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Implementation of the European Neighbourhood Policy in 2008

Progress Report Azerbaijan

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1. BACKGROUND AND OVERALL ASSESSMENT

Azerbaijan 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-Azerbaijan ENP Action Plan was adopted in November 2006, for a period of five years. Since then, the Commission has been closely monitoring developments in the country, including through a first Progress Report on the implementation of the ENP Action Plan, adopted in April 2008.

Institutional cooperation through the EU-Azerbaijan Cooperation Council, the EU-Azerbaijan Cooperation Committee and two subcommittees, on Trade, Economic and Related Legal Issues; and on Energy, Transport and Environment, enabled both sides to move forward and follow the implementation of the ENP Action Plan closely. The opening of the Delegation of the European Commission in Baku in February 2008 further contributed to the strengthening of the EU-Azerbaijani bilateral relations.

This document reports on the overall progress made on the implementation of the EU - Azerbaijan ENP Action Plan between 1 January and 31 December 2008, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Azerbaijan.

Like last year, overall, there was no or limited progress in the implementation of the ENP Action Plan, particularly in the areas of political dialogue and reform, including protection of human rights and fundamental freedoms, many areas of cooperation in justice, security and freedom, a number of aspects of market and regulatory issues, as well as sectoral issues.

Achievements during the reporting period included progress made in the area of economic development and business environment, notably the establishment of a 'one-stop shop' for the registration of business, and the adoption of the legislation on the "Single Window" concept of customs clearance. Azerbaijan received international recognition as "Top Reformer" in a World Bank survey on the ease of doing business. The macroeconomic environment was favourable with high economic growth mainly due to the high prices of hydrocarbons, particularly in the first half of 2008. Good progress was made in the context of the 2006 Memorandum of Understanding on a strategic partnership in the field of energy and in strengthening Azerbaijan's role as energy producer. Some progress was made in the area of the judiciary, notably in the recruitment and training of judges. However, the independence of judiciary remains of concern.

Limited progress was made on democratic governance. The presidential elections in October 2008 demonstrated progress towards meeting OSCE commitments and other international standards but there were shortcomings in the free and fair electoral process including in the process leading up to the elections. Amendments to the legislation on freedom of assembly improved the legal framework but have been implemented in a restrictive manner, thus *de facto* limiting the freedom of assembly.

There were negative developments on protection of human rights and fundamental freedoms. Freedom of media and expression in particular remain causes for serious concern. Media pluralism has been limited even more since the decision of the National TV and Radio Council of December 2008 not to extend the licences of foreign broadcasters to broadcast on local frequencies. Corruption remains a pervasive problem. Implementation of human rights and fundamental freedoms, further work in the area of justice, freedom and security, diversification of the economy and regulatory reform will be key reform challenges in 2009.

A positive step on the Nagorno-Karabakh conflict was taken, despite the prevailing high tensions, with the first document jointly signed by the Presidents of Azerbaijan and Armenia since 1994. Furthermore, Azerbaijan improved its participation in regional cooperation initiatives.

Outside the reporting period, the ratification of the Optional Protocol to the UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment in January 2009, the withdrawal of the libel charges against a human rights defender in March 2009, and significant increase of funding for civil society from the Council for State Support to NGOs, are encouraging signs for the area of human rights and fundamental freedoms during 2009. However, some of the amendments to the Constitution of Azerbaijan, adopted at a National Referendum in March 2009, may constitute a reason for concern.

2. POLITICAL DIALOGUE AND REFORM

Objectives in this area include: strengthening the stability and effectiveness of institutions guaranteeing democracy and the rule of law; strengthening democratic institutions ensuring respect for human rights and fundamental freedoms; reform of the judicial system; civil service reform; and ensuring the effectiveness of the fight against corruption.

Democracy and rule of law

The presidential **elections** in October 2008 showed progress towards meeting OSCE commitments and other international standards, in particular with regard to some technical aspects of the election administration. However, the election process failed to meet other OSCE standards, including freedom of assembly, candidates' access to media, correct vote counting and tabulation of results. Some opposition candidates decided not to participate in the election, citing longstanding obstacles to equal treatment and equal opportunities. Overall, the pre-election process was characterised by a worsened political climate, not conducive to real pluralism.

The amendments to the **Election Code** adopted in June 2008 addressed some of the recommendations by the OSCE/ODIHR and the Council of Europe (CoE) Venice Commission but remain insufficient, notably regarding the nomination of members and composition of the election commissions¹ as well as the complaints and appeals procedure. Other causes for concern include amendments limiting equal access to public media.

Some progress was made in the field of **judiciary reform**, notably in the area of selection and training of judges. 102 new judges were recruited and the Academy of Justice was established to improve training for judges and other lawyers. However, the proper application of the legislative framework and particularly the independence of judges remains a problem: corruption of judges and political interference in the activities of the judiciary remain common. A number of cases of deprivation of property without court charges have been reported. Access to legal aid remains limited. A draft law on juvenile justice was prepared in 2008 but still needs to be adopted.

Corruption remains pervasive and continues to affect all levels of society, threatening the economic growth as well as the social and political development of the country. A backsliding in corruption was reported by international surveys. Appropriate anti-corruption legislation is in place and some strengthening of administrative capacity to deal with corruption cases has

¹ This applies to Central Election commission as well as lower level commissions.

taken place, including the preparation of a twinning project to enhance the capacity of the Anti-Corruption Department of the Prosecutor General's office. However, serious efforts to improve implementation and enforcement including through the on-going implementation of the Anticorruption Strategy for 2007-2011, as well as to achieve a gradual change of culture and mentality, still remain to be seen.

