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Accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
Taking stock of the European Neighbourhood Policy (ENP)**

*Implementation of the European Neighbourhood Policy in 200:
Progress Report Azerbaijan*

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1. BACKGROUND AND OVERALL ASSESSMENT

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

EU-Azerbaijan meetings took place at the level of the Cooperation Council, the Cooperation Committee and of the two subcommittees. The strengthening of the EU Delegation in Baku, established in 2008, contributed to the enhancing the EU-Azerbaijani bilateral relations.

This document reports on progress made on the implementation of the EU-Azerbaijan ENP Action Plan between 1 January and 31 December 2009, although developments outside this reporting period are also taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Azerbaijan. In addition, for information on regional and multilateral sector processes, please refer to the sectoral report.

The EU and Azerbaijan agreed to move forward with deepening and broadening of the EU-Azerbaijan relations. In parallel and within the Eastern Partnership framework the EU started preparations for upgrading contractual relations with Azerbaijan. Negotiating directives for an Association Agreement were adopted by the EU in May 2010.

Overall, Azerbaijan made some progress in the implementation of the ENP Action Plan, notably in areas related to economic and social governance. It maintained a low inflation rate compared with the previous year and stable un/employment levels. The country fared comparatively well during the year despite the global financial crisis, which allowed the government to increase social spending and capital investment.

While efforts towards economic diversification continue, energy remains the main revenue basis for Azerbaijan. Good progress was made on energy cooperation with the EU on the basis of the Memorandum of Understanding on a strategic partnership in the field of energy. Progress was also made through Azerbaijan's support for development of the Southern gas corridor including Nabucco. Progress was made in the field of aviation through the signature of the horizontal air services agreement. Good progress was made on fighting money laundering with the adoption of the new Anti-Money Laundering law. A financial intelligence unit became operational. However, Azerbaijan has made only limited progress as regards negotiations on its accession to the World Trade Organisation (WTO).

To meet Action Plan commitments, further efforts are needed in the field of political dialogue and reforms. Further reforms in the justice sector and the strengthening of the rule of law, notably the independence of judiciary, and proper implementation of adopted legislation in all areas would be of key importance. So would be continued efforts to fight corruption, notably by enforcing the relevant legislation.

The dialogue for negotiating a peaceful resolution of the Nagorno-Karabakh conflict intensified considerably at the highest level.

The Azerbaijani civil society representatives participated actively and had a constructive input to the multilateral framework of the Eastern Partnership, in particular through open dialogue. The overall strengthening of EU-Azerbaijan relations and reinforcement of the follow-up on

the priorities of the ENP Action Plan was enhanced through the Azerbaijani authorities' contributions to the bilateral elements of the Eastern Partnership.

2. POLITICAL DIALOGUE AND REFORM

Democracy and rule of law

Amendments to the Constitution were adopted by national referendum in March 2009. The amendments *inter alia* removed the limits on the presidential term of office and extended it in a state of war, which strengthened the power of the executive against the prevailing European practice and signalled a serious setback on Azerbaijan's road to consolidated democracy. Very limited public debate took place in the media before the referendum and some political interest groups refrained from participating in the vote. Azerbaijan requested advice from the Council of Europe's Venice Commission on the draft law on the status of municipalities in an effort to bring secondary legislation into line with the Constitutional amendments. Issues of concern were raised by the Venice Commission that will need to be addressed.

A small delegation from the Parliamentary Assembly of the Council of Europe monitored the vote on the referendum day and gave an overall positive assessment of the technical process. However, there are reports of voting irregularities and of a lower turnout than the official figure of 71% announced by the Central Election Committee.

Local **elections** held in December 2009 were characterised as generally peaceful and well administered by the Election Commission but saw a low official turnout and reported irregularities during the process leading to the election day. The absence of real political campaigns and the uneven allocation of media time between candidates were reported as weaknesses. The limited role and autonomy of the local authorities may explain the general lack of interest in the local elections. The number of women winning seats in municipal councils rose sharply, as a result of a conscious effort by both ruling and opposition parties to increase female participation.

Some progress was made on development of the **civil service**. In September and October 2009, new legislation and rules were approved on competition-based recruitment including on organisation and conduct of tests, evaluation rules and passing scores.

In the area of **judicial reform**, progress was made on selection of judges, training of prosecutors, judge candidates and judges and the selection procedure of the Bar Association. Some initiatives were implemented to enhance human resources in the judicial sector and to upgrade court infrastructure. Improvements were reported in execution of court rulings and the regional legal advice centres established by the Ministry of Justice are expected to improve people's access to free of charge professional legal aid. Despite the insufficient number of lawyers in the country, in the medium term, these new developments should impact positively on the level of professionalism of the system as a whole. However, the lack of independence of the judiciary remains a serious concern which needs to be addressed. Illustrating this phenomenon, in October 2009, the Law on the Prosecutor General was amended, lifting the limits on the number of terms of the Prosecutor General and Military Prosecutor, as well as for their counterparts in Nakhchivan Autonomous Republic, who can now serve for more than two consecutive terms.

Some progress was made in the fight against **corruption**. The authorities are becoming increasingly aware of the need and benefits to address corruption and a series of anti-corruption measures were taken in the field of provision of energy and water, of inter-institutional cooperation and awareness-raising. Efforts were made to strengthen the capacity of authorities to deal with corruption cases and to train civil servants on prevention of corruption. Direct reporting of corruption cases has been introduced but in order to comply with Action Plan commitments, whistleblower protection should be improved. Azerbaijan slightly improved its standing in terms of perceived corruption in comparison with other countries, but corruption remains widespread at all levels of society and would require additional efforts to combat.

