



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 2.3.2005  
COM(2005) 72 final

**COMMUNICATION FROM THE COMMISSION  
TO THE COUNCIL**

**European Neighbourhood Policy**

**Recommendations for Armenia, Azerbaijan, Georgia and for Egypt and Lebanon**

{SEC(2005) 285}  
{SEC(2005) 286}  
{SEC(2005) 287}  
{SEC(2005) 288}  
{SEC(2005) 289}

## 1. INTRODUCTION AND SUMMARY

The European Commission's European Neighbourhood Policy (ENP) Strategy Paper<sup>1</sup> of May 2004, as endorsed by the Council in June 2004<sup>2</sup>, set out the orientations for the ENP for the coming years, defining the objectives and principles, geographical scope and methods to be used to implement the ENP. This was accompanied by Country Reports on Israel, Jordan, Moldova, Morocco, the Palestinian Authority, Tunisia and Ukraine and was followed, in December 2004, by the Commission's Communication<sup>3</sup> on proposals for Action Plans with those countries. These Action Plans were adopted by the Council and are in the process of being endorsed by partner countries.

In June 2004, the Council decided, on the basis of the Strategy Paper by the Commission, to include Armenia, Azerbaijan and Georgia in the ENP, opening up the prospect of a significantly enhanced partnership and thus marking an important step forward in the EU's engagement with the Southern Caucasus region. The Commission services have prepared reports on these countries, which provide a comprehensive overview.

With the entry into force of the Association Agreement with Egypt and soon with Lebanon<sup>4</sup>, the Commission services have prepared reports on these two countries. These Reports provide a comprehensive overview of the political and economic situation in those countries.

The present Communication presents the key elements of the five Country Reports drawn up by Commission services, with a contribution from the High Representative on matters related to political co-operation and the CFSP, and makes recommendations on Action Plans.

## 2. COUNTRY ASSESSMENTS

### **The Southern Caucasus**<sup>5</sup>

#### **Armenia**

During the first years following Armenia's independence, EU-Armenia relations focused on dealing with the difficult humanitarian situation resulting from the break-up of the Soviet Union and the conflict with Azerbaijan over Nagorno-Karabakh. Some steps were taken to lay the foundations for the transition to democracy and a market economy. The entry into force of the Partnership and Cooperation Agreement (PCA) in 1999 marked an important stage in EU-Armenia relations.

Armenia has achieved a good macro-economic performance in recent years with impressive economic growth rates. There are indications that this is starting to have some impact on the high levels of poverty in Armenia. Its accession to the WTO in 2003 indicates that it has made progress towards key market-oriented reforms. There has also been progress in aligning

---

<sup>1</sup> COM(2004) 373, 12.5.2004.

<sup>2</sup> Council Conclusions, GAERC, 14.7.2004; Presidency Conclusions, European Council 17-18 June 2004.

<sup>3</sup> COM(2004) 795, 9.12.2004.

<sup>4</sup> The Interim Agreement with Lebanon entered into force in March 2003.

<sup>5</sup> Commission staff working papers SEC(2005) 285, SEC(2005) 286 and SEC(2005) 288.

Armenian legislation with that of the EU. The adoption of an anti-corruption strategy and the creation of an anti-corruption council are important steps.

However, major challenges remain for Armenia, particularly in the field of democracy and human rights and in implementing its obligations as a member of the Council of Europe and OSCE. Considerable improvement is needed in the electoral system notably to implement the recommendations of ODIHR following the 2003 presidential and parliamentary elections. Reform in the rule of law and law enforcement sectors is necessary to strengthen the respect for human rights. Considerable change is needed to develop a civil society including guarantees on freedom of the media. In the economic area, respect for the rule of law is essential to improve the business and investment climate. Improvement in the tax and customs systems will be important if there is to be a real impact on corruption. Implementation of the Poverty Reduction Strategy Programme will be central to the efforts to develop sustainable economic growth and to reduce poverty and income disparities. Further restructuring of the energy sector will also be necessary including steps towards decommissioning the Medzamor Nuclear Power Plant. Pervading all aspects of political and economic life in Armenia is the conflict with Azerbaijan over Nagorno-Karabakh. Only if a peaceful, fair and lasting solution to this conflict is found will Armenia fully be able to develop its potential.

