36</sup>. The EU also funds an awareness-raising campaign about the negative consequences of corruption<sup>37</sup>.

An important part of the JFS title relates to mobility. The agreement is expected to address migration, asylum and border management in general terms. There is a 'careful mention of visa liberalisation'<sup>38</sup>. The movement of people between Armenia and the EU is discussed in-depth outside of the agreement. In 2011, Armenia signed a Mobility Partnership with the EU and many of its member states<sup>39</sup> with a view to improving the management of migration flows and preventing irregular migration. In addition, the EU-Armenia Visa Facilitation and Readmission Agreements have functioned well over the past 3 years<sup>40</sup>. This has given ground for the EU and Armenia to launch a Visa Liberalisation Action Plan (VLAP) (including key conditions related to the fight against corruption) in the near future. VLAP includes 4 blocks and has to pass both legislative and implementation phases.

<sup>30</sup> EU-Armenia Cooperation Council.

<sup>31</sup> 'Press Release: 8th Human Rights Dialogue between the European Union and Armenia', 30 May 2017.

<sup>32</sup> Transparency International, 'Armenia: Corruption Perception Index' <<https://www.transparency.org/country/ARM>> accessed 30 July 2017.

<sup>33</sup> The TRACE Matrix®, '2016 Results' <<http://www.traceinternational.org/trace-matrix>> accessed 22 June 2017.

<sup>34</sup> World Bank, 'Doing Business Rankings 2016' <<http://www.doingbusiness.org/rankings>> accessed 22 June 2017.

<sup>35</sup> 'Multi-Faceted Anti-Corruption Promotion', 6 June 2016

<[https://eeas.europa.eu/headquarters/headquarters-homepage\\_en/11286/Multi-Faceted%20Anti-Corruption%20Promotion](https://eeas.europa.eu/headquarters/headquarters-homepage_en/11286/Multi-Faceted%20Anti-Corruption%20Promotion)> accessed 22 June 2017.

<sup>36</sup> 'Multi-Faceted Anti-Corruption Promotion', 6 June 2017.

<sup>37</sup> EU Launched a Campaign against Corruption in Armenia', Yerevan, 1 February 2017

<[https://eeas.europa.eu/headquarters/headquarters-homepage/19670/eu-launched-campaign-against-corruption-armenia\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/19670/eu-launched-campaign-against-corruption-armenia_en)> accessed 22 July 2017.

<sup>38</sup> Authors' interview, Brussels, 20 June 2017.

<sup>39</sup> Participating EU member states are the Kingdom of Belgium, the Republic of Bulgaria, the Czech Republic, the Federal Republic of Germany, the French Republic, the Republic of Italy, the Kingdom of the Netherlands, the Republic of Poland, Romania and the Kingdom of Sweden.

<sup>40</sup> Authors' interview, Brussels, 20 June 2017. EU-Armenia Cooperation Council, 18 January 2016

<<http://www.consilium.europa.eu/en/press/press-releases/2016/01/18-eu-armenia/>> accessed 22 June 2017.

### 1.3 Sectoral cooperation

The sectoral chapters of the CEPA are expected to cover a wide range of areas, including economic dialogue, social policy, consumer protection, statistics and public finances, taxation and financial services, media, energy, environment, transport, public health, civil society, education and research. Table 1 provides a more comprehensive account of the chapters included in the sectoral cooperation title.

**Table 1 Sectoral Cooperation chapters of the CEPA**

<b>Sectors</b>		
Economic dialogue	Company law, accounting and auditing and corporate governance	Employment, social policy and equal opportunities
Consumer protection	Statistics	Taxation
Management of public finances: budget policy, internal control, financial inspection and external audit	Financial service; Industrial and enterprise policy and Mining	Regional development, cross-border and regional level cooperation
Financial services	Industrial and enterprise policy and mining	Agriculture and rural development
Energy cooperation	Transport	Environment
Climate action	Information society	Tourism
Public health	Civil protection	Cooperation in the cultural field
Cooperation on education, training, youth and sport	Cooperation in research, technological development and demonstration	Civil society cooperation
Audio visual and media fields	Participation in Union agencies and programmes	

The scope of this study does not allow us to address all the sectoral cooperation chapters of the CEPA. We will thus focus on a few of them that illustrate the essence of the CEPA.

The EU and Armenia will hold a regular **economic dialogue** aimed at exchanging information and expertise on sound macroeconomic policies and strengthening the financial sector and statistics. Despite the overwhelmingly positive attitude of the EU institutions *vis-à-vis* the negotiations, not all the Commission DGs were interested in in-depth cooperation with Armenia. In particular, the European Commission's DG Financial stability, financial services and capital markets union (FISMA) was reluctant to conclude an ambitious agreement. By contrast, the Central Bank of Armenia was much interested in in-depth cooperation. Similarly, the Commission's DG Santé has shown little interest in deep cooperation with Armenia<sup>41</sup>.

<sup>41</sup> H. Kostanyan, R. Giragosian, 'EU-Armenia relations. Seizing the Second Chance'.

The chapters on **energy, environment** and **climate change** have been extensively discussed between the EU and Armenia. The main concern with regard to energy is related to the Metsamor Nuclear Power Plant and the natural gas sector. The EU insists that Armenia decommissions the nuclear power plant. Yet, the Armenian government sees no immediate alternative to this nuclear power plant that produces 2.3 billion kWh net electricity. This accounts for about one third of the total electricity produced in Armenia in 2014<sup>42</sup>. In the framework of the CEPA, the EU and Armenia agreed on the early adoption of a roadmap to decommission the Metsamor Nuclear Power Plant.

Russia remains a key player in Armenia's energy sector. It supplies 80 % of the natural gas consumed in Armenia. In December 2013, Armenia granted Gazprom a monopoly to operate pipelines and committed not to change its regulatory framework until 31 December 2043<sup>43</sup>. It is therefore expected that the commitments taken as part of the CEPA in the gas sector will be very shallow.

As opposed to the gas sector, the commitments related to energy efficiency are expected to be extensive. A similar approach is likely to be found in the chapters concerning environment and climate change. The CEPA includes commitments to implement most of the environmental and climate action *acquis* including directives concerning water (e.g. Dir. 91/676/EC), air (Dir. 2008/50/EC), industrial emissions (Dir. 2010/75/EU), waste management (Dir. 2008/98/EC), hazards and dangerous substances (Dir. 96/82/EC), chemicals and nature protection (Dir. 2009/147/EC).

The CEPA is also expected to include commitments on the development of road, rail and air **transport**. The agreement might include approximation to the EU *acquis* from Armenia's side. The EU has been supporting the development of the road infrastructure in Armenia. In particular, the European Investment Bank (EIB) supported the completion of the strategic North-South Road Corridor through the Neighbourhood Investment Facility (NIF)<sup>44</sup>. The aim of the corridor is to bring Iranian goods to the EU through Georgian ports. Moreover, in April 2017 the EU and Armenia started the negotiations on the EU Common Aviation Area Agreement (CAA), which aims to liberalise the air transport between the EU and Armenia. The negotiations are not completed yet because of internal issues in the EU mainly related to Brexit and Gibraltar.

**Employment, social policy and equal opportunities** is expected to be an in-depth chapter that includes the EU *acquis* concerning equal treatment, gender and racial equality, anti-discrimination, core international labour standards and safety at work. The chapter will essentially reinforce Armenia's commitments under the GSP+ scheme.

The CEPA is expected to briefly address the cooperation in **education** and **research**. The aim is to reinforce Armenia's involvement in Erasmus+, commitments as part of the Bologna process and the recent membership in the Horizon 2020 programme. On regional development, cross-border and **regional cooperation** the agreement is likely to refer to the Black Sea Synergy and the Eastern Partnership Territorial Cooperation.

The CEPA will establish a **civil society platform** to ensure the involvement of civil society in the implementation of the agreement. Within the framework of the Eastern Partnership Civil Society Forum Armenia set up a National Platform that has been functioning since 2010. The civil society platform established by the CEPA will aim to be inclusive and will go beyond the current Armenian platform within

<sup>42</sup> World Nuclear Association, 'Nuclear Power in Armenia', June 2017 <<http://www.world-nuclear.org/information-library/country-profiles/countries-a-f/armenia.aspx>> accessed 22 June 2017.

<sup>43</sup> 'Armenian Lawmakers Ratify Controversial Russian Gas Deal amid Protests', RFE/RL, 23 December 2013 <<https://www.rferl.org/a/armenia-russia-gas-deal/25209474.html>> accessed 22 June 2017.

<sup>44</sup> 'The EU Bank and Armenia Sign Agreement Related to the EUR 12 Million to Support Construction of the North-South Road Corridor', Hetq investigative journalists, 18 November 2016 <<http://hetq.am/eng/news/72863/the-eu-bank-and-armenia-sign-agreement-related-to-the-eur-12-million-to-support-construction-of-the-north-south-road-corridor.html>> accessed 22 June 2017.

the Eastern Partnership Civil Society Forum.