Human rights and fundamental freedoms

Progress was made through the ratification and entry into force of the UN Convention on the Rights of Persons with Disabilities and its Optional Protocol in January, and of the Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment in February 2009 (see last year's report: SEC(2009) 512). The Commissioner for **Human Rights** (Ombudsman) was designated to perform the function of National Preventive Mechanism under the Optional Protocol to the Convention against Torture following a Presidential decree in January 2009. The office of the Ombudsman took up its work, which *inter alia* included the examination of proposals from state agencies and international organisations, analysis of international experience of NPMs and listing of penitentiary institutions. The OSCE provided support for capacity building.

No progress was made on issuing a standing invitation to UN special procedures. In March 2009, Azerbaijan was subject to the Universal Periodic Review of the UN Human Rights Council and accepted most of the resulting 32 recommendations. In 2009, the country had no overdue reports to UN treaty bodies.

The Azerbaijani authorities' decision in November 2009 to publish the report of the Council of Europe's anti-torture committee after its 2008 visit, and the continuing upgrading of detention conditions, including refurbishment and construction of new jails, reflects an acknowledged need to make further improvements to the **penitentiary system**.

Nonetheless, allegations of widespread and routine use of **torture** of suspects and other detainees, failure to bring perpetrators to justice, restricted access or no access of detainees to medical care and legal safeguards are some examples which have been raised as causes for concern by the UN Committee against Torture during its November 2009 session.

In March 2009 the Parliament adopted an Amnesty Act allowing for 9,000 persons, including some opposition journalists, either to be released (if they had less than one year of their overall prison term left) or having their prison term sentences reduced, while libel charges against a human rights defender were dropped. A pardoning decree was adopted by the President in December covering 99 persons including some journalists.

The State support fund for mass media was created in April 2009. Members of its supervisory council were appointed by the president in May. In addition the government publicly committed in 2009 to decriminalise defamation and draft legislation to that end was discussed in the parliament at the end of the year. Despite these efforts, **freedom of expression and media freedom** deteriorated during the reporting period. In January 2009, broadcasting by foreign radio stations on national FM frequencies was banned, thus depriving the public of

alternative sources of information. In March 2009, the law on mass media was amended without prior consultation with journalists or non-governmental organisations, extending the grounds to suspend the activities of media outlets. The amendments allow interference by government with the media in ways that are not compatible with OSCE commitments on media freedom. Further restrictive amendments were adopted on the law on TV and Radio in April 2009, limiting media pluralism and including the activities of foreign broadcasters.

Cases of harassment continue to be reported of political activists expressing independent views. The EU expressed concern over prison sentences and noted doubtful legal proceedings. Cases of intimidation of journalists through defamation court proceedings, imprisonment and threats continued to be reported and were criticized by the international community including the EU. In March 2009, the Council of Europe Parliament Assembly appointed a Rapporteur on political prisoners in Azerbaijan. The EU continues to raise these cases with Azerbaijani authorities.

Efforts were made to improve implementation of the Law on access to information and an action plan was elaborated in cooperation with the OSCE. However, further efforts are needed in order to comply with ENP Action Plan commitments. Refusals or inadequate responses by public authorities to requests for information and disregard of deadlines were reported as common problems. The work of public relations departments of public authorities needs to be improved. The institution of the Information Ombudsman was not established as foreseen. During the reporting period, the Constitutional law on the **Ombudsman** was amended, introducing the possibility of re-election of the holder of the post, despite earlier criticism by the Venice Commission. The legal proceedings of amending the Constitutional law on the Ombudsman were questionable with regard to the work of the current post holder over several months without a legal mandate.

Uneven developments were observed regarding civil society. Despite the positive signal sent by the increase in funding available to non-governmental organisations (NGOs) from the Council of State Support to NGOs, which should however ensure independence of action by recipient NGOs, restrictive amendments to the Law on non-governmental organisations were passed in June 2009, including with respect to the establishment of foreign NGOs and the NGO financial reporting. In addition, new rules regarding the registration of grants came into force in December 2009, complicating the administrative procedures for NGOs. A number of NGOs continued to be denied registration by the Ministry of Justice on unclear grounds. Restrictions on **freedom of assembly** remained a cause for concern.

Existing legislation addresses protection of **minorities**. However, Azerbaijan has yet to ratify Protocol 12 to the European Convention on Human Rights on the general prohibition of discrimination and the European Charter for Regional or Minority Languages.

The Law on **Religious Freedom** was amended in June 2009, introducing in particular the requirement for religious groups to re-register by the end of 2009 and the prohibition of religious activities outside foreseen places. Moreover, the closure of several mosques and a number of closed court trials involving alleged religious extremists took place during the reporting period. In December 2009 the police intervened in the village of Bananyar to put an end to the celebration of the Shia'a festival of Ashura. The situation in the region remained tense for several weeks after the events.

Efforts were made to promote **gender equality** and **empowerment of women**. While women's participation in political life remains low, with only 11% of parliamentarians being

women, the percentage of women elected in the last municipal elections increased from 1.2% to 26%. Women represented nearly half the economically active population in January 2009. The State Committee on Family, Women and Children's issues carried out a number of awareness-raising activities in April 2009. Women entrepreneurs also benefited from advantageous credits from the National Entrepreneurship Support Fund. Nonetheless, further efforts are needed on gender equality, gender violence, trafficking in women, early marriages and other areas, as noted in the concluding observations of the Committee on the Elimination of Discrimination against Women in August 2009.