No major developments took place regarding the strengthening of **local democracy**, whether in relation to the legal framework or the division of powers between municipalities and local branches of the executive power. However, the legislation was amended in April 2008 to simplify the procedure for mergers of municipalities.

Human rights and fundamental freedoms

The **human rights** situation in Azerbaijan has declined. A number of persons are detained for their political views or activities, including several opposition journalists detained on charges unrelated to their professional activities (hooliganism, drugs, bribery and terrorism). The President's pardon decrees in March and August 2008 did not benefit them. PACE (the Parliamentary Assembly of Council of Europe) reiterated its call to settle the problem and to consider the release of a number of prisoners on humanitarian grounds. It also condemned the lack of transparency and fairness in relevant investigations and court proceedings and demanded the immediate release of the imprisoned journalists. Cases of harassment and alleged charges against human rights defenders, often related to defamation and libel, continue to be reported. However, some positive developments regarding the protection of human rights in prisons took place, with the first ever temporary release of a prisoner in November 2008, and with a transfer of one prisoner to receive medical treatment. Outside the reporting period, libel charges against a human rights defender were withdrawn in March 2009.

The **Ombudsman** institution is playing an active role in social issues, inter-religious dialogue, protection of national minorities and the rights of children but avoids confrontation on questions with political repercussions.

Azerbaijan is party to a number of international and regional **human rights instruments** and submits most of the relevant implementation reports to the United Nations treaty bodies in due time. By the end of the reporting period, Azerbaijan had not extended invitations to all UN Special Procedures. However, such an invitation was announced after the reporting period, in February 2009.

Azerbaijan has not acceded to Protocol n° 13 to the ECHR on the abolition of the **death penalty** but has abolished the death penalty for all crimes in its legislation.

Numerous cases of **ill-treatment and allegations of torture**, especially during pre-trial detention and in the army, continue to be reported. The majority of allegations are related to the time of questioning by police officers, with a view to extracting confessions or gathering other information. The Government has made efforts to train law enforcement officials on human rights but effective investigation of allegations of torture and ill-treatment remains minimal. However, full transparency and good cooperation are reported by external organisations, monitoring places of detention, such as the CoE Committee for the Prevention of Torture (CPT) and the authorities show a willingness to improve the situation in places of detention. However, the CPT reports have still not been made public. Outside the reporting period, in January 2009, Azerbaijan ratified the Optional Protocol to the UN Convention

against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, thus fulfilling an important Action Plan commitment.

Efforts have been made to reform the **penitentiary system** through improvement of the conditions of detention including substantial construction and renovation works in prisons, training of prison staff and improving health care in prisons. A project of prison reform is on-going with the Council of Europe. However, Azerbaijan's prison conditions remain harsh, especially for those serving long-term or life sentences. The majority of prisoners still depend on their families for basic needs.

Freedom of expression and media still raises serious concerns. Cases of harassment and intimidation of opposition journalists through defamation court proceedings, imprisonment, physical attacks and threats, and conviction on often very unclear charges continue to be reported. There are concerns of growing pressure on opposition and independent media outlets, reported cases of limited access to printing houses and distribution facilities, defamation suits and restrictive access to broadcasting licenses. Media pluralism became even more limited, with television and Internet widely under State control, and a narrowing space for alternative information via radio. In December 2008, the National TV and Radio Council banned the broadcasting of foreign radio stations on national FM frequencies, thus depriving the public of alternative sources of information. In July 2008, the "Concept for State support for the development of media in Azerbaijan" was adopted, aimed at providing increased support for media programmes.

The continued criminalising of defamation and libel remains an obstacle to the freedom of the media. No developments have taken place to revise the relevant civil law provisions to ensure respect for the principle of proportionality.

The legislation on **freedom of assembly**, amended in May 2008, meets most of the international standards in relation to freedom of assembly and thus constitutes a significant improvement of the legislative framework. However, the law is interpreted and implemented in a restrictive manner by the municipalities, limiting freedom of assembly in practice. There is a *de facto* approval procedure for assembly and the prohibition or restrictions of demonstrations occur on a regular basis. Political forces are prevented from organising meetings and rallies freely in places easily accessible to the public, including in the centre of larger cities such as Baku.

The Council for State Support for **NGOs** became fully operational in 2008 and allocated competitively AZM 1.5 million for the support of 193 project proposals by NGOs. A decision to increase significantly the State funding for NGOs was taken, which will be applied as of 2009.

The legislative and institutional framework for the protection of national **minorities** remains insufficient. Issues of concern include the lack of comprehensive anti-discriminatory legislation and limited possibilities for national minorities to effectively channel their views and concerns to the authorities, as well as reported cases of intolerance faced by persons or organisations advocating minority rights. Some national minorities continue to face discrimination. Like last year, there was no progress towards ratification of the Protocol n° 12 of the ECHR on the general prohibition of discrimination or of the European Charter on Minority Languages.

Freedom of religion is largely secured. Azerbaijan remains rather tolerant towards mainstream religions. However, some cases of burdensome registration requirements, selective harassment and marred application of the law were reported.

On **gender equality**, two women's crisis centres in operation. The draft law on preventing domestic violence is awaiting parliamentary approval while the national action plan on family and gender equality is awaiting Cabinet approval. In September 2008, the Congress of Women of Azerbaijan adopted a programme to promote gender equality in the newly adopted state programme for poverty reduction and sustainable development, see below. As regards women's participation in economic and political life, 14 out of the 125 MPs are women. The 2006-2009 Decent Work Country programme, elaborated with the International Labour Organisation (ILO), aims at promoting female work.