The Armenian government has declared its determination to address these challenges, to develop relations with the EU and to integrate further in European structures. The Commission is therefore of the view that, building on the commitments of the Armenian government, an ENP Action Plan could be used to strengthen relations between the EU and Armenia and to promote the implementation of the necessary reforms.

Key objectives for an Action Plan should include: strengthening the rule of law, of democratic structures and pluralism (e.g. the reform of electoral legislation in line with CoE/OSCE recommendations and the holding of democratic elections; constitutional reform taking into account CoE recommendations; reform of local self-government); strengthening respect for human rights and fundamental freedoms, especially regarding freedom of expression and freedom of assembly; improvements in the business climate as well as public sector modernisation; effective combating of corruption and fraud; reform of tax and customs administrations and legislation in line with international and EU standards; progress in poverty reduction; sustainable development and environmental protection; the decommissioning of the Medzamor Nuclear Power Plant; progress towards conflict resolution and enhanced regional cooperation. Prudent macroeconomic policies need to be maintained to support effective implementation of an Action Plan.

Taking the current political, economic and institutional context, as described in the Country Report, as a starting point, an Action Plan for Armenia should provide for strengthened political dialogue; further implementation of the PCA; support for market economy reforms leading to gradual economic integration into the EU's Internal Market; further support for economic rehabilitation of conflict zones in the context of conflict settlement; increased financial support including an extension of the EIB mandate to Armenia as of 2007; enhanced support for regional cooperation; enhanced cooperation in the field of justice and home affairs possibly including establishment of a dialogue on visa cooperation/readmission agreement; intensification of cooperation in the energy, electronic communications and transport, environment and public health sectors as well as enhanced cooperation in the field of science and technology; intensification of people-to-people contacts in particular in the area of education, training and youth and also in the context of the Nagorno-Karabakh conflict; and

consideration to be given, if progress is being made with the implementation of an Action Plan, to the possibility of a new enhanced agreement to replace the PCA upon its expiry.

## **Azerbaijan**

In the initial years following Azerbaijan's independence, EU-Azerbaijan relations focused on dealing with the difficult humanitarian situation resulting from the break-up of the Soviet Union, the Nagorno-Karabakh conflict with Armenia and the unstable domestic situation. Some steps were also taken to lay the foundations for the transition to democracy and a market economy. The entry into force of the Partnership and Cooperation Agreement (PCA) in 1999 marked an important stage in EU-Azerbaijan relations, providing in particular for regular political dialogue. The relations between EU and Azerbaijan have been steadily developing over recent years. Today's dialogue is much more focused and cooperation has been strengthened notably in the energy and transport sectors.

The overriding challenge still facing Azerbaijan is the need to strengthen the rule of law, democratic checks and balances (including free and fair elections), the fight against corruption and fraud and the protection of human rights, in line with its obligations as a member of the Council of Europe and OSCE. In the economic field, further improvement of the investment climate and diversification of economic activity will be a key factor for sustained growth. Effective implementation of the State Programme for Poverty Reduction and Economic Development will provide the framework for tackling some of the structural economic challenges facing Azerbaijan. In addition to these political and economic challenges, the resolution of the Nagorno-Karabakh conflict would remove a very serious obstacle to the development of Azerbaijan and the region.

The Azerbaijani government has declared its determination to address these challenges, to develop its relations with the EU and to integrate further into European structures. The Commission is therefore of the view that, building on the commitments of the Azerbaijani government, an ENP Action Plan could be used to further strengthen relations between the EU and Azerbaijan and to promote the implementation of the necessary reforms.

Key objectives for an Action Plan should include: strengthening the rule of law, democratic structures and pluralism (improved institutional division of powers, reform of local self government) and strengthening of electoral legislation and processes so as to enhance democratic election standards; implementation of effective reform in field of rule of law (judiciary, law enforcement agencies); enhanced protection of human rights and of freedom and independence of the media; increased efforts towards a balanced development of the overall economic system; improvements in the business climate as well as public sector modernisation; reform of tax and customs administrations and legislation in line with international and EU standards; effective combating of corruption and fraud; increased transparency in the management of oil revenues and in the privatisation process; progress in poverty reduction; sustainable development and environmental protection; WTO accession; progress in conflict resolution and enhanced regional cooperation. Prudent macroeconomic policies need to be maintained to support effective implementation of an Action Plan.

