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**Implementation of the European Neighbourhood Policy in Armenia
Progress in 2011 and recommendations for action**

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

Delivering on a new European Neighbourhood Policy

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1. OVERALL ASSESSMENT

This document reports on the progress made in implementation of the EU-Armenia ENP Action Plan between 1 January and 31 December 2011, although developments outside this period are taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Armenia. For information on regional and multilateral sector processes, readers should also refer to the Eastern Partnership Progress Report. The present ENP Action Plan for Armenia was signed on 14 November 2006 and covers five years. The Cooperation Council held in November 2011 agreed on its extension.

There was intense political dialogue with the Armenian government in 2011, a Political and Security Committee Political Dialogue meeting in June and a number of mutual high level visits. High Representative and Vice-President C. Ashton visited Armenia on 16-17 November as part of her visit to the South Caucasus region.

Negotiations on the Nagorno-Karabakh conflict within the Minsk Group in 2011 have demonstrated the need for further efforts by the parties to the conflict to achieve substantial progress. Amidst increasing tension along the Line of Contact and the Armenian-Azerbaijani border, mediation efforts resulted in marginal progress on the mechanism proposed by the Organisation for Security and Cooperation in Europe (OSCE) to investigate incidents along the frontlines. The EU stands ready to provide enhanced support for confidence building measures, in support of and in full complementarity with the Minsk Group, with a view to facilitating further steps towards the implementation of peace.

The EU continues to support the normalisation of relations between Armenia and Turkey without preconditions.

Within the Eastern Partnership, the negotiations for an EU-Armenia Association Agreement (AA) progressed at a good pace. Armenia made substantial progress in implementing the 'key recommendations' for the launching of negotiations on a Deep and Comprehensive Free Trade Area (DCFTA).

While there is a serious effort to address issues related to human rights and fundamental freedoms, further work needs to be done especially in the implementation of legislation. Positive steps were taken to prepare the country for upcoming elections, with changes in the electoral code and a presidential amnesty for the remaining persons detained for charges related to the March 2008 events. There are however concerns about media freedom relating to the print media affiliation, limitations on TV broadcasting and to civil lawsuits for insult and defamation. Despite a reform effort, public trust in the judiciary continues to be low, and the perception of corruption is still high.

The National Preventive Mechanism under the Optional Protocol to the UN Convention against Torture should be further strengthened. Cases of torture and ill treatment among military conscripts, in prison facilities and at police stations are not adequately investigated.

As the authorities maintained prudent macro-economic policies and introduced several structural reforms, Armenia showed encouraging signs of recovery after the severe recession that resulted from the international crisis in 2009. It continued to progress towards meeting the objectives of the Action Plan in the area of macro-economic policy, poverty reduction and social cohesion. Further growth and economic development will depend to a large extent on the continuation of fiscal consolidation and improvement of the business environment.

Directives for the negotiation between the EU and Armenia of visa facilitation and readmission agreements were adopted in December. Negotiations started on 27-28 February. In October 2011, the EU-Armenia Mobility Partnership was established.

Regarding Medzamor Nuclear Power Plant (MNPP), the EU continues to request its earliest possible closure as it cannot be upgraded to meet internationally recognised nuclear safety standards. Armenia has not yet drawn up a detailed decommissioning plan for MNPP. Armenia continued the safety upgrading of the plant, which it plans to close once replacement capacity is available. Armenia is preparing the construction of a new Russian type nuclear power plant on the Medzamor site, although financing remains a major problem. Following the Fukushima nuclear accident, Armenia expressed readiness to undertake with the EU a comprehensive risk and safety assessment ('nuclear stress test') of the plant (VVR type of the first generation), taking account of EU standards. Armenia became an observer of the Energy Community.

On the basis of this year's report and with a view to sustained implementation of the ENP Action Plan in 2012, Armenia is invited to:

- Ensure that the presidential elections scheduled for 2013 are in line with international standards by addressing the shortcomings identified by the Office for Democratic Institutions and Human Rights (ODIHR) of OSCE concerning the May 2012 parliamentary elections.
- Step up efforts with Azerbaijan to reach agreement on the Madrid Principles in accordance with the commitments made by the Presidents of Armenia and Azerbaijan in the framework of the Minsk Group.
- Provide unconditional access for representatives of the EU to Nagorno Karabakh and surrounding regions.
- Fully investigate the deaths that occurred during the clashes of March 2008 and the allegations of ill-treatment in police custody and violation of due process.
- Ensure finalisation and implementation of the National Human Rights Strategy and Action Plan.
- Adopt amendments to the legislation on broadcasting in compliance with the recommendations of the OSCE and the Council of Europe, and ensure pluralism in the broadcasting media.
- Finalise the draft law on Conscience and Religious Freedoms, in line with international standards as well as the legislation on alternative civilian service, in conformity with Venice Commission and OSCE recommendations.