As regards **labour law and rights at work**, some progress was made in the form of the amendments to the Labour Code in February 2009 on prohibition of termination of employment contracts in a number of specific cases (*see also under Employment and social policy*). Azerbaijan benefits from the assistance of the Council of Europe to foster social dialogue and collective bargaining on the basis of the European Social Charter. However, no specific progress can be reported on improving the implementation of the International Labour Organisation (ILO) Core Conventions.

Some progress was made on **local governance**, notably with the considerable reduction of the number of municipalities in 2009. However, the division of powers between the municipalities and local executive authorities needs to be defined better. Amendments to the Constitutional provisions on local self-government adopted in March 2009 were criticised by the EU and international organisations with respect to the potential for compromising the independence of local self-government. In December 2009, the Venice Commission noted that the proposed implementing measures were limited and incomplete.

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

Azerbaijan pursued cooperation with the UN, the Organisation of the Islamic Conference, GUAM, and the Organisation for Democracy and Economic Development, participated in the NATO Partnership for Peace programme and cooperated with experts from United Nations Office on Drugs and Crime (UNODC), INTERPOL, the World Customs Organisation, CIS and CoE, in exchanging information on terrorism issues. Azerbaijan is cooperating with the United Nations Counter-Terrorism Committee (CTC) established under UN SC Resolution 1373.

Since June 2007, Azerbaijan has been invited to align with CFSP declarations on a case by case basis. In 2009, Azerbaijan aligned with 56 out of 138 CFSP declarations to which it was invited to join. There was good political dialogue with the Azerbaijani government in 2009, including through two Political and Security Committee Troika meetings in February and December 2009, and an EU Foreign Ministers' Troika visit to Azerbaijan in July 2009.

No developments took place towards accession to the Rome Statute of the **International Criminal Court (ICC)**.

A draft Law on participation in peace operations was prepared and is expected to be adopted in the 2010 spring session of the Parliament. The draft foresees Azerbaijan's participation in peace-keeping operations in line with the UN Charter.

Strengthening regional cooperation

The Southern Caucasus Integrated Border Management (SCIBM), promoted by the EU among Armenia, Azerbaijan and Georgia, was to start in January 2009 but was delayed to address issues raised by Azerbaijan. The conditions for implementation have now been accepted by all three countries and implementation started in March 2010 (*See chapter 5 on cooperation on justice, freedom and security*).

The South Caucasus Anti-Drugs Programme (SCAD V) came to an end in 2009. Discussions continue on how best to bring forward the results of the action and pursue regional efforts in the fights against illegal drugs.

The new management (a Troika consisting of Armenian, Azerbaijani and Georgian executive directors) of the Regional Environmental Centre for Caucasus (REC) took office in January 2009. It consolidated the REC both financially and in terms of internal organisation. The REC carried out regional activities in 2009 notably in the fields of information and public participation, environmental policy and local environmental action plans, the protection and sustainable development of mountain regions. It is an important tool to promote regional cooperation and stability for the future of the South Caucasus.

In the area of higher education, universities from Armenia, Azerbaijan and Georgia cooperated together on a distance and e-learning project. This is the first time that such regional cooperation emerged under the Tempus programme.

Contribute to a peaceful solution of the Nagorno-Karabakh conflict

Negotiations within the Minsk Group on the peaceful settlement considerably intensified in 2009 and contributed to enhanced dialogue, with the Presidents of Armenia and Azerbaijan holding six bilateral meetings during the year. In addition, the Foreign Ministers of the two countries met a number of times, including during the OSCE Ministerial Council in December 2009 in Athens. Courageous steps by both sides will be necessary to find a resolution to the conflict.

A joint statement by the OSCE Minsk Group at presidential level during the G8 Summit in L'Aquila in July 2009 urged "the presidents of Armenia and Azerbaijan to resolve the few differences remaining between them and finalize their agreement on these Basic Principles, which will outline a comprehensive settlement." However, overall tensions remain and the situation continues to be fragile. Incidents of exchange of fire and casualties on the line of contact continued to be reported and are cause for concern.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

Following strong growth in 2008, of 11% of GDP, on the back of rising oil prices, economic expansion moderated in 2009 due to the impact of the global financial and economic crisis. However Azerbaijan was much less affected than other countries in the region. The global crisis has mainly affected exports, through waning energy demand, and investment due to heightened risk aversion towards emerging markets in general. On the other hand, long-term energy export contracts and an expansionary fiscal stance have cushioned the negative impact of the crisis. In 2009 the overall GDP grew by 9.3 % and the industrial sector, which accounts for almost half of GDP, continued to grow strongly. Construction was the only sector that experienced a fall compared to 2008 while investment as a whole is likely to recover

gradually. The relatively small services sector, approximately 30% of GDP, also expanded strongly mainly driven by the hotel, restaurant and communications sectors.

Inflation plummeted to 2% (annual average) in 2009, due to the base effect of very strong inflation in 2008 (21%), the tighter monetary policy, the decline in international commodity prices and the weaker private consumption growth. The slowdown in private consumption growth would have been sharper without the offsetting effect of increased government social expenditure.

The Central Bank took significant measures to loosen monetary policy and ease liquidity conditions as restricted access to global capital markets and falling deposits obliged the banking sector to scale back lending. The Central Bank reduced the refinancing rate by 13 percentage points to 2%, and reduced the reserve requirement on banks to 5% to support lending. The Manat remained stable against the Euro and the US dollar even as oil prices fell. After declining by nearly 20% at the beginning of 2009, foreign currency reserves stabilised during the later part of the year.

The Government's 2009 budget targeted higher social spending and capital investment than in 2008. Revenue was constrained due to the impact of lower oil prices given that the State Oil Company of the Azerbaijan Republic (SOCAR) is the main contributor to the budget. While expenditure was lower than in 2008, it was supported by transfers to the state budget from the State Oil Fund of the Republic of Azerbaijan. Excluding these transfers, the budget deficit for 2009 was estimated at 9% of GDP.