As regards **trade unions and rights at work**, Azerbaijan has ratified all the main ILO conventions and now qualifies for the EU special incentive for sustainable development and good governance (GSP+) for the period 2009-2011, see section 4. However, its implementation record remains poor. Azerbaijan continued to promote tripartite dialogue through the signature of a tripartite collective agreement for 2008-2009. The labour code was amended in May 2008 to better address termination of labour contracts. Before the reporting period, in December 2007, Azerbaijan submitted its report on the application of the revised European Social Charter to Council of Europe, on issues dealing with employment, training and equal opportunities. A second report was submitted in November 2008.

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; addressing common security threats, including non-proliferation of weapons of mass destruction and illegal arms exports; and strengthening efforts and cooperation in the fight against terrorism

Since June 2007, Azerbaijan has been invited to align with **CFSP declarations** on a case-by-case basis. During 2008, Azerbaijan aligned with less than half of the declarations.²

No developments took place towards accession to the Rome Statute of the **International Criminal Court (ICC)**.

With regard to cooperation on addressing common security threats, no further steps have been reported towards Azerbaijan's accession to the Ottawa Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.

Strengthening regional cooperation

Azerbaijan participated in a programme on **integrated border management** in the Southern Caucasus (SCIBM), see section 5.

Azerbaijan is participating in the **South Caucasus Anti-Drugs programme (SCAD V)** with the overall objective "to encourage the gradual approximation of drug policy legislation, norms and standards between Azerbaijan, Armenia and Georgia and between these countries and the EU", see section 5.

² Azerbaijan aligned with 65 CFSP cases out of 164 in 2008. This is significantly lower than for other South Caucasus countries.

The Regional Environmental Centre for the Caucasus (REC-Caucasus) became fully operational under its new charter with the approval of national representatives of the three Caucasus countries for the new executive body in December 2008. Azerbaijan supported the establishment of its new management structure. The REC is an important tool to promote regional cooperation and stability for the future of South Caucasus.³

Azerbaijan participates in the Black Sea Synergy regional cooperation initiative. It hosted the Tenth Anniversary conference of the **TRACECA** multilateral agreement in December 2008. Azerbaijan performed a leading role in the framework of the Baku Process on Energy and Transport, and organised an Energy Summit in November 2008. However, Azerbaijan is the only country in the region which has not joined the Black Sea Cross-Border Cooperation (CBC) Programme.

Azerbaijan maintained a neutral and constructive attitude towards the conflict in Georgia in August 2008.

Regional youth cooperation in the South Caucasus was carried out with the assistance of the Helsinki Citizens' Assembly within the framework of the South Caucasus Youth Network. Azerbaijani-Armenian youth peace brigades were set up in October 2008 to organize a peacekeeping process in South Caucasus.

Contribute to a peaceful solution of the Nagorno-Karabakh conflict

Tensions are still high, however some progress was made in the context of the resolution of the **Nagorno-Karabakh conflict**. The Presidents of Azerbaijan and Armenia held two meetings to negotiate a solution to the Nagorno-Karabakh conflict, in St Petersburg in June and in Moscow in November 2008. The two Foreign Ministers also met, including in the margins of the OSCE Ministerial in Helsinki in December 2008.

The meeting in Moscow in November resulted in the signing of a joint declaration on contributing 'to the improvement of the situation in the South Caucasus by means of the political settlement of the Nagorno-Karabakh conflict', 'agreeing that the peace settlement should be accompanied by legally binding international guarantees of all its aspects and stages' and "considering important encouraging the establishment of conditions to realize measures on consolidating trust in the context of efforts on settlement". This is the first jointly-signed document between the two countries since 1994. These developments complement the on-going efforts of the peaceful resolution of the Nagorno- Karabakh conflict in the context of the OSCE Minsk Group.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

Macroeconomic development

The economy of Azerbaijan continued growing strongly in 2008, with overall growth reaching approximately 11%. The oil sector grew by around 10%, notwithstanding some

³ The REC charter, adopted in 2006, is one of very few documents signed jointly by government representatives of Armenia and Azerbaijan.

slowdown in August due to external events and technical disruptions. The non-oil sector responded to the strong fiscal stimulus and grew by 15%, led by a robust expansion in construction, services and agriculture. Attempts to diversify the economy have made little progress so far and economic activity is still heavily dependent on the hydrocarbon industry and related sectors.

Average inflation was around 21% in 2008, driven by an expansionary fiscal policy, accommodative monetary stance and domestic supply constraints, in the context of globally high commodity prices. The tightening of monetary policy by the Azerbaijan National Bank and the decline of international commodity prices had a positive impact on inflation; however, the presence of monopolist importers may prevent further price reductions from being fully passed through to the consumers. The decision of the Azerbaijan National Bank to reduce its policy rates by 7% the last months of 2008, in order to support non-oil economic growth with inflation being still in high double digits, could put the downward trend of inflation to risk.

Fiscal revenues rose significantly, led by a surge in revenue from value-added tax and corporate profit tax which benefited in 2008 from booming domestic demand linked to high oil prices. Hence, despite the heavy spending on infrastructure projects, the central Government balance recorded a surplus of 0.2% of GDP. Nevertheless, the state budget heavily relies on oil revenues. Legislation concerning the execution, monitoring and auditing of public investments has been passed, though the quality, efficiency and control of public spending should be further strengthened.

Although Azerbaijan has linked the exchange rate of the Manat to a USD-Euro basket since March 2008, it decided to suspend this regime temporarily due to an excessive volatility of the US dollar, with the aim of avoiding panic and re-dollarization. The combination of falling oil prices and stronger USD poses risks for the future exchange rate of the Manat.

