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= Progress in 2012 and recommendations for action

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

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JOINT STAFF WORKING DOCUMENT

Implementation of the European Neighbourhood Policy in Armenia Progress in 2012 and recommendations for action

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

European Neighbourhood Policy: Working towards a Stronger Partnership

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on the progress made in implementation of the EU-Armenia European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2012, although developments outside this period are taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Armenia. For information on regional and multilateral sector processes, readers should also refer to the Eastern Partnership (EaP) Implementation Report.

Political dialogue with the Armenian Government intensified in 2012, and a number of high-level encounters took place: President Serzh Sargsyan was received in Brussels in March and a number of visits to Armenia by high-level EU officials also took place: these included visits by President of the European Council Herman Van Rompuy in July, by Commissioner Štefan Füle in September by President of the European Commission José Manuel Barroso in November. Negotiations on an EU-Armenia Association Agreement (AA), including a Deep and Comprehensive Free Trade Area (DCFTA), progressed at a good pace. Visa Facilitation and Readmission Agreements were initialled in October and a Visa Facilitation Agreement was signed on 17 December. As a result of progress in relation to reforms in the area of deep democracy and respect for human rights, Armenia has been allocated an additional EUR 15 million under the Eastern Partnership Integration and Cooperation (EaPIC) programme in 2012. In December, the EU and Armenia signed the Protocol to the Partnership and Cooperation Agreement on the general principles for the participation of Armenia in EU programmes.

While Armenia made a serious effort to address issues related to human rights and fundamental freedoms, further work needs to be done, especially in the implementation and enforcement of legislation. Regarding democracy, the May 2012 parliamentary elections and the February 2013 presidential elections were observed as having been well-conducted, but some specific reforms still needed to be taken forward, in conformity with recommendations of the Organization for Security and Cooperation in Europe's Office for Democratic Institutions and Human Rights (OSCE/ODIHR), in particular regarding the legislative framework.

In addition, despite ongoing reform efforts, public trust in the judiciary continues to be low, and the perception of corruption is still high. The National Preventive Mechanism under the Optional Protocol to the UN Convention against Torture needs to be further strengthened. Cases of torture and ill-treatment among military conscripts, in prison facilities and at police stations, are not adequately investigated.

Armenia continued to implement sound macroeconomic policies and structural reforms. It made further progress towards meeting the objectives of the Action Plan in the areas of macroeconomic policy, poverty reduction and social cohesion. Economic activity continued to grow, due to expanding exports and good weather conditions. Further growth and economic development will depend on improvement of the business environment, sustainable fiscal consolidation and the global economic situation.

The EU continues to request the earliest possible closure of Medzamor nuclear power plant (NPP), as it cannot be upgraded to meet internationally recognised nuclear safety

standards. It is a matter of concern that Armenia has not yet drawn up a detailed decommissioning plan for Medzamor. Following the Fukushima nuclear accident, Armenia undertook with the EU a comprehensive risk and safety assessment ('nuclear stress test') of the plant, the report of which will have to be submitted in early 2013. Armenia is an active observer of the Energy Community.

There has been no progress in the talks mediated by the OSCE Minsk Group co-chairs aimed at settling the Nagorno Karabakh conflict. Front-line incidents, the Safarov case and the opening of the airport in Nagorno Karabakh have shifted priorities towards defusing tension rather than seeking a solution. There was also no progress on the incident investigation mechanisms supported by both sides at the Sochi Summit in January 2012. The European Union Special Representative on the South Caucasus and the crisis in Georgia visited the region on three occasions to support the work of the OSCE Minsk Group, and the EU funded project 'European Partnership for the Peaceful Settlement of the Conflict in Nagorno Karabakh', aimed at developing confidence-building measures, entered its second phase. There were no positive moves towards rapprochement between Armenia and Turkey. The EU continues to support the rapprochement process without preconditions.