## 1.4 Trade

The trade title of the CEPA includes almost all chapters which were part of the draft EU-Armenia DCFTA. In this sense, the agreement is truly comprehensive. However, the chapters vary greatly in their depth, legal 'bindingness' and scope, including on the amount of *acquis* that Armenia commits to take on. Unsurprisingly, the trade part of the CEPA is the most affected by Armenia's membership to the EAEU. The negotiators of the CEPA carefully crafted provisions that do not contradict Armenia's current commitments to the EAEU.

**Trade in goods:** In terms of market access for goods, the CEPA does not abolish the EU's tariffs for Armenian goods (and vice-versa). As Armenia is a member of the EAEU, the decisions related to tariffs are taken at the level of the economic Union and do not fall within the competences of individual member states. Therefore, as such the CEPA is not a free trade agreement.

Trade in goods with the EU is extremely important for Armenia as the EU remains one of the country's major trading partners. It accounts for 26 % of the country's total trade. In 2016 the EU exported to Armenia goods for a total of approximately EUR 601 million, while imports are approximately EUR 335 million (see Table 2). Trade in services is about three times inferior to trade in goods. The EU mainly exports to Armenia animal products, machinery and transport equipment, manufactured goods and chemicals while imports are predominantly composed of base and precious metals, mineral products and textile<sup>45</sup>.

**Table 2 EU-Armenia trade in goods in millions EUR**

Year	Imports	Exports	Balance
2006	339	478	139
2007	355	605	250
2008	318	670	351
2009	161	535	374
2010	260	556	296
2011	322	645	322
2012	275	683	407
2013	261	717	456
2014	274	713	439
2015	305	629	324
2016	335	601	265

Source: European Commission

Even though tariffs will not be removed under the CEPA, Armenia will continue to benefit from the so-called Generalised System of Preferences + (GSP+). GSP+ is unrelated to the new agreement and is a preferential tariff system that gives beneficial access to the EU market through full removal of tariffs on over 66 % of tariff lines. The utilisation rate of GSP/GSP+ by Armenia is rather high, amounting amounting

<sup>45</sup> European Union, 'Trade in goods with Armenia', 3 May 2017

<[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113345.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf)> accessed 22 June 2017.

to 78.3 % in 2013, 72.8 % in 2014 and 77.2 % in 2015 (Q1-2)<sup>46</sup>. Despite the fact that the GSP+ eliminates less tariff lines than a DCFTA would, it is a considerable support to Armenia.

The GSP+ scheme however come with strings attached. The economically vulnerable countries that are offered the GSP+ are required to implement 27 core international conventions related to good governance, human rights, environmental protection and labour standards<sup>47</sup>. The European Commission is in charge of reviewing the implementation of the conventions. While acknowledging the effort made by Armenia, the Commission pointed out the need for Armenia to address problems linked to human rights, discrimination against minorities, discrimination and violence against women, the lack of independence of the judiciary, the fight against corruption and legislative and enforcement framework against the use of torture and ill treatment. Discrimination in the workplace and freedom of association for employers also remain problematic<sup>48</sup>. According to an EU official, the conditionality attached to the GSP+ has been effective<sup>49</sup>.

**Technical barriers to trade (TBT) and sanitary and phytosanitary (SPS):** The EU-Armenia CEPA includes chapters on TBT and SPS measures. TBT deals with technical regulations, standards and conformity assessment procedures based on the World Trade Organisation's (WTO) TBT Agreement. As opposed to the DCFTAs, the CEPA is not expected to go beyond WTO TBT arrangements. Thus, Armenia will not work towards reaching conformity with the EU's regulations, accreditation, standardisation and conformity assessment. Concluding an Agreement on Conformity Assessment and Acceptance of Industrial products (ACAAs) in the future is also highly unlikely, not least because of the legal and political hurdles.

The SPS chapter of the EU-Armenia CEPA aims to facilitate trade in agro-food while preserving human, animal and plant life and health. As opposed to the DCFTAs, the CEPA does not provide for a comprehensive approximation to the EU's SPS measures that could lead to the 'recognition of the equivalence' of an individual or a group of SPS measures by the EU. However, Armenian producers can export a specific category of food products to the EU market if approved by the European Commission. Annex III to the Regulation (EC) No 853/2004 outlines the requirements for food products to access the EU market. So far, the only SPS product that Armenia exports to the EU is non-farmed crayfish<sup>50</sup>.

In sum, the CEPA's chapters on TBT and SPS do not have the depth of similar DCFTA chapters. This is not surprising if one considers the fact that TBT and SPS are core competences of the EAEU.

The **customs** chapter of the CEPA has been one of the most complicated areas for the negotiators of the agreement. The commitments in the field of customs are expected to be very shallow. The EAEU has its own rules related to customs and Armenia cannot follow the EU procedures.

The **competition, state aid and public procurement** chapters of the CEPA are of particular importance to address the systemic corruption in Armenia. The chapters are also relevant for Armenia's efforts to attract foreign direct investment. The objective of the **competition** and **state aid** chapters included in the CEPA is to establish level playing field for the Armenian and the EU companies. In this area Armenia did not commit to approximate with the EU *acquis*. Nevertheless, Armenia's competition authority will be similar to the EU's system. This is in line with Armenia's commitments to the EAEU. The EAEU develops its own

<sup>46</sup> European Commission, Report from the Commission to the European Parliament and the Council, Report on the Generalised Scheme of Preferences covering the period 2014-2015, SWD(2016) 8 final, Brussels, 28 January 2016 <[http://trade.ec.europa.eu/doclib/docs/2016/january/tradoc\\_154180.pdf](http://trade.ec.europa.eu/doclib/docs/2016/january/tradoc_154180.pdf)> accessed 22 June 2017.

<sup>47</sup> European Commission, Report from the Commission to the European Parliament and the Council, Report on the Generalised Scheme of Preferences covering the period 2014-2015.

<sup>48</sup> European Commission, Report from the Commission to the European Parliament and the Council, Report on the Generalised Scheme of Preferences covering the period 2014-2015.

<sup>49</sup> Authors' interview, Brussels, 20 June 2017.

European Commission, 'Establishments List – Armenia'

<[https://webgate.ec.europa.eu/sanco/traces/output/AM/FFP\\_AM\\_en.pdf](https://webgate.ec.europa.eu/sanco/traces/output/AM/FFP_AM_en.pdf)> accessed 22 June 2017.



body of law on competition. However, its member states are in the position to decide on the structure of their own competition regulator.

The **public procurement** chapter of the EU-Armenia agreement is one of the strongest chapters of the trade title. Being part of the multilateral Agreement on Government Procurement (GPA) under the auspices of the WTO agreement, Armenia already committed to comply with international norms. The CEPA goes beyond the existing international commitments and provides for further mutual market access to the EU and Armenia.

**Trade in services** is the most ambitious chapter of the CEPA despite the fact that services are included on the EAEU's sectoral cooperation agenda. It sets out the conditions for granting mutual access in service markets. The agreement is based on the WTO's General Agreement on Trade in Services (GATS) (see areas in Table 3).

**Table 3**

Services and establishment	GATS modes
Cross-Border Supply of Services	GATS mode 1 and 2
Establishment	GATS mode 3
Temporary Presence of Natural Persons for Business Proposes	GATS mode 4

In terms of depth, the CEPA is expected to go beyond GATS. The conditions for market access for different sectors of the service industry vary in terms of legally binding provisions. Armenia committed to harmonise its legislation in areas such as transport, financial services and electronic commerce. The CEPA is expected to incorporate the principles of the Most Favoured Nation (MFN) regime or the National Treatment. However, access to the EU's market will be further restricted through the so-called 'positive' or 'negative' list. These are exceptions from the general commitment to liberalise.

As far as the **intellectual property rights (IPR)** are concerned, the commitments go beyond the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The main issue of contention was the use of geographical indicators. This relates in particular to the 'cognac' label on Armenian brandy. The EU has agreed to grant Armenia 24 years of transition period for writing 'cognac' only in Cyrillic letters on brandy that is exported exclusively to Russia<sup>51</sup>.

**The trade and sustainable development** chapter reinforces the commitments that Armenia took in some sectoral chapters of the CEPA and in the framework of GSP+. The focus is on areas such as labour, environment and transparency. The chapter's text is expected to be very close to that of the DCFTAs.

The EU and Armenia did not manage to negotiate the **investment** chapter primarily because of the EU's internal issues related to the distribution of competences between the EU and its member states with regard to investment in the trade agreements. The EU member states argued that investment is not an exclusive competence of the EU. The dispute was resolved only on 16 May 2017 with the Court of Justice of the EU delivering its opinion on the EU-Singapore free trade agreement. The Court stated that the provisions related to portfolio investment and the Investor-State Dispute Settlement mechanism are part of shared competences between the EU and the member states<sup>52</sup>. Therefore, the CEPA is expected to

<sup>51</sup> Authors' interview, Yerevan, 8 May 2017.

<sup>52</sup> Court of Justice of the European Union, Press Release No 52/17: Opinion 2/15, Luxembourg, 16 May 2017 <<https://curia.europa.eu/jcms/upload/docs/application/pdf/2017-05/cp170052en.pdf>> accessed 22 June 2017.

include a review clause which will allow the EU and Armenia to revisit the chapter on investment at a later stage.

