



EUROPEAN COMMISSION

HIGH REPRESENTATIVE OF THE
EUROPEAN UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 15.5.2012
SWD(2012) 111 final

JOINT STAFF WORKING DOCUMENT

**Implementation of the European Neighbourhood Policy in Azerbaijan
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

{JOIN(2012) 14 final}
{SWD(2012) 110 final}
{SWD(2012) 112 final}
{SWD(2012) 113 final}
{SWD(2012) 114 final}
{SWD(2012) 115 final}
{SWD(2012) 116 final}
{SWD(2012) 117 final}
{SWD(2012) 118 final}
{SWD(2012) 119 final}
{SWD(2012) 120 final}
{SWD(2012) 121 final}
{SWD(2012) 122 final}
{SWD(2012) 123 final}
{SWD(2012) 124 final}

1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on the progress made in implementing the EU-Azerbaijan European Neighbourhood Policy Action Plan between 1 January and 31 December 2011, 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. For information on regional and multilateral sector processes, please refer to the Eastern Partnership report.

During the reporting period, negotiations on an Association Agreement progressed at a slow pace. Negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) could not start as Azerbaijan is not a member of the World Trade Organisation (WTO) which is a pre-condition for the start of DCFTA negotiations.

Azerbaijan needs to make significant further efforts to meet the Action Plan commitments regarding democracy, including electoral processes, the protection of human rights and fundamental freedoms and the independence of the judicial system.

The heavy-handed suppression of a wave of protest actions in March, in particular the rally in Baku on 2 April, was a major setback on the democratisation and human rights front and signalled non-compliance with the commitments taken towards the EU and in the framework of the Council of Europe and Organisation for Security and Co-operation in Europe (OSCE).

Azerbaijan launched a welcome anti-corruption campaign in early 2011, but its impact has been modest. It made progress in the fight against organised crime, terrorism, illicit trafficking and money laundering.

Despite the economic slowdown, Azerbaijan made further progress towards achieving the economic objectives of the Action Plan, i.e. it broadly maintained macro-economic stability, reduced poverty and encouraged the diversification of the economy. The growth in the non-oil economy, however, was largely driven by oil-financed public spending rather than by self-sustained development in the private sector. In this context, the non-oil budget deficit increased further in 2011. Further vigorous structural reforms are necessary to boost private sector development by improving economic governance and opening up competition.

The EU and Azerbaijan made good progress in enhancing energy cooperation including work to develop the Southern Gas Corridor. In January 2011, European Commission President Barroso and Azerbaijani President Aliyev signed, in Baku, a Joint Declaration confirming Azerbaijan's commitment to ensure supplies to the EU. In October, Azerbaijan and Turkey agreed transit and gas sale terms regarding the Azerbaijani Shah Deniz II gas field, the development of which is expected to make Azerbaijan a substantial contributor to – and enabler of – the Southern Gas Corridor. At the same time the EU launched negotiations with Azerbaijan and Turkmenistan on construction of the Transcaspian gas pipeline system.

Negotiations on the Nagorno-Karabakh conflict within the Minsk Group produced no tangible results in 2011. Amidst increasing tension along the Line of Contact,

mediation efforts resulted in marginal progress on mechanisms to investigate the violation of the ceasefire agreement.

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

- Extend full cooperation to the PACE rapporteur on political prisoners.
- Swiftly implement the Human Rights Action Plan adopted in December 2011.
- Step up efforts together with Armenia 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.
- Ensure transparency in implementing the laws governing the process of demolitions, expropriations and forced evictions in Baku and the regions.
- Adopt the draft law on defamation which provides for the abolition of criminal liability for defamation and insult.
- Bring legislation on elections, freedom of assembly, freedom of association and media freedom into line with international standards and ensure its full implementation.
- Step up reform efforts in all aspects of the judicial system: prosecution, trial, sentencing, detention and appeals.
- Address outstanding issues in public financial management, notably on transparency and accountability in relation to the budget cycle.
- Implement with determination comprehensive measures to tackle corruption and to improve the business and investment climate, including reducing the oligopolistic structure of the economy.

