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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 03.04.2008  
SEC(2008)392

**COMMISSION STAFF WORKING DOCUMENT**

**Accompanying the  
Communication from the Commission to the Council and the European Parliament**

**‘Implementation of the European Neighbourhood Policy in 2007’**

**Progress Report Armenia**

{COM(2008) 164 final}

{SEC(2008) 391}

{SEC(2008) 393}

{SEC(2008) 394}

{SEC(2008) 395}

{SEC(2008) 396}

{SEC(2008) 397}

{SEC(2008) 398}

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{SEC(2008) 402}

{SEC(2008) 403}

## **1. BACKGROUND AND OVERALL ASSESSMENT**

Armenia and the EU first established contractual relations in 1996 through a Partnership and Cooperation Agreement which entered into force in 1999. On this basis, the EU-Armenia ENP Action Plan was adopted in November 2006 for a period of five years. Since then, its implementation has been guided and monitored on the basis of a first annual implementation tool, which sets out comprehensive sets of priorities and timelines for 2007, based on the priorities agreed jointly by the EU and Armenia. An overall evaluation was carried out by the end of 2007. In addition institutional cooperation through the EU–Armenia Cooperation Council, the EU–Armenia Cooperation Committee and the EU-Armenia sub-committee on trade and related legal issues enabled both sides to move forward and follow the implementation of the ENP Action Plan closely.

This document reports on overall progress made on the implementation of the EU-Armenia ENP Action Plan between November 2006 and 31 December 2007, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Armenia.

Armenia made progress in several important areas in the implementation of the ENP Action Plan, despite delays caused by parliamentary elections in May 2007 and internal coordination problems between different Armenian ministries. Good progress was achieved in particular in the areas of judiciary reform, the administration of elections and the Ombudsperson Institution. Of key importance for 2008 will be proper implementation of recently adopted legislation. The conduct of the February 2008 presidential elections raised concerns, in particular the state of emergency that was introduced in their aftermath. The events have shown the necessity for further improvement in the field of human rights despite the progress achieved in 2007. The issue of corruption still needs to be addressed. Progress was achieved regarding human rights but there is room for further improvement. Armenia has widely aligned with CFSP declarations and is generally very active in cooperating on CFSP-related issues.

Armenia maintained a sound macroeconomic framework in 2007, in co-operation with the International Financial Institutions, against challenges posed by a significant deficit of the trade balance. The economy continued to show strong growth in 2007, expanding at a double-digit rate for the sixth consecutive year. Strong revenue performance and under-execution of capital expenditures resulted in a lower-than-programmed budget deficit. Armenia has further improved its business climate, although the improvement comes at much slower pace compared to earlier years. More efforts are needed on improving customs administration. Despite further progress made in 2007 in reducing poverty, efforts in this area and in the area of social protection will have to continue.

## **2. POLITICAL DIALOGUE AND REFORM**

### ***Democracy and the rule of law***

*Objectives in this area include: strengthening the stability and effectiveness of institutions guaranteeing democracy and the rule of law through: strengthening democratic institutions, reform of the judiciary, civil service reform and fight against corruption.*

After some initial delays, the implementation of a **package of legislative reforms** related to the 2005 Constitutional reform was undertaken in 2007. It was to be completed two years after the adoption of the new Constitution in November 2005. Reforms led to improvement of the legislative framework regarding inter alia the separation of powers (including increased powers for the National Assembly and improved local self government), the independence of the judiciary, the Human Rights Defender (HRD) and freedom of the media. The new legislation will need to be effectively implemented and further legislative amendments are needed to comply with the requirements of the new constitution.

Initial steps towards strengthening **local self-government** were made in 2007. A draft law on the City of Yerevan providing for indirect elections of the city's Mayor was approved early December 2007 by the National Assembly in a first reading. A second reading will take place during spring 2008. According to the Council of Europe (CoE) some provisions in the law are not fully in compliance with the principles of the European Charter on Local Self-governance. Additional amendments to the law on self government, the law on budgetary systems, and the law on administrative-territorial division will be made once the new law on the City of Yerevan is adopted.

Steps were taken to strengthen the role of the **Human Rights Defender** (Ombudsperson) in line with international standards. Improvements were observed in terms of institutional immunity of the office, its capacity to investigate claims of human rights violations and involvement in the legislative process. A presidential decree was adopted in July 2007 making it mandatory to send all drafts relating to democracy and human rights for the Defender's review before presenting it to the government.

According to international observers **parliamentary elections** in May 2007 were conducted largely in accordance with Armenia's OSCE commitments and other international standards for democratic elections. Access to the media by political contestants was deemed fair and equal during the official campaigning period for parliamentary elections. Recommendations in the final OSCE report focused on further improvement for campaign regulation and better performance of election commissions during vote count and tabulation. Accordingly, amendments to the electoral code and to the law on radio and television (regarding the electoral campaign) were adopted in February 2007. These amendments were reviewed by the Venice Commission and OSCE and were assessed to represent an improvement.

