



HIGH REPRESENTATIVE
OF THE UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 19.12.2017
SWD(2017) 485 final

JOINT STAFF WORKING DOCUMENT

Report on EU – Azerbaijan relations in the framework of the revised ENP

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1. Introduction and Summary

In line with the European Neighbourhood Policy (ENP) as reviewed in November 2015, this report seeks to encompass a new style of assessment. It covers the period since 1 January 2015 until November 2017 and focusses on key developments and reform efforts, in particular in the priority areas agreed at the 2015 Riga Eastern Partnership Summit, according to which this report is structured.

The Joint Communication on the European Neighbourhood Policy (ENP) Review¹ gives the EU and its neighbours a clear political framework for the coming years with an overall objective of stabilisation. This was recalled in the Council Conclusions of December 2015² which reconfirmed the principles of the revised policy: enhanced differentiation between partners, a greater focus on objectives agreed with partners, increased flexibility to improve the EU's capacity to respond to crisis situations and a greater ownership by Member States and partner countries.

After a suspension of Partnership and Cooperation Agreement (PCA) format meetings in 2015, Azerbaijan resumed in 2016 all PCA meetings and also re-engaged with the European Parliament. At the Riga Eastern Partnership Summit in May 2015 Azerbaijan presented a draft text for a future agreement that would build on the existing PCA and broaden the scope of relations and areas of cooperation, taking account of the ENP Review as well as new global political and economic challenges. The High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission (HR/VP) visited Baku in February 2016 and held discussions on the development of bilateral relations at the highest level. This visit followed visits of Commissioner Hahn in April 2015 and of President Tusk in July 2015.

Following the adoption by the Council of a negotiation mandate on 14 November 2016³, negotiations on a comprehensive new EU-Azerbaijan agreement were officially launched in February 2017, immediately following the visit of President Aliyev to Brussels. During this visit, President Tusk stated that "Azerbaijan is an important partner for the European Union, whose independence, sovereignty and territorial integrity we support"⁴.

The EU-Azerbaijan Partnership Priorities, also currently being negotiated, are expected to guide medium-term bilateral cooperation in key areas structured according to the priorities jointly agreed upon at the Riga Summit. Programming of EU assistance for the period 2018-2020 is also ongoing and future assistance is expected to support this new ambitious framework.

¹ JOIN(2015) 50 final of 18 November 2015

² <http://www.consilium.europa.eu/en/press/press-releases/2015/12/14-conclusions-european-neighbourhood/>

³ <http://www.consilium.europa.eu/en/press/press-releases/2016/11/14-azerbaijan/>

⁴ <http://www.consilium.europa.eu/en/press/press-releases/2017/02/06/tusk-remarks-president-azerbaijan-aliyev/>

The EU's Strategic Energy Partnership⁵ with Azerbaijan to improve energy security and the diversification of energy supplies has been illustrated by the ongoing implementation of the Southern Gas Corridor. Formal negotiations on an EU-Azerbaijan civil air transport agreement were resumed on 4-5 July 2017 in Brussels and the parties are very close to concluding negotiations.

The Declaration adopted at the Brussels Eastern Partnership Summit on 24 November 2017 reconfirmed the clear continued commitment by both the EU and the six partner countries to the Eastern Partnership. It highlighted the importance of shared values and implementation of the reform agenda, based on the results it delivers across four priority areas, namely economic development and market opportunities, strengthening institutions and good governance, connectivity, energy efficiency, environment and climate change as well as mobility and people-to-people contacts. The Summit took stock of developments since the Riga Summit and set out a concrete plan of action for the coming years. The Summit endorsed 20 deliverables for 2020, which will help focus the cooperation on tangible results entailing benefits to the people, supported by a revised multilateral structure of the Eastern Partnership. To prepare the Summit and discuss Azerbaijan's position, Commissioner Hahn visited Baku in June 2017.

The EU is Azerbaijan's single largest economic partner representing 48.6%⁶ of its total trade and providing the largest share of foreign direct investments, including in the oil and non-oil sectors. The country's economy has been hit by the global downturn in oil prices and has been in recession since 2016. Against this backdrop, the Government of Azerbaijan adopted the "Economic Reform Roadmaps" in December 2016⁷ for 11 priority sectors, aiming at increased economic diversification and increased non-oil related exports by enhancing the country's competitiveness in these 11 sectors, while supporting import-substituting activities. Several of the 11 priority sectors have been actively supported with EU assistance, including Vocational Education and Training (VET), agriculture, logistics, trade and SME development.

On 8 June 2017, the results of the second EU Business Climate Survey on Azerbaijan⁸ were presented at the EU-Azerbaijan Business Forum in Baku. The report acknowledges that important reforms were undertaken in the area of customs, licensing, visa-management and business inspections. For instance, 77% of EU businesses positively assesses the launch of the ASAN⁹ visa portal, 67% the issuing of business licenses by ASAN, while 49% laud the temporary suspension of business inspections. However, reaching other objectives, such as stabilising the financial sector and improving access to finance for SMEs, enhancing transparency of the tax system, strengthening the rule of law as well as increasing the number and availability of skilled workers in the country's labour market, still requires additional efforts.

⁵ Memorandum of Understanding on a Strategic Partnership between the European Union and the Republic of Azerbaijan in the field of energy (2006): http://www.europarl.europa.eu/meetdocs/2009_2014/documents/dsca/dv/dsca_20130321_14/dsca_20130321_14en.pdf

⁶ http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf

⁷ <http://cis-legislation.com/document.fwx?rgn=91715>

⁸ https://eeas.europa.eu/delegations/azerbaijan/28303/eu-business-climate-report-2017_en

⁹ Functioning network for simplified access to government services run by the State Agency for Public Service and Social Innovations under the President

Longer-term stability, security and prosperity in Azerbaijan will also depend on ensuring respect for human rights and fundamental freedoms, where significant challenges remain, including on freedom of expression and association and on an enabling environment and legislation for civil society to operate.

During the reporting period Azerbaijan continued to be committed to the promotion of multiculturalism and religious tolerance. 2016 was declared the year of multiculturalism in Azerbaijan and Baku hosted the 7th UN Alliance of Civilisation Global Forum.