2. POLITICAL DIALOGUE AND REFORM

Towards Deep and Sustainable Democracy

Following the parliamentary **elections** of November 2010 and the shortcomings identified throughout the monitoring process, a series of proposals were presented by the Office for Democratic Institutions and Human Rights (ODIHR) of the OSCE. Most of these have not been addressed and none have been implemented (including revision of the composition of election commissions at all levels). A draft law on political parties, which, according to the Venice Commission, makes some improvements regarding the financing of political parties, was presented to the parliament. Efforts to implement ODIHR recommendations will be required in 2012 to ensure a fair and transparent election process in 2013.

Concerning the **freedom of assembly**, demonstrations organised by the opposition and civil society in the spring led to hundreds of arrests of political and civil society activists. Fourteen were convicted on dubious charges (including causing public disorder or damaging property) and given detention sentences of twelve months to

three years as a result of politically motivated trials. Thirteen remained behind bars at the end of the year.

Concerning the **freedom of press and media**, there was a gradual tightening of control on print and broadcast media. Reports throughout the year cited pressure put on journalists. Although one of the imprisoned journalists was released in early 2011, there were documented reports of beatings, assaults and abductions of journalists in mainland Azerbaijan as well as in the Autonomous Republic of Nakhichevan. In early 2011, images of two opposition journalists secretly filmed in the privacy of their hotel rooms were broadcast on television at a time when the opposition was preparing protest action. The long awaited draft law on defamation, which provides for the abolition of criminal liability for defamation and insult, has not yet been approved by the parliament.

An ambitious **judiciary** reform programme was implemented, supported by different donors, including the EU, with substantial investment in new facilities, infrastructure and capacity building. The quality of the election process of judges gradually improved. However, the lack of independence of the justice system and its politicisation remain concerns.

Concerning the right to a **fair trial**, legal aid in Azerbaijan was difficult to access, in particular for politically sensitive cases. The working conditions of lawyers and in particular of defenders of human rights activists have deteriorated with threats, arbitrary expulsions from the Azerbaijan Bar association and criminal cases lodged against some of them.

The ambitious **anti-corruption** campaign widely publicised at the beginning of the year raised expectations. Internal monitoring groups were established within the justice institutions and an anti-corruption division in the Judicial Legal Council were established, the capacities of the Anti-Corruption Department of the Prosecutor General's office were strengthened and first steps were taken to introduce e-services. In September, the Anti-Corruption Department of Azerbaijan's Prosecutor General Office announced that it had filed 133 criminal cases this year, 88 of which had been completed and submitted to court. As a result 147 people were accused of bribery, abuses of position, fraud or forgery. However, the fight against corruption lacked a comprehensive and systematic approach.

Law enforcement agencies, inter alia internal troops of the Ministry of Internal Affairs, police and penitentiary service, participated in trainings and seminars, supported by the OSCE. They aimed at increasing knowledge and capacity in the field of public assembly management as well as at enhancing the professional skills related to treatment of the suspects and accused in line with international standards.

Conflict Prevention and confidence building

Negotiations within the Minsk Group in 2011 have demonstrated the need for further efforts 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 (CBM). The increasing number of incidents along the frontlines as well as infrastructure works in Nagorno-Karabakh (airport and highways) continued to be sources of concern.

Other human rights and governance-related issues

Azerbaijan built new **prison** facilities and rehabilitated and refurbished older facilities and police detention centres. Progress was also made in the fight against tuberculosis in prisons. However cases of excessive use of force remained widespread, especially in police stations, and cases of ill treatment of prisoners continued to be reported.

Concerning the **freedom of religion**, the amendments adopted to the national legislation in the course of 2011 led to a further tightening of the rules for founding a religious community and established mandatory reporting to the Caucasus Board of Muslims and the State Committee for working with the religious communities which considerably increased the severity of possible sanctions. While the traditional religious communities did not face any major obstacles in exercising their faith, the ongoing controversy regarding the hijab (veil) in school and the imprisonment of the leadership of the Islamic Party of Azerbaijan in 2011 may risk fuelling religious extremism in an otherwise tolerant society.