To sum up, the CEPA's trade title is rather comprehensive. It includes almost all the trade-related chapters that were part of the DCFTA. However, the depth of chapters varies considerably depending Armenia's commitment to the EAEU. Whereas the chapters on public procurement and services are rather deep, the provisions related to customs, TBT and SPS are shallow. A good compromise was found on competition, state aid and IPR.

## 1.5 Conclusions and policy recommendations

Clearly, almost four years after president Sargsyan's decision to join the EAEU (thereby renouncing to sign an AA/DCFTA), the completion of negotiations and initialling of the CEPA provide a new impetus to EU-Armenia relations. First, two years after the country's accession to the EAEU, the new agreement highlights Armenia's lingering interest in developing closer ties with the EU (whatever the form of these ties may be). Second, the CEPA provides a vivid illustration of the EU's flexibility and readiness to respond to Eastern Partnership countries' specific needs and circumstances. Third, the CEPA is a clear indication that the EU is willing to exploit any opportunity to further its links with those Eastern Partnership countries that are members of the EAEU (Armenia, in this specific case).

However, the strong (geo)political signal given by the completion of CEPA negotiations needs to translate into an effective implementation. In this section, we offer recommendations focusing on those issues that should be highlighted by the AFET Committee in its report on the CEPA.

### 1.5.1 General recommendations

Since the end of 2013, Armenia has too often been placed together with Azerbaijan and Belarus in the group of those Eastern Partnership countries without an association agreement and a DCFTA. This narrative overlooks Armenia's strong receptivity to EU templates and *de facto* downplays the importance of the EU-Armenia new agreement. In order for the CEPA to yield effective results, it should be regarded as a major step and Armenia's willingness to develop further links with the EU (despite its membership in the EAEU) could clearly be acknowledged.

### 1.5.2 Specific recommendations

The Committee could:

#### Emphasise the importance of the title on political dialogue

The provisions included in the title on political dialogue are not new *per se*. The Partnership and Cooperation Agreement (PCA) in force since 1999 already included a suspension clause in case of a breach of human rights, respect for democracy and principles of international law. The first priorities of the European Neighbourhood Policy Action Plan (ENP AP) concluded in 2006 focused on strengthening respect for human rights, democratic structures and the rule of law, including the reform of the judiciary and the fight against corruption. However, despite Armenia's mixed record in delivering on the political commitments taken as part of the ENP AP, the EU has only made a limited use of political conditionality. In addition, it has criticised breaches of democratic principles and human rights by the Armenian authorities only on a few occasions (e.g. in the wake of the 2008 presidential election). Therefore, the practice of EU-Armenian relations highlights a discrepancy between the political commitments taken by Armenia, on the one hand, and poor implementation as well as loose monitoring by the EU, on the other hand. The recent criticism formulated by the EU ambassador *vis-à-vis* the government-controlled Central Electoral Commission is a welcome signal about enhanced EU attention to the respect of democratic principles in Armenia.

The Committee could emphasise that proper implementation (and monitoring thereof) of the provisions included in the title on political dialogue is key to furthering the relations between Armenia and the EU. It could in particular call upon Armenia to address the recommendations formulated by the Council of Europe's Venice Commission, as was recently the case on the draft constitutional laws on political parties and on the Constitutional Court<sup>53</sup>.

This should be done in close connection to (i) the implementation of the Visa Liberalisation Action Plan (once granted to Armenia), given that the latter is likely to include requirements related to human rights, the rule of law, good governance and corruption; (ii) the monitoring of GSP+, in which the European Parliament plays an enhanced role as part of the reformed EU GSP+ monitoring procedure<sup>54</sup>.

#### Focus on the reform of law enforcement agencies

In its upcoming resolution accompanying the consent procedure to the Agreement, the EP could first focus on the reform of law enforcement agencies. It could condemn the excessive use of force against peaceful demonstrators, assaults against journalists and the alleged ill-treatment of people in custody by the police during events such as the Erebuni crisis. Second, as part of human rights prioritisation the EP could specifically raise the issue of discrimination against women and join the European Commission and the EEAS in strongly encouraging the Armenian government to adopt a law against domestic violence. Finally, the EP could call on the European Commission and the Council to condition the delivery of EU assistance to a tangible progress in the fight against corruption.

#### Advocate a rapid launch of a visa dialogue with Armenia

The implementation of the readmission agreement by Armenia (a key prerequisite to the launch of a visa dialogue with the EU) is regarded as satisfactory. However, there is no clear timetable regarding the launch of a visa dialogue. This dialogue is expected to play an important role in fostering key reforms in Armenia (not least on the fight against corruption). This is due to the fact that the dialogue will pave the way for increased conditionality as part of the Visa Liberalisation Action Plan (the next step under the visa liberalisation process). The Committee could therefore advocate the launch of a visa dialogue with Armenia.

#### Seek to better involve non-state actors in the implementation of the agreement

To a large extent, EU-Armenia relations have developed through a dialogue with the government. In particular, the highly technical negotiations for an AA/DCFTA involved talks with a small group of experts within the Armenian bureaucracy. This has not changed during CEPA talks. As a result, there is still limited awareness of EU policies and the substance of the agreement among the general public, as well as some segments of civil society and the private sector. Yet these should be regarded as key actors in CEPA implementation, as they may act as drivers of change in the country. Therefore, the Committee should seek to encourage the inclusion of CSOs in the policy dialogue, with a view to empowering civil society in monitoring the implementation of the agreement. The envisaged CSOs platform is a welcome initiative, yet the Committee needs to make sure that it is broad enough and includes CSOs based outside of the capital city. It could also emphasise the importance of organising an awareness-raising campaign for businesses (including in the regions) on the opportunities for trading with the EU.

<sup>53</sup> Cf. ODIHR ARM-299/2016, Joint Opinion on the Draft Constitutional Law on Political Parties Adopted by the Council for Democratic Elections at its 57<sup>th</sup> meeting (Venice, 8 December 2016); Venice Commission, Opinion on the Draft Constitutional Law on the Constitutional Court Adopted by the Venice Commission, 19 June 2017, opinion n°883/2017.

<sup>54</sup> Final Statement and recommendations, EU-Armenia Parliamentary Cooperation Committee 15<sup>th</sup> meeting.

Advocate increased EU assistance to civil society and a continuation of EU support to private sector development, public administration reform and justice sector reform

EU assistance to Armenia will be crucial to an effective implementation of the CEPA. The current priorities singled out by the EU as part of the Single Support Framework 2014-2017<sup>55</sup> rightly include support to the development of the private sector (a potential driver of change in Armenia), as well as justice sector reform and public administration reform. The last two priorities are well justified in light of Armenia's daunting task in fighting corruption and progressing toward good governance. However, support to civil society is regarded as a complementary intervention area in the current SSF with less than 5 % of EU funds allocated to Armenia. This could be increased in the next SSF in order to increase CSOs' capacities to play a role in the policy dialogue and effectively monitor CEPA implementation.

Ask for a tight monitoring of interdependencies with Russia during the implementation of the agreement

The CEPA was negotiated taking into account Armenia's current commitments as a member of the EAEU. However, these remain unclear as a number of policy areas (e.g. services) are included on the EAEU's agenda, but little progress (if any) has been achieved to date in terms of cooperation and/or harmonisation. Moreover, changes in the bilateral interdependencies with Russia may also affect the implementation of the agreement by the Armenian side. For instance, Russia may seek closer control over specific economic sectors in Armenia (as has already been the case with the gas sector), including by influencing the country's regulatory framework. Such attempts should be closely monitored as they may undermine Armenia's capacity to deliver on its commitments *vis-à-vis* the EU, given its strong vulnerability to Russia's pressure. The EU has refused to include in the CEPA the carve-out clause asked by the Armenian side. The EU should keep sending a clear signal to the Armenian authorities that the implementation of the CEPA will not be subordinated to unexpected developments in either Armenian-Russian bilateral relations or the Eurasian integration process (should decisions be taken on integration in new policy areas, for instance).

## 2 EU-Azerbaijan relations<sup>56</sup>

Currently, a few factors shape a momentum for a renewal of EU-Azerbaijan relations. One of them is the European Union's need for alternative sources of energy supplies, including Azerbaijan's gas, for the South Gas Corridor. The EU is also interested in stability on its borders. For its part, Azerbaijan is committed to the energy security of the EU. Its interest in signing an agreement on a Strategic Modernisation Partnership with the EU has probably been invigorated by its economic problems due to the external shock caused by the decline in world oil prices and the decrease in oil production, whose combined result is a need for reforms, investments and credits. Other favourable factors lie in the secular nature of the Azerbaijani state and of the country's political spectrum, the societal traditions of multiculturalism and tolerance of diversity, as well as a significant potential for reforms; the strategic nature of Azerbaijan's pro-European foreign policy, based on the foundation of a modern nation state. In addition, Azerbaijan has sufficient resources to resist Russia's pressure and integration in Russia-led regional organisations, which makes it more prone to deeper relations with the EU.

However, the EU's pragmatism may turn this cooperation into relations free from a values-based approach. Under no conditions should the European Union allow the renewed format of its relations with Azerbaijan to be used as a convenient framework for the government to consistently crack down on what are in essence European traditions and institutions in the country, including a secular civil society, political

<sup>55</sup> European External Action Service/European Commission, Programming for the ENI 2014-2020. Single Support Framework for Armenia (2014-2017), 2014.