In its statement of preliminary findings and conclusions the OSCE/ODIHR IEOM found that the Presidential Elections in Armenia in February 2008 were conducted mostly in line with the international standards and that genuine efforts had been made to address shortcomings noted in previous elections. However, it mentioned the need to tackle concerns such as lack of public confidence in the electoral process, absence of clear separation between state and party functions, and unequal treatment of candidates. The local opposition demanded an annulment of the elections, citing violations and fraud and set up demonstrations voicing their appeal. After clashes between demonstrators and police, a 20-day state of emergency was declared in Yerevan. The European Commission expressed concerns about these developments, including restrictions on media and numerous detentions. Several EU statements urged all parties to return to a proper political dialogue .

Further steps towards strengthening **political pluralism** were taken in 2007: the Ministry of Justice announced the creation of a body to monitor party financing further to the identification of a number of shortcomings in this regard. By the end of 2007, drafts for corresponding legal amendments were submitted to the CoE for opinion.

Major legislative reforms have been introduced as regards the **judiciary**. The adoption of the judicial code and of the code of administrative procedure in February 2007 led to the establishment of a new judicial system as of January 2008. The new system (criminal, civil, administrative and bankruptcy courts) is accompanied by new judicial administration structures, including the Council of Justice, the Council of Courts' Chairpersons and the Judicial Enforcement Service. The role of the Court of Cassation was enhanced. Efforts were made to enhance the transparency of the judicial system (all court decisions as well as those of the Court of Cassation are to be published on official websites). A law was passed in February 2007 to reform the Prosecutor's office, which inter alia reassigns criminal investigations to the police, customs, taxation and the national defence bodies. Initial steps were made towards the establishment of a free legal aid system via an amendment to the law on advocacy, but no specific legislation was adopted. The new judicial code provides for the establishment of a High School of Justice. Its charter was approved in July 2007. A system of continuous training for judges and prosecutors was established. The President is however still allowed the right to select the judges from a final shortlist. In May 2007 a Centre for European Law and Integration at Yerevan State University was opened. Overall, further efforts are needed to ensure the independence of the judiciary in practice. Concerns remain regarding the implementation of the new legislation, the execution of court decisions and the training of judges and lawyers.

The previous anti **corruption** strategy expired in December 2006 and was criticized by CoE GRECO for not having contributed sufficiently to the fight against corruption. A new anti-corruption strategy is to be finalised in 2008 and should ensure better alignment with GRECO recommendations, in particular legislation providing for an effective examination of assets and income declarations by state officials.

While the criminal code includes relevant articles on active and passive corruption in line with CoE and international UNCAC standards, the definition of a corruption-related offence has however not yet been introduced. During 2007, several other laws were amended according to international standards under the auspices of OSCE, OECD and CoE GRECO and some practical measures were adopted to reduce corruption risks in practice (e.g. new procedures for traffic police, increase of salaries of judges by 15-30 %). Also, codes of ethics are now in place for judges, prosecutors and police officers. Specific legal provisions on declaration of assets and income by state officials were enacted and a law was passed in December 2007 establishing a Special Investigation Service to combat corruption among high-ranking state officials. However, the issue of implementation of corruption legislation and strategies still needs to be addressed.

While no comprehensive evaluation of the **civil service system** has been made, steps were taken towards improving its functioning, with a special focus on training in ethics, fight of corruption and improvement of recruitment procedures. The planned merger of all civil servants under common legal rules has not been completed.

### ***Human rights and Fundamental Freedoms***

*The objectives in this area include: strengthening respect for human rights and fundamental freedoms, ensuring the independence of media by strengthening the independent regulatory body for public and private broadcasters, installing freedom of assembly, further reform of the penitentiary system to improve detention conditions; continue efforts to ensure trade union's rights and core labour standards, ensure respect for the national minorities; continue efforts to ensure the equality of men and women in society and economic life.*

Some steps to improve the legislative framework guaranteeing **freedom of expression** in compliance with international standards were taken: Amendments to the law on television and radio in February 2007 sought to balance the composition of the National Television and Radio Committee. Control over this body will remain with the President until 2013 when the number of its members nominated by the Parliament will become equal to the number appointed by the President. The Public Television and Radio Board, governing the public television and radio, is exclusively appointed by the President. In July 2007 two draft laws proposing restrictions on foreign broadcast media were rejected by the National Assembly. Concerns remain regarding the continued lack of independence of the regulatory bodies and insufficient media pluralism. Implementation of the law on freedom of information remains incomplete, in particular as regards the provision, registration and classification of information. In the run-up to presidential elections, several media broadcasters were also subject to tax inspections, raising concerns about intended intimidation.

Legal provisions under the criminal code, introduced in April 2007, foresee that hindering professional activities of journalists is punishable by law, but the practice of self-censorship and incidents of violence and intimidation of journalists continue. Decriminalisation of libel and insult has been partially introduced. Nonetheless, punishments for libel and for “offending a representative of the authorities” continue to include prison sentences.

Concerning the right of assembly, several opposition rallies were denied permission by the authorities or met with police force during the parliamentary elections campaign. In the run-up to the 2008 presidential elections three major opposition rallies were held with permission in central Yerevan and no major incidents were reported although opposition activists were detained for some hours prior to those rallies.