Registration procedures for local and international **non-governmental organisations** remained difficult and subject to arbitrary decisions by the authorities. A decree on rules for registering foreign NGOs introduced further restrictions in the operation of civil society organisations. According to the analysis of the Council of Europe Venice Commission, the Azerbaijani legislation would seem to be incompatible with Article 11 (freedom of assembly) of the European Convention for Human Rights. Two prominent international NGOs were asked to suspend activities in 2011 and have been unable to register since.

The violation of **property rights** remains an issue of concern. As part of a major reconstruction plan in Baku, dating back to 1987, Baku's executive authorities carried out a wave of forced evictions and demolitions of buildings. There were reports of expropriations and evictions in contradiction with prior court decisions and without fair compensation.

In terms of **gender equality** the legal age for women's marriages was increased to 18 years and the Criminal Code was amended to provide for tougher penalties for forced marriages. Nevertheless, economic and political marginalisation of women persisted and domestic violence remained an issue despite the government's efforts to implement the law on Domestic Violence.

No progress was made in promoting effective **local self government**. Contrary to the European Charter for Self Government, local authorities in Azerbaijan have no real status and no real sources of finance.

The government provided financial support to **internally displaced persons** (IDPs) in the form of micro-projects on social development, micro-loans and other assistance in order to improve their living conditions. However, IDPs continued to be heavily dependent on government subsidies and their access to work and education remained limited.

There were serious shortcomings related to democracy and fundamental rights and freedoms in the Autonomous Republic of Azerbaijan, the magnitude of which caused increasing concerns to the international community.

Cooperation on CFSP issues

Azerbaijan continued to align with CFSP declarations on a case by case basis. In 2011, Azerbaijan aligned with 12 out of 82 CFSP declarations to which it was invited to subscribe. There was intense political dialogue with the Azerbaijani government in 2011, through Political and Security Committee Political Dialogue meetings including on 6th April (South Caucasus), 29th June (Azerbaijan) and a number of mutual high level visits. such as President Barroso's visit on 13/14 January, MD Lajčak's visit on 6/7 June, the visit of President Aliyev to Brussels on 22 June, the new EUSR for the South Caucasus and the crisis in Georgia on 5 September, and HR/VP Ashton visit on 15 November 2011.

Efforts in the international fight against terrorism are laudable, with the authorities cooperating closely with international partners.

Azerbaijan has implemented the necessary legal provisions to create a comprehensive formal suspicious transaction report system. A law on amendments to Criminal Code was developed in order to introduce the provisions on corporate criminal liability of legal persons.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

After exceptionally rapid growth in the pre-crisis period driven by Azerbaijan's oil economy, real GDP **growth** fell to 5% in 2010 and almost stalled (+0.1%) in 2011. Output of oil contracted by about 10% and that of gas by 7.5% in 2011, mainly due to maintenance works at some wells.

Proxy indicators suggest that private consumption and fixed investment rose in 2011, while the volume of exports declined. The growth of the non-oil economy (+ 9.4%) has been primarily driven by public spending helped by increased transfers from SOFAZ, the State Oil Fund. A favourable harvest also supported growth in the non-oil economy in 2011.

An increase in government spending and higher international food prices pushed up **inflation** to about 8.1% in 2011, from 5.7% in 2010. Following a revision of the budget in May, public spending increased rapidly at around 30% year-on-year in 2011, leading to a widening of the budget deficit (excluding SOFAZ transfers) to about 20% of GDP (up from 15% in 2010). When SOFAZ transfers are included, the budget deficit was slightly reduced to 0.6% of GDP. The current account surplus

increased to an estimated 32% of GDP in 2011 from 29% of GDP in 2010, helping maintain the stability of the currency.

Azerbaijan initiated further structural reforms in order to diversify its economy away from the oil and gas sector. Concerning the privatisation of the International Bank of Azerbaijan, the Government has appointed consultants but has not yet defined a clear timetable. Transparent privatisation would increase the stability and boost competition in the financial sector. The **Central Bank** continued to consolidate the supervisory framework and liberalise the financial market by adopting a new law on investment funds. Large projects to develop the transport infrastructure – road, rail and sea – have progressed.

Simplifying tax payment and initiating reforms to improve the judicial system may improve the investment climate further. Overall, more ambitious reforms are necessary to reduce the oligopolistic structures that restrain the development of the private sector.