Armenia addressed some of the key recommendations contained in the last year's ENP progress report. It prepared a roadmap to improve the electoral process, adopted a National Human Rights Strategy and took some measures to fight corruption, to reform the judiciary and public administration, and to advance sectoral reforms and regulatory approximation to the EU acquis. Progress is needed also on other key recommendations. On the basis of this year's report and with a view to sustained implementation of the ENP Action Plan in 2013,¹ Armenia is invited to:

- Further address the shortcomings identified by the OSCE/ODIHR concerning the May 2012 parliamentary elections and February 2013 presidential elections, by implementing all OSCE/ODIHR recommendations, including changes to the legislative framework after the presidential elections.
- Fully investigate the deaths that occurred during clashes following the March 2008 presidential elections and the allegations of ill-treatment in police custody and violation of due process.
- Step up efforts with Azerbaijan to reach agreement on the Madrid Principles, in accordance with the commitments made by the Presidents of Armenia and Azerbaijan within the Minsk Group.
- Ensure unimpeded access to representatives of the EU to Nagorno Karabakh and surrounding regions in support of conflict transformation activities in full complementarity with the Minsk Group activities.
- Promote an environment conducive to progress in conflict settlement, encourage and support related peace-building activities.

¹ The Action Plan should be replaced by the Association Agenda in the course of 2013.

- Ensure implementation of the National Human Rights Strategy, formulate, adopt and implement the related Action Plan.
- Adopt amendments to the legislation on broadcasting in compliance with the recommendations of the OSCE and the Council of Europe, and ensure pluralism in the broadcasting media.
- Finalize the draft law on Conscience and Religious Freedoms, in line with international standards, as well as the legislation on alternative civilian service, in conformity with Venice Commission and OSCE recommendations.
- Adopt comprehensive anti-discrimination legislation, including further steps leading to the harmonization of legislation with the EU *acquis* in the areas of gender equality and non-discrimination.
- Intensify the prevention of and the fight against corruption, including implementation of laws adopted in 2012 and reinforcement of capacities, independence and transparency of the State Commission on the Ethics of High-Ranking Officials.
- Strengthen the implementation of governance reforms, including measures to reform the law enforcement and judicial sectors (especially to increase public trust in and the independence of the judiciary, improve the training of judges and review the code of criminal procedure).
- Continue the reform of public administration, in particular through strengthening merit-based career and pay paths in the civil service, strengthening institutional capacity of local governments and continuing with reform of the public finance management sphere.
- Continue to advance sectoral reforms and regulatory approximation to the EU *acquis* in trade and trade-related areas, in parallel to the ongoing negotiations on a DCFTA, in particular in the areas of Sanitary and Phytosanitary Measures, Technical Barriers to Trade, Intellectual Property Rights and Customs.
- Enhance efforts to provide for a competitive economic environment, including through improvements in contract enforcement, ease of paying taxes and trading across borders.
- Work towards the earliest possible closure of the Medzamor nuclear power plant and adopt a detailed decommissioning plan for this plant, taking into account the result of the 2012 stress tests report.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

The Armenian authorities delivered relatively transparent and competitive parliamentary **elections** in May 2012. An EU project to support the election processes in Armenia implemented by the OSCE helped improve the technical capacities of election commissions and the election observation capacity of civil society. At the same time, the OSCE/ODIHR election observation mission identified a number of issues which still needed to be addressed before presidential elections in February 2013. In September,

local elections took place in most Armenian regions: a delegation from the Congress of Local and Regional Authorities of the Council of Europe observed the election days only and expressed moderate satisfaction. In December, two candidates from the ruling party won parliamentary by-elections which their opposition challengers condemned as fraudulent. In February 2013, presidential elections took place, with OSCE/ODIHR pointing to further improvements in terms of administration of the election process, including better quality of voters' lists, but also reporting cases of pressure on voters and multiple ballot casting. Public trust in the electoral process remained low.

In 2012, the **freedoms of expression, and assembly** were generally respected. In May, the Human Rights Defender and the police established a working group to review the Law on Public Gatherings. The proposed revisions aimed to clarify the imprecise language of the current law.

Media independence remained insufficient. Armenia's broadcasting law, amended several times, continued to raise concerns about media pluralism. The legal basis for possible withdrawal of broadcasting licences is currently too broad, which may lead to arbitrariness. The authorities have not taken any further steps to reform legislation in order to adequately protect media outlets against politically biased abuses in civil defamation cases. Print media outlets were relatively diverse and some progress was registered in electronic media, with ArmNews TV channel devoting a slot to the newscasts of the opposition-related A1+ TV channel, whose licence had been revoked in 2002. The OSCE/ODIHR election monitoring mission found that all major political parties generally had access to the media.