Casualties from the Nagorno-Karabakh conflict reached in 2016 their highest level since the 1994 ceasefire agreement after four days of fighting broke out on the Line of Contact in April. The EU continued to fully support the Organisation for Security and Cooperation in Europe (OSCE) Minsk Group Co-Chairs and confidence/peace building and conflict prevention activities. The HR/VP supported continued efforts towards peace, including by holding bilateral meetings with the Presidents and Foreign Ministers of Azerbaijan and Armenia and through the EU Special Representative (EUSR) for the South Caucasus and the crisis in Georgia, who visited the region for high-level meetings regularly and maintained frequent contacts with the Co-Chairs and other relevant interlocutors.

2. Strengthening Institutions and Good Governance

2.1. Democracy, Human Rights and Good Governance

Political Dialogue under the PCA and parliamentary cooperation under the EURONEST Parliamentary Assembly¹⁰ were put on hold by Azerbaijan in 2015. Cooperation fully resumed following the visit to Baku by HR/VP Mogherini on 29 February – 1 March 2016 and a visit of Members of the European Parliament on 21 September 2016. The EU-Azerbaijan Cooperation Committee as well as all of the subcommittees under the PCA have since then resumed their meetings. On 6 February 2017, President Aliyev visited Brussels and the two sides formally launched negotiations on a new EU-Azerbaijan agreement. Commissioner Hahn visited Baku on 15 June 2017.

On 17 March 2016, several high-profile opposition and civil society activists were pardoned, but a number of opposition members and journalists remain in detention. In a statement delivered on 19 November 2016, the Spokesperson of the HR/VP recalled the need for Azerbaijan to comply with judgements of the European Court of Human Rights (ECtHR).

Regarding the execution of the judgment of the European Court of Human Rights, *Ilgar Mammadov against Azerbaijan*, the Committee of Ministers of the Council of Europe decided on 5 December 2017¹¹ to refer to the European Court of Human Rights in accordance with Article 46(4) of the European Convention of Human Rights the question of whether Azerbaijan had failed to fulfil its obligation under Article 46(1) of that convention.

¹⁰ The members representing the European Parliament and members representing Parliaments of the Eastern European Partners

¹¹ <https://www.coe.int/en/web/portal/-/council-of-europe-s-committee-of-ministers-launches-infringement-proceedings-against-azerbaijan>

The Azerbaijani **Ombudsman's** National Program for Action to Raise Effectiveness of the Protection of Human Rights and Freedoms expired and a new Plan is being considered.

On 29 September 2016, a **constitutional referendum** approved 40 amendments on 29 articles of the Constitution. These amendments further strengthened the Presidential role, and increased its term from five to seven years, the longest in any Council of Europe country, and also established the position of Vice Presidents. The Council of Europe Venice Commission issued an opinion on the constitutional amendments and referendum, noting concerns of a non-inclusive process and lack of debate prior to the referendum, as well as concern over the content of the amendments. The EU invited Azerbaijan to take account of the Venice Commission's findings during the process of implementation of the amendments¹². According to the European Platform for Democratic Elections, an overall challenging civil society environment prevented independent organisations from meaningfully participating in the referendum and engaging in voter education and election monitoring¹³.

The OSCE's Office for Democratic Institutions and Human Rights cancelled its observation mission of the 2015 Parliamentary **elections**, due to restrictions in the number of observers set by the government¹⁴.

Challenges remained in the reported period on human rights and fundamental freedoms. Summer of 2015 saw a number of trials against human rights defenders and journalists. In 2016 some of them were either pardoned or conditionally released. During 2016 and 2017, ten journalists were detained and five opposition media outlets were blocked permanently by court decision. The Criminal Code was amended in November 2016 to extend criminal liability for offences against the president to expression online.

In Azerbaijan, defamation remains a criminal offence that can lead to high fines or imprisonment. Some Azerbaijani journalists living in exile complain about pressure on them or their family members. The most notable example in 2017 was Afgan Mukhtarli, who was allegedly detained in Georgia and transferred to Azerbaijan in an irregular manner prior to his arrest and prosecution¹⁵. On 15 June 2017, the European Parliament adopted a resolution demanding his immediate release¹⁶.

The UN Working Group on Arbitrary Detention visited Baku in May 2016 and stated that *"Azerbaijan continues to detain human rights defenders, journalists, and political and religious leaders on criminal or administrative charges to silence them and to impair their basic human rights and fundamental freedoms. These practices are an abuse of authority and violate Azerbaijan's obligations to uphold the rule of law"*¹⁷. Several detainees have

¹² Statement by the Spokesperson of the HR/VP, 27 September 2016:

https://eeas.europa.eu/headquarters/headquarters-homepage_en/10667/Referendum%20on%20changes%20to%20the%20Constitution%20of%20Azerbaijan

¹³ Statement of EMDS, member of the European Platform for Monitoring Elections:

<http://www.epde.org/en/newsreader/items/emds-the-referendum-held-on-27-september-in-azerbaijan-failed-to-meet-requirements-of-national-election-legislation-and-internat.html>

¹⁴ <http://www.osce.org/odihr/elections/azerbaijan/181611>

¹⁵ See Statement by the Spokesperson of the HRVP on June 4 2017

¹⁶ European Parliament resolution of 15 June 2017 on the case of Azerbaijani journalist Afghan Mukhtarli (2017/2722(RSP))

¹⁷ Report of the Working Group on Arbitrary Detention on its mission to Azerbaijan submitted to the 36th session of the UN Human Rights Council

complained of torture and ill-treatment. In February 2017, President Aliyev issued an executive order on improving prison conditions, aiming to reduce the use of custodial sentences and arrest. The Ombudsman's Office (Azerbaijan's National Preventive Mechanism on torture, cruel, inhuman and degrading treatment), established 24-hour hotlines for torture and violation of children's rights.

The legislation on non-governmental organisations adopted in 2014 limits provision of funding to Civil Society Organisations (CSOs) and obliges foreign donors to obtain the right to give grants, hence further constraining the operating space of the **civil society**. In January 2017, a "single window" procedure for registration of grant contracts was introduced, whereby the Ministry of Justice is the single point of entry for grantees. While the process seems to have been streamlined, foreign donors still need to request the right to award grants and the process reportedly remains difficult and time-consuming. Reports of intimidation, arrests, and criminal investigations against some civil society representatives persist¹⁸.

On **public administration reform**, Azerbaijan was conferred the United Nations Public Service Award 2015 for its establishment of a functioning network for simplified access to government services ("ASAN")¹⁹ run by the State Agency for Public Service and Social Innovations under the President. Since May 2016 ASAN's services have been extended with utility services. The Civil Service Commission was abolished by Presidential Decree on 11 April 2016 and its functions were partially (fully since August 2016) transferred to the newly established State Examination Centre. EU Twinning supports the development and implementation of a new classification of occupations and link to the recruitment, performance appraisal and remuneration systems.