Employment and social policy

Registered **unemployment** remained low at about 1% of the labour force, but the real unemployment rate is higher (estimated at around 5.5%), as most of the unemployed persons do not apply for official registration of their status. On August 1st, the State Statistics Committee recorded 40,100 unemployed persons, of which 42.9% were women. The officially declared poverty rate is 7.6 % while independent experts set the figure above 15%.

In June, Azerbaijan adopted an Action Plan (2011-2015) on implementation of the State Programme on Poverty Reduction and Sustainable Development with the view of further reducing unemployment and poverty. The Plan sets a target of reducing unemployment by 3-4% and further reducing poverty.

In February 2011, Azerbaijan established the State Labour Inspection Service (SLIS) under the Ministry of Labour and Social Protection of Population. The SLIS is understaffed and its effectiveness limited notably by the need to inform employers of planned inspections long in advance. However, during the first ten months of its operation, SLIS detected over 11,000 cases of violation of **labour legislation**. These included the absence or non-compliance of employment contracts, violations to medical and social aspects of safety and health at work, non-compliance with safety precautions and inaccuracy in calculating and paying salaries. Azerbaijan has ratified some ILO standards and made efforts to develop implementation mechanisms for the Gender Equality Convention. Draft legislation on a compulsory unemployment insurance and amendments to the Labour Code to ban the discrimination of women were put to the Council of Ministers for consideration.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Bilateral **trade** flows continued increasing during the reporting period. Compared to 2010, EU imports from Azerbaijan increased by 52.2%, and EU exports to Azerbaijan rose by 22%. However, there were no improvements in terms of diversification of Azerbaijan's exports, as 99.5% of EU imports from Azerbaijan consisted of fuels and mining products.

Azerbaijan made only very limited progress towards accession to the WTO, which is the first pre-condition for the EU to consider starting negotiations on a DCFTA. As regards bilateral negotiations in the context of WTO accession, the EU received a new services offer by Azerbaijan in March and a revised industrial goods offer in April. No meeting of the WTO Working Party was convened in 2011 as Azerbaijan did not make the progress required and did not circulate sufficient information. Negotiations advanced slowly on upgrading the trade-related provisions of the Partnership and Cooperation Agreement, including a non-preferential trade part.

Azerbaijan continued to benefit from the **GSP+** within the EU Generalised System of Preferences (GSP) in 2011 but needs to take further measures to effectively implement the GSP Conventions that lay the basis for preferential treatment. It also needs to increase the GSP+ utilisation rate.

An EU-funded (now completed) technical assistance project the State **Customs** Committee contributed to the preparation the new Customs Code. The Code was adopted in September 2011 and entered into force on 1 January 2012. It incorporates several best practices and generally complies with the EU Modernised Customs Code. It is an aspect of the continuing modernisation of customs policy that will require further work to ensure transparency and effectiveness. Mobile inspection teams were established in December.

Azerbaijan made some progress on the **free movement of goods and technical regulations**, notably by adopting international standards on energy and food products.

Regarding sanitary and phytosanitary issues, Azerbaijan worked towards WTO accession and gradual harmonisation with *Codex Alimentarius* and, to some extent, with EU rules. Using TAIEX assistance, it improved laboratories and trained staff.

Business climate, establishment and company law did not improve, despite Azerbaijan's ranking in the "Doing Business 2012" annual report improving from 69 to 66 (thanks mainly to an improvement in the indicator "paying taxes"). Despite efforts to increase the efficiency of the National Fund for Entrepreneurship Support, which grants privileged loans particularly to regions-based companies, and the 2011 anti-corruption campaign, the business environment remained difficult.

Azerbaijan took the first steps to implement the 'Action Plan on the re-organisation of education on **accounting** and **audit** at high schools 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'. The plan is the last stage of the reform launched in 2003. The Chamber of Accounts endeavours to update its technical capabilities and coverage of industries and organisations by carrying out analytical and auditing work.