In July, President Sargsyan signed the Strategic Programme for Legal and **Judicial** Reforms 2012-2016. The reforms in this area do not sufficiently address issues pertaining to the independence of the judiciary, including limited influence of the Council of Justice (courts' self-governing body) on the adoption of the budget, termination of judicial powers on the grounds of temporary incapacity to work and participation of the Minister of Justice in disciplinary proceedings against judges. Lack of transparency in the work of the Court of Cassation led to an unprecedented day-long strike by 500 lawyers representing the Lawyers' Chamber of Armenia in May.

Some progress was made in the area of access to justice, in particular through the introduction of the Random Case Assignment Procedure in the courts, incorporation of accelerated pre-trial procedures for minor cases into the draft Criminal Procedure Code, and a draft law on amendments to the Civil Procedure Code to establish the procedure for class action suits. The EU programme supporting the reform of the justice sector allowed Armenia to increase the number of Public Defenders from 32 to 52, which also helped enhance access to justice. A School of Advocates was established with EU support and is now operational. A new EU sector support programme of EUR 20 million to support further justice reforms was approved in 2012, with a top-up of EUR 9 million from the EaPIC programme.

There are still no concrete results from the investigation of ten deaths that occurred during the **clashes of March 2008**; the EU is also concerned that allegations of ill-treatment in police custody and violations of the right to due process have not been adequately addressed in the aftermath of these events. The vote in the Armenian National

Assembly on setting up an *ad hoc* commission to focus on the 2008 post-election unrest will not be held until after the February 2013 presidential election.

In 2012 there was limited action against high-level **corruption**, as demonstrated by several corruption-related dismissals. Allegations of corruption throughout state institutions continue to undermine public trust. A number of legal acts, which could, if implemented properly, reduce the risk of corruption, were adopted in 2012, including amendments to the Law on the National Assembly Procedure, to the Law on Public Service and to the Law on Political Parties. In January, a State Commission on the Ethics of High-Ranking Officials was set up. There are concerns about shortcomings regarding the capacity and powers of this Commission and the transparency of its work. The December 2012 Compliance Report by the Council of Europe's Group of States against Corruption (GRECO) is positive as regards implementation of recommendations for legislation. GRECO concludes that Armenia has implemented satisfactorily 16 out of 19 recommendations contained in its Third Round Evaluation Report, covering aspects related to incriminations and political party funding.

In an opinion dated 28 December 2012, Transparency International Armenia alleged that large-scale corruption occurred during the reconstruction of Yerevan city centre.

In September, the Government adopted amendments to the decree on Procurement Process Management, aimed at increasing the efficiency of procurement exercises on the ground, ensuring transparency and reducing corruption risks. The Head of the State Procurement Assistance Centre was dismissed after a report highlighted instances of mismanagement in the procurement process. One positive development was the launch of an 'e-payments' website to reduce the cost of service fees and to minimise the amount of cash handling by civil/municipal servants, thus reducing one of the corruption risk factors. In October, the National Assembly voted in favour of a request by the Prosecutor General to revoke the immunity of a prominent Member of Parliament who was subsequently charged with misappropriation of funds and money laundering. The case raised concerns about its possible political motivation. Armenia ranked 105th out of 176 countries and territories around the world in the Transparency International Corruption Perception Index 2012.

Other human rights and governance-related issues

A National Strategy for Human Rights Protection was signed into law in October. The **Strategy and the relevant Action Plan should ensure the implementation of a unified**, targeted and coordinated policy for the protection of human rights in Armenia.

In April, six offices of the Human Rights Defender (ombudsman) were opened in the regions, with EU financial support, in an effort to strengthen the capacities and accessibility of this essential institution.

Armenian legislation criminalising **torture** presents a difficulty as it does not conform to the definition of torture in the UN Convention against Torture (it does not include crimes committed by public officials, but only by individuals acting in a private capacity). Accordingly, no public official has ever been convicted on torture charges in Armenia. The Human Rights Defender, who has been designated as the national preventive

mechanism under the UN Optional Protocol to the Convention against Torture, still lacks adequate resources to carry out his tasks effectively.

Armenia made some efforts to improve conditions of detention in **prisons**, including the refurbishment of some facilities and work on the construction of a new prison. However, concerns remain about continued reports of severe overcrowding, understaffing and inadequate food rations and healthcare. Hardly any of the recommendations made on the detention of prisoners serving life sentences have been implemented, according to the report by the Council of Europe's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment.