There are reported cases of **torture and ill-treatment**, including among military conscripts, prison facilities and in police stations. Conditions in places of detention and the excessive use of pre-trial detention remain a source of concern. The authorities have however allowed local NGOs and international human rights observers to monitor places of detention. Efforts were made to improve detention conditions, in particular for women and children. Following the 2006 ratification of the Optional Protocol to the Convention against Torture (OPCAT) and constructive consultations with civil society, the government took steps to formalize the OPCAT national mechanism in late 2007. The mechanism falls under the responsibility of the Human Rights Defender in coordination with civil society actors. Within the ongoing police civil service reform, specialised human rights training was provided in 2007 to Armenian police staff and civil servants.

On **labour law and rights at work**, key framework laws regulating social and employment policy are in place in Armenia. In January 2006, before the reporting period, Armenia adopted a new law on employment. The labour code and the legislation on employment and social protection in case of unemployment, on social assistance and on state pensions, remain to be fully implemented (*see also section on social dialogue*).

The national action plan 2004-2010, on “Improving the situation of **women** and enhancing their role in society” is being implemented. This plan has led to the ongoing revision of the law on gender equality. In December 2007 Armenia joined the CoE campaign “Stop violence against women”. Nevertheless, violence against women remains a problem. Furthermore, women are still significantly underrepresented in the country’s political life with only 9 % of MPs in Parliament and 2 % of all village mayors.

Monitoring of the implementation of the UN Convention on the **Rights of the Child** falls under the mandate of the HRD's office. The HRD has appointed a focal point in his office for these matters; however no separate mechanism has been established to monitor the implementation.

### ***Cooperation on foreign and security policy, conflict prevention and crisis management***

*Objectives in this area include: strengthening political dialogue and cooperation on foreign and security matters; developing cooperation in addressing common security threats, including non-proliferation of WMD and illegal arms exports; strengthening efforts and cooperation in the fight against terrorism; participation in regional cooperation initiatives; contributing to a peaceful solution of the Nagorno-Karabakh conflict.*

Since June 2007 Armenia was invited to align itself with CFSP declarations on a case-by-case basis. It has done so on most opportunities.

With regards to cooperation in addressing common security threats, no further steps have been identified for Armenia's accession to the **Ottawa Convention**.

The ratification of the Rome Statute of the **International Criminal Court** remains pending. As a first step, the government decided in June 2007 to re-launch the ratification process, which requires a re-assessment of the Constitutional Court.

Armenia is cooperating with UN and NATO in exchanging information **on terrorism issues**, notably through the assessment mission by the UN Counter Terrorism Committee Executive Directorate to Yerevan in September 2007 with experts from UNODC, INTERPOL, the World Customs Organization, CIS and CoE.

### ***Strengthening regional cooperation.***

In order to improve integrated border management at the national and regional level, a project on regional border management in South Caucasus (2008-2009) was launched in the framework of the ENPI Assistance Programme. During the kick-off Ministerial Meeting held in Brussels in October 2007 participating countries agreed to implement measures on a bilateral basis (Armenia-Georgia, Georgia-Azerbaijan).

Armenia is co-founder (together with Azerbaijan, Georgia and the European Commission) of the Caucasus Regional Environmental Centre (REC). The REC Caucasus, with headquarters in Tbilisi, promotes capacity building and cooperation between various stakeholders, including between neighbouring countries. Armenia has signed the new Charter for the REC.

### ***Contribute to a peaceful solution of the Nagorno-Karabakh conflict***

An informal meeting of President Kocharian and President Aliyev took place during the CIS Summit in St Petersburg in June 2007. A significant and well noted people-to-people contact in form of the visit of a delegation of Armenian and Azerbaijani intellectuals to Stepanakert/Xankendi, Yerevan, and Baku in June 2007 also took place.

Although co-chair countries of the OSCE Minsk Group (United States, France and the Russian Federation) have stated that over the last years the two sides had significantly narrowed their differences and that only a few issues remained to be settled, a document elaborated by the Minsk Group, containing the basic principles for a conflict settlement,

which was presented to Armenia and Azerbaijan at the OSCE Ministerial Meeting in Madrid in October 2007, is still under discussion.

### 3. ECONOMIC AND SOCIAL REFORM

#### *Macroeconomic framework and functioning market economy*

Broadly speaking, Armenia maintained a sound **macroeconomic framework** in 2007.

The economy continued to show strong **growth** in 2007 at a rate of 13.7%, expanding at a double-digit rate for the sixth consecutive year. Growth is primarily driven by the construction and services sectors. The Armenian economy also benefited from large-scale remittances from Armenians working abroad, that stimulated private consumption and financed Armenia's **trade deficit**. The latter increased by as much as 70 % and is expected to reach 15.5 % of GDP. In January 2008 imports increased by 37.4%, whereas exports increased only by 2.4% compared to January 2007. **Inflation** reached some 6.6 % in January 2008 and an average of 4.3% during 2007, above the target rate. The Central Bank of Armenia (CBA) raised its refinancing rate twice. Inflationary pressures were attributable to rising domestic consumption and increases in the prices of imports, exacerbated by insufficient competition in the Armenian economy.

Strong revenue performance and under-execution of capital expenditures resulted in a budget surplus of 0.1% of GDP, compared to the programmed **budget deficit**. Tax collections remain, however, low in comparison to similar economies, although it improved in 2007. The government has made an attempt to tackling the problem, but has not yet achieved the desired effect.