Employment and social policy

In October 2009, 6.1% were officially registered as unemployed, of which 44% were women. Measures to contain **unemployment** consisted essentially of tightening conditions to employ foreign workers. In June 2009 Azerbaijan adopted rules on determining labour migration quotas. The Azerbaijani Entrepreneurship Support Fund increased regularly over the reporting period the amount of its soft loans. The loans reportedly helped creating more than 3,400 jobs.

As regards the social situation and reduction of **poverty**, the State programme on socio-economic development for the years 2009-2013 was adopted in April 2009. It aims *inter alia* at diversifying the economy and at improving the quality of public services and living standards of the population. According to the State Statistical Committee, the poverty level fell from 13.2% in 2008 to 11% in 2009.

On **social inclusion and protection**, the State Programme on the development of the insurance and pension system in 2009-2015 was adopted by a Presidential Decree issued in December 2009, aiming at improving the system in accordance with EU standards. The Parliament approved amendments to the Law on pension in October 2009 including provisions on the raise of the pension age, the number of children, the insurance pension period and the pension indexation. According to official data from June 2009 the pensions of civil servants were three times higher than those in the private sector. A survey conducted throughout the country over the reporting period to evaluate the targeted social assistance mechanism showed that it was oriented at the poor and the poorest groups of the population: 86% of the beneficiaries who receive 90% of targeted social assistance represent the poorest 40% of the society.

In the case of **agriculture**, the implementing provisions for a law on organic farming were approved in January 2009. Extensive support was provided to the agricultural and agro-food sectors by means of projects and credit from the National Entrepreneurship Support Fund, the Agricultural Development and Credit Project, the North East Project and by non-bank credit institutions. The Government also took measures to include fruit into the government-supported insurance schemes.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

As regards **bilateral trade**, in 2009, as a result of the global slow-down in economic activity due to the financial crisis, EU exports to Azerbaijan declined by 22.1% compared to the previous year, while exports of Azerbaijani products to the EU decreased by 31.2%. The EU nevertheless continued over the reporting period to be Azerbaijan's main trading partner. In terms of commodity structure, Azerbaijani exports to the EU still consist almost exclusively of mineral fuels – 98.8 % in 2009.

From the beginning of 2009 until the end of 2011 Azerbaijan qualifies for the special incentive arrangement for sustainable development and good governance under the EU Generalised System of Preferences – GSP+. Benefitting from these enhanced preferences should contribute to diversifying of Azerbaijan's export structure and improving its export performance.

Limited progress can be reported on Azerbaijan's accession negotiations to the World Trade Organisation (WTO). The last Working Party meeting and bilateral consultations with the EU were held in July 2009 and did not bring much new development. Azerbaijan continued to request to be considered as a developing country, which would have direct implications for the application of a number of WTO provisions to Azerbaijan, particularly in the area of agriculture. Successful accomplishment of Azerbaijan's accession to the WTO is the first and foremost pre-condition for the EU to start considering the possibility to enter into negotiations with Azerbaijan on a bilateral Deep and Comprehensive Free Trade Area.

The revised **Customs** code has yet to be adopted. A Presidential decree of February 2009 introduced new provisions on customs valuation in order to harmonise national legislation with WTO rules. Implementing provisions were adopted in April 2009. The customs authorities continued the process of implementation of the EU-compatible Single Administrative Document (SAD). They also made efforts to upgrade their relations and cooperation with the trading community. Based on the Single Window control procedure (see last report), since January 2009 the customs authorities carried out preliminary, documentary and physical checks at the border on behalf of the other services. Work also advanced in the area of computerisation: an IT-based pilot project on the Single Window system was launched at road border crossing points and an interagency information exchange system was put in place between Customs and the Ministry of Health, the State Veterinary Service and the State Phytosanitary Control System. Customs ethics as well as cumbersome control practices not based on proper risk analysis remain among the main causes of concern.

Azerbaijan made some progress on **free movement of goods and technical regulations**. In June 2009, the State Committee for Standardisation, Metrology and Patents adopted new standards of defining properties in the fields of cement and food production. The same month, a Presidential decree established a single State Service for Anti-monopoly Policy and Protection of Consumers' Rights under the Ministry of Economic Development. This unified

regulator has already prepared basic principles for an accreditation system. It established a Technical Council of Standardisation and a Technical Regulation with a view to developing a national standardisation system in line with regional and international standards. Just after the reporting period, in January 2010, Azerbaijan became an affiliate member of the European Committee for Standardisation (CEN).

Azerbaijan continued, in the **sanitary and phytosanitary** (SPS) area, preparation for accession to the WTO and the Codex Alimentarius, which included also some approximation with EU rules. It developed several food standards on milk and canned meat and advanced work on amendments of the food safety and hygiene laws. Azerbaijan continued to upgrade its laboratories under the 2008-2010 "Programme for a security system development of products of animal and vegetable origin". In 2009, the European Commission authorised Azerbaijan to export caviar to the EU as from 2010, thereby replacing a transitional bilateral regime. To meet ENP Action Plan objectives, facilitate trade and prepare for a possible deep and comprehensive free trade area with the EU, Azerbaijan would have to make considerable further progress particularly in respect of approximation of legislation, its effective implementation and enforcement and strengthening of administrative capacity.

In August 2009 the Ministries of Finance and of Education approved an "Action Plan on the re-organisation of education on **accounting** and audit at high and secondary schools and application of a certification system verifying the professional level of education in 2010-2012 in view of transition to the international and national accounting standards", which includes among other things training for trainers from major education institutions. This is the last stage of the reform of the accounting system in Azerbaijan, launched in 2003.