The State Program for 2016-2020 on the Implementation of the **National Strategy for Information Society Development**²⁰ was approved based on an Order dated 20 September 2016. Azerbaijan moved up 3 spots and ranks 58th among 193 countries in the ICT Development Index 2016 of the International Telecommunication Union²¹.

In the area of **local governance**, the law on creation of "Public Legal Entities" was adopted on 29 December 2015. It provides municipalities with the right to create public legal entities which can be engaged in private business to generate income for delivering better service to the public. According to the Law of 14 June 2016 on Agricultural Cooperatives, municipalities have been granted the mandate to support the establishment of agricultural cooperatives and assist in their functioning.

In the field of **gender equality**, the government has undertaken actions with support by the EU and international organisations aiming at combating violence against women and girls, protecting women and children with special needs, preventing trafficking in human beings and promoting women's health and their participation in economic activities. Azerbaijan improved its ranking in the Global Gender Gap Index from 96 out of 145 in 2015 to 86 out of 144 in 2016. This was due to progress in narrowing the gender gap in earned income as well as in better women representation in several professions and in the parliament. However,

¹⁸ Report of the Working Group on Arbitrary Detention on its mission to Azerbaijan submitted to the 36th session of the UN Human Rights Council (<http://www.refworld.org/docid/59bfa18f4.html>)

¹⁹ Azerbaijan Service and Assessment Network

²⁰ <http://www.mincom.gov.az/assets/Uploads/serencam.20.09.16-eng2.docx>

²¹ <http://www.itu.int/net4/ITU-D/idi/2016/>

women remain significantly over-represented among unpaid family workers and under-represented in national and local decision-making bodies²².

The legal framework for countering discrimination on different grounds in Azerbaijan is not comprehensive²³. For example, while Azerbaijani law contains no relevant penal provisions, specific legislation on recognition of or protection against discrimination based on sexual orientation or gender identity is equally absent. This minimal level of protection has been highlighted by the Council of Europe, which put together a list of concrete recommendations, including on protection against possible incidents of hate crime and encouraging the independent work of civil society.

The Joint Plan of Action on the Prevention of **Domestic Violence** (2016–2018) was signed in October 2016 by a number of public institutions and aims to strengthen inter-institutional cooperation on violence prevention and response.

A number of measures were taken in 2015-2016 for the economic empowerment of youth, particularly young women, within the framework of the State Programme on the Implementation of the Employment Strategy, such as promoting their employment in the tourism sector, establishing a network of business centres and providing financial literacy training.

The Law on Mass Media was revised in April 2016 to ensure **protection of the rights of children** in contact and conflict with law, including by prohibiting the distribution of personal information of under-18 years old suspected, convicted of or victims of crimes (without their or legal representative's consent). With EU support, a National Preventive Group under the Ombudsman elaborated and put into practice a Strategy and a 2016-2018 Action Plan on monitoring of child institutions. In December 2016, the Ministry of Labour and Social Protection of Population opened a new Social Shelter and Rehabilitation Centre for people under 18 years old in the Zabrat settlement of the Sabunchu district. This centre will provide social services for children in conflict and contact with law as well as for street children.

2.2. Foreign and security policy

During the period 2015-2017, Azerbaijan took part in Eastern Partnership (EaP) Platform 1 Common Security and Defence Policy (CSDP) Panel meetings, as well as in several CSDP / Common Foreign and Security Policy (CFSP) training courses and other events organised by the European Security and Defence College.

In the **fight against terrorism**, Azerbaijan has since 2001 been a member of the international anti-terrorism coalition. Close cooperation has been established between Azerbaijan and the UN Committee on the fight against terrorism, a framework in which regular meetings are held. On 7 November 2016, Azerbaijan signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the

²² <http://www.eurasia.undp.org/content/dam/rbec/docs/UNDP%20Gender%20and%20Employment%20in%20South%20Caucasus%20and%20Western%20CIS%202015.pdf>

²³ <https://rm.coe.int/1680721a93>, <https://www.ilga-europe.org/sites/default/files/2017/azerbaijan.pdf>, http://ilga.org/downloads/2017/ILGA_WorldMap_ENGLISH_Overview_2017.pdf

Financing of Terrorism. The Convention includes provisions to facilitate international cooperation and mutual investigation of crimes as well as seizure and confiscation of criminal proceeds. The Convention entered into force on 25 June 2017. The Law “On Combating Religious Extremism” was adopted on 4 December 2015 with the purpose of defining the legal and organisational bases for combating religious extremism and establishing the rights and duties of citizens and government agencies engaged in combating religious extremism.

In the field of **non-proliferation, disarmament and arms export control**, Azerbaijan is still not a party to the Mine Ban Treaty, the Convention on Conventional Weapons or the Arms Trade Treaty.

Regarding the **Nagorno-Karabakh conflict**, the number of OSCE-reported casualties on both sides has increased since 2014. In April 2016 four days of intense fighting broke out on the Line of Contact marking the deadliest and most serious escalation in the series of incidents since the 1994 ceasefire. The escalation also led to civilian casualties and the heaviest loss of life of personnel since the open war in early 1990s. The lack of progress towards peace continued to impact on the population displaced as a result of the conflict. According to the UNHCR, there were 613 129 internally displaced persons in Azerbaijan at the end of 2016²⁴.

The OSCE Minsk Group Co-Chairs have been engaged in substantial mediation efforts. The EU has continued to back fully their mediation efforts to de-escalate tensions and proposals to advance the peace process²⁵. The HR/VP met with the Presidents of Azerbaijan and Armenia in Vienna on 16 May 2016, prior to their summit with the participation of the Foreign Ministers of the Co-Chair countries. The HR/VP called for strict respect of the ceasefire and for negotiations on a comprehensive settlement of the conflict without preconditions. The Presidents met again at a trilateral summit in St. Petersburg on 20 June 2016 with President Putin. At these meetings, the Presidents reiterated commitments to the ceasefire and peaceful conflict resolution. The Co-Chairs also insisted that the sides respect the ceasefire agreements and re-engage in negotiations on a comprehensive settlement²⁶. No subsequent progress was reported on measures aimed at stabilising the situation on the ground agreed at Vienna and St. Petersburg or towards substantive negotiations, while in early 2017 the security situation grew increasingly volatile. On 16 October 2017, the Presidents of Armenia and Azerbaijan held a summit meeting in Geneva organised under the auspices of the Co-Chairs of the OSCE Minsk Group. The Presidents agreed to take measures to intensify the negotiation process and to take additional steps to reduce tensions on the Line of Contact²⁷.