- Adopt comprehensive anti-discrimination legislation, including further steps leading to the harmonisation of legislation with the EU *acquis* in the areas of gender equality and non-discrimination.
- Strengthen enforcement of the Anti-Corruption Strategy and boost capacity for combating corruption.
- Strengthen the implementation of the reform agenda presented by the Armenian authorities, including measures to reform public administration and the judicial sector (especially increase the independence of the judiciary, improve the training of judges, review the code of criminal procedure, pursue the Police Reform Programme).
- Continue to advance sectoral reforms and regulatory approximation to the EU *acquis* in trade and trade-related areas based on the key and additional recommendations identified in the preparation for the DCFTA.
- Work towards the earliest possible closure of the Medzamor Nuclear Power Plant and adopt a detailed decommissioning plan for this plant, taking into account the result of stress tests.

2. POLITICAL DIALOGUE AND REFORM

Deep and sustainable democracy

Preparations for the 2012 Parliamentary and 2013 Presidential **elections** advanced. On 26 May 2011 the National Assembly approved a **presidential amnesty** which also led to the release of all the opposition supporters detained in connection with the March 2008 events following presidential elections. However, Armenian authorities have yet to fully investigate the deaths that occurred during the clashes and the allegations of ill-treatment in police custody and violations of due process of March 2008. In May, the National Assembly amended the **electoral code** to ensure greater independence of the electoral commissions. Opposition lawmakers dismissed the changes as insignificant and insufficient to limit the influence of the President and his political allies. However, as the Venice Commission and OSCE have long stated, the Electoral Code of the Republic of Armenia could provide a good basis for democratic elections, if fully implemented. There was extensive exchange of information between the EU Delegation and the OSCE during the process of drafting the new amendments to the Electoral Code. Although the new code has the potential to ensure the conduct of democratic elections, legislation alone cannot guarantee this. It is the exercise of political will by all stakeholders that remains the key challenge for the conduct of genuinely democratic elections in Armenia.

In April a new law on conducting meetings, assemblies, rallies and demonstrations was adopted, which provides for a number of improvements to **the freedom of assembly**. However some provisions give the authorities undisputed discretion to grant or deny permission for conducting meetings and rallies. Reportedly, the government continued systematically to restrict movement on the days of opposition rallies by blocking the roads from the regions to the capital. Amendments to the law on Non Governmental Organisations (NGO) tabled before the parliament in 2009 remain a concern as they might restrict **freedom of association**.

The main concerns on **freedom of expression and media** relate to the lack of media independence, the limitations on TV broadcasting and the continuation of lawsuits for insult and defamation. Following the entry into force of the new law amending the 'law on Television and Radio' in January 2011, the number of TV channels broadcasting in the capital was reduced from 22 to 18. The printed media remains subject to the political opinions of the financing bodies. The online media remained more pluralistic, but their outreach is limited to the area covered by internet facilities (40% of the population). The broadcasting law, amended several times, continues to raise concerns about media pluralism. While the law decriminalises libel and insult, it has resulted in high monetary fines for insult and defamation. Such fines can be imposed upon media outlets following civil suits. On 10 November, the OSCE Representative on Freedom of the Media called upon the authorities to reform the legislation further in order to adequately protect the media in civil defamation cases.

Despite an effort to reform the **judiciary**, public trust continues to be low. Judges remain strongly influenced by prosecutors and the executive, thus limiting the **right to fair trial**. The EU is providing substantial support in this sector, including through sector budget support (EUR 18 million).

Corruption remains a serious problem. Transparency International ranks Armenia in 129th place out of 183 (score 2.6 out of 10) in its Corruption Perceptions Index for 2011. The authorities have regularly and publicly expressed their readiness to fight corruption. However, despite the adoption of certain important legal acts (e.g. the law on Procurement, and law on Public Service), fulfilment of obligations from the Council of Europe Group of States against Corruption (GRECO), OECD and other international bodies, as well as the increased number of arrests and indictments of corrupt officials, there have been no positive changes in the perception of corruption by different segments of the Armenian population and the government's measures have not been sufficient to change it. What is lacking is effective implementation. The anti-corruption coordinating mechanism created in 2004 is weak. No institutional support or resources have been allocated to anti-corruption work by the government. In May, the National Assembly adopted the **law on Public Service**. Starting from 2012, declarations on income and property will be submitted only by high-ranking public officials, as well as persons related to them. This law has several shortcomings regarding the capacity and powers of the Commission on Ethics of High-Ranking Public Officials.