In order to minimise the impact of the financial crisis in the **financial services** sector, the Central Bank tightened regulatory requirements for banks and took measures to support liquidity. The planned adoption of a new capital framework law, based on Basel II principles for effective banking supervision, was delayed due to the financial crisis. The Central Bank changed its system of domestic banks' prudential reporting. Progress was also made in information disclosure and market discipline. In October 2009, a system of guarantees was created with the involvement of the Central Bank to stimulate and foster internal financial markets at the Organised Interbank Credit Market.

Other key areas

The implementation of the Automated **Tax** Information System is continuing. A Code of Conduct for tax officials was adopted, but integrity still remains one of the main causes of concern. Specific tax arrangements for Special Economic Zones (SEZ) came into force in June 2009, stipulating notably that SEZ residents shall be subject to simplified tax of 0.5% payable on gross sales and non-sales revenues. Provisions concerning the procedures for the registration of residents in SEZ and related certificates were adopted in December 2009. However, the SEZ legislation contains certain provisions that are subject to interpretation and could pose risks for investors. Therefore, it is expected to be revised by Parliament in 2010.

In June 2009, the Azerbaijani Parliament passed a package of 46 amendments to the Tax Code aimed at strengthening protection of taxpayer rights, strengthening tax administration, improving tax control and reducing the tax burden on taxpayers, including individual businesses with low turnover.

Draft amendments to the **competition** law were discussed in Parliament with a third reading planned for spring 2010. In June 2009, a presidential decree was issued on the improvement

of anti-monopoly policy and the protection of consumer rights. A single State Service for Anti-monopoly Policy and Protection of Consumers' Rights under the Ministry of Economic Development was created. This new service deals with prevention of monopolies in the economy. It also aims to upgrade state management in the field of consumer protection (see above under free movement of goods and technical regulations).

In the area of **intellectual property rights**, the law on trademarks and geographical indications was amended in April 2009 to facilitate trademark registration. It also contained provisions on the infringement of trademark rights. The Parliament ratified amendments to the Law on patents in October 2009 to improve the enforcement infrastructure and align the enforcement legislation with European Union standards. Draft amendments to the Criminal Code were also prepared during the reporting period. In May 2009 a bilateral agreement was signed with Georgia on cooperation in the field of protection of intellectual property. There is still no coordinating body to supervise enforcement activities, which remain weak and need to improve significantly.

In the area of **public procurement**, no progress can be reported on ensuring equal opportunities for foreign and domestic suppliers. Guidelines on the legitimacy of bids for products (goods and services) and the correct execution of these contracts were submitted to the Ministry of Justice.

The regulation and a new structure for the State **Statistical** Committee were adopted in June 2009, with a view to improving the standards and legislation relating to statistical activities. A twinning was launched in December 2009 to support upgrading of official statistics by introducing new compilation methodologies, in line with European Union standards.

On **enterprise policy**, the State Programme on Socio-Economic Development for 2009-2013 took measures to promote development of entrepreneurship, including Small and Medium-Sized Enterprises (SMEs), and sustainable business development. In October 2009, the President adopted the Statute and Rules of use of the National Fund for Entrepreneurial Support, which is managed by the Ministry of Economic Development. Public-private sector cooperation is still limited in Azerbaijan. A law on special economic zones entered into force in June 2009 (*see above under Tax*).

A gap analysis and draft PIFC (**public internal financial control**) Policy Paper were produced in 2008 with technical assistance financed by the World Bank. However, in 2009 the Ministry of Finance decided that it had no need for foreign support to implement Azerbaijani public reforms in the area of public internal control despite the fact that the need for improved inspection systems and capacities is deemed urgent.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Azerbaijan continued participating in the Southern Caucasus Integrated **Border Management** (SCIBM) regional programme, formally agreed between Armenia, Azerbaijan and Georgia in 2007. The programme aimed at enhancing inter-agency cooperation, training and capacity of customs and border guard services in line with agreed regional standards and EU norms. Despite the regional character of this programme, Azerbaijan chose to pursue cooperation only through its bi-lateral component with Georgia, which delayed the start of implementation until March 2010. Nevertheless, in the framework of SCIBM, Azerbaijan's customs and

border guard services participated in preparatory training sessions in Austria, Croatia, Italy and Slovenia alongside representatives from Armenia and Georgia.

Further training was provided for border and patrol police including cross-border seminars with border officials from both Georgia and Armenia in cooperation with the OSCE.

The State **Migration** Service, which became fully operational in 2008, was granted the status of a law enforcement body in April 2009. A third regional branch was set up in November 2009. The number of migrants deported has decreased: a total of 598 foreigners were deported from the country in 2009 (970 in 2008). A working committee on readmission under the State Migration Services, bringing together a number of Government institutions, was set up and drafted a readmission strategy. This is currently being reviewed by the Cabinet of Ministers.

On the issue of the **fight against organised crime and terrorism**, a Presidential decree on the application of the law on the approval of the International Convention against Nuclear Terrorism was issued in January giving effect to the ratification of the same convention by the Azerbaijani Parliament in December 2008. In addition, a cooperation agreement with Romania in the area of cross-border organised crime and international terrorism was signed.

The national legal framework against **trafficking in human beings** was improved and relevant mechanisms, such as a National Action Plan to Fight against Trafficking in Human Beings (2009-2013), the National Referral Mechanism for victims of Trafficking in Human Beings and Rules (Indicators) for the identification of victims of trafficking were adopted, in February, August and September 2009, respectively. In addition, a shelter for children victims of trafficking was opened in October 2009 and an Inter-agency Commission on Combating Trafficking in Human Beings was formed. Azerbaijan signed the 2005 Council of Europe Convention on Action against Human Trafficking in February 2010. Ratification is still pending.