The surge in oil and gas export revenues and the contractual transfers from profit-sharing clauses in the agreements with the oil consortia have contributed to a large current account surplus of approximately 40% of GDP, despite the rise in imports of machinery and equipment. As a result, at the end of September 2008, Azerbaijan's gross official reserves and state oil fund assets jointly reached USD 16 billion, around six times the size of the external debt. However, the downside risks in the external position due to the fall of oil prices are considerable. Efforts for export diversification should continue.

Azerbaijan entered the period of financial turmoil and uncertainty in a relatively solid position and the consequences during 2008 were limited. This was because of the underdeveloped financial market, the low exposure of the banking system to foreign banks and the strong international reserve position. Nevertheless, the Azerbaijan National Bank tightened credit growth and strengthened prudential regulations and supervision.

Employment and social policy

Azerbaijan adopted in September 2008 the State Programme for **Poverty Reduction and Sustainable Development** for the years 2008-2015, which aims at reducing the level of poverty from 13% to 10% by the end of 2015. The comprehensive programme will be implemented by an action plan, initially covering a timeframe of three years.

Unemployment decreased over the reporting period. In December 2008, the official unemployment rate was 6.1%. Implementation of the Employment Strategy (2006-2015),

which covers legislation, institutional capacity and human resources development, continued and working groups were established during the reporting period. Azerbaijan also worked on amending its unemployment legislation to match market needs and labour skills better.

As regards **social inclusion and protection**, Azerbaijan continued cooperation with the World Bank with a view to improving effectiveness and transparency in the provision of public pensions and social assistance. The law on targeted social assistance was amended in June 2008 to extend social assistance coverage to foreigners residing in Azerbaijan. The implementation of the targeted social assistance scheme is supported by an automated management information system covering the entire country. The eligibility criteria and grounds for refusal were refined in June and July 2008. The management information system for the pension funds covers 70% of Azerbaijan. A new State programme on the development of an insurance-based pension system was adopted in December 2008.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

EU-Azerbaijan bilateral **trade** has been growing rapidly in the last five years and the EU has progressively become Azerbaijan's main trade partner (55.0% share in Azerbaijan's overall external trade in 2007, before the US with 9.2% and Russia with a 8.2% share). Nevertheless Azerbaijan's share in the EU's overall external trade remains low: only 0.4% in 2008, i.e. 42nd place among the EU trading partners). In 2008, the total turnover of bilateral trade reached EUR 12.61 billion, with Azerbaijani exports to the EU at EUR 10.55 billion and EU exports EUR 2.06 billion. The EU exports to Azerbaijan concern mainly machinery and transport equipment (approximately half of the EU total exports to Azerbaijan in 2008), as well as chemicals (7.4%) and base metals and products made from them (7.2%) and chemicals (8%). Azerbaijan's export structure remains heavily unbalanced: it consists almost exclusively of mineral fuels (oil and gas accounted for 99 % of Azerbaijani exports to the EU in 2008), while the share of other products is practically negligible.

During the reporting period Azerbaijan did not increase its use of the tariff concessions stemming from the participation in the general arrangement under the EU Generalised System of Preferences (GSP). In December 2008, Azerbaijan qualified for the special incentive arrangement for sustainable development and good governance, the GSP+, under the new EU GSP Regulation for 2009-2011.

Azerbaijan has so far achieved only limited progress in its negotiations on the accession to the World Trade Organisation (WTO). However, the last Working Party meeting in Geneva, as well as bilateral technical discussions with the European Commission's services in December 2008, were rather fruitful and could signal a positive change in Azerbaijan's engagement in the accession process.

The revised **customs** code aiming at harmonising the customs legislation with the EU and international provisions and standards, remains to be adopted. Work on the use of risk based customs controls is continuing, and the State Customs Committee created a Department of Audit and Risk Analysis in June 2008. Work is also proceeding in the area of security of the supply chain for the implementation of the "WCO framework of standards to facilitate and global trade". The State Customs Committee set up a working group on the possible use of the Single Administrative Document (SAD) for customs declarations. With a view to improving cooperation with the business community, a "Regulation on Cooperation between the customs service and business operators" entered into force during the reporting period. The "Single

Window” concept for customs clearance was adopted in November 2008, with the application of the new procedure starting on 1 January 2009.

Azerbaijan made some progress on the **free movement of goods and technical regulations**. A new law on technical regulations was submitted to the Cabinet of Ministers but has yet to be adopted. Several by-laws were also prepared. Furthermore, preparations for a state programme on the development of the standardisation sector are on-going. As regards quality infrastructure, the State Committee on Standardization, Metrology and Patents was established in November 2008.

Azerbaijan and the EU strengthened cooperation in the field of **sanitary and phytosanitary (SPS)** issues by launching a food safety twinning project in September 2008. Azerbaijan also pursued gradual approximation with EU rules. Azerbaijan prepared amendments to laws on veterinary issues, on sanitary-epidemiological well-being and on food products. It further prepared its future accession to the Codex Alimentarius.

Regarding **establishment and company law**, Azerbaijan attaches great importance to attracting foreign investments. Azerbaijan continued to simplify the registration of companies by reducing the number of licensed activities from 240 to 50, and by decreasing State duties. The introduction in January 2008, of a “one-stop shop”, reported last year, contributed to the increase in the number of companies registered. Azerbaijan continued working on corporate governance by setting up a dedicated working with the task of drafting a code.

Concerning **financial services**, the National Bank of Azerbaijan continued to take steps to improve bank supervision, to tighten prudential regulations and to raise capital requirements. The new capital framework law, which follows the Basel II principles for effective banking supervision, is still before Parliament, awaiting adoption. The Law on insurance activities was adopted in March 2008. Further, a draft law on non-banking credit institutions was submitted to the Parliament. The new law contributes to the development of micro-finance in Azerbaijan. Notwithstanding these generally positive developments, further efforts are needed to continue development of Azerbaijan’s financial services.