Armenia has further improved its **business climate**, although the improvements, according to international surveys come at much slower pace compared to earlier years (*see section 4, on regulatory reform*).

#### *Employment and social policy*

Armenia has further reduced **poverty**. The proportion of the population living under the poverty line has continued to decline steadily to 29 % in 2007 and the share of extreme poverty now reaches 6.5 % of the population. These results can be attributed to increases in wages, social transfers and large volumes of remittances from abroad. The government elaborated a revised poverty reduction strategy paper for the period 2008-2021. The strategy remains to be agreed by the international donors. It identifies five themes for action: promoting sustainable economic growth through macroeconomic stability and private sector development, improving public infrastructure, enhancing human development and improving social safety nets, implementing prudent fiscal policies and reforming the tax system and finally, improving core public sectors functions.

According to Armenian statistics, during the third quarter of 2007, **official unemployment** amounted to 7 % of the workforce.

As regards **social dialogue**, the labour code defines the rights and obligations of trade and employers' unions and the law on trade unions provides for legislative consultation. Collaboration between authorities, trade unions and NGOs needs to be significantly

developed and efficient practices must be set in place. Work is ongoing to implement the revised European Social Charter.

On **social inclusion and protection**, Armenia made progress in fulfilling the provisions of the Action Plan: the government significantly increased allocations for social expenditures and is preparing, with World Bank assistance, an ambitious plan to reform the pension system. The new multi-pillar pension system is expected to start operating in January 2009.

Several international donors' assistance programmes are supporting Armenia's **agricultural** sector with the aim to raise employment in the rural areas and to increase efficiency and productivity of the agricultural sector by introducing new technologies, targeting higher value agricultural production and by strengthening marketing capacities. Armenian agriculture represented 18 % of GDP in 2006, a reduction compared to an average of 22 % in the last 5-year period. Processing of agricultural goods represents on average an additional 33 % of GDP. For the first time in 2006 poverty in rural areas has diminished. Investment in rural areas is growing and is expected to further increase in 2008. The national programme on agriculture for 2006-2007 covers several sectors, such as veterinary inspections, plant protection, food safety and organic agriculture.

A national council for **sustainable development** was established already in 2002 but never met. The government undertook some steps to promote sustainability issues but a national sustainable development strategy is not yet adopted.

#### 4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is Armenia's main **trading** partner (38.9 % share in Armenia's overall external trade in 2006). However, contrary to the positive developments in the period 2002-2005, the EU-Armenia bilateral trade in 2006 decreased by 15.2 % in total turnover compared to 2005, merely due to a 35.8 % decrease in Armenian exports, and the total turnover amounted at € 816 million (€ 477 million for EU exports and € 339 million for EU imports). In 2007, the bilateral trade recovered and total turnover registered a growth of 17.4 % compared to 2006 and amounted at € 958 million (the EU exports increased by 26.5% and amounted at € 604 million, the EU imports grew by 4.5% and reached € 354 million).

Under the EU GSP Scheme, Armenia qualifies for the general arrangement, and expressed particular interest to qualify for the enhanced preferences for good governance and sustainable development, the so-called GSP+, as from 2009. To do so, Armenia has to ratify the CITES convention, the last missing one out of the 27 international UN/ILO conventions listed in the GSP Regulation and to effectively implement all the conventions. The European Commission is progressing with carrying out of a feasibility study exploring the possibility of establishing a free trade agreement between the EU and Armenia.

Armenia made limited progress in the implementation of the objectives in the area of regulatory approximation to the trade and investment-related EU legislation contained in the PCA and in the ENP Action Plan, which is crucial for Armenia to achieve a better practical access to the EU market.

On the **free movement of goods and technical regulations**, Armenia made some progress with regard to the adoption of the EU's regulatory and standards system. Two new laws have been drafted: a law on standardisation and a law on certification. Progress on the translation

of relevant EU standards into Armenian law has been limited. The Ministry of Trade and Economic Development (MTED) is undertaking measures to ensure the legal and administrative independence of the National Standards Institute. Following a decision by the MTED in November 2007, a working group was set up to enhance procedures in the fields of standardization, metrology, conformity assessment and market surveillance. Awareness-raising campaigns took place during the reporting period upon initiative of the MTED. As of January 2008 Armenia is an affiliate member of the European standards bodies CEN.

No significant progress was made in further strengthening overall administrative capacity of the **customs** administration, implementing a customs ethics policy, and in setting up a mechanism to ensure regular consultation/information of the trade community on import and export regulations and procedures. The computerisation of the customs service is ongoing in order to extend the use of an automated declaration processing system based on selectivity and risk analysis to the whole country. However, the lack of internet connections is still a major obstacle. As a consequence, the rate of physical controls at import is excessively high and should be reduced. Despite some minor efforts, the implementation of valuation rules is still not compatible with EU and international standards. Some progress was achieved in the use of post clearance audit. Particular attention is needed in order to further strengthen the overall administrative capacity of the customs administration as a major tool to facilitate trade with the EU and to guarantee transparency of customs rules, procedures and tariffs for all operators.