The main point of reference on **security sector reform** is Armenia's Strategic Security Environment, defined in the National Security Strategy and in the Military Doctrine, which has been agreed by the National Security Council of the Republic of Armenia and approved by decrees of the President in 2007. Within the framework of the defence reforms, the Armenian Defence Ministry initiated a process referred to as the Strategic Defence Review (SDR) of the Republic of Armenia. The SDR is focused on the identification of existing and potential political and military risks and threats to Armenian national security. It envisages a detailed analysis of the Armenian national defence system and its components, with the aim of evaluating the system's current capabilities and ensuring that they still meet the identified risks and threats. The review also anticipates both short-term and mid-term developments.

Civilian control over the security forces is effective. The Minister of Defence is a civilian. However impunity for human rights violations committed by members of the

security forces is a matter of concern. Defence reform, in bringing more transparency, is also highlighting the problem of abuse. The armed forces remain one of the most closed structures in Armenia with frequent reports of abuse, ill-treatment, hazing and non-combat fatalities. At the same time the Ministry of Defence shows a higher degree of transparency by publishing information about each incident. In comparison with previous years, the number of ill-treatment cases is steadily declining. The military officials also constantly assure the public about their readiness to follow up each incident.

Conflict prevention and confidence building

Negotiations within the Minsk Group in 2011 have demonstrated the need for further efforts by the parties to the conflict to achieve substantial progress. Amidst increasing tension along the Line of Contact and the Armenian-Azerbaijani border, mediation efforts continued on the elaboration of the OSCE-proposed mechanism to investigate incidents along the frontlines. The Minsk Group intensified its activities in the region, with regular crossing of the Line of Contact and the Armenian-Azerbaijani border towards the end of 2011. Despite the limited progress, Armenia and Azerbaijan remained engaged in the process. The EU enhanced its support to the negotiation process through several political declarations, through the appointment of a new EU Special Representative for the South Caucasus and the crisis in Georgia, and through the implementation of Confidence Building Measures. The increasing number of incidents along the frontlines, as well as infrastructure works in Nagorno-Karabakh (airport and highways), continue to be sources of concern.

Other human rights and governance-related issues

There was no significant progress on **freedom of religion and belief**. Although freedom of religion is generally respected, the dominant Armenian Apostolic Church enjoys certain exclusive privileges, and members of minority faiths sometimes face societal discrimination. There were reports of societal abuses and discrimination based on religious affiliation, belief, or practice, in particular of the Evangelist and Jehovah's Witnesses minorities in Armenia, which even led to a case before the European Court of Human Rights.

The **alternative civilian service** continues to need improvement both in legislation and in practice. The new amendments to the law on Alternative Service were sent for the review and attention of the Venice Commission and received negative feedback stating that the amendments do not resolve the main problems on ensuring a truly alternative civilian service. The current alternative service is too long (42 months compared to 24 in military service) and remains under military supervision. As of November 2011, sixty Jehovah's witnesses had been convicted for refusal of military service on religious grounds and one more is in pre-trial detention.

In May, the government adopted Armenia's **Gender Policy Strategic Action Plan** for 2011-2015 and the Gender Policy Annual Action Plan for 2011. In June the government adopted its first National Action Plan to Combat Gender-Based Violence for 2011-2015. The draft law on Ensuring Equal Rights and Equal Opportunities of Men and Women in Armenia was submitted to the parliament in December 2011 and passed first reading. The government is revising the draft law on Domestic Violence to bring it into line with the 2011 Council of Europe Convention on preventing and

combating violence against women and domestic violence (not yet signed by Armenia).

The government tasked the Ministry of Labour and Social Affairs to produce a draft law on gender-based violence by June 2012. This draft will be based on the existing draft law on domestic violence which was drawn up on the initiative of the Women's Rights Center NGO. The new draft should be prepared also in the light of the Council of Europe Convention. This might mean that the old draft will be heavily reworked. Upon the instruction of the Prime Minister a Working Group has been established to develop and submit to the National Assembly a draft law on domestic violence by June 2012.

On **children's rights**, the government has strengthened its legal framework to combat child trafficking by substantially increasing penalties for this crime. However, significant gaps remain in the legal framework, in its enforcement, in the policy framework and in the programmes intended to address the worst forms of child labour. Alternative systems of care such as community-based day-care centres are not widely available in Armenia. Despite some steps forward, there was no significant progress on the implementation of certain components of the National Plan of Action on Protection of the Rights of the Child 2004-2015. In particular, there has been no progress on the commitment to establish 25 community-based alternative day-care centres.

There are no major difficulties on **National Minorities**. In February, the report by the European Commission against Racism and Intolerance (ECRI) of the Council of Europe recorded considerable improvements and welcomed the efforts made in the field of ethnic-minority education and culture (such as private broadcasting stations and kindergartens). Individuals wishing to complain about discrimination can now turn to the Human Rights Defender. Finally, there is new legislation on asylum and asylum seekers enjoying temporary protection have now been recognised as refugees. However, there is no comprehensive civil and administrative legislation against racial discrimination and there are no provisions in the Criminal Code prohibiting organisations that promote racism.