There is continuing public anxiety about suspicious deaths in the Armenian Armed Forces under non-combat conditions, as well as concern over the practice of hazing and other **mistreatment of conscripts** by officers and fellow soldiers. Investigations into these crimes rarely produce results. In March 2012, the National Assembly adopted a new Military Disciplinary Code, which should improve discipline in military establishments and enforce the rights of soldiers.

There was no significant progress on **freedom of religion and belief**, in terms of proper legislation and practice. Jehovah's Witnesses in particular have complained about victimisation as far as provisions for alternative military service are concerned: the Alternative Military Service Act, as amended in 2004 and 2006, still does not guarantee conscientious objectors a genuine alternative service of a clearly civilian character. Conscientious objectors are still imprisoned when they refuse to perform either standard military service or the existing 'alternative' military service. A draft amendment of the law to address the issue has not been considered yet by parliament. The Human Rights Defender, after consultations with civil society, proposed amendments to the draft law on Freedom of Conscience and Religion, aiming mainly to bring the draft law into line with international standards.

Regarding **women's rights**, Armenia still has not adopted legislation criminalising domestic violence. The latest reports reveal that the practice of pro-male sex-selective abortions is on the increase. Legislation on prohibition of sex selection has not yet been developed.

Armenia has not yet ratified the 2007 Council of Europe Convention on the Protection of **Children** against Sexual Exploitation and Sexual Abuse. Since its creation, the National Commission for the Protection of Children's Rights (NCCP) has not been adequately empowered. Its 2004-2012 National Plan of Action has not been taken into account by line ministries. Progress is still lacking in the promised "de-institutionalisation" reforms, despite the repeated commitments of the Government to steadily reduce the number of children in residential care and to develop a network of community social workers. Concrete progress was however witnessed in broadening access of all children to schools, with a progressive increase in the number of schools certified as inclusive and the opening of pre-school facilities in many rural communities.

In its final report about the conduct of the May parliamentary elections, the OSCE/ODIHR Election Observation Mission stated that about 55% of polling stations observed were not readily accessible for **people with disabilities**. Analysis of the

UNICEF research on access to services for children with disabilities (2012) reveals that these children face high barriers in gaining access to services.

Comprehensive legislation on **discrimination** is not yet in place, while discriminatory attitudes are widespread. The current definition of discrimination does not cover all forms of discrimination (race, colour, sex, language, religion, political or other opinion, national or social origin, property, gender, sexual orientation or other status). Moreover, efforts to ensure effective implementation of the current laws are inadequate.

Efforts need to be stepped up on ensuring non-discrimination in social life, in particular regarding the lesbian, gay, bisexual and transgender community. The firebombing of a pub in Yerevan in May, the subsequent disruption of the Diversity March, cancellation of a film screening on tolerance under pressure from unidentified entities, and discriminatory statements from influential politicians are incompatible with European values. This area has not been covered by the National Human Rights Strategy.

The issues of teaching in, broadcasting in and use in courts of the **minority** Assyrian, Yezidi, Kurdish and Greek languages still need to be addressed, despite 2009 recommendations by the Council of Europe Committee of Ministers.

The EU has repeatedly stressed the benefits, for both policymaking and accountability, of an active and continuous civil society dialogue. The current framework of cooperation between government and **civil society** is insufficient. The Public Council created in 2008 is inefficient and is ignored by many leading civil society organisations. However, dialogue with civil society started in selected areas with the participation of the NGOs active in the EaP National Platform. A non-paper on strengthening the role of the EaP Civil Society National Platform in Armenia was handed over by the EU to the Armenian authorities in December.

Cooperation on foreign and security policy, conflict prevention and confidence building

In 2012, Armenia aligned itself with 35 out of 62 EU CFSP declarations it was invited to support (40 out of 82 in 2011). Negotiations between Armenia and Azerbaijan to resolve the Nagorno-Karabakh conflict slowed down. The Armenian and Azerbaijani Presidents have not reconvened since the Sochi meeting in January, and the Foreign Ministers mostly limit their availability for meetings in the OSCE Minsk Group Co-Chair format to separate approximation talks.

The security situation remained volatile. In June, there were serious tensions at the Armenian-Azerbaijani border with a minimum of eight servicemen reported killed. This coincided with the visit of US Secretary of State Hillary Clinton to the region.