Armenia made progress towards convergence with EU **sanitary and phytosanitary** standards. It adopted laws on food safety and on plant quarantine and plant protection as well as implementing legislation. A veterinary law is in preparation. The food safety law provides a basis for the development of a traceability system for the food chain. Armenia strengthened controls through the establishment of the food safety and veterinary state inspectorate under the Ministry of Agriculture. It adhered to the International Plant Protection Convention. The EU is authorising Armenian exports to the EU of live crayfish (caught in the wild). Following a European Commission's Food and Veterinary Office inspection in Armenia on fishery products, the European Commission extended this authorisation to live, cooked and/or frozen crayfish (caught in the wild).

Some steps have been undertaken in working on further EU approximation of Armenia's legislation and practices to EU rules, including administrative capacity-building, but this is still a broad area where work has to continue. Lack of transparency and predictability as regards implementation of business legislation as well as widespread corruption continue to hinder **investment climate**. Substantial efforts are still needed to attract further foreign direct investment.

In the field of **establishment**, according to international surveys on the ease of doing business, Armenia ranks rather well, particularly for registration of property. As regards **company law** a Public Register of Companies is available. Armenia introduced changes in bankruptcy procedures increasing the range of actions available to company registration.

Concerning **services**, Armenia continued progress to comply with the recommendations of the IMF's Financial Sector Assessment Programme (FSAP). The financial sector reforms aimed at improving the banking sector efficiency, focusing on bank corporate governance and implementing the first pillar of Basel II provisions for effective banking supervision. In this context, the law on introduction of uniform system for financial regulation and control established a Single Supervisory Authority for financial services already in 2006. The Central

Bank of Armenia (CBA) has undertaken a number of measures to improve the functioning of the insurance sector. In particular, the law on insurance and insurance activity was adopted. A law on securities, which includes minimum capital requirements, was prepared.

### *Other key areas*

Progress was achieved in the area of **taxation**. A government decree on development of the taxation system for 2007-2009, in line with IMF recommendations, was adopted. A legal act to comply with the WTO requirement to replace the existing system of VAT tax privileges of the agricultural sector was adopted.

A draft law on simplified tax, covering issues such as tax registration and writing off, came into force in January 2008. The system is supposed to further simplify and accelerate the registration procedure. Some NGOs however expressed serious concerns on the impact of the reform on SMEs, as well as on the extensive use of advanced tax payments. The law is however currently being reviewed. Armenia plans to complete a unified tax code to end profit tax exemptions for foreign investors in 2008 and to further limit the use of the simplified and presumptive tax regimes, with the aim to move by 2010 all activities to the regular tax regime. A law on declaration of assets will enter into force in 2008.

Concerning the Tax Administration, progress was made in developing an electronic risk-based selection system for audit and VAT refunds, and strengthening coordination between State Tax Service (STS) and State Customs Committee (SCC). To improve tax collection, a project allowing taxpayers to submit their declarations by electronic means is currently ongoing. Efforts were made to reduce the stock of VAT refunds owed to exporters and to avoid additional VAT arrears with exporters.

With regard to **competition policy**, the State Commission for the Protection of Economic Competition worked actively on the detection of violations of the law on competition and published annual programmes reports on its activities. Concerning the improvement of the regulatory framework on competition, a number of amendments to the law on “protection of economic competition” came into force in April 2007 granting the commission with the right, among others, of inspection and of imposing stricter sanctions for infringements to the competition rules. In the field of state aid, the 2007 amendments incorporated provisions in this sector which empower the commission with the right to control the state aid granted in Armenia.

In the area of **intellectual property rights**, Armenia took some legislative steps during the reporting period to further approximate its legislation to EU and international standards in the field of trademarks and copyright. However, a number of challenges remain both on the legislative and the enforcement sides to fully meet the provisions of the PCA and the TRIPS agreement: Armenia has not yet adopted the relevant legislation on the protection of new varieties of plants and the retroactive protection of foreign works and sound recording is not ensured. Furthermore, the criminal code has not yet been modified to increase sanctions for violation and infringement of copyright and related rights. Armenia still needs to significantly intensify its efforts on effective implementation and enforcement of the IPR legislation as piracy and counterfeits remain a major issue of concern. This requires a substantial increase of the administrative capacity of the different enforcement bodies – including the designation of a coordination body - as well as a deterrent and functional legal framework.

Armenia faces difficulties in implementing the 2000 law on **public procurement** and therefore achieved very little progress in fulfilling the obligations under the ENP Action Plan. The State Procurement Agency is understaffed. In spite of some awareness raising and training activities, there is a growing need to ensure better dissemination of information on the public procurement system, to set up a reliable complaint mechanism and to increase contracting authorities' awareness of, and compliance with, relevant legislation. Work on establishing an electronic bidding system is on-going. Armenia is an observer to the WTO Agreement on Government Procurement (GPA) and has confirmed its intention to join it.

Armenia undertook, during the period under review, several actions to further improve its **statistical system** to ensure better monitoring of poverty reduction. It has, in particular, set up administrative registers at local level. Armenia is also working with EC assistance on the introduction of a common classification of territorial units (NUTS).

Armenia is working with international assistance on the up-grading of its **accounting and audit standards** to meet international standards as well as on the establishment of a self-regulatory independent body.

With regard to public internal financial control, Armenia plans to introduce an internal audit law and to establish a central harmonisation function for internal audit. Introduction of the principles of managerial accountability are still at very early stages.