Allegations of **torture and ill treatment** among military conscripts, in prison facilities and at police stations are numerous and not adequately investigated. The Ombudsman has received numerous complaints about Armenian police officers engaging in torture, other cruel and inhuman treatment and extortion of statements from the accused by means of violence and threats. In the army, in the period from January to November, 35 deaths were reported. Out of these, eleven cases were a result of violation of the ceasefire regime, and others were the result of violation of statutory regulations or security rules, accidents, suicides, or health conditions. Although the statistics show a decrease in the number of fatalities within the military, the nature of alleged violations resulting in fatal outcomes is worrying. Armenia ratified the Optional Protocol to the UN Convention against Torture in 2006 (OPCAT) and, in 2008, the Human Rights Defender was designated as the OPCAT National Preventive Mechanism (NPM). Since then, several unsuccessful attempts have been made to establish the NPM based on the good will of the Ombudsman. In 2011, a new Ombudsman was appointed and the process of restructuring the NPM started anew particularly through an open call for civil society to become part of the Expert Council for the Prevention of Torture within the NPM.

As regards **civil society**, non-governmental organisations (NGOs) are concerned by government efforts to make them reveal their sources of funding. More than 3000 NGOs are registered with the Ministry of Justice. While the constitution provides for the right to form and join trade unions, labour organisations are weak and relatively inactive in practice. Civil Society Organisations have difficulties in co-operating beyond partisan and ideological lines. The Eastern Partnership Forum Steering Committee expressed concern over the split in two groups of its Armenia platform. This split was overcome at the beginning of 2012.

On **administrative reform**, in September the President signed a decree that officially launched the regulatory guillotine reform, aiming at reviewing and streamlining thousands of legislative acts, leading to more efficient bureaucracy and a clearer, more consumer-friendly regulatory framework in many of the sectors directly affecting citizens.

Cooperation on foreign and security policy

Armenia continued to align with CFSP declarations on a case by case basis. In 2011, Armenia aligned with 40 out of 82 CFSP declarations to which it was invited to subscribe. There was intense political dialogue with the Armenian Government in 2011, a Political and Security Committee Political Dialogue meeting in June and a number of mutual high-level visits. High Representative and Vice-President C. Ashton visited Armenia on 16-17 November during her visit to the region of South Caucasus.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

The current macroeconomic situation has greatly improved compared to the recent (2009) crisis. After a modest rebound in 2010 (+2.1%) the GDP growth rate reached 4.6% in 2011, reflecting improved conditions in mining, manufacturing and services as well as a rebound in agriculture. The economy was supported by an IMF financing arrangement and exceptional donor assistance, including Macro-Financial Assistance from the European Union worth EUR 100 million (a grant of EUR 35 million and a medium-term loan of EUR 65 million). However, the recovery remains fragile and downside risks are considerable.

The average inflation rate in 2011 was 7.8%, slightly lower than in 2010 (8.2%). Headline inflation reached its peak of 11.5% in March 2011 mostly due to the global price movements.

The central government fiscal deficit in 2011 (3.6% of GDP) remained below the initial target of 3.9% of GDP. The tax-to-GDP ratio remains low, at 16.4%, indicating high tax evasion and problems in the tax and customs administration. The public debt-to-GDP ratio increased to 42% in 2011 (from 39.2% in 2010), as a result of counter-cyclical measures and of financial assistance from the international community (loans). The external debt represents around 88% of the total public debt, thus creating significant exchange rate vulnerability.

Driven by the relatively strong export growth along with growth in remittances, the current account deficit is expected to narrow to 12.2% of GDP in 2011, from 14.7% of GDP in 2010. Foreign direct investment increased to 6.4 % of GDP (6% in 2010); it is expected to reach approximately USD 650 million (around EUR 500 million) for the full year (a 16% increase over 2010). Foreign reserves showed little change (approximately EUR 1.4 billion, somewhat below five months of imports). The banking sector appears solid and with no exposure to the EU debt crisis. The capital adequacy ratios remained high, around 20%. The credit growth accelerated along with the recovery. In 2011 credit grew by 35% compared with 2010, though the credit-to-GDP ratio stayed low – 30%. Dollarisation remained high for both credits and deposits.

The global slowdown is expected to impact on Armenia's economy through slowing growth in investments and remittances (mainly from Russia), diminishing export demand, lower resource prices, diminishing fiscal revenues and declining capital inflows. Longer-term growth prospects are also very uncertain due to lack of diversification, low competitiveness and closed borders with two out of four of Armenia's neighbour countries. The policy priorities in the short and medium term include ongoing fiscal consolidation, the development of local capital markets and the reduction of the level of dollarisation; on the structural side, they include further improvement of the business climate and improvement of the domestic competition level.