<sup>56</sup> As the negotiations are secretive and very little information is available, the analysis is focused on those aspects which are deemed critical in EU-Azerbaijan cooperation.

pluralism and opposition, basic liberal freedoms. The beginning of negotiations between the EU and Azerbaijan has not affected the persecution of activists and attacks on freedoms<sup>57</sup>. In spite of the amnesty decree signed by president Aliyev in March 2017, only 4 political prisoners among the 423 persons concerned were amnestied – leaving the director of the Council of Europe School of Political Studies, Ilgar Mammadov, in spite of three rulings by the ECHR, and other activists and journalists in prison. In August 2017, investigations were being conducted in the office of the last independent media outlet, the information agency Turan, and its director Mehman Aliyev was arrested<sup>58</sup>. All of this indicates that Azerbaijan's leadership perceives that values and human rights issues are not important issues for the EU.

Azerbaijan restored its independence in 1991. After a brief period of liberal rule under the democratically elected president Abulfaz Elchibey (1992-1993), the country moved to a period of consolidation of an authoritarian system under the presidency of Heydar Aliyev, then his son Ilham Aliyev. The increasing centralisation of power in the hands of the president and his family has been facilitated by the country's economic performance, fuelled by the increase in oil prices. In September 2016, president Aliyev significantly expanded his powers by introducing amendments to the Constitution through a controlled referendum. These amendments extended the presidential term from 5 to 7 years, gave the president the right to dissolve the Parliament and introduced new positions of vice-presidents. In February 2017, president Aliyev appointed his wife Mehriban Aliyeva as vice-president of the country. Azerbaijan is categorised as a non-free country by Freedom House and ranks 120<sup>th</sup> (out of a list of 176 states) in the 2016 Transparency International's Corruption Perception Index.

EU-Azerbaijan relations have developed on the basis on the Partnership and Cooperation Agreement (PCA) signed in 1996 and in force since 1999. This document covers political dialogue, trade and investment, as well as economic cooperation. The relations deepened and their scope expanded after Azerbaijan joined the European Neighbourhood Policy (ENP) in 2004 and the Eastern Partnership in 2009. The ENP opened new partnership perspectives, including that of moving beyond cooperation to a significant degree of integration, as is underlined in the EU-Azerbaijan ENP Action Plan (ENP AP): the ENP AP is expected to 'encourage and support Azerbaijan's objective of further integration into European structures'<sup>59</sup>. The ENP 2015 progress report stressed some progress in areas such as macroeconomic development, public expenditure and financial accountability, and in energy cooperation with the Southern Gas Corridor. However, as the report also states, these achievements have been overshadowed by the regression in areas related to political reforms, human rights and the rule of law.

In recent years, Azerbaijan's policy *vis-à-vis* the EU has moved away from integration towards cooperation, in parallel of increasing pressure on civil society, the major supporter of integration processes with the EU. The ruling elite, representing the state, has increasingly been driven by self-interest, typical of rentier elite. The 2015/2840 resolution of the European Parliament adopted in September 2015<sup>60</sup> asked to put the negotiations for a new agreement on hold and requested the introduction of targeted sanctions *vis-à-vis* officials and judges until the country shows respect for human rights. This resolution caused an extremely negative reaction of the Azerbaijani incumbent authorities. It was followed by the cancellation of a planned

<sup>57</sup> Since early 2017, the famous blogger Mehman Huseynov has been abducted and imprisoned, the journalist Afgan Sadygov has been sentenced to a 30-month prison term, the blogger Mehman Galandarli died in prison, the journalist and activist in exile Afgan Mukhtarli was abducted in Georgia, then brought to and imprisoned in Azerbaijan, Faig Amirli from the Azadlyq newspaper was sentenced to 3 years in prison, the journalist Elchin Sadigov has been tortured and beaten in prison, Aziz Orujov, the head of the independent Kanal13, has been arrested, relatives of the blogger Ordukhon Teymurkhan have been pressured by the police. The female political activist Gozel Bayramli was arrested in May.

<sup>58</sup> On September 11 2017, Mehman Aliyev was released from custody upon police supervision not to leave the country, along with 14 other political prisoners, arrested in connection with the 'Nardaran case'.

<sup>59</sup> EU-Azerbaijan Action Plan, European Union External Action Service, Brussels, 2006.

<sup>60</sup> [Europarl.europa.eu](http://Europarl.europa.eu), 9 September 2015.

visit of the European External Action Service delegation and the adoption by the Azerbaijani Parliament of a resolution suspending its participation in EURONEST. During president Aliyev's visit to Brussels in 2017, however, both the president and High Representative of the Union for Foreign Affairs and Security Policy Mogherini hailed the trust existing between Azerbaijan and the EU<sup>61</sup>. Given the fact that major civil society activists are in prison or abroad and that the society remains under oppression, this expression of trust by the EU seems to target the elite only. The EU's inconsistency in promoting its own values is a major reason behind the failure of its transformative power in the country.

## 2.1 The broader context of EU-Azerbaijan relations

Besides Soviet legacies, politics and state-building processes in Azerbaijan have been significantly influenced by the political economy of oil. The extremely high dependence of both the GDP and trade balance on energy resources makes the Azerbaijani economy vulnerable to external shocks. Thus, the social, economic and political stability directly depends on the volumes of oil and gas extraction and on the fluctuations of oil world prices.

The political economy of oil, along with the sharp rise in oil world prices in the 2000s, fostered Azerbaijan's 'resource nationalism', which has underpinned the resistance of the political leadership to any integration projects. While negotiations were opened in 2010, Azerbaijan refused to sign an Association Agreement with the EU. Instead, Azerbaijan requested an agreement reflecting the strategic and equal nature of relations with the EU. In a recent speech, Deputy Foreign Minister Mammaguliyev stated that 'Azerbaijan is ready for continued, enhanced and inclusive co-operation with the EU based on mutual interest and joint ownership'<sup>62</sup>. At the Eastern Partnership Riga Summit (May 2015), in quite a unique move and for the first time in the EU's history, Azerbaijan submitted its own draft to the EU as a basis for negotiations. The draft lacked issues related to home and justice affairs and human rights. By March 2017, it was declared that the draft contained three main blocks: political and security, trade and investment, and sectorial, including economic and humanitarian. The Deputy Foreign Minister said that the government of Azerbaijan wanted to focus on the first block<sup>63</sup>. This gives a clear signal that in Baku's perspective, cooperation should be built on its vision of the 'principles of equality'<sup>64</sup>.

At the same time, the decline in both the oil world prices and the domestic production of oil is creating a momentum and bargaining opportunities for the EU. The Azerbaijani economy has been significantly hit by the decrease in world oil prices: the manat rate fell by almost 50 % in December 2015 along with the population's income, and experts do not exclude further depreciation of the national currency. In 2016, the GDP declined by 3.8 % (5.4 % for non-oil GDP). The decline continued during the first four months of 2017<sup>65</sup>. Moreover, the scandal with the International Bank of Azerbaijan, which had to declare bankruptcy, revealed serious problems in governance while undermining public trust in the banking system. Against this pressure on the state budget, the cost of state projects is constantly growing while most of the funds are plundered.

<sup>61</sup> N. Mustafayeva, 'Azerbaijan-Europe Cooperation: Towards a Deeper Dialogue', *New Eastern Europe*, 10 February 2017 <<http://neweasterneurope.eu/articles-and-commentary/2258-azerbaijan-europe-cooperation-towards-a-deeper-dialogue>> accessed 25 August 2017.

<sup>62</sup> 'EU-Azerbaijan Relations in Focus at European Parliament Event on 7 March 2017', Editor, 8 March 2017. LINKS. Dialogue, Analysis, Research <<https://links-dar.org/2017/03/08/1537/>> accessed 25 August 2017.

<sup>63</sup> 'EU-Azerbaijan Relations in Focus at European Parliament event on 7 March 2017'.

<sup>64</sup> G. Gotev, O. Bellot, 'Ambassador: Azerbaijan Wants a Solid Foundation for EU Relationship', EURACTIV.com, 9 January 2017 <<https://www.euractiv.com/section/azerbaijan/video/ambassador-azerbaijan-wants-a-solid-foundation-for-eu-relationship/>> accessed 25 August 2017.

<sup>65</sup> Centre for Economic and Social Development, 'The Azerbaijan Economy in the First Four Months of 2017. Brief overview', Baku: CESD, 2017.

Both the focus of state policies on energy and the country's poor governance record have resulted in a disjuncture between the Azerbaijani state and the society. The authorities' interests as expressed in official statements include the resolution of the Nagorno-Karabakh conflict, cooperation in the spheres of energy, transportation, agriculture, trade, migration management, as well as combatting terrorism, illegal migration and organised crime<sup>66</sup>. In other words, the elite is interested in a form of cooperation with the EU that would benefit the country without undermining the political *status quo*. By contrast, the Azerbaijani civil society favours, in addition to a rapid resolution of the Nagorno-Karabakh conflict, integration with the EU on the basis of respect of universal rights and values. The EU's attention is focused primarily on how to strike the right balance between the ideational (values-based) and the pragmatic (economic) interests. The success of the realisation of such a balance will very much depend on how well the mutual influence between these two categories of interests, which is quite complex in the case of an energy-rich state, is understood.