On **financial services**, the Central Bank of Azerbaijan continued work to consolidate the banking system in Azerbaijan and to boost competition among banks. It raised reserve requirements for domestic banks and maintained monetary and financial stability, against the background of an account surplus of the country's balance of payments. Financial risks in major banks will have to be assessed to maintain the stability of the financial sector. The President approved in May 2011 a programme for development of the financial market from 2011-2020 aiming to align with

international best practice. The State Committee on Securities had its powers for regulating investment funds defined in October and the rules on compulsory disclosure of transactions in registered securities outside the Stock Exchange entered into force in December.

Other key areas

In the field of **taxation**, some improvements were made regarding taxpayer registration and electronic services to facilitate payments. However, very few commercial operators and/or state agencies report on the payment of the Value Added Tax. In July, the country brought in online registration for individual entrepreneurs. By October, 28 electronic tax terminals were available to tax-payers for administrative services. Azerbaijan continued to expand the number of agreements to avoid double taxation by the entry into force of those with Italy and Greece and the signing of one with Slovenia.

Draft amendments to the **Competition** Code continued to be discussed in the Parliament. In February 2011, state property privatisation started under new regulations, without privatisation vouchers. During the first three quarters of 2011, about 600 state enterprises and other state assets were privatised.

The Copyright Agency presented to the government in September a national strategy on **intellectual property** protection, which will include methods of combating the production of counterfeit goods. The legal framework for IPR enforcement was strengthened by new laws on Customs control and on administrative offences. Since October 2011, the EU is assisting the Copyright Agency with a Twinning project in order to strengthen the copyright and related rights protection system. Particular attention is paid to reducing the levels of piracy and building the administrative capacity of institutions involved in this field.

The State Procurement Agency, supported by SIGMA, continued to strengthen the national **public procurement system** in accordance with EU and international principles and to develop an e-procurement system.

Azerbaijan continued to strengthen its **statistical** system and made use of EU twinning assistance to the State Statistical Committee. Based on the recommendations from the global assessment in 2010 the statistical law was revised in order to comply with European and international standards and to better delineate official statistics. Several cooperation agreements have been signed with the National Bank and other institutions to improve access to administrative data. A quality management unit has been created and first quality assessments of statistical processes and data implemented. Azerbaijan should continue working on improved data quality and improved access to statistical data in an easy-to-use format. On **enterprise policy**, implementation of the State Programme on Socio-Economic Development for 2009-2013 continued in 2011. The private sector continued to suffer from bureaucratic obstacles in registration and licensing procedures and from corruption, which affected small and medium-sized enterprises (SMEs) in particular.

On **public internal financial** control there were no significant developments. Azerbaijan lacks a comprehensive public finance management reform strategy which would have a positive impact on the efficiency of public expenditure. Since

September 2011, the EU has supported the newly established Public Financial Control Service (PFCS) of the Ministry of Finance with a Twinning project.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Azerbaijan still lacks a comprehensive Integrated **Border Management** Strategy. Border demarcation efforts between Azerbaijan and the Russian Federation moved into their final stages. Negotiations between Azerbaijan and the EU border management agency (FRONTEX) on the conclusion of a Working Arrangement continued.

A draft **Migration** Code, aimed at providing a legal basis to regulating immigration flows and at incorporating in a single text all migration-related provisions, was prepared and submitted to the Cabinet of Ministers. While further strengthening of its capacity is needed, the State Migration Service developed a co-ordinated, one-window approach and established a migration database. No progress was registered in enacting legislation to grant subsidiary international protection. The issue of biometric passports was postponed to the first half of 2013. A presidential decree of February 2011 launched the preparations to introduce new ID cards based on biometric indicators.

An EU Migration Mission to Azerbaijan took place in June 2011, which allowed for in-depth exchanges on migration-related issues. In December 2011, the EU adopted directives for the negotiation of **visa facilitation and readmission agreements** with Azerbaijan. The negotiations were launched in Baku in March 2012. In May 2011, Azerbaijan introduced facilitations for the issuance of tourist visas.

Progress was registered in the **fight against trafficking of human beings**, through further implementation of the National Action Plan 2009-2013 via the Inter-Agency Commission, as well as special police training. A comprehensive response action was initiated by the authorities in 2011, including a major public campaign to raise awareness, in cooperation with international partners and support of the EU. The Council of Europe Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse (signed in 2008), remained unratified. Regarding the fight against **money laundering**, Azerbaijan joined the Egmont Group in July 2011. It has not yet signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. The first EU-Azerbaijan **Drugs** Dialogue took place in September 2011.