Employment and social policy

The official **unemployment** rate in 2011 was 6 %. Women represent almost 71% of officially unemployed persons (up from 65% in 2010). According to a survey of the International Labour Organisation (ILO), the estimated average level of inactivity is around 19%. At the end of November, the National Statistical Service published a report according to which about 36% of the total population of Armenia in 2010 were below the poverty line. Poverty is more widespread in rural than in urban areas. The governmental annual report on poverty highlights child poverty as one of the main challenges.

The implementation of Armenia's Sustainable Development Programme on **poverty** reduction 2008-2021 continued to be suspended in 2011. As a consequence, the adoption of the 'Sustainable Development Strategy for the Labour and Social Protection System' was further postponed.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Bilateral trade continued to improve in 2011 from the 2009 slowdown with an 18.2% increase year-on-year. EU exports to Armenia increased by 15.7%, while EU imports from Armenia increased by 23.3%. In terms of commodity structure, however, EU imports from Armenia are still concentrated in a few commodities (in particular, base metals formed 49.5%, mineral products 18.9% and pearls and precious stones 16.9% of EU total imports from Armenia in 2011).

Armenia continued to benefit from preferences offered by the EU under the special incentive arrangement for sustainable development and good governance (**GSP+**)

within the EU Generalised System of Preferences (GSP). It sustained efforts to ensure the continued ratification and effective implementation of the relevant international conventions and to raise awareness of the GSP+ among the business community. The regulatory approximation started in preparation for the future Deep and Comprehensive Free Trade Area (DCFTA) negotiations will further enhance Armenia's benefits from the GSP+ system as Armenian products will enjoy easier access to the EU market.

Armenia made substantial progress in implementing the key recommendations for the launch of negotiations on a Deep and Comprehensive Free Trade Area, in particular legislative and institutional reforms in the areas of Technical Barriers to Trade (TBT), Sanitary and Phyto-sanitary Standards (SPS) and Intellectual Property Rights (IPR).

Substantial EU assistance was provided on trade-related issues. The Eastern Partnership Comprehensive Institution Building programme (EUR 32 million for Armenia in 2011-2013) will help strengthen the key institutions involved in the Association Agreement and DCFTA negotiations in the areas of SPS, TBT and IPR. It will be accompanied by a budget support operation of EUR 22 million covering the same areas as well as public finance management and public sector transparency.

In May, the 2011-2013 Programme for reforming **customs** and tax systems of the State Revenue Committee was launched. Progress was made in applying of the WTO compliant customs valuation methods. Monitoring of effective application should continue in this area with particular attention to the impact on the business community. In 2011 Armenia entered into bilateral agreements on mutual assistance with several member states. According to economic operators no significant reductions of paperwork for customs registration and controls were recorded in 2011. In some cases customs officials are directly involved in commercial customs brokerage.

In the area of **free movement of goods** and **technical barriers to trade** (TBT), Armenia prepared drafts of four fundamental laws on: technical regulation, standardisation, accreditation and uniformity of measurements, which were finally adopted in February 2012. It also drafted a Government programme of approximation with the EU legislation, identifying priority sectors for approximation, with emphasis on the economically most significant ones.

Regarding **sanitary and phyto-sanitary** issues, Armenia adopted, in November 2011, a food safety strategy and a related action plan, which aim to gradually approximate with EU standards. It adopted legislation on: food hygiene, fishery products, technical rules on food additives, hazard analyses of foodstuffs, veterinary drugs and phyto-sanitary registration. Armenia strengthened institutions including the state service for food safety. It established a risk assessment centre, a network of specialised laboratories and trained staff (with EU support).

Twenty-three laws were adopted between February and April with the aim of improving the **business climate** and to facilitate company **establishment**. Armenia ranked 55th in the ease of doing business in the World Bank's 'Doing Business 2012' annual report, six places higher than last year reflecting a mixed performance. The positive impact of establishing a one-stop-shop for registration and dealing with construction permits more efficiently was mitigated by a deterioration in the

enforcement of contracts and poor access to electricity. An amendment to the law on Joint Stock Companies improving the mechanisms for detecting conflicts of interest and expanding the responsibility of directors was adopted in May 2011. The Credit Bureau law was amended to improve risk assessment by the banks and hence facilitate access to credit for Small and Medium Size Enterprises (SMEs). Economic barriers to business entry remain high under the oligopolistic structure of the economy.

Armenia continued to approximate its regulatory framework for **financial services** by introducing mandatory motor third-party liability insurance as of 2011. A prudential regulation on provisioning requirements on foreign currency loans increasing the risk weighting to 150% entered into force in January 2011. At the beginning of 2011 the Central Bank introduced capital adequacy requirements for credit, market, and operational risks in order to gradually move the basis of insurance regulation from Solvency I to Solvency II over a 3 to 5 year period. From the beginning of 2011, the floor on total regulatory capital for liability, loan and guarantee issuance insurance classes is Armenian Drams (AMD) 1.5 billion (about EUR 3 million).