The other factor affecting EU-Azerbaijan relations is the presence of Russia, which has been using the Nagorno-Karabakh conflict as a means of pressure on Azerbaijan and thus forces the incumbent authorities to manoeuvre between the EU and Moscow. Since the early years of their country's independence, the Azerbaijani authorities have conducted pro-Western policies, starting with the withdrawal of all former Soviet troops in 1992-93 and resistance to Russia's installing military bases or border guards on the country's territory. They have also consistently pursued independence from Russian energy policies, which was reflected in the signing of the 'contract of the century' (see below), the realisation of the Baku-Tbilisi-Ceyhan oil pipeline, and the participation in the South Gas Corridor.

Russia's increasingly assertive behaviour in the Eastern neighbourhood area and its increasing influence in the South Caucasus are conducive to greater instability and insecurity in the Eastern neighbourhood<sup>67</sup>. Azerbaijan's policy factors in the fact that the EU has a limited capacity to contribute to the defence and security of the states in the South Caucasus. The perception of the EU as a weak player in the region has grown stronger after the 2008 Russia-Georgia war, after which Azerbaijan signed an arms deal with Russia (as a result, Russia has military leverage over both Armenia and Azerbaijan). The media reported on several occasions that Azerbaijani officials were considering membership in the Russia-led Eurasian Economic Union (EAEU). While the likelihood of accession to the EAEU is very low, this narrative may contribute to increasing the bargaining power of Azerbaijan in relations with the EU.

The zero round of negotiations for a new agreement started in February 2017. Since then, two rounds of negotiations have taken place on the political part, one on the trade part, and at least one on sectoral cooperation.

## 2.2 Key issues in EU-Azerbaijan relations

### 2.2.1 Political and security issues

While the EU and Azerbaijan share a common interest in sector-specific cooperation (for instance on energy), they hold different views on some other key areas of their relations, not least on political issues. The success of political reforms in Azerbaijan matters particularly for the EU, given both the country's strategic role as an energy supplier and its ability to conduct an independent foreign policy. If successful, democratic reforms in Azerbaijan could have a significant impact on other countries in the region. Conversely, the sharp deterioration in the country's political situation has negative effects in neighbouring

<sup>66</sup> G. Gotev, O. Bellot, 'Ambassador: Azerbaijan Wants a Solid Foundation for EU Relationship'.

<sup>67</sup> L. Alieva, 'Nagorno-Karabagh Conflict: Russia's Meddling in Conflict is Not a Factor of Stability', Heinrich Boell Foundation, 8 June 2017 <<https://ge.boell.org/en/2017/06/08/nagorno-karabakh-conflict-russias-meddling-not-factor-stability>> accessed 25 August 2017.

countries, as was recently demonstrated by the abduction in Georgia of an Azerbaijani journalist, Afgan Mukhtarli, who was brought to and imprisoned in Azerbaijan<sup>68</sup>. The resolution of the European Parliament of 15 June 2017 called for a thorough investigation of the abduction to be conducted by the Georgian government<sup>69</sup>. This event highlighted the dependence of Georgia's more democratic regime on energy-rich Azerbaijan.

The unresolved Nagorno-Karabakh conflict remains the highest policy priority for Azerbaijan in its relations with all international actors, including the EU, which has repeatedly expressed its support to the Madrid Principles, as well as to the mediation of the Co-Chairs of OSCE Minsk Group, the efforts of the UN and other international organisations. Although the ceasefire has lasted for 23 years, it has increasingly been violated and the recent flaring up of the conflict (April 2016 and July 2017) has caused particular concern to the international community. As was underscored before, the Azerbaijani civil society expects the EU to contribute to fast moves towards the resolution of the Nagorno-Karabakh conflict.

The official Azerbaijani position is that in spite of more than 20 years of negotiations, Armenia does not implement four UN resolutions and has not withdrawn from the occupied territories, but unilaterally changes geographical names, settles Armenians from the Middle East in the occupied territories<sup>70</sup>, which causes tensions on the border, leading to escalation. Both the government and the society expect the EU to treat the territorial integrity of the country in the same way as it does with other countries with frozen conflicts. Azerbaijan deems the preservation of the status quo unacceptable and calls for a breakthrough in negotiations instead of the strengthening of the existing front line.

## 2.2.2 Trade and investment

Azerbaijan's economy was hit by the decline in oil prices, which fell from 150 dollars a barrel in 2008 to less than 30 dollars in 2016; unemployment rose by 2 % in 2015. In that same year, the national currency was devalued twice and depreciated more than twice. According to the data of the State Customs Committee, the volume of exported oil in the first 7 months of 2017 as compared to the same period of the previous year decreased by 39.7%. The forecasts announcing a decline of the demand and the share of the fossil fuels in the energy sector force the Azerbaijan government to develop a new economic paradigm with a focus on non-oil sectors in the conditions of low world oil prices – with the diversification of sources of economic growth as an answer to the new situation.

Currently, the EU and Azerbaijan trade under the Most Favoured Nation (MFN) regime, which was granted to Azerbaijan despite the fact that it had only an observer status in the WTO. Previously, the country was entitled first to the Generalized System of Preferences (GSP), and in 2008 – to the GSP+, as a result of which both the number of products and the tariffs reductions were increased. In February 2013, the decision was made that, based on Azerbaijan's income level, which was higher than needed to qualify, the country was not eligible for GSP+.

<sup>68</sup> A. Sultanova, 'Lawyer: Azerbaijani Journalist Abducted in Georgia', Associated Press, Foxnews World, 31 May 2017 <<http://www.foxnews.com/world/2017/05/31/lawyer-independent-journalist-abducted-in-georgia.html>> accessed 25 August 2017.

<sup>69</sup> European Parliament Resolution on the case of Afgan Mukhtarli and the situation of media in Azerbaijan (2017/2722(RSP)) <<http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B8-2017-0418&language=EN>> accessed 25 August 2017.

<sup>70</sup> 'The Current Situation in the Occupied Territories of Azerbaijan', Embassy of the Republic of Azerbaijan to the United States of America <<http://www.azembassy.us/aggression-by-armenia/the-current-situation-in-the-occupied-territories-of-azerbaijan.html>> accessed 25 August 2017; 'Armenia Settles Kurds in the Occupied Territories, Said Foreign Minister of Azerbaijan' <<http://www.panarmenian.net/eng/news/7381/>> accessed 25 August 2017; 'Syrian Armenians Reject to Settle on the Occupied Territories of Azerbaijan' <<http://en.apa.az/nagorno-karabakh/syrian-armenians-reject-to-settle-on-the-occupied-territories-of-azerbaijan.html>> accessed 25 August 2017.



The EU's share in Azerbaijan trade accounts for 42.7%. In contrast, Azerbaijan's share in the EU's trade turnover with world trade partners is only 0.8%, except for oil, where the country is the 5<sup>th</sup> largest supplier with 4.7% of oil imports. The EU has also an advantage over Azerbaijan in terms of diversification of trade as it exports 21 product groups versus 7 on Azerbaijan's side. Thus, Azerbaijan has a serious deficiency in trade diversification. High tariffs (30 %) imposed by the EU on certain types of agricultural products (animal products and plants) harm Azerbaijan's potential to expand its production and exports of such products, which are the main non-oil export product group, along with sugars and confectionary.

Russia's possible reaction to an agreement between Azerbaijan and the EU should not be ignored. Moscow has a variety of means of pressure at its disposal, including the significant number (nearly 2 million) of Azerbaijani guest workers in various regions of the Russian Federation. Their remittances contribute to the welfare of the Azerbaijani population. Another possibility could be Russia's banning the imports of Azerbaijani products of Azerbaijan-owned industries on Russian territory<sup>71</sup>.

The EU is the biggest trade partner of Azerbaijan, both in terms of exports and imports. Trade cooperation remains the most conducive to stimulating reforms in the country, however so far it has not been successful due to a series of reasons. These include the EU's inconsistency in promoting domestic change and the Azerbaijani elites' resistance to change when it affects their own interests. While in the ENP Action Plan Azerbaijan declared its European aspirations, the country is still not a member of the World Trade Organisation and has therefore not started negotiations for a Deep and Comprehensive Free-Trade Agreement (DCFTA). Azerbaijan officially applied to the WTO in 1997 and submitted a Memorandum on its Foreign Trade Regime in 1999. An independent assessment on the macroeconomic consequences of Azerbaijan's accession to the WTO concluded that there would be a positive welfare effect through the increase of income, consumption and savings. In fact, in spite of the risks related to plummeting exports, WTO accession may well create incentives for the much needed diversification of economy<sup>72</sup>. WTO membership is expected to attract foreign investments and stimulate the development of the banking sector. The effects on manufacturing are expected to be ambiguous: along with stimulating domestic manufacturing, WTO accession may also harm it and indirectly increase the level of unemployment. Yet, WTO regulations allow to protect the domestic production during a specific transition period for acceding countries, thereby softening the negative effects of accession while at the same time increasing the incentives for diversification when WTO regulations enter into force<sup>73</sup>.