The latest dynamics in bilateral relations impact negatively on trust between the parties and run counter to the Presidents' readiness, as expressed at the beginning of 2012, to speed up agreement on basic principles on the basis of the work done thus far. The EU has therefore repeatedly urged restraint in actions and public statements, in order not to escalate an already difficult situation.

September saw the launch of the second phase of the EU-funded civil society programme European Partnership for the Peaceful Settlement of the Conflict over Nagorno-Karabakh (EPNK). Its aim is to support peace-building efforts by facilitating dialogue between civil society, the media and policymakers.

There were no positive developments with regard to rapprochement between Armenia and Turkey. The EU continues to support the process without preconditions.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy²

GDP growth accelerated to 7.2% in 2012, mainly driven by an increase in private consumption and in exports, although investments continued to weaken. Activity rose in mining, agriculture, services and construction.

Inflation remained moderate. After reaching 0.5% in May 2012, it rebounded slightly following the increase in world energy prices. The average inflation was 2.6% in 2012 and is expected to remain within the central bank's target of 4% ± 1.5 percentage points in the coming years. The central bank has kept the policy interest rate steady at 8 % since September 2011.

The **fiscal position** continued to improve. The budget deficit is expected to decline to 2% of GDP in 2012. According to the IMF, public debt is expected to reach 45% of GDP at the end of 2012. Almost 90% of the debt is external, vulnerable to exchange rate changes.

The **current account** deficit is expected to remain above 10% of GDP in 2012. Remittances grew in the first three quarters of 2012 by 7%, against 24.5% in 2011. Exports increased by 5.1% in the same period (in 2011 32.8%). The FDI in the first three quarters of 2012 was 23.5% lower than in the same period a year before. Foreign reserves are expected to drop to 3.6 months of imports in 2012 (from 4.6 months in 2011) due to the central bank's interventions to limit the exchange rate fluctuations.

The economy was supported by a financing arrangement with the IMF, expiring in mid-2013, and exceptional donor assistance. The IMF is considering a new assistance arrangement together with other donors, including the EU with a new Macro-Financial Assistance.

Social situation, employment and poverty reduction

The **unemployment** rate for the year is expected to decrease to 15% down from 18.4% in 2011. National data indicate that the activity rate remained stable at 62.9% (in September), while youth unemployment remained at a very high level, at 39.2%. Levels of social inclusion remained low. About 55% of Armenia's population is not actively

² Figures on GDP, inflation, trade and employment are generally from Eurostat based on data supplied by the national statistical offices; or IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

included in the social and public processes; the level of inclusion in provinces is even lower, according to the latest 2011 UNDP report on social inclusion in Armenia.

The financial crisis partly wiped out Armenia's recent gains in living standards and progress in poverty reduction. Around 36% of the population is below the **poverty** line, with children particularly vulnerable. More than 70% of families with at least four children lived in poverty. Salaries were significantly affected by the economic crisis, with the minimum salary amounting to AMD 32000 (approximately EUR 64) in 2012.

In July, the Government approved a strategy for integrated **social services**, which envisages a social workers' institute, and launched a pilot project in the Ararat region. Armenia also approved additional legislation to prepare for the launch of the new pensions system in 2014. The Sustainable Development Programme on poverty reduction remained suspended as a result of the economic crisis, and a review was initiated at the end of 2012. The EU started preparing a programme to support the regional development in Armenia aiming to reduce the social and economic disparities among the regions.

In November, Armenia adopted a National Employment Strategy and Action Plan 2013-2018, which includes objectives for the medium-term in the area of employment policy and a set of actions for achieving them.

In the area of **agriculture**, in June 2012 the EU and Armenia started negotiations on the protection of Geographical Indications in the DCFTA framework.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is Armenia's main trading partner accounting for 32.5% of its trade volume in 2011³. **Bilateral trade** flows decreased and during the first eleven months of 2012 amounted to EUR 874 million. EU exports to Armenia consisted mainly of mechanical appliances, precious stones and electrical machinery. EU imports from Armenia consisted mainly of base metals (copper, iron and steel) and mineral products (ores and slag).

In February 2012, the EU decided to launch negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) with Armenia. The start of this process is the result of significant progress achieved by Armenia in the preparatory phase and its substantial efforts directed towards the implementation of all necessary requirements. Three negotiation rounds were concluded in 2012, showing a clear willingness and readiness of Armenia to advance in these negotiations. In parallel, Armenia continued the process of internal reforms implementing the DCFTA-related key recommendations as outlined below.