On **enterprise policy**, the government has approved the SME state support programme for 2008, in accordance with relevant legislation. The programme is aimed at the expansion of the SME's role in the socio-economic development. The policy carried out by Armenia in this field includes all components of a SME development strategy aimed at creating a favourable business climate and development of SMEs, supporting infrastructures as well as of technical and financial assistance. The programmes implemented in the framework of the Development National Centre of Armenia activities (DNC's), cover a broad range of actions targeted to the expansion and development of entrepreneurship in Armenia, such as encouraging the introduction of innovation and new technologies, business information, consulting, training, market promotion of goods and services, as well as financial support programmes for SMEs. Armenia has proposed to establish a Correspondence Centre for the Enterprise Europe network.

## 5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

### *Border management*

The new Southern Caucasus Integrated **Border Management** programme consists of one common training component, two bilateral cooperation Armenia-Georgia and Georgia-Azerbaijan components, and three national components, enhancing strategic border management capacities across the region with the goal of introducing coherent integrated border management systems. Elaboration of training activities in preparation for this programme is underway (*see also regional cooperation*).

In the area of **migration**, Armenia is negotiating with several EU countries concerning protection of migrants' rights. Re-admission agreements have been concluded with Denmark, Lithuania and Germany, and negotiations are underway with the Benelux countries. Government activities focus on preventive measures, including public awareness-raising in

the regions about labour trafficking, public information about legal and illegal situations (e.g. government hotlines) and on provision of information on reliability of employers.

**Electronic migration database systems** operate at some border crossing points. Similar database systems are under construction for other border crossing points. However, these systems only seem to register the number of people entering and exiting Armenia but not any other specifics.

Measures were undertaken to improve the **visa**-stickers and upgrades towards required security levels. Current passports comply with minimum security standards as established by the ICAO and ISO, however, the government is examining possibilities to issue new passports in conformity with the standards established by the latest ICAO on machine readable travel documents. The Armenian Police has centralized handling and issuing of passports with digital photos in Yerevan and it is intended that this becomes common procedure country wide.

Together with UNHCR, the government is increasing shelter capacity and providing integration support (e.g. micro credits) to the limited number of asylum seekers (currently a few Iraqi Armenians). An updated law on “Refugees and **asylum**” is expected in early 2008, to bring Armenian legislation and practice in line with international standards in this field. Furthermore, Armenia is taking steps against labour trafficking and is cooperating with several EU countries on protection of migrant rights and on readmission.

With regard to the **fight against organised crime**, a legislative framework to combat human trafficking is largely in place, complemented by the national action plan 2007-2009 on Combating Trafficking in the Republic of Armenia, adopted in December 2007. However, more comprehensive legislation and improved coordination mechanisms are recommended alongside increased financial and human resources to ensure its adequate implementation. A two-year, regional anti-trafficking project was launched mid 2007 to further support the plan’s implementation with a particular focus on awareness raising and involvement of labour-market institutions in preventive actions, capacity building of national authorities to detect trafficking activities and identification and protection of victims.

While Armenia ratified the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances in 1993, further work is needed on the development of a comprehensive national **anti-drugs** strategy, balancing preventive and punitive measures as well as to secure adequate civil society and international input. In addition, Armenia is fully engaged in the SCAD programme (Southern Caucasus Anti-Drug) at regional level.

Armenia is politically committed to fight **money laundering**. The issue is discussed in the working group of the Inter-Governmental Commission on the Fight Against Counterfeiting of Money and Fraud. In 2007, it identified charities as a high-risk category for laundering and terrorism financing schemes. Further work on securing the application of relevant legal provisions on money laundering to charities and other non-profit actors in line with the working group’s recommendations is needed. Armenia joined the CBA Financial Observation Centre of the Egmont Group in July 2007. The 2005 UN Convention on the Seizure and Confiscation of the Proceeds of Crime and the Convention on the Financing of Terrorism remain as yet un-ratified though amendments have been made to the criminal procedure codes to take account of the former. Further effective sanctions against money laundering need to be applied through existing legislation alongside further efforts to improve inter-agency

cooperation and coordination. The development of human and technical resources in this regard is critical and will remain an ongoing challenge.

In the area of **police and judicial cooperation**, Armenia ratified the European Convention on Mutual Assistance in Criminal Matters in 2002. However, the Second Protocol to this Convention remains un-ratified and further attention is required to ensure full and effective operational implementation of the UN Convention against Trans-national Organized Crime. In March 2007 Armenia ratified the 1980 Hague Convention on Civil Aspects of International Child Abduction. An experimental model of community policing was introduced in the framework of police reform with the support of the Council of Europe and OSCE. Further improvements in cooperation and coordination between the police and other law enforcement agencies as well as investing adequate resources in training should be addressed as immediate priorities.

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

The national **transport** policy has been reviewed in particular in order to clarify the policy formulation and regulatory functions of the Ministry following the privatisation of most formerly state-owned transport companies. There remains a need to strengthen the administrative capacity of the various regulatory bodies in the transport sector.

In the road sector, Armenia has started to address road safety concerns, stepping up technical requirements and aligning with international rules on the transport of dangerous goods. However, road side inspections are not conducted in accordance with fully transparent mechanisms.