Other key areas

The implementation of the Automated **Tax Information System (AVIS)** is continuing and in 2008 more than 1100,000 taxpayers received access to the e-service, and thus over 660 000 tax returns were submitted electronically to the tax authorities. A system of VAT bank accounts became effective from January 2008. In order to provide services to the taxpayers in regions without tax authority offices, the Ministry of Taxes installed several computer terminals allowing taxpayers to submit tax returns and to receive information on tax issues. In order to strengthen cooperation with taxpayers, an Experts Commission, comprising the representatives of taxpayers and other stakeholders, was established in 2008 to discuss tax issues, including draft legislation. There is still scope for improving the possibility to appeal to an independent authority, raising the number of tax audits, and reducing the amount of uncollected tax arrears. A new version of the “Ethical Behaviour Code of Tax Employee” was approved by Ministerial order in 2008. The training of tax officers was also reinforced by the use of an online education system as well as through external assistance. In 2008 agreements on the avoidance of double taxation were signed with the Netherlands and Hungary.

In the field of **competition law**, the State Anti-monopoly Service (SAS), under the Ministry of Economic Development, is in place, but there are some concerns about corruption in the service and its management has been changed. An investigation of SAS activities was

initiated in August 2008. In December 2008, a presidential decree increased the authority of the SAS to take more independent decisions and to hold on-site inspections. The draft competition law from 2007 is in the Parliament, not yet adopted. The draft law has provisions on control of state support.

In the area of **intellectual property rights**, a long-term strategy covering all priority areas as well as a number of legislative acts on the protection of broadcasting copyrights and patents were submitted to the Cabinet of Ministers in December 2008. The amended Law on copyrights and related rights was adopted in April and entered into force in May 2008. As regards enforcement, Azerbaijan is working on amending its penal code with a view to introducing more stringent penalties for IPR-related crimes. A database on statistics of court trials on infringements is under development at the Copyrights Agency. A draft law on securing intellectual property rights and combating piracy is awaiting Cabinet approval. There is no coordinating body to supervise enforcement activities which remain weak. A law on IP enforcement and fight against piracy is urgently needed.

In the area of **public procurement**, the implementation of the e-Commerce Law continued. All tenderers have the right to appeal tender procedures at three levels: the public authority announcing the tender, the State Committee on State Property Management, and the courts. There are still concerns as regards the provisions of equal opportunities for foreign and domestic suppliers.

Azerbaijan prepared a twinning proposal for cooperation in specific statistical domains including price **statistics** and national accounts. In February 2008, Azerbaijan also amended its Law on official statistics as far as operations of enterprises are concerned.

As stated in the last Progress Report, use of international financing reporting standards (IFRS) in the field of **accounting** has been compulsory since January 2008 for sizeable companies, and since January 2009 for commercial entities.

With regard to **public finance management**, the Ministry of Finance continued implementation of a three year programme for the translation of International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) to public bodies. Developments in 2008 included the approval by the latter of 27 national accounting standards for commercial organisations and the approval of the translation of IFRS into Azerbaijani, as required by the Law on Accounting. Work is also on-going on development of national accounting standards for the non-governmental sector. The Ministry of Finance established a working group to oversee and supervise the gradual extension of an online treasury management system to all treasury management centres, as part of the above reform programme. Training courses on the application of international standards for public financial managers were provided in this respect. In addition, the Ministry of Finance has made efforts in order to provide a legal basis for inspection. In the areas of managerial accountability and independent decentralised internal audit, preparations are still at very early stages.

On **enterprise policy**, the newly adopted state programme on support to development of entrepreneurship (2008-2013) provides a framework for supporting to innovative entrepreneurship. It envisages establishing business incubators. The first conference to support innovative entrepreneurship was organised by the Ministry of Economic Development and Azerbaijan National Academy of Sciences in July 2008. The State Fund for Entrepreneurial Development continued to provide privilege loans.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

Azerbaijan participates in the Southern Caucasus Integrated **Border Management** (SCIBM) regional programme, agreed between Georgia, Armenia and Azerbaijan already in October 2007. The programme aims to enhance inter-agency cooperation while strengthening the capacity of customs and border guard services in line with agreed regional standards and EU norms. The implementing consortium, led by United Nations Development Programme (UNDP) was selected by year end to start implementation in early 2009. Despite the regional character of the programme, Azerbaijan chooses to pursue cooperation only under the bilateral component with Georgia.

Work on the delimitation of borders with both Georgia and the Russian Federation are near completion. Cooperation agreements were signed between the State Border Service and the relevant border guard services of Latvia and Lithuania.

The **Migration** Service became fully operational in August 2008. In October 2008, two regional branches were opened. In June 2008, migration legislation was amended to clarify the length of stay of foreign citizens and stateless persons in Azerbaijan; the grounds for their temporary and permanent residence in the country; foreigners' registration system and the criteria for granting Azerbaijan citizenship. In addition, a draft readmission strategy was prepared and submitted to the Government in October 2008. The number of migrants, notably labour migrants mainly working in the construction sector, increased considerably.

Cooperation on the **fight against organised crime** continued with international organisations as well as with neighbouring CIS countries, Iran, Turkey and Bulgaria on the basis of earlier mutual legal assistance agreements. Some success was achieved on curbing smuggling of migrants from Iran.