In the area of **customs** and excise, the amendment to the Law on Excise Tax allowed excise stamps for alcohol products to be affixed under customs control. Further reforms are necessary in the areas of verification of customs value, post-clearance controls and certification of origin. Armenia should increasingly harmonise its Customs Code with the Community Customs Code.

³ Data for 2012 was not available at the time of writing.

In the area of **free movement of goods and technical barriers to trade**, Armenia adopted in February 2012 four fundamental laws on technical regulation, standardisation, accreditation and uniformity of measurements. Further implementing legislation, complementary to the aforementioned laws, was in preparation, namely a law on market surveillance, a law on general product safety and a law on liability for defective products. Armenia prepared implementing regulations for the reform of the standardisation and accreditation bodies in line with EU practices. Regarding the Government's programme for approximation with EU legislation, there has been progress in the area of toy safety (law drafted), while other priority sectors will start approximation in 2013; meanwhile new priority sectors should be identified.

Armenia adopted, following a gap analysis, a programme for approximation with EU standards in the field of **sanitary and phytosanitary (SPS)** legislation. It strengthened the capacity of the State Service of Food Safety. It established a centre for animal-sanitary and phyto-sanitary laboratory services within the Food Safety Service, and drafted a programme for the capacity building of its branches. Implementation of the Food Safety Strategy and Action Plan continued with, for example, amendments to the law on safety of food products. Training of SPS experts continued including with TAIEX support. Armenia is encouraged to continue approximation and to further build laboratory capacity.

Business climate in Armenia continues to suffer from corruption and the lack of effective competition. The situation improved in terms of getting electricity, protection of investors and abolishing fees for the registration of companies. Armenia advanced to 32nd place (out of 185) in the ease of doing business ranking in the World Bank's 'Doing Business 2013' annual report. Armenia ranked 35th in the Economic Freedom of the World 2012 report, marking an improvement in freedom to trade internationally. Improvements in contract enforcement, ease of paying taxes and trading across borders could help attract further investment to Armenia.

In the area of **financial services**, Armenia developed a draft concept on the main recommendations for strengthening regulation of bank capital and liquidity, established by Basel III. Measures were taken for introducing the Solvency II system. A draft law on accounting, and harmonising financial reports of small and medium-sized enterprises (SMEs) with international standards, was sent to parliament. Further implementation efforts are essential for the reforms in this area. **Movement of capital** did not undergo substantial regulatory changes in 2012.

Other key areas

Armenia adopted a **tax** policy strategy for 2013–15 following OECD guidelines and a tax administration strategy for 2012–14 that is focused on expanding the scope of e-filing. A new compulsory income tax, merging social security deductions and private insurance payments, entered into effect in January 2013. Armenia also introduced software, integrating tax and customs information. A sizeable increase in Armenia's tax revenue as envisaged by the 2012 budget was essential for raising Government expenditure and at the same time cutting the budget deficit. To ensure implementation of the Action Plan, Armenia is encouraged to implement further reforms in tax administration as well as in tax policy and legislation.

No progress was made in the area of **competition**. Amendments to the Competition Act and a draft **State Aid** act were submitted to the Government, but were then returned for further amendments. Four bylaws necessary for implementing the new State Aid law were also drafted. If adopted, they would put the legislation fully in line with EU principles. Its effective implementation would still call for appropriate resources and investigative powers for the competition authority. Amendment of the Competition Act is part of the Action Priority Plan of Armenia for 2012.

A new Unit on **Intellectual Property Rights** (IPR) enforcement was created within the Customs Service to deal with rightholders' applications for customs action in respect of goods infringing IPR, indicating progress in this area. In May, Armenia created a Trademark Association to improve awareness and advocacy of the IPR system. Another positive development was the change of status of the Collective Management Organisation 'ArmAuthor', which apart from authors' rights and the obligations of the organisation, now also addresses related rights. Armenia is drafting IPR enforcement provisions to be included in the relevant codes. It is also drafting a new copyright law. To encourage further IPR reform implementation, administrative capacity should be strengthened and the creation of an IPR enforcement centre is recommended. A twinning project is helping Armenia to enhance police enforcement capacity and to introduce EU best practice and international standards on IPR protection and enforcement. Ratification of the International Convention for the Protection of New Varieties of Plants was pending and accession to the Patent Law Treaty and Trademark Law Treaty have yet to happen.