In the rail sector, the on-going legislative revision targets the safety evaluation of railway infrastructure and foresees the levying of charges for the use of railway infrastructure.

In the aviation sector, the revised aviation law of 2007 has confirmed the role of the General Department of Civil Aviation as the state regulatory body and supervisor with regard to the use of airspace and civil aviation operations in Armenia. The air transport sector is not liberalised and highly protected and remains below its growth potential. Armenia has applied for full membership in the Joint Aviation Authorities (JAA). The European Commission and the Armenian authorities have finalised negotiations on a horizontal air transport agreement.

In 2007 Armenia adopted a new **energy** strategy document and an action plan, which focuses on security of supply through diversification and the use of nuclear energy as well as renewable energy sources. The EU continued to demand the early closure of the Medzamor Nuclear Power Plant (MNPP), before 2016. Armenia is ready to close the plant before its designed lifetime provided that alternative replacement capacity is available. Armenia plans to construct a new nuclear power plant. In this respect it amended the energy law to allow private involvement in such a plant. During 2007 Armenia continued to upgrade the safety of the MNPP and to strengthen the capacity of the Nuclear Regulatory Authority. It also adopted a strategy for decommissioning of the Medzamor plant and pursued the construction of a spent fuel dry storage. Armenia established a Nuclear Decommissioning Fund and started to fill it up. The country started to develop a spent fuel and radioactive management strategy. Armenia plans, jointly with Russian Federation, to exploit its uranium reserves. Armenia enhanced the control of radioactive materials by reinforcing the relevant legislation.

The country continued participation in the “Baku initiative” for EU-Black Sea/Caspian energy cooperation. Under this initiative ministers agreed a roadmap aiming at market convergence, security of supply, sustainable energy development and regional cooperation.

Armenia pursued the construction of new conventional electricity generation units. In a deal on gas import prices, Gazprom increased its share in the gas utility ArmRosGazprom. Armenia continues to have a system of subsidies in the gas sector. Russian unified energy systems acquired full control of Armenia’s power distribution network. Armenia further worked on electricity interconnections with Iran and Georgia. It continued the reduction of electricity network losses. Armenia and Iran inaugurated a new gas link between the countries. Armenia is studying the feasibility of constructing an oil refinery. It took several measures in the area of energy efficiency and renewable energy. For example, it adopted a national plan on energy conservation and established a revolving fund for the promotion of renewable energy sources and small hydro power plants. In 2007, Armenia also constructed several small hydro power plants and launched pilot projects on wind and geothermal energy.

Key **environment** issues concern threats related to climate change, air quality, water quality, waste management, nature protection and land use. Armenia made progress on climate change. A second national communication, a greenhouse gas inventory and adaptation measures are under preparation. Altogether 12 Clean Development Mechanism (CDM) projects have been prepared, of which 3 have so far been registered at the UN level. Armenia participates in activities undertaken under the EU Water Initiative, including a national policy dialogue.

A second national environment action plan is under preparation. The existing national chemical and waste infrastructure strategy will be updated and a mineral resources strategy is under preparation. Work is ongoing to implement existing strategies and plans, but continued attention is required. Adoption of an act on environmental protection is envisaged. Sectoral legislation is in place in many areas, but requires further development, in particular on environmental impact assessment as well as on implementing legislation. Latest legislation includes laws on specially protected areas, hunting and hunting economy, ozone depleting substances, the national water programme, environmental tariffs and regulations to prohibit imports of cars which are not equipped with catalysers as well as government decisions related to waste. Some new laws on environmental state expertise, genetically modified organisms and self-monitoring of compliance are under preparation.

While administrative structures on environment are in place, a major challenge is to strengthen administrative implementation capacity at all levels of the country, including coordination between authorities. There are some ongoing activities to integrate environment considerations into other policy sectors such as energy. Monitoring as well as enforcement require special attention. Armenia has not published reports on the state-of-the environment since 2003 but carries out some activities to inform and involve the public. A national action plan to implement the Aarhus Convention is under preparation and nine Aarhus Centres are in operation. As regards environmental impact assessment, procedures and consultation with the public require particular attention.

Armenia has ratified relevant international and regional conventions and protocols, except the Protocol on Strategic Environmental Assessments to the UNECE Convention on Environmental Impact Assessment in a Trans-boundary Context. Armenia has also not signed the UNECE Convention on the Protection and Use of Trans-boundary Watercourses and International Lakes. The European Commission and Armenia enhanced cooperation and

information exchange, including on climate change, water, sustainable development and protection of mountains, sustainable integrated land use of Eurasian Steppes, obsolete pesticides and the classification and labelling of chemicals. Integrated water resource management was identified as a topic for possible closer cooperation. Armenia is co-founder (together with Georgia, Azerbaijan and the European Commission) of the Caucasus Regional Environmental Centre (REC). The REC Caucasus, with headquarters in Tbilisi, promotes capacity building and co-operation between various stakeholders, including between neighbouring countries. Armenia has signed the new Charter for the REC.