Progress was made on the fight against **money laundering** with the adoption of a new Anti-Money Laundering law in February 2009. A financial intelligence unit has become operational under the Central Bank. In September 2009 the Council of Europe Moneyval committee issued a public statement highlighting continuing deficiencies in Azerbaijan in this field, but it then withdrew the statement in December in the light of the implementation of the new law and of the work of the financial intelligence unit. Azerbaijan has now moved up in the Moneyval rating. However, the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism remains to be signed and ratified. With regard to cooperation in **criminal and civil law matters**, no further developments took place on Azerbaijan's accession to the 1980 Hague Convention on the Civil Aspects of International Child Abduction. Moreover, Azerbaijan has not signed or ratified the Additional Protocol to the Council of Europe Convention on the Transfer of Sentenced Persons. As in 2008, no progress was registered with regard to the development of a network for enhanced cooperation with EU judicial and law enforcement authorities.

As regards **data protection**, Azerbaijan did not sign the 1981 Council of Europe Convention on the Protection of Individuals with regard to Automatic Processing of Personal Data nor its Additional Protocol on supervisory authorities and trans-border data flows.

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

In the field of **transport**, the World Bank and Azerbaijan signed in December 2009 a Loan and Project Agreements for a EUR 328 million Railway Trade and Transport Facilitation Project for Azerbaijan. The main objective is to improve railway services, as well as the competitiveness, financial sustainability, operating and cost efficiency and capacity of the Azerbaijan Railways in particular along the transport corridor towards Georgia (east-west corridor).

In the aviation sector, in July 2009 Azerbaijan signed the horizontal air services agreement which brings all existing bilateral air services agreements between EU Member States and Azerbaijan into line with EU law. At the same time, a working arrangement on safety cooperation was signed between the European Aviation Safety Agency and the Azerbaijani authorities to strengthen their regulatory cooperation with the Agency and progress towards convergence with European safety standards. In order to fulfil the Action Plan commitments, the Civil Aviation Authority needs further reinforcement.

In the maritime sector, Azerbaijan started constructing an International Sea Trade Port Complex at Baku-Alyat in order to increase the capacity of the Baku port and to meet increasing freight and passenger transport demands.

Azerbaijan and the EU pursued **energy** cooperation, notably on the basis of the 2006 Memorandum of Understanding on a strategic partnership in the field of energy. Azerbaijan, a key hydrocarbons producer and transit country for Caspian resources, repeatedly confirmed at the highest level its commitment to play a significant role in the EU's energy security. In this context, Azerbaijan continued to support development of the Southern gas corridor including Nabucco and the trans-Caspian transportation project. In May 2009 President Aliyev participated in the Prague Summit on the Southern Corridor. Furthermore, Azerbaijan participated in the ongoing EU study for a Caspian Development Corporation, the central purpose of which is to aggregate gas demand in support of the said Corridor's development.

Azerbaijan continued to increase hydrocarbons production including on the basis of its 'Gas programme'. It sustained hydrocarbons exports notably through the Baku-Tbilisi-Ceyhan (Turkey) oil pipeline and the Baku-Tbilisi-Erzurum (Turkey) gas pipeline. In 2009 the country reinforced cooperation with, *inter alia*, Kazakhstan on oil exports through Baku and the Black Sea. In July 2009, energy companies from Azerbaijan, Georgia, Lithuania, Poland and Ukraine completed a study on the Euro-Asian Oil Transportation Corridor Project. In November 2009, Azerbaijan and Bulgaria agreed to explore supply options for compressed natural gas across the Black Sea to the EU.

Azerbaijan furthermore developed plans for liquefied natural gas (LNG) exports to Romania from a Georgian Black Sea terminal. In 2009, SOCAR (state oil company) and Gazprom agreed to 0.5 billion cubic meters up to larger quantities of gas to be exported to Russia in 2010. Azerbaijan strengthened its cooperation on gas with Iran including by the signature of an export contract. Azerbaijan strengthened the security of oil and gas export pipelines *inter alia* by adopting, in April 2009, an updated operational plan for emergency situations. Azerbaijan continued active participation in the Extractive Industry Transparency Initiative, which aims at transparency of oil and gas revenues.

Azerbaijan further implemented its energy sector policy, framed in the state programme on fuel-energy complex development for 2005-2015. For example, it advanced work towards new energy sector legislation, which aims at a measure of approximation with EU rules. In July 2009, the Tariff Council increased gas tariffs. Also in July, Azerigas, the national gas company, was integrated into SOCAR. In 2009, Azerbaijan further rehabilitated electricity and gas infrastructure, put new electricity generators into operation and progressed on the reduction of network losses. Azerbaijan commissioned a second electricity link with Iran and continued to work towards an Azerbaijan-Georgia-Turkey electricity interconnection.

Azerbaijan has also confirmed at high political level its commitment and policy priority to engage the country more forcefully into the development of Renewable Energy Sources (notably wind, solar and hydro), and of Energy efficiency.

Azerbaijan continued to train nuclear experts with a view to possibly building a nuclear research reactor. It strengthened the State Agency for Atomic and Radiological Activity Control. The country continued implementing the state programme on the use of alternative and renewable energy 2004-2013. Azerbaijan established a state agency of alternative and renewable energy sources. The President issued a decree on additional measures regarding the use of alternative and renewable energy sources. The measures aim in particular at studying opportunities for the use of wind, solar, hydro, biomass and geothermal energy. Azerbaijan commissioned a 50 MW wind farm and continued the development of projects particularly in the area of wind power and small hydro.