The conflict, which needs a political settlement in accordance with international law, was addressed during high-level bilateral meetings²⁸, as well as during visits of the EU Special Representative for the South Caucasus. The EU continued to call on the parties to refrain from actions and statements that could heighten tensions and undermine the peace process,

²⁴ <http://popstats.unhcr.org/en/overview>

²⁵ <http://www.consilium.europa.eu/en/press/press-releases/2017/02/06-tusk-remarks-president-azerbaijan-aliyev/>

²⁶ <http://www.osce.org/mg/240316>

²⁷ <http://www.osce.org/minsk-group/350091>

²⁸ https://eeas.europa.eu/headquarters/headquarters-homepage_en/3585/Federica%20Mogherini%20visits%20Azerbaijan ; <http://www.consilium.europa.eu/en/press/press-releases/2017/02/06-tusk-remarks-president-azerbaijan-aliyev/>

and promote an environment conducive to settling the conflict, while encouraging and supporting activities that promote confidence and people-to-people contacts²⁹. Since 2010, the EU has supported people-to-people contacts across the conflict divide in peacebuilding activities, notably through the European Partnership for the peaceful settlement of the conflict over Nagorno-Karabakh (EPNK)³⁰. The EU continued to call for unimpeded access for EU representatives to Nagorno-Karabakh for conflict transformation activities in support of and complementing the OSCE Minsk Group's mediation effort.

The office of the OSCE Project Co-ordinator was established in 2014 with a reduced mandate as compared to the full-fledged OSCE Office in Baku prior to 2014. With the expiration of the mandate of the OSCE Project Coordinator on 31 December 2015, its operation in Azerbaijan was discontinued and the local OSCE Project Coordinator's office closed.

Azerbaijan is not a party to the Rome Statute of the **International Criminal Court**.

2.3. Justice, Freedom and Security

In the area of **justice**, the Parliament of Azerbaijan adopted **amendments to the Law on Judicial Legal Council** in 2016 that included provisions for the strengthening of financial independence and self-governance of courts. The latest survey by the World Economic Forum indicates that according notably to perceptions among business representatives, the level of judicial independence in Azerbaijan is low but improving³¹. On 11 October 2017, the Parliamentary Assembly of the Council of Europe found that the concerns over the functioning of justice expressed in its Resolution 2062 (2015) remain valid.

During the reporting period, 307 new judges were selected under new appointment rules. The rules allow for online broadcasting of interviews as well as remedies against decisions of the selection committee. Remaining challenges in this area include the career development of judges and the assessment mechanisms.

Improvements were made in the application of the Presidential Decree on Creation of “e-Court” information system. A unified internet portal of judicial system has been launched³².

On 3 February 2016, an Appeal Council under the President and local Appeal Councils under local Executive authorities were established, as well as a mechanism to consider appeals made by individuals and legal entities operating as entrepreneurs against unjust decisions, actions or inactions of central and local executive authorities.

On 10 February 2017, the President signed an Executive Order “On improvement of operation of penitentiary, humanisation of penal policies and extension of application of alternative sanctions and non-custodial procedural measures of restraint”. The order is aiming at the improvement of the penitentiary system and reforms in the execution of criminal sanctions, the establishment of probation service and the liberalisation of penal policies. As a

²⁹ http://eeas.europa.eu/archives/docs/enp/pdf/2015/azerbaijan-enp-report-2015_en.pdf

³⁰ <http://www.epnk.org/>

³¹ The WEF Global Competitive Report 2016-2017 ranks Azerbaijan in the 85th place among 138 countries. During the previous reporting period, Azerbaijan was in the 101st place among 140 countries.

³² www.courts.az

result, the first set of **amendments to the Criminal Code** was approved by the Parliament on 20 October and entered into force on 1 December 2017³³.

In the area of **penitentiary reform**, the EU has supported Azerbaijan through an action implemented by the Council of Europe aiming to improve healthcare services for inmates and the management of prisons in line with European standards and best practices.

In April 2016, the government adopted the *"National Action Plan on Promotion of Open Government 2016-2018"*³⁴. The Action Plan ensures the continuation of the Government's **anti-corruption** efforts and merges anti-corruption and open government actions under a single strategy. A Government - Civil Society Dialogue Platform was established on 9 September 2016 to monitor the implementation of the Action Plan. In November 2016, Azerbaijan adopted the *"National Action Plan on Fight against Legalisation of Criminally Obtained Funds and Other Properties and Financing of Terrorism 2017-2019"*. Also in November 2016, Azerbaijan signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS No.198). Progress has also been made concerning the enforcement of the criminal liability of legal persons, the protection of whistle-blowers and the expansion of e-governance. For example, an electronic declaration system of goods and means of transport was also introduced to ensure transparency of customs services and to simplify customs procedures.

Regarding the fight against **money laundering**, the Parliamentary Assembly of the Council of Europe noted with concern reports linking the Azerbaijani Government to an alleged money laundering scheme said to be in operation between 2012 and 2014 and which would have been used inter alia to influence the work of members of the Assembly as regards the human rights situation in Azerbaijan. The Assembly urged the Azerbaijani authorities to start an independent and impartial inquiry into these allegations without delay³⁵.

In the area of **trafficking in human beings**, the government identified 70 trafficking victims in 2016 (compared to 63 victims in 2015) and convicted 28 traffickers involved in sexual exploitation (compared to 18 traffickers involved in sexual exploitation and five traffickers involved in labour exploitation in 2015). The 2014-2018 National Action Plan (NAP) on Combatting Trafficking in Human Beings is being implemented with close inter-agency coordination. In line with the NAP, in 2016 the government increased the budget for victim protection and the state-run shelter. Also an e-learning platform and a specialised curriculum on trafficking at the Justice Academy were established. During 2016-2017 more than 40 specialised courses have been organised for the employees of the State Customs Committee, State Migration Service and State Border Service. Awareness raising activities were organised through educational lectures to 70 000 school and orphanage children in 54 regions, with involvement of parents, psychologists and local authorities. The EU has been supporting the enhancement of national capacities to combat trafficking in human beings.