Since January 2012 all open procurement state purchases are expected to be done through **e-procurement**. However, technical difficulties are hampering the full introduction of the new system.

In the area of **statistics**, Armenia published preliminary results of the 2011 Population Census (final results are expected by the end of 2013). Preparations are under way for the Agricultural Census, with a pilot planned for 2013. Armenia made significant progress in the implementation of international classifications such as NACE Rev.2 (classification of economic activities) and COICOP (classification of individual consumption by purpose). A new user-friendly website for statistical data was introduced to the public and significant progress was made in developing metadata. Armenia began to approximate national legislation with the EU regulations on data security and statistical confidentiality.

No significant progress was noted in 2012 in the area of **enterprise policy** in Armenia after the recent extensive deregulation initiatives. The Government regards SME development as a strategic priority, but the sector still needs a strong and viable development strategy and effective policy implementation mechanisms as well as effective implementation of the legal framework for regulatory impact analysis (RIA). The EU continues to support SMEs through projects such as East-Invest and the Small Business Support programmes.

Armenia amended transparency-related regulations aimed at ensuring standardisation and harmonisation of information on retail services, in order to improve **consumer protection**.

In the area of **public internal financial control** the implementation of the Government's public finance management reform strategy the number of internal audit functions reached 52 government entities, in addition to the City Hall of Yerevan and 46 city communities, with the relative training underway.

No significant progress was noted in the areas of **company law, including accounting and auditing** and **external auditing**.

The EU continued to provide considerable support to trade-related reforms through budget support, the EU Advisory Group, the comprehensive institution building programme (CIB), technical assistance, TAIEX and twinning (in the areas of IPR, SPS, market surveillance, competition and State aid, statistics and customs, etc.). DCFTA reforms are the main focus of sector budget support from the multi-annual programming budget 2011-2013 (NIP II).

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In early 2012 Armenia established an Interagency Committee responsible for the coordination, implementation and monitoring of the EU-Armenia **Mobility Partnership** signed in October 2011, as well as the National Action Plan on **Migration**. An information system for migration flows would be beneficial for implementing the plan. The EU is providing substantial support to migration and mobility in Armenia through sector policy support, the EU Advisory Group, several thematic projects, twinning and the comprehensive institution-building programme (CIB). The EU-funded Mobility Partnership support project "Strengthening Armenia's migration management capacities, with special focus on reintegration activities in the framework of the EU-Armenia Mobility Partnership" was signed in December 2012. Study visits and expert missions on **asylum** procedures according to EU standards took place through TAIEX.

The EU-Armenia negotiations on **visa** facilitation and **readmission** agreements, launched in February 2012, were conducted swiftly. Parties initialled both agreements in October. The Visa Facilitation Agreement was signed on 17 December. In October the Government signed a decree that will lift the visa obligation for EU citizens by January 2013. As of June, Armenia started issuing biometric passports.

The Government started an ambitious project on the modernisation of Bagratashen, Bavra and Gogavan Border Crossing Points between Armenia and Georgia in accordance with Integrated Border Management (IBM) standards (approx. EUR 61 million). A grant of EUR 12 million from the EU Neighbourhood Investment Facility was approved, combined with loans by the EIB and EBRD, and further support was provided through the Eastern Partnership Integrated Border Management Flagship initiative. In February, Armenia and FRONTEX signed a Working Arrangement.

The Council of Europe published Armenia's first evaluation report on **human trafficking**, welcoming efforts but noting a need to increase the awareness of vulnerable groups and improve the identification of victims.

The national programme to combat **organised crime** was approved in April and a timetable of measures for its implementation was adopted. Armenia adopted a new strategy on **money laundering** and financing of terrorism. Legislative amendments were prepared for the licensing and control of the gambling business from the perspective of combating money laundering. The amendments aim at penalising legal entities involved in these activities and not only individuals.

Armenia should further implement the programme for combating **drug** addiction and drug trafficking. In October, Armenia reiterated its willingness to establish close cooperation with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA).

The Ministry of Emergency Situations established a 24-hour Situation Centre, intended to ensure effective interagency coordination in crisis management, including response to **terrorism**.

In the area of **police and judicial cooperation**, law enforcement authorities from Eastern Partnership countries met in Yerevan in April in the context of a joint EU-Council of Europe project on cybercrime. The 2012-2014 police reform programme is still not finalised.