In the field of **climate change**, Azerbaijan continued preparing its Second National Communication to the UN Framework Convention on Climate Change, which will include a greenhouse gas inventory, mitigation and adaptation measures and vulnerability assessments.

Azerbaijan took steps to prepare further Clean Development Mechanism (CDM) projects, even if so far no CDM project has been registered at UN level. Azerbaijan has not yet associated itself with the Copenhagen Accord and is therefore encouraged to do so as soon as possible and to provide information on the targets or actions that it will implement. The European Commission continued to support Azerbaijan to implement the Kyoto Protocol.

Azerbaijan continued to implement its 2006-2010 **environment** state programme and started to prepare its second phase. The legislative framework continues to require further development, in particular as regards implementing legislation. A decree was adopted on measures to improve drinking water supply. Legislation on environmental impact assessment and amendments of legislation related to hazardous waste are under preparation. The action plan on approximation of legislation with that of the European Union, adopted in autumn 2009, foresees amendments to the law on access to information related to environment as well as revisions of existing legislation on pollution prevention and control. Amendments to existing legislation on waste management, in particular with regard to hazardous waste, are under preparation as well as proposals designed to strengthen management of chemical substances.

Steps were taken to improve water and waste management, including continued work to develop a waste strategy for Greater Baku. Continued attention is required to implement existing strategies and plans and to further enhance monitoring and enforcement.

The Ministry of Environment and Natural Resources set up a scientific centre for hydro-meteorological and ecological research in the North-Eastern shoulder of the Great Caucasus

Mountains. The centre's objective will be to study the ecosystems of high mountain territories, as well as the impact of climate change on environment and biological diversity of mountain territories. The statute of the State Commission on Water Issues was developed and appointment is underway. Further strengthening of administrative capacity at all levels of the country remains a major challenge. Coordination between authorities continues to require attention. Some actions were taken to promote the integration of environmental considerations into other policy sectors such as energy and transport.

Azerbaijan has not published comprehensive state-of-the-environment reports since 2002. It nevertheless continued to carry out some other activities to provide information to the public. Concerning access to information and public participation, strengthening of the three Aarhus Centres continued, and some preparatory action was taken to open an additional centre. (*For the Regional Environmental Centre for the Caucasus, please see the section on regional cooperation*).

Some steps were taken to strengthen capacity for conducting strategic environmental assessments. Procedures and consultation with the public in the context of environmental assessments continue to require particular attention.

Some steps were taken towards accession to the Protocol on Strategic Environmental Assessment to the UNECE Convention on Environmental Impact Assessment in a Trans-boundary Context. However, there were no significant developments as regards accession to the Protocols to the UNECE Convention on Long-Range Transboundary Air Pollution. Furthermore, the implementation of several already ratified agreements requires particular attention. Azerbaijan participated in regional cooperation under the Framework Convention for the Protection of the Marine Environment of the Caspian Sea, the Caspian Environment Programme as well as the EU Water Initiative, where it presented a request for a national policy dialogue. 2010 has been made the national Year of Ecology.

Cooperation and exchanges of information took place between the European Commission and Azerbaijan, including on water, forestry, waste management, environmental data, nature protection and air quality.

In the field of **civil protection**, Azerbaijan participated in the December 2009 in the launch of the Eastern Partnership flagship initiative on prevention on, preparedness of and response to man-made-made and natural hazards.

As regards the **Information Society**, the Ministry of Information and Communications granted in 2009 the first Third Generation mobile communications (3G) licence to a mobile operator, which started to provide 3G services in Baku and several other cities. The Government announced plans to privatise some of its holdings in the telecommunications sector.

Azerbaijan has yet to sign the Council of Europe Convention on Transfrontier Television.

Investment and capacity in **research** continue to remain modest. Azerbaijan continued to increase the numbers of applications submitted to the 7th Framework Programme (FP7), although the overall number of applications remains relatively low. Applications involving 12 Azerbaijani research groups were successful, as of November 2009, receiving EUR 414,000 in EU support.

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

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

In June 2009, the new education law was adopted by the Parliament, re-organising the levels and types of education including preschool, general schooling and vocational training. Higher education was organised as a three-degree structure (bachelors, masters and a two-level doctorate) approximating relevant provisions of the Bologna Process. A new State Programme on the reform of higher education for the period 2009-13 was approved by the Cabinet in May 2009 including the listing of specialisation programmes for bachelor degree with its monitoring overseen by the Ministry of Education.

In September 2009, this same new education law was signed by Presidential decree, establishing a regulatory basis for all **education** and training activities in Azerbaijan. It is presented as a framework law providing the basis for more specific legislation and regulatory acts and includes provisions on the division of competences within the national education system as well as definition of main education principles. Education is a priority in the country.

Although a signatory of the Bologna Declaration since 2005, Azerbaijan's ability to match its commitment to align **higher education** to the Bologna principles remains weak. Much work remains to be done on the introduction of a Diploma Supplement. The Ministry of Education did not make full use of the HERE (higher education reform expert team) funded under Tempus during 2009. Thanks to EU and other donor-funded projects, some faculties in some universities, mainly those in Baku, began implementing the European Credit Transfer System (ECTS) as well as some quality assurance measures in certain study programmes. Higher education reform in Azerbaijan continued to benefit from cooperation under the Tempus programme with three projects selected under the second Call for Proposals of Tempus IV. A Tempus Information Day was held in December 2009.