In the field of **information society**, in accordance with the law on electronic communications, the regulation of electronic communications was transferred to an independent, multi-sector regulatory authority, the Public Services Regulatory Commission. During 2007, Armenia continued to develop its regulatory framework and to improve the administrative capacity of the regulator. The monopoly of the Armenian Telecommunications Company (Armentel) for fixed telephony was abolished in October 2007. Although eight IP telephony licences have been issued, competition in the markets remains limited. Therefore, licences for wireless services WIMAX and mobile internet were granted in 2007 and a third mobile telephony operator is expected to be licenced in 2008. Furthermore, Armentel and K-Telecom have received licences for third generation mobile services in 2007. Armentel is now a 100 % subsidiary of the Russian operator Vimpelcom. The fixed telephony, mobile telephony and internet penetration rates remain relatively low at 21 %, 16 % and 7 %.

The ICT Development Supporting Council (ITDSC) still lacks the necessary resources to help develop and coordinate the implementation of IT related initiatives. There is a need for a unified government policy in this area.

In the **audiovisual** sector, as Armenia has not ratified the Council of Europe Convention on Trans-frontier Television it is very difficult for Armenia to ensure freedom of reception and re-transmission of television broadcast coming from other countries. Armenia has adopted a national plan in the audio-visual field that sets out some of the legislative requirements required in order to approximate to EU legislation.

As regards support to **research and innovation** activities, Armenia's research capacity and investments remain very modest. Efforts to build capacity and improve S&T structures and governance are underway, **especially a wider resort to really competitive funding**, but much remains to be done. Participation in European Community programmes – the FP6, Intas, ISTC – has been valuable but the involvement of industry remained marginal. Armenia will need to take full advantage of ongoing regional cooperation activities in order to better integrate into the FP7.

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

On higher **education**, reform continued in line with Bologna Process principles with the support of the Tempus programme, which has been the main driving force behind the modernisation of curricula and improvements to the administrative and organisational structures of universities. Tempus provided Armenian universities with the opportunity to start long-lasting cooperation with EU universities and has strengthened strategies for academic and student mobility. Universities have increased their capacity for networking with renewed focus on the young academic generation. Student mobility to the EU increased

through participation in the Erasmus Mundus and Erasmus Mundus External Cooperation Window programmes, which have also promoted academic cooperation.

The government of Armenia drafted an updated action plan for the modernisation of **vocational training** for the period 2008-2010 to increase effectiveness, improve governance and financing and introduce competence-based standards and quality monitoring mechanisms. EC assistance provided ongoing support to enhance institutional capacity for policy definition and delivery of quality training at local level to meet labour-market demand. Progress is noted also on the design of a national qualifications framework for education as a lever for policy debate on human resource development in the context of wider economic development. However, major challenges remain with regard to the institutionalisation of effective social dialogue, integration of life-long learning and developing relevant training for youth. Priority attention must be given to ensuring the viability of future sector support for vocational education and training, both institutional and financial as well as for quality assurance in general education.

In the area of **youth**, Armenia registered an increase in participation rates in the relevant actions of the Youth in Action programme as compared to 2006. Armenian young people and youth workers were involved, for instance, in a large-scale project on conflict management combining trainings and youth exchanges, which involves other partners from the Southern Caucasus countries as well as from EU Member States.

Armenia acceded to the UNESCO Convention on the Protection and Promotion of **Cultural Expressions** in February 2007 and ratification is ongoing.

Armenia pursued a **health sector reform**, including by improving primary health care. It continued work towards the sustainability of financing of health care inter alia through the development of a health insurance system and the reduction of informal payments. Reform will be sustained to ensure an equitable, affordable and accessible health care for all, including vulnerable groups. In 2007, the country participated in the EU Network of competent authorities in health information and knowledge. It also took part in the TAIEX supported seminar “Health in all policies”, jointly organised by the European Commission, the WHO and the European Health Observatory. Continued attention is necessary to combating communicable diseases including tuberculosis.

## **8. FINANCIAL COOPERATION – 2007 KEY FACTS AND FIGURES**

With the entry into force of the European Neighbourhood and Partnership Instrument (ENPI) the strategic, policy-driven character of EC assistance was strengthened and the EC financial allocations generally increased. The introduction of cooperation instruments such as twinning and TAIEX strengthens the EC's ability to provide expert advice and to support technical cooperation in regulatory areas.

Since the adoption of the ENP Action Plan with Armenia, EC assistance has been increasingly geared towards supporting the policy objectives outlined in the Action Plan. € 98.4 million were allocated for Armenia under the National Indicative Programme for 2007-2010. The Programme is financing the implementation of three priorities: support for strengthening of democratic structures and good governance (rule of law, reform of the judiciary, public administration reform, including public finance management, human rights, fundamental freedoms and civil society); regulatory reform and administrative capacity building

(approximation of legislation and standards, regulatory aspects); and poverty reduction (education, regional development and social services).

The 2007 ENPI Annual Action Programme for Armenia has an allocation of € 21 million. EC assistance focuses on strengthening good governance and democratic development, supporting regulatory reforms in areas of the ENP Action Plan and on supporting Armenia's Poverty Reduction Strategy.

Armenia also benefits from cooperation activities financed under the ENPI multi-country and regional programmes and is eligible under the ENPI Cross Border Cooperation component. Assistance was provided under the Instrument for Nuclear Safety Assistance to improve nuclear safety in the Medzamor Nuclear Power Plant.