In terms of legislative improvements foreseen in the NAP, changes to the Criminal Procedural Code and Law in Telecommunications have been adopted in relation to safe use

³³ All provisions of the amendments to the Criminal Code entered into force on 1 December 2017 with the exception of the articles related to limitations of freedom which will enter into force on 1 January 2018.

³⁴ <http://ogp.org.az/wp-content/uploads/2017/02/Action-Plan-final-version-1.pdf>

³⁵ Resolution 2185 (2017) Provisional version

of internet and communication means by the children, while responsibility for social rehabilitation of victims, establishment and functioning of assistance centres was delegated to the State Social Protection Fund.

In the area of **drugs** Azerbaijan approved a law on psychoactive substances and continued working on this matter.

Azerbaijan is considering establishing an independent **data protection** authority in line with European standards.

On 31 October the Parliament adopted amendments to the Code of Civil and Administrative Procedure and the Bar Act. From its entry into force in January 2018 only lawyers that are members of the Bar Association will be entitled to perform representation functions in Azerbaijani courts.

3. Economic Development and Market Opportunities

3.1. Economic Development

Following the sharp drop in global oil prices since 2015, the fall in Azerbaijan's economic activity has been more severe than in other countries of the region (including oil producing countries). GDP contracted by 3.1% in 2016 caused by tight fiscal and monetary policy³⁶, low private consumption and declining oil production/prices. In January-August 2017, the economy as a whole contracted by 1.1%. The non-oil economy grew by 2.4% over the same period driven by agriculture and manufacturing, while oil and gas production witnessed a decline of 9.3% and respectively 4.1%.

In response to the crisis, Azerbaijan adopted a policy of gradually moving towards a floating **exchange rate** regime. Azerbaijan devalued its currency in February and again in December 2015. Since February 2017, the Azerbaijani manat (AZN) has been broadly stable, reflecting tight monetary policy and higher oil prices. This has allowed some re-building of Central Bank (CBA) **reserves** in the first half of 2017.

The successive devaluations have put **Azerbaijan's banking sector** under significant pressure, with non-performing loans at 24% and capital adequacy at 11.8% in June 2017. The newly established (February 2016) regulator Financial Monetary Supervisory Agency (FMSA) has closed 10 insolvent banks and forced others to recapitalise. However, unresolved capital shortfalls in other banks in mid-2017 have not yet been followed by decisions to wind down these banks.

On 16 December 2016, a new **law on restriction of cash transactions** was adopted, and entered into force in January 2017. The law aims at ensuring transparency of transactions by obligatory replacement of cash settlements between legal tax paying entities with bank transfers. As a consequence of this measure, banks have improved their balance sheet.

³⁶ The budget deficit has been minute in 2016 (0.4% of GDP) despite the fact that most State revenues are connected with oil and gas. In January 2017, the budget surplus was 6.1% of GDP as oil prices are above what was targeted in the Budget. The monetary policy has also been very prudent, with the monetary basis in December 2016 22% lower than in December 2014 despite a slightly higher nominal GDP.

However, while the government has been taking steps towards the restructuring and subsequent privatisation of the **International Bank of Azerbaijan** (IBA, the country's largest bank and 91.3% state-owned), the latter defaulted on international debt payments in May 2017 and has commenced a process of debt restructuring. On 4 May 2017, the Baku district court sanctioned the voluntary restructuring of IBA assets and provided the bank with protection from external lenders. On 23 May 2017, IBA announced the proposals to the creditors for the conditions and schedule of restructuring. The restructuring plan contemplates restructuring USD 3.4 billion worth of IBA obligations. Creditors approved the plan on 18 July 2017.

The difficult economic situation has created renewed momentum around the economic diversification and structural reform agenda set out in the **Economic Reform Roadmaps** adopted by the President in December 2016. The roadmaps outline the short term (2020), medium term (2025) and long term reform agenda of the country to diversify the national economy. In June 2017 "*additional measures to improve the country's business environment*" were signed by the President and adopted³⁷.

In May 2016 and June 2017, the EU organised the EU-Azerbaijan Business Fora and conducted **Business Climate** Surveys on Azerbaijan amongst EU companies. The 2017 survey positively rated several reforms initiated in 2016 and 2017, including the launch of the ASAN e-visa portal since January 2017, the reduction (from 59 to 37) and simplification of businesses licensing which have been issued through ASAN since October 2015, reforms in the customs and the implementation of e-declarations effective as of 2016, and the two-year suspension of most business inspections as of 1 November 2015. Key concerns expressed by EU businesses in the survey relate to the need to stabilise the financial sector and improve access to finance for Small and Medium Enterprises (SMEs), improve transparency in the tax system and rule of law more broadly while increasing the availability of skilled workers in the country's labour market.

These findings concur largely with those of the World Bank (WB)'s Doing Business 2018 report³⁸, in which Azerbaijan ranks 57 out of 190 countries, with high scores for "paying taxes" (35), "registering property" (21) and "starting a business" (18) but more challenges in "getting electricity" (102), "getting credit" (122), "dealing with construction permits" (161) and "trading across borders" (83).

Though representing only 5.4% of GDP, **agriculture** is the main sector of employment in Azerbaijan (38% of the population). A specific chapter of the Economic Reform Roadmap on agriculture concerns support to rural areas through the development of socio-economic infrastructure and reforming the agricultural sector. The president declared 2015 as the Year of Agriculture during which an Agricultural Products Price Information Portal (www.azagro.net) has been established for wholesale and retail sales of agricultural products. The EU assists the government of Azerbaijan in the implementation of an IT system for the administration and control of subsidies.

³⁷ Presidential Decree of 2 June 2017 on approval of the Action Plan for implementation of the Order no. 2199 dated July 13, 2016 of the President of the Republic of Azerbaijan on additional measures for increasing efficiency of the business climate in the Republic of Azerbaijan and improving the status of the country in international rankings

³⁸ <http://www.doingbusiness.org/reports/global-reports/doing-business-2018>

To ensure rapid development of targeted agricultural sectors, several Presidential Decrees on state support for silkworm breeding and hazelnut production, cotton growing, tobacco production and sugar beet production were issued in 2016. In 2017, a Decree was issued to improve agricultural financing mechanisms and insurance, while in July 2017, as a follow-up to the Law on Agricultural cooperation (adopted in 2016), the President approved the State Programme on development of agricultural cooperation for 2017-2022.