Other key areas

The new Value Added Tax (VAT) law that entered into force in January 2011 requires entities that have an annual turnover in excess of AMD 58.35 million to report their VAT electronically, facilitating **taxation** and compliance. The number of e-reporting companies reached 6600 in September 2011. Armenia adopted new legislation in order to remove the discriminatory taxation between imported and locally produced alcohol and tobacco products. The amendments to the law on Organising and Conducting Audits entered into force in August 2011 and introduced a system of risk-based tax audits. The auditing authorities posted on their website the audit plan for the following year.

Armenia prepared a number of legislative changes following the United Nations Conference on Trade and Development (UNCTAD) Voluntary Peer Review of **Competition Law and Policy**. However, the new legislation is not yet fully in line with EU standards. Armenia still needs to ensure effective implementation as well as to address the need for capacity building of the State Commission for Protection of Economic Competition of the Republic of Armenia (SCPEC)'s staff and the judiciary. January 2011 saw the launch of an EU funded twinning project aiming to enable the SCPEC to fulfil its role both in the domestic and in the wider European context. No legal changes took place in the area of **state aid**.

The Government adopted an **Intellectual Property Right's Protection (IPR) Strategy and Action Plan** in June 2011. The Observatory for Counterfeiting and Piracy met for the first time in September with participants from the private and public sector. Public awareness and competence of authorities have been developed through information campaigns, training and creation of a database on judicial acts in the area of IPR. Further efforts should particularly focus on making the customs service an effective actor in the fight against IPR infringements, building on the November 2011 amendment to the Customs Code. This allows for enhanced registration of intellectual property in the customs register and the appointment of new IPR officials. The capacity of the police to act on the protection of IPR should continue to be enhanced. Ratification of the International Convention for the Protection of New Varieties of

Plants remains and accession to the Patent Law Treaty and Trademark Law Treaty have yet to happen.

In February 2011, the government approved the paper on ‘Regulating the **procurement** procedure’, for the enforcement of the law on procurement. In November 2011, the government launched an electronic procurement system. Armenia joined the government Procurement Agreement under the World Trade Organisation in September.

The laws on **auditing** and licensing auditors were modified in May to approximate the regulatory framework with that of the EU. A draft reform strategy submitted to the Government covers also revision of **accounting** rules with the same objective.

On **statistics**, the Population and Housing Census was conducted in October 2011 and first steps in setting up a quality management system have been completed (setting up of a working group, training implemented and workshop on metadata held). Armenia needs to implement an agricultural census in 2012 and should ensure the appropriate financing for this large scale and important operation.

Armenia continued working with the EU-funded SIGMA¹ programme on the preparation of the Strategic Development Plan in **external audit** and developing draft laws on financial management and control and financial inspection. In August 2011, the government approved the documents concerning the standards for public sector internal audit and rules of conduct for the public sector internal auditors to strengthen the **public internal financial control**.

On **enterprise policy**, Armenia approved in December the 2012 SME programme.

Substantial EU assistance was provided on trade related issues, including in the framework of the Eastern Partnership Comprehensive Institution Building programme (EUR 32 million for Armenia in 2011-2013), which helped to develop an Institutional Reform Plan (out of 3 in total) in support of DCFTA negotiations (adopted by the Armenian government in December 2011). Also, a budget support operation of EUR 22 million was launched at the end of 2011 in order to accompany the reforms related to DCFTA as well as to public finance management and public sector transparency. This was complemented by support provided through Twinning and the “EU Advisory Group”.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Following adoption of the Border Security and **Border Management** Strategy 2011-2015 in 2010, Armenia approved an implementation Action Plan in April 2011. Cooperation on border management with Georgia progressed through an agreement reached in February 2011 on the joint operation of border crossing points. FRONTEX and Armenia agreed a draft Working Arrangement, which was signed in February 2012.

¹ SIGMA is a joint initiative of the OECD and the European Union, principally financed by the EU. SIGMA supports European Union candidates, potential candidates and European Neighbourhood countries in their public administration reforms.

A National Action Plan 2012-2016 for the implementation of the ‘Concept for the Policy of State Regulation of Migration’ was adopted in November 2011. While there were some delays in preparing the introduction of biometric passports, the parliament, Armenia adopted related legislation in November 2011. In the fields of migration and integrated border management, support continued to be provided via the EU Advisory Group.