Until Azerbaijan joins the WTO, economic barriers – both tariff and non-tariff – will hamper the development of EU-Azerbaijan cooperation. These include sanitary and phyto-sanitary measures, production process, packaging, labour regulations, quotas, etc.<sup>74</sup>. The recent economic decline has pushed Azerbaijan to accelerate the WTO negotiations, but there are still unresolved issues such as the percentage of subsidies to the agricultural sector.

A few state programs were adopted to achieve sustainable and balanced economic development, based on a diversification of the economy. They are indicators of the government's awareness of the need for reforms: the 'State programme on the socio-economic development of the regions of Azerbaijan for 2014-2018', the 'Azerbaijan 2020: Look into the Future', the 'National Action Plans on the Promotion of an Open Government and the Fight against Corruption (2012-2015)' and others. However their implementation has been problematic. For instance, although twelve years have passed since the adoption of the law 'On

<sup>71</sup> C. Juan Carrion, 'Why Azerbaijan Needs a Strategic Reform of Azerbaijan Foreign Policy towards the European Union?', CESD, Baku, 2016.

<sup>72</sup> The share of oil and oil products remains overwhelming in Azerbaijani exports (93 % in 2013). V. Bayramov (ed.), 'Azerbaijan's Accession to the WTO. Assessing the Macroeconomic Consequences for the Economy of Azerbaijan', CESD/Konrad Adenauer Stiftung, 2014.

<sup>73</sup> V. Bayramov (ed.), 'EU-Azerbaijan Relations in Focus at European Parliament Event on 7 March 2017', p. 31.

<sup>74</sup> J. Carion, C. Orujova Leman, 'Feasibility Study of the Free and Comprehensive Free Trade Area between the EU and Azerbaijan', Baku: CESD, December 2016.

declaring the income of state officials', the income declaration form is still waiting for approval by the Cabinet of Ministers.

To achieve financial stability two new institutions were launched: the Chamber of Control of Financial Markets and the Appellation Advise to Support Entrepreneurs. In addition, in order to resolve the disputes in the banking sector without the involvement of the judiciary power, the position of Financial Ombudsman at the Association of Banks of Azerbaijan has been created. The Ombudsman will start to work in September 2017 with the aim of dealing with the disputes up to 2,000 dollars and complaints in relations to banks which signed the respective declaration<sup>75</sup>. The role of the EU in this cooperation may consist in transfer of 'know-how' in the area of fiscal governance, including the electronic payment system. This would also provide for transparency of the financial sector, which is important in the fight against international crime.

Most recently, in December 2016, the Azerbaijani President, taking into account the major economic policy objective of developing a strong 'non-oil' sector, signed a decree on 'Strategic Roadmaps of the National Economy and the Main Economic Sectors'. It consists of 12 roadmaps, which include, besides the oil and gas sector, the development of such areas as heavy industry and mechanical engineering, requiring AZN 2,9 bln investments; specialized tourist industry; small- and medium-size enterprises; logistics and trade; construction of affordable housing; development of vocational training and education; financial services; telecommunications and information technologies; public services (supply of electrical and thermal energy, water and gas); production and processing of agricultural products, which would include the creation of a Public-Private Investment Fund<sup>76</sup>. While, according to media reports, '400 local and foreign experts and 4,000 people were involved in 150 meetings' for the development of this document, the execution of the decree is entrusted to the presidential administration; monitoring of its implementation goes to the Center for Economic Analysis and Communications, which was created by decree of the President of the Republic and is supervised by a board consisting of members who stand under the direct control of the president and one member of the National Assembly<sup>77</sup>.

Given the slow implementation of previous programmes as well as the lack of independent institutions providing transparency and monitoring through the participation of the public and the society, the success of these programmes may also face challenges. Cooperation with the EU may serve as a stimulating factor for their implementation and as a means for the transfer of 'know-how'.

### 2.2.3 Energy security

Azerbaijan's importance for the EU lays in both its energy resources and its strategic location. In addition, its capacity to conduct an independent foreign policy enables Azerbaijan to play the role of an alternative gas supplier for the EU through the Southern Gas Corridor project. 'Azerbaijan is important for Europe's energy security and diversification of supplies. We have a shared commitment to finalise the Southern Gas Corridor; in fact it is a key priority for both sides', the EU president Donald Tusk said after his meeting with Ilham Aliyev in February 2017<sup>78</sup>. Two documents, signed with the EU in 2006 and 2011 respectively, reflect this role: the 'Memorandum of Understanding on Strategic Partnership in the field of energy' and the 'Joint Declaration on the Southern Gas Corridor'. Both lay the foundations for the Azerbaijan-EU energy dialogue.

While Azerbaijan is not capable of replacing Russia as an energy provider to the EU – as Azerbaijan gas accounts only for 5 % of the EU's demand –, the projected additional volumes of gas supplies from the

<sup>75</sup> Press Review, Turan Agency, Baku, 15 August 2017.

<sup>76</sup> PwC Azerbaijan Times, Issue 36, December 2016.

<sup>77</sup> '12 Strategic Roadmaps Endorsed in Azerbaijan', abc.az, 7 December 2016.

<sup>78</sup> Remarks by President Donald Tusk after his meeting with President Aliyev, European Council, 6 February 2017 <<http://www.consilium.europa.eu/en/press/press-releases/2017/02/06-tusk-remarks-president-azerbaijan-aliyev/>> accessed 25 August 2017.

Middle East and Central Asia, as well as the consistent and reliable nature of the partnership, make it an important player in the EU's energy security. For two decades since the signing, in 1994, of the 'contract of the century' on the development of its oil fields, Azerbaijan has played a key role in the diversification of energy supplies to the West, including via the oil pipeline Baku-Tbilisi-Ceyhan; it has shown its ability to withstand strong Russian pressure on this matter. Gas supplies from Azerbaijan's Caspian field Shah Deniz 2 will be exported through the extension of the existing South Caucasus pipeline via Georgia to Turkey and two pipelines – Trans-Anatolian (TANAP) and Trans-Adriatic Pipeline (TAP) transporting gas from Turkey to Italy via Greece and Albania. Azerbaijan has created a Southern Gas Corridor Advisory Council to coordinate the implementation of the project, the meetings of which take place with the participation of EU officials.

Yet, even though EU-Azerbaijan agreements form a solid basis for bilateral cooperation, the energy agenda often interferes with other objectives in EU-Azerbaijan relations, such as support to domestic reforms promotion<sup>79</sup>. In this context, the issues of transparency and public participation in the policy dialogue become crucial. As demonstrated by a recent study of the perception of the energy security in the South Caucasus, the meaning of energy security is significantly different among non-state actors as compared to officials<sup>80</sup>. Average citizens, non-governmental actors, experts, etc. view energy security as a political tool used by the government to strengthen its power. It is therefore associated with human rights violations or with environmental degradation. Azerbaijan has so far avoided reforms of the energy sector, which would undermine its control over natural resources.

The EU does not have a similar experience with other countries as it has had with Azerbaijan. This is the only oil rich country which, due to its European aspirations, has been integrating with the EU. As a geographical part of the South Caucasus, it has been participating in the ENP and then the EaP. However, because of the specificity of the political economy of oil in the post-colonial period combined with Soviet legacies, Azerbaijan has represented a rather unique case which has demanded adjustment of the policies and mechanisms of integration developed for the EaP states. The approach, reflected in the strategy paper, represents a policy mix rather than a description of pitfalls which are created as a result of interactions amongst the various policy goals. For instance, Azerbaijan's role in the energy security of the EU also serves as an external source of legitimation for the political leadership. The implementation of big energy and infrastructure projects boosts the confidence of the government domestically and weakens restraints on violations of human rights, especially if the EU or the European governments weaken their criteria of democracy assessment in the country<sup>81</sup>. Also, so far the financial support has not been a sufficiently strong factor for stimulating reforms in oil-rich Azerbaijan, whose annual income from oil trade exceeds EU grants many times, in contrast with the other EaP states. One of the other peculiarities in the conditions of cooperation with weak state and democracy institutions is that investment in the state-owned oil sector disproportionately strengthens the state vs society. In the EU policies, this factor should have been reflected in a multiplied amount of direct support to the civil society in Azerbaijan as compared to its ENP and EaP neighbors. But in reality, it was a few times smaller throughout the 1990s and the 2000s, and this has started changing only in the past couple of years. The strength of the civil society remains the key to the issues of transparency and public participation. However, the government acts independently from the civil society, trying to exclude it from major policy decisions and reforms, as the existence of the government is not based on taxes, but on rents received from the oil trade.

<sup>79</sup> A. Franke, A. Gawrich, I. Meknykovska, R. Schweickert, 'The European Union Relations with Ukraine and Azerbaijan', *Post-Soviet Affairs*, Vol. 26, Issue 2, 2010.

<sup>80</sup> L. Alieva, N. Shapovalova (eds.), 'Energy Security in the South Caucasus: Views from the Region', Working Paper, FRIDE, CASCADE, EU FP7 no. 613354, November 2015.

<sup>81</sup> A. Lobjakas, 'Azerbaijan: EU Taking Note Of Baku's Strength', RFE/RL, 7 November 2006.