In the area of **vocational training**, the President signed a Decree on Additional Measures on strengthening of the logistical base of vocational training schools in September 2009, providing additional funding to this end. The Ministry accelerated work on the implementation of the 2007-2012 State Programme for development of vocational training education in the area of construction and reconstruction of vocational training schools. In support of EU assistance, the European Training Foundation (ETF) reviewed reform-oriented concept notes developed under the earlier TACIS support programme. Significant delays were encountered in the development of the national qualifications framework for Azerbaijan. In terms of sector focus for training, tourism remains a priority alongside agriculture and rural development. The Labour Market Review undertaken by ETF for the Black Sea region, in the context of the Eastern Partnership, requires further work in Azerbaijan.

Three Azerbaijani students and one scholar received scholarships for Erasmus Mundus Masters Courses under Erasmus Mundus Action 1 for the academic year 2009-10. Academic and student mobility was further facilitated under Erasmus Mundus Action 2 during the same period through the award of 33 mobility grants. Azerbaijani universities are encouraged to participate in the Jean Monnet programme.

In the area of **culture**, Azerbaijan ratified the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions in November. In parallel, it also ratified the Convention for the Protection of the Architectural Heritage of Europe. The Ministry of Culture and Tourism continued work on a draft Culture Concept of the Republic of Azerbaijan as well as a draft law on the creative worker and creative unions in the context of inter-departmental consultations and public debates. While formal measures have been taken to review activities in the cultural field particularly in the context of the Eastern Partnership, there is an absence of clarity regarding the cultural policy model that is being pursued. To advance its regional cooperation in the framework of the Eastern Partnership and the Kyiv Initiative, Azerbaijan is encouraged to ratify the 2000 European Landscape Convention and to sign and ratify the 2005 Council of Europe Framework Convention on the Value of Cultural Heritage for Society.

Azerbaijani young people and **youth** organisations continued to benefit from the opportunities offered by the Youth in Action Programme, through exchanges, voluntary service and youth cooperation activities in non-formal education. A study visit on youth work reality in Azerbaijan took place in October, co-organised by the Ministry of Youth and Sport and the SALTO Eastern Europe and Caucasus Resource Centre. 17 participants visited youth policy makers and youth organisations in Baku and in Gandja.

Azerbaijan continued **health** reform with the aim of improving the sector's organisation, enhancing quality and increasing efficiency. Emphasis was also put on rolling out health care to vulnerable groups and to the rural areas. The country continued the implementation of the "Concept of reforming the healthcare financing system and implementation of compulsory medical insurance" and the related action plan for the period 2008-2012. Its full implementation should contribute to reducing out-of-pocket payments by citizens. Compared with 2008, Azerbaijan considerably increased health sector expenditure in 2009. Azerbaijan took several measures to combat influenza A (H1N1) including by the adaptation of a preparedness plan and a vaccination campaign. It continued to address the challenges posed by communicable diseases such as HIV/AIDS and tuberculosis. In 2009, the European Commission invited Azerbaijan to participate in the newly established EU enlarged health information committee.

8. FINANCIAL COOPERATION – 2009 KEY FACTS AND FIGURES

The European Neighbourhood and Partnership Instrument (ENPI) envelope for Azerbaijan under the National Indicative Programme 2007-2010 was initially envisaged at the level of EUR 92 million. This indicative sum was however slightly decreased and the final amount totalled EUR 88 million.

The programme is geared towards supporting the achievement of key policy objectives as outlined in the EU-Azerbaijan ENP Action Plan and pursues three priorities: 1) Support for democratic development and good governance; 2) Support for socio-economic reform (with emphasis on regulatory approximation with the EU *acquis*), fight against poverty and administrative capacity building; 3) Support for legislative and economic reforms in the transport, energy and environment sectors. Each Annual Action Plan (AAP) is divided into two parts. The first and financially more substantial part consists of a Sector Budget Support (SBS) programme whose focus varies from year to year. To date, SBS Programmes in the fields of Energy, Justice, and Agriculture were developed for the AAPs 2007, 2008, and 2009

respectively. The SBS Programmes for AAPs 2007 and 2008 were signed by the Government of Azerbaijan in 2008 and 2009 respectively. The request for the payment of the first tranche of the AAP 2007 SBS on Energy was received in January 2009. The request for the payment of the first tranche of the AAP 2008 is expected during second quarter 2010. The signature of the AAP 2009 is also expected in the second quarter 2010, after which implementation will commence.

The 2009 Annual Action Programme amounts to EUR 20 million and focuses on two priorities: socio-economic reform (EUR 14 million) programmed in a form of Sector Budget Support, particularly for agriculture rural development; and good governance and administration reform (EUR 6 million), for which twinning projects will be identified during 2010.

An indicative financial envelope of EUR 122.5 million will be available to support co-operation activities in Azerbaijan in period 2011-2013, based on a European Commission decision of March 2010.

In addition to the bilateral allocation, Azerbaijan also benefited from cooperation activities financed under the ENPI multi-country and regional programmes, as well as horizontal thematic programmes, such as the European Instrument for Democracy and Human Rights (EIDHR) and the Non-State Actors and Local Authorities in Development programme (NSA/LA). At the end of the year, the EU Delegation monitored 21 EIDHR – NSA contracts.

Under the Neighbourhood Investment Facility (NIF), in 2009, the Board approved contributions to three projects/programmes from which Azerbaijan could benefit. The total NIF contribution to these projects was EUR 24 million. These NIF grants are expected to leverage around EUR 600 million in loans from European Finance Institutions. EBRD manages and implement two and KfW one of the three above-mentioned projects/programmes which aim at addressing major challenges in the energy, financial and SME sector in the region.

In November 2009, the process of ‘deconcentration’ (transfer of responsibilities for signing financial contracts from European Commission headquarters to the EU Delegation) was completed.