Directives for the negotiation between the EU and Armenia of **visa facilitation and readmission agreements** were adopted by the EU in December, and negotiations were launched on 27th February 2012. In October 2011, the **EU-Armenia Mobility Partnership** was established, proposing cooperation in four major areas (mobility, legal migration and integration; migration and development; fight against irregular immigration; and asylum and international protection). The Partnership will be supported by the EU through a core project with a budget of EUR 3 million aimed at strengthening Armenia’s migration management capabilities. Armenia indicated its interest in adding further activities related to labour and circular migration, including for the highly-skilled. An Institutional Reform Plan was adopted in December 2011, as a basis for providing support via the Comprehensive Institution Building programme to the preparations for the future EU-Armenia Visa Facilitation and Readmission Agreement.

In December 2011, Armenia adopted a National Strategy to improve the effectiveness of the fight against **organised crime**, and is also developing a National Programme for Fighting against Terrorism and a police reform programme for 2012-2014. Progress was registered in the fight against **money laundering** with the preparation of legislative amendments to support the implementation of relevant international standards. In July 2011, Armenia hosted the 19th sitting of the Egmont group of Financial Intelligence Units. The first EU-Armenia **Drugs** Dialogue took place on 7 September 2011.

The Criminal Code was amended in April 2011 in relation to combating **trafficking in human beings**, toughening punishment for trafficking in children and persons with mental health problems. Armenia is strengthening police capacity to combat trafficking in human beings, including through training for policemen in cooperation with international organisations and NGOs, and raising public awareness. The process of ratification of the 2007 Council of Europe Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse signed in September 2010 is still ongoing. An Anti-Trafficking Board was established under the Ministry of Territorial Administration.

Armenia signed up to the 1981 Council of Europe Convention for the Protection of Individuals on Automatic Processing of Personal Data and the Additional Protocol on supervisory authorities and trans-border data flows in April 2011. Effective protection of personal data forms a fundamental prerequisite in promoting cooperation with EUROJUST, EUROPOL and EU member states.

On **police and judicial cooperation**, two important Hague Conventions concerning family law, such as the 1980 Hague Convention on the Civil Aspects of International Child Abduction and the 1996 Convention on Parental Responsibility and the Protection of Children were submitted to the parliament for ratification.

In the area of asylum there were no significant developments during the reporting period. While the refugee legislation in force is very close to EU standards, effective implementation remains a challenge.

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

Armenia continued to implement its 2009-2020 **transport** strategy. Substantial progress was made on the implementation of the Digital Tachograph System. The production and issuing of tachograph cards have started. Despite improvements, road safety remains a challenge. In July 2011, Armenia became a full member of the Organisation for International Carriage by Rail. In 2011 Armenia strengthened also regional rail cooperation through signature of several sectoral agreements. In the air sector, Armenia has not yet fully removed restrictive commercial and regulatory measures in order to improve aviation efficiency and connectivity.

Armenia started updating its **energy** strategy. The EU continues to request earliest possible closure of the Medzamor Nuclear Power Plant (MNPP), as it cannot be upgraded to meet internationally recognised nuclear safety standards. Armenia continued the safety upgrading of MNPP, which it plans to close once replacement capacity is available. There is not yet a detailed decommissioning plan. Armenia continued preparations to build in the period 2012-2017/18 a new nuclear power plant on the Medzamor site. Following the Fukushima nuclear accident, Armenia expressed readiness to undertake with the EU a comprehensive risk and safety assessment ('nuclear stress test') of MNPP, taking account of EU standards. In October 2011, Armenia became an observer under the Energy Community Treaty. It increased the use of renewable sources, in particular hydropower. In May 2011, Armenia adopted a renewable energy roadmap and in September a hydro-energy programme. More efforts are needed on energy efficiency. Armenia explored the possibilities to use domestic shale gas and oil shale resources. Armenia is planning a North-South electricity grid with its neighbours and has done further on interconnections with Georgia and Iran. Armenia continued rehabilitating the Abovyan underground gas storage, energy networks and thermal power plants. Armenia and Iran initiated plans to construct an oil product pipeline.

On **climate change**, the Government adopted a five-year action plan for the implementation of the UN Framework Convention on Climate Change (UNFCCC). No new Clean Development Mechanism project was registered at the UN level, leaving the total number of registered projects at five. Armenia is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the 17 Session of the UNFCCC Conference of Parties (COP 17). Armenia is also encouraged to fully implement the Cancun and Durban agreement and in particular devise a low carbon development strategy including update information on target or actions that it will implement.

Armenia started preparing a new **environment** action plan post-2012. The parliament adopted amendments on environmental impact assessments, partly covering strategic environmental assessments. These amendments limit the list of activities subject to environmental impact assessment, reduce the time allowed for the assessment and

limit public participation. Armenia also amended the air management law, inter alia to include the best available techniques concept as well as a law on solid waste management and sanitary cleaning. A list of endangered species was compiled. Armenia prepared draft laws on chemicals and clean production. The Fourth Meeting of the Parties to the Aarhus Convention decided that Armenia failed to comply with the Convention's requirements on public participation in decision-making regarding the Teghut copper mine exploitation, and made recommendations to the Government to strengthen and clarify procedures for public participation. The Government adopted a Decision on measures to fulfill its commitments under international environmental conventions, including the Aarhus Convention. There were no significant developments on Armenia's ratification of, or accession to, relevant Conventions and Protocols of the United Nations Economic Commission for Europe.