The EU continued to provide extensive support to the agriculture sector and, more broadly, to **rural/regional development** in the country in order to reduce regional disparities.

As regards the **SME** policy, the Economic Reform Roadmap includes a chapter on "manufacture of small and medium entrepreneurship-level consumer goods". The "Simplified Support to Family Business" (ABAD) under ASAN has been established for the purpose of promoting the active participation of citizens in the socio-economic development of Azerbaijan, improving the employment rate and encouraging the creation of competitive rural family businesses. AZN 1 million was allocated to ASAN from the President's Reserve Fund in order to establish the ABAD centres. The EU supports the implementation of the SME chapter of the Road Map and ABAD. On 3 February 2016, "Simplified Accounting Rules for Subjects of Small Entrepreneurship" were approved by the Ministry of Finance.

In the area of **industrial policy**, the Economic Reform Roadmap includes a separate section on heavy industry. In addition, on 17 March 2016 a presidential order was adopted instructing the Ministry of Economy and the Port of Baku to develop (legislative) proposals on the Establishment and governance of a Free Trade Zone within the Area of the new Baku International Sea Trade Port located in the Alat settlement. Several industrial parks were established through Presidential Decree.

As regards **maritime affairs**, Azerbaijan was subject to an audit carried out as part of the International Maritime Organisation (IMO) Audit scheme from 29 May to 5 June 2017. After the audit, a "Corrective Action Plan" is going to be prepared by Azerbaijan and submitted to IMO, which will be able to benefit from on-going EU Twinning support to the State Maritime Administration.

In 2016-2017, draft regulations for the application of budget rules, a medium- and long-term strategy for **public debt management** and proposals for the development of a medium-term expenditure framework were prepared by the Ministry of Finance with support by the EU.

The Chamber of Accounts gradually increased its **external audit** coverage of public expenditures and reached 48.1% in 2015 and 51.5% in 2016. The Chamber approved a new strategic development plan for the period 2015-2017 and an action plan for its implementation. EU Twinning supports the Chamber in strengthening capacity in performance audit and financial and compliance audit.

On 15 September 2016, new regulations for **public procurement** were adopted requiring the executive authorities of Azerbaijan and organisations funded from the State Budget to phase out procurement of imported goods (works and services) by 1 January 2018. On 27 July 2016, Azerbaijan's Cabinet of Ministers issued a new Decision expanding the scope of available subsidies (discounts) for local goods (works and services) and approved the procedure for the application of such discounts during public procurements. The new

Decision raises the discount to 20% which applies to goods (works and services) comprising more than 80% of local content.

On 25 December 2016, **amendments to the Tax Code** were adopted. The main amendments concern changes to withholding taxes and the introduction of the transfer pricing concept. The law became effective on 1 January 2017 and the implementation of the transfer pricing concept will be supported through an EU Twinning project.

On **statistics**, EUROSTAT supported a global assessment of the country's statistics system in 2017. Progress has been achieved in harmonising the production of a number of statistical datasets in line with European standards and in introducing a comprehensive and well managed quality management system. The EU continues to support the sector through Twinning and technical assistance.

In the area of **corporate governance**, a draft law on internal audit is being prepared by the Ministry of Finance.

The activity rate (for those aged 15+) is stable at 64-66%. The official **unemployment** rate in Azerbaijan continued to hover around 5% in 2015-2016 and remained higher for women (5.9%) than for men (4.1%). Youth unemployment (for those aged 15-24) reached 14.2% in 2016 and was also higher for women (16%) versus 12.5% for men. The informal economy remains substantial. Good progress in reducing overall poverty over the last years hide significant rural/urban disparities (61% of the poor are in rural areas). Employment and skills development are priorities under "Azerbaijan - 2020: Outlook for the future". A new Employment Strategy is being developed for 2017-2025. The EU supports the modernisation of the public employment services.

The **Labour Code** was amended on 18 June 2017. The amendments, which will become effective as of January 2018, change a number of rules regarding employment contracts (e.g. duration of fixed-term contracts, notification and compensation for termination in case of redundancy).

In August 2017, the Law "On **unemployment insurance**", adopted in August 2017, provides for such insurance policy in Azerbaijan for the first time. The law, which will enter into force in 2018, aims to compensate lost wages of insured persons in case of staff reduction or abolition of their work entity.

On 1 July 2017, **amendments to the Law on Labour Pensions** entered into force increasing amongst others the retirement age to 65 years (the retirement age will increase by six months every year, from January 2018, for men until 2021 and for women until 2027) and introducing the concept of "minimum pension". The share of the paid contributions for compulsory state social insurance to individual accounts was also increased (from 50% to 90% of the contributions).

In January 2017, the insurance part of labour pensions increased by 12.4% based on the previous year consumer price index. By 1 July 2017, average pensions increased by 6.6% (38.7% of average monthly salary).

The number of pensioners reached 1.325 million (13.5% of population) at the end of 2016, of which 59.2% are old age pensioners. Recipients of targeted social assistance decreased in

2015 (415 200 compared to 625 800 in 2014) but again grew to 558 100 in the first half of 2017. The targeted social assistance increased from AZN 28.8 per person in 2014 to AZN 35.7 in 2017. The EU supports the Ministry of Labour and Social Protection of the Population to strengthen the budgeting and strategic planning mechanisms of the mandatory and voluntary social insurance systems and implementation of an automated fiscal control system and to develop social services.

Since 2015, the **Health Financing Reform** and the gradual Introduction of Mandatory Health Insurance have progressed. The management of the State Agency for mandatory health insurance (SAMHI) was established in 2016 and the Azerbaijani Parliament has approved a budget package for 2016-2019 in order to implement mandatory health insurance for employees. The EU supports SAMHI in this endeavour through a Twinning project.

3.2. Trade and Trade Related Matters

The EU accounts for close to half of Azerbaijan's overall **trade** (48.6%). In 2016, the EU exported goods to Azerbaijan worth EUR 1.8 billion and imported for EUR 7.6 billion. Machinery and chemical products represented 44.9% of the import from the EU to the country, while 98% of total exports to the EU were fuels and mining products³⁹. Bilateral EU-Azerbaijan trade is subject to the 'most-favoured nation' trade rules.

Azerbaijan's preparations for accession to the **World Trade Organisation** (WTO) advanced slightly as a law on anti-dumping, safeguards and countervailing measures, drafted with EU support, was adopted in 2016. The laws on standardisation and technical regulations were drafted in the framework of an EU Twinning project to support compliance with EU standards and WTO requirements but they remain to be adopted.