Taking the current political, economic and institutional context, as described in the Country Report, as a starting point, an Action Plan for Azerbaijan should provide for strengthened political dialogue; further implementation of the PCA; support for market economy reforms leading to gradual economic integration into the EU's Internal Market; further support for economic rehabilitation of conflict zones in the context of conflict settlement; increased

financial support including an extension of the EIB mandate to Azerbaijan as of 2007; enhanced financial support for regional cooperation; enhanced cooperation in the field of justice and home affairs possibly including establishment of a dialogue on visa cooperation/readmission agreement; the intensification of cooperation in the energy, electronic communications and transport, environment and public health sectors and of people-to-people contacts in particular in the area of education, training and youth; and consideration to be given, if progress is being made with the implementation of an Action Plan, to the possibility of a new enhanced agreement to replace the PCA upon its expiry.

The Commission intends to open a Delegation in Azerbaijan in the course of 2005.

## **Georgia**

Following Georgia's independence in 1991, EU-Georgia relations focused on dealing with the difficult humanitarian situation in Georgia resulting from the break-up of the Soviet Union and Georgia's internal conflicts. Some steps were also taken to lay the foundations for the transition to democracy and market economy. The entry into force of the Partnership and Cooperation Agreement (PCA) in 1999 marked an important stage in EU-Georgia relations, providing in particular for regular political dialogue. Insufficient progress towards democracy and market economy was noted by the Commission in its 2003 revised Country Strategy Paper: "Georgia's political situation is dominated by widespread poverty, serious problems of governance and weak rule of law, including high levels of corruption, strained relations with Russia, and internal conflicts, involving in particular the breakaway republics of Abkhazia and South Ossetia, as well as a high level of external debt."

The "Rose Revolution" in November 2003 was therefore welcomed by the EU and the broader international community. The subsequent holding of relatively free and fair presidential and parliamentary elections and the launching of an extensive reform programme are positive steps. Achievements include: 1) tackling certain forms of corruption; 2) improvement in tax collection; 3) salaries and pensions paid on time, 4) curbing of smuggling; 5) good macro-economic performance; 6) reintegration of Adjara into the economic, social and administrative system of Georgia; 7) renewed donor confidence in Georgia (successful donor conference in Brussels in June 2004).

The overriding challenge still facing Georgia is the need to strengthen the rule of law including public service reform and reform of the judiciary. Strengthening the democratic checks and balances within Georgia, in line with the membership obligations of the Council of Europe and OSCE, is also essential for the respect of the rule of law. Developments in these areas should help cement Georgia's fight against corruption in a law-based framework. In the economic field, further improvement of the investment climate will be a key factor for sustained economic growth. Effective implementation of the Economic Development and Poverty Reduction Programme will be a key means of tackling the structural economic challenges facing Georgia. In terms of EU-Georgia relations, much remains to be done in the field of PCA implementation. Improving its relations with Russia and furthering its efforts aimed at the peaceful resolution of its internal conflicts will also be important factors for Georgia to build the foundations of its long-term security and prosperity.

The Georgian government is committed to address these challenges, to develop relations with the EU and to integrate further into European structures. The Commission is therefore of the view that, building on the commitments of the Georgian government, an ENP Action Plan

could be used to further strengthen relations between the EU and Georgia and to promote the implementation of the necessary reforms.

Key objectives for an Action Plan should include strengthening respect for the rule of law (reform of judiciary, law enforcement agencies, penitentiary) and enhanced human rights protection; the strengthening of democratic structures and pluralism (reform of parliament, strengthening independence of media, reform of local self government, electoral reform); improvements in the business climate as well as public sector modernisation; reform of tax and customs administrations and legislation in line with international and EU standards and effective combating of corruption and fraud; a transparent privatisation process; progress in poverty reduction, sustainable development; environmental protection; progress in the resolution of conflicts and enhanced regional cooperation. Prudent macroeconomic policies need to be maintained to support effective implementation of an Action Plan.