## 2.2.4 Civil society, media, opposition

In two decades, according to Freedom House ratings, Azerbaijan has moved from the status of a partly free country to that of a non-free country. In 2014, the authorities conducted a crackdown on the civil society: dozens of major NGOs were closed, their leaders persecuted and repressive amendments to laws (such as the Law on NGOs, social associations and foundations, the Law on Grants and the Law on Registration of the judicial persons and state registry) were adopted. This move was largely triggered by the Azerbaijani authorities' fear of a contagion after the Maidan mobilisation in Ukraine.

In addition, journalists and civil society activists have faced increasing government pressure. In 2013-2014, a number of criminal cases were opened against leading human rights defenders, journalists and NGO activists. Some were arrested and while they were later released under international pressure, Intigam Aliyev and Khadija Ismayil are still subjected to a travel ban. And although the European Parliament came up with a resolution regarding the case of a journalist abducted in Georgia, both the formal existence of an alternative integration option (the EAEU) and Baku's role in the EU's energy security make the authorities confident that such resolutions will not be followed by actions. Unsurprisingly, the Ministry of Foreign affairs regarded the EP resolution of 15 June 2017 as 'biased' and considered that 'it has no legal force and does not give rise to any legal or other consequences'<sup>82</sup>. The role of civil society and the concept of human rights as envisioned by the government are reduced to the cultural or social services as well as the rights of internally-displaced persons.

The major crackdown on civil society in 2014 took place in spite of the stated goal 'to develop a national plan on the development of civil society' and 'measures for developing freedom of speech and information' ('Azerbaijan 2020: Look into the Future'). As a result of the crackdown, the most active and qualified NGO leaders were imprisoned or left the country. Due to international pressure, in March 2016, 12 prisoners were released and at the end of that year, the president signed a decree simplifying the procedure for issuing foreign grants to NGOs through the establishment of a 'single window' of registration. However, by now, the registration procedure as reflected in the legislation remains a multistep complex exercise with the Ministry of Justice. Some leading activists and journalist have not been released. Criminal cases regarding the activities of some of the leading NGOs remain open, bank accounts – frozen and travel bans – not lifted. Most importantly, the legislation remains exceedingly restrictive as regards the registration and the activities of NGOs, foreign donors, as well as the rules for receiving grants.

The major political forces in Azerbaijan – both the government and in the opposition – are secular. This is conditioned by the political traditions and based on the very essence of the Azerbaijani modern nation state, the foundation of which was laid in the early 20<sup>th</sup> century on liberal European principles. Overall, the population is less religious, in terms of practicing, as compared to the other two republics of the South Caucasus. The preamble of the Azerbaijani Constitution asserts that the country is a secular state based upon the rule of law. The relations of the state with religion are regulated by the State Committee for Work with Religious Organisations, which was established by a President's decree to supervise these relations as well as guarantee the religious rights and freedoms of the citizens and residents of Azerbaijan, as stipulated by article 48 of the Constitution. All religious organisations are obliged to register with the State Committee. However, in practice, this state body is often used as a means of control of religious activities and organisations, with a selective approach to the registration of various religious groups and organisations. Particular discrimination and persecution are directed towards majority Shia Muslims, whose active members are often imprisoned and reportedly tortured<sup>83</sup>. The authorities also use persecution of religious leaders as an external source of political legitimacy to demonstrate that they fight religious extremism and radicalism. However, in practice, radicalism is partly promoted by the official

<sup>82</sup> 'Resolution of the European Parliament Has no Legal Force', Turan Agency, Baku, 16 June 2017.

<sup>83</sup> The media reported about tortures applied to the believer Abbas Hasanov, participant of the so-called 'Nardaran events' in 2016.

policies persecuting religious leaders, restricting religious freedoms, and especially persecuting the secular opposition and civil society. By harassing secular opposition and civil society, the authorities create a gap, which makes the appearance of radical religious forces in the political arena more probable in a period of economic decline and of growing social problems. Thus, secularism is being systematically undermined.

While the capacity of civil society organisations (CSOs) to influence the decision-making process has been fully undermined<sup>84</sup>, the civil society remains a major actor to ensure a proper functioning of checks and balances in the country and an important partner for the EU. Yet, over the past two decades, the EU has supported the Azerbaijani civil society only to a limited extent. In fact, most of the EU assistance has targeted the Azerbaijani government. This imbalance in favour of the state, in spite of increased EU financial support for CSOs in recent years, has amplified the vulnerability of the civil society to the government's pressure. However, the EU did react to the crackdown on civil society. EU and international pressure on the authorities resulted in the release of 12 prisoners. By the end of 2016, however, there were still 14 prisoners of conscience and more than 100 political prisoners, according to the assessment of local human rights defenders<sup>85</sup>. The repression on civil society has had an immediate impact on Azerbaijani government obligations both before the Extractive Industries Transparency Initiative (EITI) and the Open Government Partnership (since 2011). Azerbaijan was downgraded from the status of EITI compliant country (awarded in 2009) to that of EITI candidate in April 2015. In March 2017, the country suspended its membership. However, this step was regarded as a negative move for the country in terms of international reputation, more specifically with respect to the funding of the Southern Gas Corridor project. As a result, Azerbaijan might become ineligible for future World Bank's and other institutions' loans to support its infrastructure projects<sup>86</sup>.

### 2.2.5 Judiciary

A pivotal part of the state machinery in the crackdown on the civil society and activists is the judiciary, which is under full control of the executive branch of power. So far, the judiciary has been a core target in the EU assistance programmes aimed at improving good governance in Azerbaijan. Yet the increasingly politically motivated persecutions in the country testify that technical assistance is not sufficient to ensure an effective independence of the judiciary. However, justice sector reform remains a top priority 'both for developmental reasons and as a key area for promoting the EU's values'<sup>87</sup>. In the Single Support Framework 2014-2017, the Justice Sector Reform budget support programme is described as a success in the sense that it has created 'a basis for policy dialogue'.

The issue of corruption is key for all post-Soviet countries. Its function as a compensation for the lack or erosion of popular legitimacy of the political leadership (informal patronage system of rewards for loyalty) points to the need to address both the political and economic causes of corruption. This is particularly problematic in oil-rich states with state ownership of oil, where there is an abundance of resources to feed the patronage system, allowing to directly strengthen political power as well as to support foreign projects (such as investments and cultural and restoration projects in European states...). Azerbaijan ranks high in world ratings on items such as the share of the informal economy, which shows the degree and depth of

<sup>84</sup> This is the result of amendments adopted in 2015, which introduced four new sets of rules: the rules on registration of the grant contracts, the rules of acquiring a right for the foreign donors to give grants on the territory of Azerbaijan Republic, the rules on registration of the service or work contracts of NGOs or foreign organisations' branches and representations with foreign funding, the rules on reporting about activities of NGOs and foreign organisations and their branches and representations. G. Ibadoglu, 'The State of Civil Society in Azerbaijan and Prospects for Partnership in the Open Government', Center for Social Initiatives, 2017.

<sup>85</sup> Azerbaijan 2016/2017, Amnesty International

<<https://www.amnesty.org/en/countries/europe-and-central-asia/azerbaijan/report-azerbaijan/>> accessed 25 August 2017.

<sup>86</sup> A. Alili et al. (2017), 'The Cost of Azerbaijan's Leaving the EITI', CESD Press, Baku.

<sup>87</sup> European External Action Service, Single Support Framework Azerbaijan 2014-2017 Summary

<[http://eeas.europa.eu/archives/docs/enp/pdf/financing-the-enp/azerbaijan\\_2014\\_2017\\_summary\\_of\\_the\\_programming\\_document\\_en.pdf](http://eeas.europa.eu/archives/docs/enp/pdf/financing-the-enp/azerbaijan_2014_2017_summary_of_the_programming_document_en.pdf)> accessed 25 August 2017.

the problem as well as the low effectiveness of approaches taken by international structures to promote the fight against corruption in the country. Transparency International Azerbaijan had to scale down its activities in the country due to the failure to register the extension of its grant with the Ministry of Justice. In 2017, on August 1<sup>st</sup>, it closed down its Regional Advocacy and Legal Aid Centers in Ganja and Quba, and plans to transfer to voluntary activities from September 2017. The restrictive legislation which led to these developments obviously puts the effectiveness of the struggle against corruption under doubt.

It is obvious that the issue cannot be tackled without promoting the transparency of decision-making, the strength of democratic institutions, including the opposition and the civil society, without which the fight against corruption turns into an exercise of imitation with the consent of external institutions. While the system ASAN is considered a success of the fight against corruption, it eliminates only limited sources of the informal economy, leaving big capital flows untouched and outside public control. Seriously fighting corruption is not possible without transparency over the distribution of oil and gas revenues, which was partially addressed by Azerbaijan's participation in international initiatives such as Extractive Industries Transparency Initiative (EITI) and Open Government Partnership (OPG), and without the restoration of all the conditions needed for the free functioning of the civil society.

## 2.2.6 Mobility, education, people-to-people contacts

While people-to-people contacts are regarded as a successful area of cooperation in EU-Azerbaijan relations, Azerbaijan lags behind such countries as Moldova, Georgia and Ukraine, all of whom benefit from a visa-free regime with the EU.