In the field of **data protection**, following Azerbaijan's ratification of the 1981 Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data, further progress is needed in setting up an independent data protection supervisory authority and in signing up to the Additional Protocol on supervisory authorities and trans-border data flows. Effective protection of personal data forms a fundamental prerequisite in promoting cooperation with EUROJUST, EUROPOL and EU member states.

Regarding cooperation on **criminal and civil law matters**, Azerbaijan made no progress in acceding to the Hague conventions on child abduction and protection.

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

In the **transport** sector Azerbaijan continued to focus on the improvement of the road infrastructure and the upgrading of railways. In July 2011 an agency for regulator oversight in the road sector was established. Although the system is in place, Azerbaijan has not yet issued cards for digital tachographs as required under the relevant road transport convention. In the rail sector, Azerbaijan took first steps to join the Convention OTIF (Intergovernmental Organisation for International Carriage by Rail). Azerbaijan plans to achieve a higher level of integration with the EU standards through the completion of the negotiations of a comprehensive air services agreement, which are to start in 2012. Regarding maritime transport, the EU started, in August 2011, recognising certificates from Azerbaijani sea farers since the country fully implemented the relevant international convention. The Azerbaijani flag is included in the medium risk category of the black list of the Paris Memorandum of Understanding on Port State Control.

Under their Memorandum of Understanding on a strategic partnership in the field of **energy**, Azerbaijan and the EU intensified cooperation, in particular with a view to developing the strategic Southern Gas Corridor. The corridor should bring additional gas supplies from the Caspian and the Middle East to the EU. Azerbaijani President Aliyev, Commission President Barroso and Energy Commissioner Oettinger met several times in Baku and Brussels. In January 2011, the two Presidents signed a Joint Declaration on the establishment of the Southern Gas Corridor. In October 2011, Azerbaijan and Turkey agreed transit and gas sale terms regarding the Azerbaijani Shah Deniz II gas field, the development of which is expected to make Azerbaijan a substantial contributor to – and enabler of – the Southern Gas Corridor. Commercial negotiations with potential buyers of this gas are underway. A final decision on the preferred transit route to export Shah Deniz II gas to Europe is expected to be taken by mid 2013. The EU, Azerbaijan and Turkmenistan launched negotiations for developing a Trans-Caspian gas pipeline system, which should ensure additional supplies from Turkmenistan into the corridor. Turkmenistan shipped oil across the Caspian to Azerbaijan for export through the Baku-Tbilisi-Ceyhan pipeline.

In January 2011, Azerbaijani and Iranian companies agreed on future exports of Azerbaijani gas, but as yet no commercial deliveries have been made. Azerbaijan and Ukraine agreed to cooperate on LNG supplies to Ukraine and to promote oil transportation through Ukraine. Azerbaijan further developed hydrocarbon production fields. In December 2011, Azerbaijan participated in the EU's Gas Coordination Group. Azerbaijan confirmed its commitment to the Extractive Industry Transparency Initiative, which aims to bring transparency to oil and gas revenues. It continued developing the Black Sea Electricity Transmission Line (Azerbaijan-Georgia-Turkey) and increased the scope for trading electricity with Iran. Azerbaijan launched preparations for a renewable energy strategy for 2012-2020. In September 2011, it inaugurated a first pilot renewable park with a training centre in the Gobustan region based on wind, solar and biogas power. It implemented energy efficiency projects in buildings.

A EUR 14 million budget support programme assists the Ministry of Energy in developing a legislative and regulatory framework for renewables and energy efficiency.

Regarding **climate change**, Azerbaijan submitted its Second National Communication to the UN Framework Convention on Climate Change. A first Clean Development Mechanism project was registered at the UN level. Azerbaijan is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the 17th Conference of Parties to the United Nations Framework Convention on Climate Change. Azerbaijan 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.