Taking the current political, economic and institutional context, as described in the Country Report, as a starting point, an Action Plan for Georgia should provide for strengthened political dialogue; further implementation of the PCA; support for market economy reforms leading to gradual economic integration into the EU's Internal Market; further support for economic rehabilitation of conflict zones in the context of conflict settlement; increased financial support including an extension of the EIB mandate to Georgia as of 2007 and enhanced financial support for regional cooperation; enhanced cooperation in the field of justice and home affairs possibly including establishment of a dialogue on visa cooperation/readmission agreement; intensification of cooperation in the energy, electronic communications and transport, environment, maritime affairs and fisheries and public health sectors as well as enhanced cooperation in the field of science, technology and innovation and of people-to-people contacts, in particular in the area of education, training and youth; and consideration to be given, if progress is being made with the implementation of an Action Plan, to the possibility of a new enhanced agreement to replace the PCA upon its expiry.

### **Egypt and Lebanon**

In June 2004, the Council invited the Commission, with the contribution of the SG/HR on issues related to political cooperation and the CFSP, to begin preparations for Action Plans with Mediterranean countries whose Association Agreements with the EU have been ratified by the countries. As a basis for the preparation of Action Plans, the Commission has therefore prepared the present reports on Egypt and Lebanon<sup>6</sup>.

For both countries, the full implementation of the Association Agreements remains the primary objective of bilateral relations. The ENP goes beyond this to offer the prospect of an increasingly close relationship involving a significant degree of economic integration and a deepening of political cooperation. On the basis of the content of the Country Reports, the Commission, in close cooperation with the Presidency and the High Representative where appropriate, will initiate as soon as possible formal consultations with Egypt and Lebanon aimed at concluding comprehensive and balanced Action Plans.

The key priorities of an Action Plan will cover two broad areas: first, commitments to specific actions which reinforce adherence to shared values in areas including respect for international obligations, democracy and the rule of law, including the holding of democratic elections,

---

<sup>6</sup> Commission staff working papers SEC(2005) 287 and SEC(2005) 289.

administration of justice and human rights and to certain objectives in the area of foreign and security policy; secondly, commitments to actions which will bring these partner countries closer to the EU in a number of priority fields such as economic and social development policy (including poverty reduction and sustainable development), trade and internal market (including sectors such as energy, transport, environment, maritime affairs and fisheries, information society, research and innovation, justice and home affairs and people-to-people contacts).

Priorities for action will be as specific as possible, depending on the issue at stake, and thus will constitute benchmarks which can be monitored and assessed. The Action Plans will identify key actions in a limited number of fields which need to be addressed as a particularly high priority, as well as actions in a wider range of fields, corresponding to the scope of the bilateral agreements in force. A clear time horizon will be given for addressing these different priorities.

### 3. CONCLUSION AND RECOMMENDATIONS

The reports for the countries of the Southern Caucasus indicate the need for continued reform in Armenia, Azerbaijan and Georgia and for progress in a number of key areas. The Commission considers that Action Plans would be a useful tool by which the EU can further strengthen its relations with the countries and actively encourage the necessary changes. The Commission therefore recommends that the Council approve the general orientations proposed here and agree that work should begin on preparing Action Plans for each of these countries, on the basis of which the Commission will, in close cooperation with the Presidency and High Representative where appropriate, make contact with the partner countries concerned. Work on these Action Plans would begin immediately. The Commission emphasises that the Action Plans will be tailored to the needs of each country and each country will be treated on its individual merits. Member States will be kept fully informed of the development of these consultations.

On the basis of the Country Reports on Egypt and Lebanon, the Commission will begin preparing Action Plans with each of these countries. It is recommended that consultations on these Action Plans should begin as soon as possible. With the resignation of the Lebanese Government, and elections scheduled for May, the evolution of the situation there will influence the timing of consultations. The aim is to achieve balanced Action Plans with each country, covering the same general areas as with previous partners *mutatis mutandis* i.e. political (including respect for international obligations and democracy and the rule of law) and economic aspects, including sustainable development and sectoral aspects (internal market and trade-related issues; justice and home affairs; environment issues; people to people contacts). Member States will be kept fully informed during these consultations.

For all five of these countries, and as in the case of the other ENP countries, the relevant Association or Cooperation Councils will be invited to endorse the Action Plans, once adopted. The Action Plans should have a duration of three to five years and monitoring of implementation of the Action Plans will take place within the institutions of the relevant Association or Cooperation Agreements. On the basis of its assessments of the results of this monitoring process and of information provided by partners, the Commission, with the contribution of the High Representative on issues related to political co-operation and the CFSP, will present a mid-term review of progress achieved within two years and a further review within three years of the formal approval of each Action Plan.