To combat **trafficking in human beings**, the Ministry of the Interior organized awareness-raising seminars and training sessions for local authorities, district police bodies and the wider public, including a dialogue with civil society representatives in April 2008. In addition, government agencies developed national protection mechanisms for the protection of victims of trafficking, in close cooperation with local and international NGOs, in order to enhance implementation of the National Action Plan on Combating Trafficking in Human Beings. The Ministry of Labour and Social Protection established a support centre for victims of trafficking to assist their rehabilitation. However, Azerbaijan has yet to sign and ratify the 2005 Council of Europe Convention on Action against Trafficking in Human Beings.

With regard to the fight against **drugs**, the five-year action programme (2007-12) to combat drug addiction is being implemented in line with the national strategy. Cooperation with the regional Interpol bureau in Baku continues on the fight against illegal narcotics and drug smuggling and with the country's neighbours under the regional SCAD V programme as well through earlier bilateral agreements. In this context, Azerbaijani officials benefited from a study tour to Sweden in September 2008.

An adequate framework to combat **money-laundering** is lacking. Azerbaijan is the only Council of Europe country without a financial intelligence unit. A draft law on money laundering and combating the financing of terrorism was proposed in October 2008 but in December, the Council of Europe's Moneyval committee judged it non-compliant with key international standards. Azerbaijan was requested to prepare comprehensive legislation in its place. In February 2009, the Parliament adopted an anti-money laundering and financing of terrorism law whose deficiencies were subsequently commented upon by Moneyval during its

29th plenary meeting in March. In this regard, cooperation with relevant experts and international financial institutions requires immediate consideration.

With regard to **police and judicial cooperation**, Azerbaijan neither acceded to the 1980 Hague Convention on the Civil Aspects of International Child Abduction nor signed the 1981 Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data. Moreover, it has not signed nor ratified the 1983 Council of Europe Convention on the Transfer of Sentenced Persons. A Law on Biometric Information was adopted in June 2008, while in August the Ministry of the Interior established a working group to accelerate international cooperation including implementation of the ENP Action Plan. Azerbaijan cooperates with CIS countries within the framework of the 1993 Minsk Convention on Legal Assistance and Legal Relations in Civil, Family and Criminal matters and has an observer status in the South-East Cooperation Initiative (SECI) for regional cooperation with Black and Caspian Sea countries. No progress was registered with regard to the development of a network for enhanced cooperation with EU judicial and law enforcement authorities.

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

The Ministry of **Transport** drafted a national transport policy in 2008 (in consultation with the various transport agencies) that is now awaiting official approval. The Government also allocated significant funding for the development of transport infrastructure in the period 2004-2008.

In the road sector, Azerbaijan is continuing the upgrading of its highway network. There are plans to strengthen the administrative capacity of the Ministry of Transport and of the national road administration (Azeryolservice), supporting them in developing of a traffic safety strategy as well as a road development master plan. Azerbaijan has regulated professional passenger and freight transport operations.

In the rail sector, Azerbaijan is negotiating with the Intergovernmental Organisation for International Carriage by Rail (OTIF) on the accession to the Convention concerning International Carriage by Rail (COTIF). Azerbaijan has drafted a strategy covering the period 2008-2011 for the reform of its railway sector, focusing on the institutional strengthening of railway management, the modernization of railway infrastructure and renewal of the rolling stock. The railways will be transformed into a joint-stock company, in the short term fully owned by the state.

In the aviation sector, Azerbaijan has yet to sign the horizontal air transport agreement, negotiated with the European Commission in 2004, in order to provide for legal certainty for air operations. Azerbaijan is the last country in the Southern Caucasus not to have signed such an agreement with the European Community. Azerbaijan needs to further strengthen its newly created Civil Aviation Authority including in the field of air safety oversight.

In the maritime sector, the maritime administration has been strengthened; amendments to the “Statute of the State Maritime Administration” were approved in November 2008. The Administration was given new tasks and its relationship with the Ministry of Transport was clarified: the Ministry is responsible for the development and supervision of the implementation of the overall transport policy for the country, while the Maritime Administration participates in development of maritime policy.

Azerbaijan remains a rapidly growing **energy** producer and transit country for Caspian resources including for the EU's energy security. Cooperation continued, *inter alia*, on the basis of the 2006 Memorandum of Understanding on a strategic partnership in the field of energy. The European Community is supporting its implementation through budget support and a twinning project. The country further implemented the state programme on fuel-energy complex development 2005-2015, *inter alia* by preparing draft laws on electricity, gas and energy security. Azerbaijan also significantly improved its infrastructure for the production and distribution of electricity in 2004-2008.

Azerbaijan consolidated oil and gas exports notably via the Baku-Tbilisi-Ceyhan (Turkey) oil pipeline and the Baku-Tbilisi-Erzurum (Turkey) gas pipeline. They were filled in particular from the Azerbaijani-Chirag-Guneshli oil field and the Shah Deniz gas field. Oil supplies from the Kazakh Tengiz field were also channelled into the main oil pipeline. The Baku-Supsa (Georgia) export oil pipeline was rehabilitated. In 2008 a feasibility study for the extension of the Baku-Tbilisi-Ceyhan pipeline was completed. Azerbaijan continued participation in the "Baku Initiative" for EU-Black Sea/Caspian energy cooperation. It actively participated in the completed EC's study regarding the feasibility of a Trans-Caspian/Black Sea energy corridor. Azerbaijan launched, together with companies from Georgia, Lithuania, Poland and Ukraine, a new study on the extension of the Odessa-Brody oil pipeline to Gdansk in Poland. Azerbaijan increased the security of oil and gas pipelines including by drafting an action plan in this area. Azerbaijan pursued, with a view to the transparency of oil and gas revenues, participation in the Extractive Industry Transparency Initiative (EITI).