The **Regional Environmental Centre (REC) for the Caucasus** continued its activities in 2011 inter alia in the fields of information and public participation. The REC founders agreed in October 2011 that they want to see it enhance its role in the South Caucasus Region in the years to come. They tried to find a solution to the REC's debt problem and agreed that it could be beneficial to convert the REC into an inter-governmental regional organisation.

In the field of **civil protection**, Armenia intensified the cooperation with the countries from the region and the exchange of best practices with the EU in the field of disaster prevention, preparedness and response through its participation in the EU Programme for Prevention of, Preparedness for, and Response to natural and man-made disasters.

Progress on regulatory reform in the **Information Society** area remained modest. The Public Services Regulatory Commission (PSRC) plans to introduce mobile number portability in 2012, but the operators are not yet technically ready. In May 2011, the fixed telephony market was opened up to competition. In June, the PSRC allowed VivaCell-MTS to use radio frequencies for wireless broadband internet services.

Investment in **research and innovation** in Armenia continues to remain at relatively modest levels. Armenia continued to increase the number of applications to the 7th Framework Programme for Research and Technological Development (FP7). 24 Armenian research organisations are involved in 22 FP7 projects, receiving over EUR 1.27 million of EU funding. The most successful projects are in the Marie Curie Fellowship actions, research infrastructures, international cooperation actions and Information and Communication Technology research. Armenia strengthened its FP7 Contact Point network. Nomination of additional FP7 contacts, particularly for the Cooperation Programme sector themes would be welcome.

As regards regional development, focus of future Pilot Regional Development Programmes is being discussed with the government, on the basis of its regional development strategy. Greater attention to regional policy dialogue with the EU will help Armenia maximize the benefits of these programmes.

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

A National Education Development Strategy for 2011-2015 was presented to the parliament. In May 2011, Armenia adopted legislation with, inter alia, the aim of

bringing licensing and certification in line with the international framework and the principles of the Bologna Process. In June 2011, Armenia approved a Strategy ensuring financing for **Higher Education** and a corresponding Action Plan.

Higher education reform continued to benefit from EU-Armenia cooperation in this field through the **Tempus IV** programme support, with two additional projects selected covering the development of university-enterprise partnerships and migration and skills. Armenia also continued its active participation in academic exchanges and cooperation through the **Erasmus Mundus** programme in the academic year 2011-12 with the award of a total of 49 scholarships and mobility grants. Seven institutions and six individual researchers from Armenia are currently participating in **Marie Curie** actions supporting researchers' training, mobility and career development. For the second time, in 2011 a **Jean Monnet** module was awarded to Yerevan State University to increase understanding of European integration, language, culture and identity.

The reform of **vocational education and training** (VET) continued with substantial EU assistance (EUR 15 million) through a Sector Support Programme. Armenia further consolidated reforms in the areas of teacher training and refurbishment of vocational training colleges, quality assurance, strengthening business-education relationship, introduction of life-long learning principles and improvement of legal-normative environment for continued education. In June, the government adopted the National Qualification Framework, with eight levels of qualifications and related descriptors. The related Training Fund established by the end of 2011 is still understaffed and operationally weak.

Preparations began for the participation of Armenia in the eTwinning component of the **Comenius** programme, the EU programme for interconnecting schools, foreseen for 2012, with the selection of the partner support agency and an assessment of potential beneficiaries/schools.

Armenian cultural organisations participated in seven annual cooperation projects financed under two calls by the **Culture** Programme in 2009 and 2010 dedicated to the ENP-countries who have ratified the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. The Eastern Partnership Culture Programme's Regional Monitoring and Capacity-Building Unit carried out a first visit to Armenia in November 2011.

The Youth Parliament of the Armenian National Assembly started its work in May 2011, with support from the EU Advisory Group. Armenian youth and youth organisations continued benefiting from the exchange opportunities offered by the **Youth in Action** programme, involving about 380 Armenian young people and youth workers in 2011.

Health reform in Armenia continued with a view to improving, within the limited available financial means, access to (in particular for the rural population), availability of and quality of healthcare services. The country has introduced co-payment financing mechanisms in health care. State child health voucher/certificate programme has been introduced assuring free-of-charge hospital care for children under seven. Out-of-pocket payments remained significant. Armenia launched the

development of a health strategy. Armenia continued, after a World Health Organisation review, to address the burden of tuberculosis.