In 2013, the EU and Azerbaijan signed a Mobility Partnership Agreement. The EU-Azerbaijan Visa Facilitation Readmission Agreement entered into force in 2014. The Visa Facilitation agreement makes getting visas an easier and cheaper process for certain categories of population. However, there is an ambiguity in the official position. On the one hand, Azerbaijan has expressed its interest in visa-free regime to the EU – and citizens would obviously benefit from such a regime. On the other hand, an Azerbaijani official has suggested that negotiations are difficult (as the party should fulfil 143 conditions) and that such a regime will become a reality for Azerbaijani citizens only in an unspecified future<sup>88</sup>.

Given the narrow agenda of political cooperation, mobility, education and people-to-people contacts are currently key in EU-Azerbaijan relations. They allow for greater integration of the societies and open channels for stimulating reforms. However, the fact that it is no longer possible (since 2010) to obtain Azerbaijani visas upon arrival to the country has had a significant impact on mobility, primarily on flows of tourists from EU member states. Presently, they make up only 10 % of all visitors to the country. Nonetheless, in January 2017 Azerbaijan introduced electronic visas for the nationals of 81 countries, which can be filled online and are issued within 3 days<sup>89</sup>. The EU should push for the visa liberalisation dialogue, as this will promote mobility, reforms and legislative convergence.

The Azerbaijan anti-discrimination provisions are scattered throughout national legislation, the most important of which is the Constitution. There is only one law (2006) dealing specifically with discrimination – on gender and sex discrimination. The adoption of a general anti-discrimination law should be encouraged.

In the area of education, the ENP progress report noted the successful participation of Azerbaijani students in the programmes Erasmus Mundus, Tempus, Marie Curie Actions, Horizon2020 funding, as well as the Erasmus + programme, which enrolled 877 students in mobility projects. This area has a significant

<sup>88</sup> P. Heshimli, G. Sesi, Interview with Deputy Foreign Minister Mahmudgulyev, 'Some Issues Can Be Solved not by Statements or Resolutions, but by Negotiations', 14 June 2017 <<http://www.gununsesi.info/getnamyanatlarla-yox-danisiqlar-yolu-il-olunabiler/>> accessed 25 August 2017.

<sup>89</sup> A. Nazarli, 'Citizens of 81 Countries to Take an Advantage of ASAN Visa', AZERNEWS, 16 December 2016.

potential to develop to the benefit of both parties, should funding be not only sustained, but also significantly increased.

## 2.3 Conclusions and recommendations

The launch of negotiations on a new agreement between the EU and Azerbaijan (in spite of massive violations of human rights in the country) results from several intertwined factors, including the importance of energy-rich countries for the European Union and the increasing bargaining power of Azerbaijan. 'Principled pragmatism' – a major idea behind the new Global Strategy of the European Union – brings in realism in EU policies and stops overestimating the EU's transformative power. Yet, the EU falls short of analysing the reasons behind its limited influence in its neighbourhood<sup>90</sup>. The EU should keep domestic factors in mind when negotiating the new agreement with Azerbaijan. Indeed, a pragmatic approach may result in the EU overlooking the country's societal potential of Europeanisation and democratisation, and, most importantly, is associated with the risk of becoming a convenient framework for growing encroachments on rights and curtailment of freedoms by the other party. One should not confuse the interests of the official elite, boosted by oil revenues, with the interests and aspirations of the whole society and country. For instance, it is thanks to the wide mobilisation and campaign across the Azerbaijani society that a clause on European aspirations was included in the Action Plan in 2006.

For Azerbaijan, this new agreement is important given its role in the EU's energy security as an alternative gas supplier in a context marked by the steep decline in world oil prices and oil production. However, the EU should be aware that this agreement may be used as a cover by the elite. Through these negotiations, the incumbent authorities may hope they can get a free hand in further consolidation of their power and restriction of citizens' freedoms by getting rid of the conditionality principle. Yet the decline in oil world prices opens a windows of opportunity to include values in the agreement. The country's need for resources creates a unique chance to increase the leverage on the incumbent authorities via the loan conditionality by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

Should values and support to the civil society be side-lined in the new agreement, this would only reduce the number of EU proponents in the country and therefore result in a decline of the EU's influence in Azerbaijan but also in the region as a whole. To avoid this, the EU should ask for a transparent and inclusive dialogue with Azerbaijan, involving also the civil society, the experts' community, the media and independent entrepreneurs. In so doing, the EU should pay specific attention in order to avoid the inclusion of GoNGOs in its dialogue with Azerbaijan. In recent years, indeed, the incumbent authorities have closed a number of CSOs to replace them with organisations that they fully control.

The most recent study summarizing the amendments to the national legislation on civil society introduced over the past three years revealed that, compared to that in the other EaP states, it is exceedingly restrictive as regards registration, foreign funding and sanctions. It concludes that in its current state, it contradicts article 22 of ICCPR, article 11 of ECHR and relevant precedent case-law of ECtHR, the recommendation of the Committee of Ministers of the Council of Europe and the opinion of the Venice Commission of 2014<sup>91</sup>.

Besides transparency and public/civil society participation, the EU should strongly support Azerbaijan's accession to the WTO, as the latter would stimulate the diversification, and subsequently the de-monopolisation, of the Azerbaijani economy, thereby contributing to fostering both pluralism and

<sup>90</sup> I. Techau, 'The New EU Global Strategy: Useful or Pointless?' Carnegie Europe, 1 July 2016 <<http://carnegieeurope.eu/strategieurope/?fa=63994>> accessed 25 August 2017.

<sup>91</sup> 'Legal Restrictions on the Functioning of the Civil Society Organizations in Azerbaijan: a Comparison with the National Legislations of the EU Eastern Partnership countries. Assessment Document', Election Monitoring and Democracy Studies Center (EMDSC), Baku, 2017.

integration in the world economy.

The engagement policy that the EU is to choose in relations with Azerbaijan should not exclude consistency in promoting universal human rights and freedoms in the country. The EU should retain the possibility of applying sanctions, as advocated in the EP resolutions. Otherwise, it risks supporting an authoritarian state close to its borders, which can only affect its credibility in the region and more broadly.

### 2.3.1 General recommendations

#### Red Lines

- The EU should demand the release of political prisoners and the improvement of political conditions in the country, including media freedom, and make it clear that these are major conditions to the development of an equal-to-equal and strategic partnership.
- It should demand the removal of all restrictive laws on NGOs, including the abolishment of the grant and donations registration system, along with the registration of donors of the branches and of representations of foreign NGOs in the country.
- It should demand amnesty for all NGOs, the unfreezing of their accounts and the lifting of travel bans, as well as the creation of conditions for their safe activities in the country.

On these issues, the EU should define the time schedule, the benchmarks and the consequences for the country in case the clauses of the agreement are not met, leaving the EU the right to apply sanctions.

#### Strong recommendations

- The EU should implement the recommendations of the Venice Commission of the Council of Europe regarding elections.
- It should secure the participation of CSOs in its dialogue with Azerbaijan while making sure that genuine NGOs are not replaced by those controlled by the government.
- The EU should accelerate the visa liberalisation dialogue with Azerbaijan.
- Azerbaijan's accession to the WTO should be singled out as one of the top priorities of the new agreement.
- Azerbaijan should resume its activities in EITI and OGP.
- The issue of corruption should be addressed at all levels through the promotion of transparency on government decisions and relations with the EU, civic participation and public accountability, and, specifically, through provisions on public procurement.

### 2.3.2 Specific recommendations

- Unless specific provisions are included, sectoral cooperation risks strengthening the current political trends and will only have a shallow impact. Therefore, the EU could include provisions and mechanisms guaranteeing the transparency of all actions resulting from the agreement (for instance with respect to investment).
- The EU could push for sector policies and legislative convergence through such mechanisms as TalEX, SIGMA and twinning projects.
- The EU could recognise the domestic effects of the energy security issue in a supplier country and try to address these effects, including the increasing gap in respective perceptions of the government and the society on the role of energy security.



- The EU could use trade partnership and sectoral cooperation to stimulate reforms and the diversification of the economy, including its decentralisation and liberalisation.
- The EU could support cooperation with Azerbaijan in fighting terrorism, while making sure that this fight is not used as a pretext for a crackdown on civil society activists.
- The EU could enhance support to small and medium enterprises, as these can act as a driver of change in the country.
- The EU could increase support for educational, university and scientific exchanges. It could support the participation of Azerbaijan in its academic and research programmes, including through targeted capacity-building actions and awareness-raising campaigns.

### 3 Specific recommendations on Nagorno-Karabakh

- The EU should continue to empower the civil society in relations with Armenia and Azerbaijan and, by building on the experience of the European Partnership for the Peaceful Settlement of the Conflict over Nagorno-Karabakh (EPNK), the EU should invigorate its support to the civil society track-two diplomacy processes.
- The EU should promote an approach to the future of the region based on democracy and EU integration, including visa liberalisation.
- The EU should continue its support for the Madrid Principles and the ongoing mediation efforts of the Co-Chairs of the OSCE Minsk Group.

**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES**

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