In the field of **environment**, a regulation to establish a Water Authority which will also deal with trans-border water pollution is being prepared. Azerbaijan took measures to improve the sewage system as well as the quality of freshwater supply to the population, including through water purification. Together with the other parties to the Framework Convention for the Protection of the Marine Environment of the Caspian Sea, Azerbaijan signed the Convention's Protocol concerning region preparedness, response and cooperation in combating oil pollution incidents. There were no significant developments as regards Azerbaijan'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**, Azerbaijan 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.

In the area of **information society**, progress in regulatory reform, the implementation of the sector strategy and upgrading of infrastructure was significant in 2011. Competition among market players increased and the wide application of e-services was promoted. There is still no clear separation between the commercial activities and the regulatory role of the Ministry of Communications and Information Technologies (MCIT). Rules on mobile number portability were adopted in 2011. A new "e-government" portal was launched and in September the implementation of e-signatures started. Two additional mobile operators were granted a 3G license. MCIT is negotiating the organisation of 4G-LTE (Long Term Evolution) network with mobile operators.

As regards support to **research and innovation** activities, Azerbaijan's research capacity and investments continued to remain modest. Azerbaijan continued to increase participation in the 7th Framework Programme (FP7), although the number of applications remained relatively low. Seventeen Azerbaijani research organisations are involved in 13 successful FP7 projects, receiving just over EUR 780,000 of EU funding. The highest numbers of successful projects are in the Marie Curie Actions, where three institutions and six individual researchers from Azerbaijan participate,

and also in research infrastructure and international cooperation actions. There is a need to strengthen the FP7 Contact Point network in Azerbaijan. In particular, Azerbaijan is encouraged to nominate FP7 Contact Points for the People programme and for Legal and Financial issues.

As regards Regional Policy, Azerbaijan has indicated that building capacity in the field of regional development would be a useful focus of Pilot Regional Development Programmes, but has yet to develop a full scale policy dialogue with the EU.

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

Azerbaijan continued efforts to improve its education system. In 2011, Azerbaijan further increased its investments in the education sector, primarily aimed at improving the physical infrastructure of educational establishments. As part of the state information programme for the education system in 2008-2012, an electronic education project was launched. A draft Law on Sciences and a draft Law on Higher Education were prepared, and a working group set up to elaborate a draft Law on Secondary Education. In July 2011, a commission was established to prepare a new education development strategy until 2021.

Higher education reform continued to benefit from EU cooperation and support via the **Tempus** programme, with five additional projects selected. This represents a substantial increase in comparison with previous years. Projects include the modernisation of medical education; the promotion of the Bologna Process; quality assurance in higher education; migration, transfer of skills and capacity building in migration studies; and the establishment of a master course in industrial ecology. Azerbaijan also continued participation in the **Erasmus Mundus** programme through the award of 42 mobility grants for students and academics. However, it did not make full use of the programme opportunities in relation to scholarships for master courses and joint doctorates. In the field of research collaboration, three institutions and one individual researcher from Azerbaijan participated in **Marie Curie** Actions.

The development of a draft national strategy and a draft law in the area of **vocational education and training** (VET) was launched, with expert support from the European Training Foundation (ETF). A VET twinning project in the agriculture sector, started in August 2011, aimed at developing qualifications and curricula in line with the European Qualification Framework, improving links with enterprises and supporting strategic developments.

Preparations began for the participation of Azerbaijan 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.

The preparation of an Action Plan for the implementation of the UNESCO Convention on the protection and promotion of the diversity of **cultural** expressions was launched.

Azerbaijan adopted in mid-2011 the State Programme on Azerbaijani **Youth** in 2011-2015 and the creation of a Youth Fund responsible for youth projects in science, culture, education and other spheres was initiated. Youth and youth organisations

continued benefitting from the exchange opportunities offered by the **Youth in Action** programme, with 59 projects targeting 156 Azerbaijani participants.

Azerbaijan pursued **health** sector reform, in particular by constructing and refurbishing health care facilities. The scale of out of pocket payments remained significant. Azerbaijan adopted a national strategy to address mental health. The spread of multidrug resistant tuberculosis and the incidence of non-communicable diseases is an increasing health challenge. The introduction of a compulsory health insurance would contribute to a better financing of the Health sector in Azerbaijan.