In the **sanitary and phytosanitary** (SPS) area, a Presidential Decree on additional measures to improve the food safety system in Azerbaijan was adopted on 10 February 2017. The Decree foresees the establishment of a new independent Food Safety Agency (FSA) in 2018 and requires the government to develop a new food safety law and a State Programme on Food Safety for the period 2018-2025. The EU has been supporting this reform process and will also be involved in building the capacity of the Agency, once established. In addition, the EU is strengthening the capacity of the State Veterinary Control Service.

On **imports and exports**, a digital trade hub (www.azexport.az) was established by Presidential Decree on 23 February 2017 which set up a "single window export support centre" for businesses intending to export goods. AZPROMO⁴⁰ launched its export portal (www.export.az) in October 2016.

A Presidential Decree on the terms of use of the **green corridor** and other gating systems for the transportation of goods and vehicles across the border was adopted on 21 May 2017. The Decree determines the rules of implementation of customs control over goods and means of transport and introduces simplified rules for goods conveyed across the customs border.

³⁹ EUROSTAT data

⁴⁰ Azerbaijan Export and Investment Promotion Foundation

The draft Law on “Amendments to the **Customs Code**” passed the first reading in the Parliament in July 2017. According to the proposed amendments, most of the applications (e.g. on the classification of goods, customs value, country of origin, amount of customs fees) and notifications sent by the customs authorities may be provided electronically. The EU supports the State Customs Committee through TAIEX, technical assistance and grant support.

In the field of technical barriers to trade, a roadmap with plans for regulatory revision and reform of quality infrastructure has been prepared. Ongoing EU Twinning projects provide support for development of metrology and accreditation system of Azerbaijan.

Regarding **competition** policy, the draft Competition Code, finalised with EU support, was examined twice in the Parliament but has not yet been adopted. On **digital economy and society**, as part of the Economic Reform Roadmap, a strategy for developing Information and Communication Technologies (ICT) was approved in December, 2016, requiring amongst others coverage of e-services (E-Tax, E-Education, E-Health, E-Banking, E-Commerce, etc.) to reach 85% by 2025. The newly established Ministry of Transport, Communications and High Technologies has been supported by the EU in enhancing the development of e-services.

4. Connectivity, Energy Efficiency, Environment and Climate Change

As regards **transport**, the Economic Reform Roadmap identifies it as an important sector within an integrated approach to trade and logistics in the region. The EU welcomed the inauguration of the **Baku-Tbilisi-Kars rail corridor** which, coupled with investments, improved infrastructure and logistics coordination will provide better connectivity, new business opportunities and increased trade⁴¹. Work is under way to develop the Baku International Sea Trade Port. Since October 2015 a coordination council on transit shipments is operating. In February 2017, the Ministry of Transport merged with the Ministry of Communications and High Technologies. In 2016-2017, a Transport Peer Review mission was conducted reviewing harmonisation with the EU acquis of railways, road and multimodal transport legislation. The State Maritime Administration worked with EU support to ensure a proper implementation and enforcement of maritime liability procedures in the areas of maritime safety, security and the prevention of marine pollution.

Negotiations on an EU-Azerbaijan **common civil aviation area agreement** were resumed in July 2017. The parties are very close to concluding negotiations.

The EU's Strategic **Energy Partnership** with Azerbaijan to improve energy security and the diversification of energy supplies has made progress, notably on the Southern Gas Corridor (SGC). The construction of all segments of the SGC progresses with the Shah Deniz field structures and the expansion of the South-Caucasus pipeline in Azerbaijan and Georgia is almost completed.

⁴¹ https://eeas.europa.eu/delegations/azerbaijan/34825/eu-statement-opening-baku-tbilisi-kars-railway_en

In March 2017 Azerbaijan was suspended and subsequently withdrew from the **Extractive Industries Transparency Initiative (EITI)**⁴². Azerbaijan has since established its own transparency initiative. The Commission for Transparency in Extractive Industries is chaired by the executive Director of the State Oil Fund and is comprised of government officials.

In the National Strategy for the Development of the **Renewable Energy** Sources (2012-2020) it is foreseen that 20% of electricity (or 2000-2500 MW) and 9.7% of the total energy consumption must be met by renewable energy sources. The production of renewable energy in 2016 was 830 MW, mainly from hydropower and waste incineration plants.

In May 2015, the State Agency on Alternative and Renewable Energy Sources conducted a test of all stations in the wind park "Yeni Yashma", with a capacity of 59 MW in the Khizi region, and launched a wind turbine with a capacity of 2.5 MW.

With EU support, Azerbaijan has taken some steps to revise the draft Law on Energy Efficiency. Work is also in progress on several components necessary for sustainably working energy markets (such as tariffs, network codes, and market models), which would be attractive to outside investors.

In 2015, with support of the EU's INOGATE programme, a roadmap on development of district heating in Azerbaijan was developed.

On 25 May 2016, Azerbaijan submitted its third national communication to the United Nations Framework Convention on Climate Change. On 22 April 2016, Azerbaijan signed the 2015 Paris Agreement on Climate Change, which was ratified on 9 January 2017. A draft law on **Ecological** Assessment including provisions on Strategic Environmental Assessment has been prepared and its adoption is pending. The EU supports the upgrading of the National Environmental Monitoring System (NEMS) of Azerbaijan by an on-going Twinning project.

5. Mobility and People-to-People Contacts

The **education** system in Azerbaijan consists of four years of primary education, followed by up to seven years of secondary education. Despite the substantially increased coverage since 2015-2016 of pre-school education for five-year-old children, time spent in education remains shorter than in EU countries. Moreover, around 40% of youth leave general schools without any further education or training. Expenditure for education is predicted at AZN 1859.5 million and the share of education expenditures will be 11.2% of the State Budget in 2017⁴³, which is 8.5% more than in 2016. The literacy rate in Azerbaijan reaches an excellent 99.72%.

National strategies⁴⁴ in Azerbaijan recognise modernisation of the education system and human capital development as key priorities for the imminent future. The Action Plan⁴⁵ on

⁴² <https://eiti.org/azerbaijan>

⁴³ <http://www.maliyye.gov.az/en/node/965>

⁴⁴ The national development concept Azerbaijan 2020: Look into the future (2012) and the National Strategy for the Development of Education of October 2013

⁴⁵ <http://edu.gov.az/en/page/9/11511>

the Implementation of the strategy was adopted on 19 January 2015 and is currently being implemented, including with EU support.