The Tariff Council, which aims at eliminating price distortions, adjusted electricity tariffs. A new electricity tariff methodology is in preparation. Increased bill collection rates further improved the financial performance of the electricity and gas companies Azerenergy and Azerigas. Azerbaijan continued the rehabilitation of electricity and gas infrastructure and the construction of new power plants. The Government adopted a programme on the use of compressed natural gas in transport for 2008-2018. It separated the electricity distribution sector into three joint stock companies. Azerbaijan, Georgia and Turkey worked on their plan to strengthen electricity interconnections among them. Azerbaijan is constructing additional electricity interconnections with Georgia and Iran. It also announced its interest to build a nuclear research reactor. The International Atomic Energy Agency will conduct a feasibility study on this issue. In April 2008, the President ordered establishment of a State Agency on Control of Nuclear and Radiation Activities under the Ministry of Emergency Situations.

The country continued to implement the state programme on the use of alternative and renewable energy 2005-2013, *inter alia* by developing investments in wind power and small hydro. Azerbaijan prepared plans to establish a state agency on alternative and renewable energy resources.

In the field of **climate change**, Azerbaijan continued preparing its second national communication, which will also include a greenhouse gas inventory and adaptation measures. Azerbaijan took steps to prepare and approve further Clean Development Mechanism (CDM) projects. None of the 21 Azerbaijani CDM projects has, however, yet been registered at the UN level. The European Commission continued to support Azerbaijan to implement the Kyoto Protocol. Azerbaijan has not yet adopted a formal position on the post-2012 regime.

Azerbaijan continued to implement its 2006-2010 **environment** state programme. It considers the possibility to update its 1998 environment action plan or to prepare a new planning

document on environment. The 2008 – 2015 poverty reduction strategy puts forward priority directions in various environment subsectors. The legislative framework continues to require further development, in particular as regards implementing legislation. Legislation on vibration and noise and on environmental fines was adopted. A national action plan on the Caspian Sea, an action plan on improvement of drinking water supplies and a hazardous waste management strategy were adopted. Work is on-going to develop a waste strategy for Greater Baku, as well as to implement existing strategies and plans, but continued attention is required. Efforts are also needed to enhance monitoring and enforcement.

Certain steps were undertaken with regard to training of staff and further strengthening of environmental monitoring capacities. However, strengthening of administrative capacity at all levels of the country remains major challenge. Coordination between authorities requires attention. Some activities took place to integrate environment considerations into other policy sectors such as energy. Azerbaijan has not published comprehensive state-of-the-environment reports since 2002 but carries out some activities to inform and involve the public. Concerning access to information and public participation, the capacities of the three operational Aarhus Centres were strengthened and steps were taken to consider establishing further centres throughout the country. Procedures and consultation with the public in the context of environmental impact assessment continue to require particular attention. Some steps were undertaken to promote implementation of strategic environmental assessment. For the Regional Environmental Centre for the Caucasus, please see the section on regional cooperation.

Azerbaijan made no significant progress towards signing the Protocol on Strategic Environmental Assessment to the UNECE Convention on Environmental Impact Assessment in a Transboundary Context. Furthermore, the implementation of several already ratified agreements requires particular attention. Azerbaijan participated in regional cooperation under the Framework Convention for the Protection of the Marine Environment of the Caspian Sea and the Caspian Environment Programme. It is also considering requesting a national policy dialogue under the EU Water Initiative. Cooperation and information exchange took place between the European Commission and Azerbaijan, including on water, forestry, waste management and environmental data. Other topics, such as air quality and civil protection, were identified for possible closer cooperation. The mandate of the subcommittee on Energy and Transport was expanded to cover environmental issues, with the first meeting in this format taking place in April 2008.

In the area of **information society**, Azerbaijan has not yet created an independent authority for electronic communications, and regulatory functions are still being carried out by the Ministry of Communications and Information Technology. The tariffs for local, long-distance and international fixed telephony were rebalanced and internet tariffs were reduced during 2008. The government started the privatisation programme by selling a 3.5% stake in the leading mobile operator and intends to sell public ownership in two mobile operators and one fixed telephony operator. Fixed Broadband Internet access has been introduced in Baku and a wireless broadband network (WIMAX) is being rolled out for the provision of voice-over-IP and Internet services.

Research and Innovation (R&I) activities remained very modest. Azerbaijan has still not adopted a national research strategy. In April 2008 the President set up a State Commission for Reforms in Science, which is drafting a national strategy for the development of science in 2009-2015, as well as a state programme to implement it. Although the participation of Azerbaijan in the 7th Research Framework Programme (FP7) slightly increased in

comparison to the FP6, the overall number of applications is still comparatively low. Encouraging success was made in the fields of international cooperation, research infrastructures, environmental protection and ICT.

As a result of the first INCO-NET call, IncoNet EECA (the S&T International Cooperation Network for Eastern European and Central Asian countries) was launched in January 2008 for four years. The total budget is approximately EUR 3.5 million. To ensure the international character of this project a large consortium of 23 institutes from 21 EU and EECA countries, including Azerbaijan, was formed.

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

Azerbaijan pursued modernization of **education** in 2008 through fourteen state programmes with an allocation of 1 billion USD (more or less EUR 773 million) from the state budget. A draft State Programme for Higher Education Development, focusing on the legal and methodological aspects of teaching, the quality of research and delivery as well as resource and financing challenges, was submitted for approval of the government. In addition, work is on-going on other support programmes for teacher development, re-skilling, and retraining. Significant improvements were noted with regard to educational infrastructure, renovation of old facilities and the construction of 1600 new schools. The Ministry of Education advanced towards mainstreaming of Active Learning into the teaching and learning processes through pre-service and in-service teacher training as well as the development of relevant guides and workbooks. Additional reform steps included aligning the education system to European practices through the introduction of a new school curriculum, the adoption of final secondary school examinations and the appraisal of textbooks.

Despite achievements in raising teacher salaries, additional attention would be required to improve the quality of education through effective and transparent licensing and appraisal in line with best European practice. In addition, equal access, structural independence, transparency and public oversight of the education system would need to be ensured.

Azerbaijan remains committed to alignment of its **higher education** system to the principles of the Bologna process. The new draft law on education, approximating relevant Bologna provisions, passed the second reading in the Parliament in December 2008. However, its participation in relevant events remains consistently weak.

Higher education reform in Azerbaijan continued to benefit from cooperation under the Tempus programme, with 3 projects selected under the first Call for Proposals of Tempus IV. Five Azeri students received scholarships under Erasmus Mundus while academic and student mobility was further facilitated through participation in Erasmus Mundus External Cooperation Window. A further five Azeri students received scholarships in European integration studies at masters level for students from the ENPI region under a special pilot project for the academic year 2008-9. In 2008, Azerbaijan State budget funds provided for 1.130 students to study abroad, of which 360 chose to study in European universities. Currently the Ministry of Education of Azerbaijan has signed agreements on bilateral co-operation with nearly 20 countries, including several European countries.

In the case of **vocational training**, the introduction of competence-based vocational education and training was facilitated by specific EC assistance under the earlier TACIS programme in support of Azerbaijan's modernization strategy for this sector. The

establishment of a vocational education and training development centre is planned in order to provide methodological support to the transformation of training provision.

In addition, the Ministry of Labour submitted a policy document to the Cabinet of Ministers on developing occupational and qualification standards, teacher training and certification, in line with the best European practice, with the support of the European Training Foundation. More public effort is required, however, in terms of development of adult education policy and provision including the development of a legal basis in the context of lifelong learning. The development of facilitating social partnership mechanisms would also be welcome.

The Ministry of **Youth** and Sport continued to implement the Youth State Programme 2005-2009, aimed at engaging young people in political, cultural and social life, in cooperation with UNICEF and the Youth Parliament of Azerbaijan. A National Strategy on Youth Participation and Development, ensuring participation and equal opportunities for children and young people, particularly the disadvantaged, is under consideration. Azeri youth organizations participated actively in the Youth in Action programme. In November 2008, the Ministry of Youth and Sport co-organised a conference with the Council of Europe on 'Beyond Religious Differences', examining how discrimination based on religion or belief can be overcome through youth work and engagement with young people (see Sectoral Report).

In the area of **culture**, a national cultural policy is being developed in conjunction with the existing tourism and cultural tourism development strategies. State programmes for the development of tourism, 2007-16, library information systems 2008-13 and for the development of cinema 2008-18, are being implemented by the Ministry of Culture and Tourism. The latter prepared a draft "Culture Concept of the Republic of Azerbaijan" as well as a draft law on the creative worker. The establishment of a Coordinating Council on Cultural Diversity to preserve and develop existing traditions of ethnic cultural communities is also planned. However, culture remains under the control of State authorities with no formal provision for non-governmental action with existing voluntary organizations dependent on state support and funding. Transparency is absent on allocation of funding for cultural purposes, with no means of participation by the cultural industry or the public in decision-making. Moreover, existing resources are expended in the capital to the detriment of the development of cultural activities in the regions. Azerbaijan has yet to ratify the UNESCO Convention for the Protection and Promotion of the Diversity of Cultural Expressions.

In January 2008 the Azerbaijani President endorsed a concept for reforming **health** financing and compulsory medical insurance. In August the Government adopted an action plan to implement the concept. Azerbaijan's reform objectives include the strengthening of governance and regulation; the improvement of financing through the enhanced introduction of medical insurance; a better matching between human resources and patient needs; and increasing the effectiveness of health services. Azerbaijan endorsed a strategy on reproductive health for 2008-2015 as well as a strategy and an action plan on the integrated management of childhood diseases. In 2008, the European Commission invited Azerbaijan to participate in the EU Network of competent authorities in health information and knowledge. Communicable diseases such as HIV/AIDS and tuberculosis remain challenges.

8. FINANCIAL COOPERATION – 2008 KEY FACTS AND FIGURES

The ENPI financial envelope for Azerbaijan under the National Indicative Programme 2007-2010 is EUR 92 million. The programme is geared towards supporting the achievement of key policy objectives as outlined in the ENP Action Plan and pursues three priorities: Support for Democratic Development and Good Governance, Support for Socio-economic Reform, and Support for Legislative and Economic Reforms in the Transport, Energy and Environment sectors.

In 2008, the European Commission continued to support national reform efforts and programmed assistance for a total amount of EUR 22 million under the ENPI. The 2008 Annual Action programme, adopted by the Commission in December 2008, focuses on support for justice reform and on twinning operations in support of the implementation of the ENP Action Plan.

Twinning projects on Food Quality and Safety Assurance and Certification Requirements, Fishery Products, Legal Approximation and Structural Reform in the Energy Sector, and Strengthening of Standardisation, Metrology, Conformity Assessment and Accreditation, were launched. A number of other twinning projects are under preparation.

Azerbaijan also benefits from cooperation activities financed under the ENPI multi-country, (including the Neighbourhood Investment Facility) and regional programmes, as well as horizontal thematic programmes, including the European Instrument for Democracy and Human Rights and the programme “Non State Actors and Local Authorities in Development”. Azerbaijan is eligible under the ENPI Black Sea Cross Border Cooperation programme, but has not yet signed its programming document and for the time being is not participating in it.

Azerbaijan has not signed the Memorandum of Understanding with EIB that is an essential pre-condition for receiving EIB loans.