The State Examination Centre was established in April 2016 and was made responsible for the assessment of secondary school graduates and centralised admission examinations to bachelor and master degrees at higher education institutions. It is also to conduct admission tests for civil service recruitments.

An Accreditation and Nostrification Office in charge of recognition and external quality assurance was established in December 2015 under the Ministry of Education. It does not however have authority over accreditation decisions, which remains the prerogative of the Accreditation Council of the Ministry.

Vocational education and training (VET) is one of the 11 priority sectors under Azerbaijan's Economic Reform Roadmap. Azerbaijan's own strategic priorities are to address the mismatch between delivered and required knowledge and skills, to integrate employers into the VET system and to ensure quality assurance. The State Vocational Education Agency was established under the Ministry of Education as the main institution regulating VET in April 2016. The VET sector is being supported by the EU with technical assistance for the agency and grants for the modernisation of selected VET schools.

At the level of **higher education**, Azerbaijan follows the Bologna principles with EU support and has a three-tier system with bachelor, master and doctoral students. In the years 2015-2017, 7 Erasmus+ projects were awarded to support capacity building of Azerbaijani higher education institutions but due to the rules on foreign grant financing, the projects have difficulties to start on time or to be implemented.

Under the 2015-2017 Erasmus+ projects, more than 1 300 students and academic staff members will benefit from exchanges between Azerbaijan and Europe. In addition, 13 master students from Azerbaijan were selected under **Erasmus Mundus** Joint Master Degrees.

Azerbaijan also participated in the **eTwinning plus** action with 113 schools, 285 teachers and 316 projects. In October 2016 a teacher from Azerbaijan was amongst the winners of the Marie Skłodowska Curie Prize with the project “Young Scientists” at the eTwinning conference organised in Athens.

In the field of **culture**, Azerbaijan benefits from an EU Twinning project that will support the transition of the Ministry of Culture and Tourism towards a more strategic approach in the administration of the culture sector, with a particular focus on cultural heritage.

There is potential for significant improvement in cooperation in the area of **research and innovation** with Azerbaijan, which is currently limited to regional projects and the EU4Innovation initiative. The participation of Azerbaijani institutions in the Horizon 2020 programme is limited by the difficulties registering some EU grants with the Ministry of Justice – a legal obligation under the law on grants.

The EU-Azerbaijan **Visa Facilitation Agreement (VFA) and Readmission Agreement (RA)** entered into force on 1 September 2014. The VFA promotes the mobility of both EU and Azerbaijani citizens, while the RA provides rules for managing the return of irregular migrants. To support Azerbaijan in the implementation of the RA, the EU has provided technical assistance. At the third meeting of the EU-Azerbaijan Joint Readmission Committee

and Joint Visa Facilitation Committee held on 5 July 2017 in Baku, the satisfactory implementation of the Readmission Agreement was confirmed. Improvement in the implementation of the Visa Facilitation Agreement was also confirmed, although some outstanding issues still remain, notably regarding the issuance of multiple-entry visas with validity of more than two years by Azerbaijan. This will need to be further monitored by the Joint Visa Facilitation Committee. The full implementation and smooth functioning of the two agreements is a precondition for further steps in this domain. On 10 January 2017, Azerbaijan introduced an electronic visa ("ASAN visa") that can be obtained within a period of between three hours and three days, through an accelerated process.

Azerbaijan currently does not have an Integrated Border Management Strategy and Action Plan. The number of Azerbaijani nationals detected as illegally staying in the EU has remained stable, as has the number of return orders. Meanwhile the effective return to Azerbaijan increased, with the return rate rising from 38.87% in 2014 to 40.83% in 2015 and to 48.99% in 2016⁴⁶. In 2016 the number of asylum applications was twice as high as compared to the previous years (from 2 905 in 2014 to 2 755 in 2015 and to 5 735 in 2016), mainly rising in Germany (from 1 295 in 2014 to 1 495 in 2015 and to 4 745 in 2016⁴⁷). These data have to be seen in the light of the migration events that affected the EU Member States in the period covered by this report. The EU has been assisting Azerbaijan in building effective institutional mechanisms for the reintegration of returned migrants.

The EU-Azerbaijan **Mobility Partnership**⁴⁸ signed on 5 December 2013 provides a basis for enhancing cooperation in the migration and mobility domains (including migration management, trafficking in human beings, visa, readmission, border management as well as asylum and international protection). The EU has supported the implementation of the Mobility Partnership, including on migration and border management. Further EU support is ongoing to enhance the national capacities to address trafficking in human beings and smuggling of migrants. The willingness to further develop the Mobility Partnership was expressed by the organisation of the first EU-Azerbaijan Mobility Partnership High-Level Meeting, which took place on 23 February 2017 in Brussels.

The Strategy for the development of Azerbaijani youth in 2015-2025⁴⁹ was approved on 26 January 2015. It envisages the regulatory, organisational and supervision measures to ensure the rights of the youth.

6. Concluding remarks and future outlook

The launch of negotiations on a new bilateral comprehensive agreement has given new impetus to the cooperation between the EU and Azerbaijan. The structures of the existing PCA have been reactivated and new areas of cooperation are being explored in the ongoing discussions. Azerbaijan's efforts to diversify its economy also provide a good basis for further cooperation in view of sustainable socio-economic development. World Trade Organisation membership would represent a considerable step forward in this regard.

⁴⁶ Eurostat data

⁴⁷ Eurostat data

⁴⁸ https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/international-affairs/global-approach-to-migration/specific-tools/docs/mobility_partnership_of_azerbaijan_en.pdf

⁴⁹ <http://www.eapyouth.eu/en/news/country-news/azerbaijan-youth-development-strategy-2015-2025-approved>

The EU stands ready to cooperate with and support Azerbaijan in all areas of mutual interest, in full respect of all the values and commitments shared by both sides. The ambitious Southern Gas Corridor project is just one example of this cooperation in the interest of both Azerbaijan and the EU. The EU-Azerbaijan common civil aviation area agreement, once concluded, would be a further significant step in improving connectivity between Azerbaijan and the countries of the European Union.

The Partnership Priorities under discussion between the two sides also aim at providing focus for the broad cooperation between the EU and Azerbaijan and will guide the programming of EU financial assistance. Future reporting will also be based on the agreed Partnership Priorities.