Armenia should further implement its programme for fighting illegal **drugs**. In October, Armenia reiterated its willingness to establish close cooperation with the European monitoring centre for Drugs and Drug Addiction (EMCDDA).

Armenia ratified the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of **Personal Data** and the Additional Protocol to this Convention in May.

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

Armenia made some progress towards approximation with EU and international **transport** rules. Steps were taken to join the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR) and the Convention on Transit Trade of Land-locked States. In 2012, Armenia amended road traffic offence legislation, increasing drivers' responsibility for violations. Armenia pursued a policy to improve safety on its roads, but the level of accidents remains very high compared to the EU average. The Eastern Partnership Road map 2012-13 includes the objective of negotiating Common Aviation Area Agreements with the Eastern Partnership countries. Achievement of this objective will depend on Armenia's readiness and interest. With EU support, Armenia moved further towards approximation with the EU aviation safety legislation. In infrastructure development, Armenia focused on developing the North-South road corridor. Through the Neighbourhood Investment Facility, the EU helped Armenia to modernise road border crossings with Georgia.

Armenia continued work on an updated **energy** strategy. It was an active observer of the work of the Energy Community. Armenia decided to extend, for energy security reasons,

operations at the second unit of the Medzamor Nuclear Power Plant until a new unit is launched. Preparations continued with a view to the construction, planned to start in 2013, of a new nuclear power plant at the Medzamor site. In line with the EU-Armenia action plan, the EU continues to request the earliest possible closure of Medzamor, as it cannot be upgraded to meet internationally recognised nuclear safety standards. Armenia is being encouraged to develop a detailed decommissioning plan for Medzamor and to adopt a radioactive waste strategy.

Armenia pursued safety upgrading at Medzamor. The country is also implementing a comprehensive risk and safety assessment ('stress tests') at the plant, with EU technical support. The electric power output of small hydropower plants increased. Armenia is encouraged to increase its efforts on energy efficiency. Armenia continued upgrading the Abovyan underground gas storage. Armenia is planning a North-South electricity grid with its neighbours. The feasibility study for an electricity interconnection with Georgia is underway, while the construction of such an interconnection with Iran has started.

In the field of **climate change**, Armenia announced that it would take voluntary measures to limit greenhouse gas emissions. Seminars on energy efficiency in housing, as well as climate change mitigation, were held throughout the year. The Regional Environmental Centre for the Caucasus (REC-C) continued implementing an EU-funded project on adaptation to climate change. Armenia participated in preparations for the forthcoming regional EU Clima East project (EUR 18 million) that will be implemented in the period 2013-2016. Armenia is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the 17th and 18th sessions of the United Nations Framework Convention on Climate Change Conference of the Parties. Armenia is also encouraged to make additional efforts to fully implement the Cancun and Durban agreements and in particular devise a low-carbon development strategy.

As regards the **environment**, a working group including participants from civil society continued developing a new law on environmental impact assessment (EIA). The Nature Protection Ministry migrated to an e-documentation system to promote transparency of activities. Deforestation continued to be a concern, including illegal logging. Civil society representatives questioned the ability of the revised mining code to provide a framework for better management of mineral resources and environmental protection, as it does not envisage any payment for resource use or waste disposal. Armenia is encouraged to strengthen its environmental legislation and administrative capacity, to apply EIA procedures consistently and to pay particular attention to public participation.

The REC-C continued its activities. Its financial and institutional sustainability still need strengthening.

On **civil protection**, an EU financed-project on disaster risk reduction was launched in June as a follow-up to previous initiatives. Armenia also continued to participate in the EaP flagship project on prevention, preparedness and response to natural and man-made disasters (PPRD East). As a part of the programme Armenia is contributing to the development of Electronic Regional Risk Atlas. Relevant Armenian institutions are involved in respective activities and the development phase of the atlas is close to completing in the country. Armenia is encouraged to take advantage of the guiding

document on Risk Assessment Policy for the EaP region produced under the PPRD East programme.

Armenia has established National Disaster Risk Reduction Platform with regards to the implementation of the "Hyogo Framework for Action: Building the Resilience of Nations and Communities to Disasters" and submitted a national progress report covering 2011 and 2012.

The Armenian market for **electronic communications** grew steadily in 2012. Positive dynamics were observed in the take-up of both fixed and mobile broadband services in the country, thanks to the development and expansion of data transmission networks. At the time of writing, there are three mobile operators operating mobile cellular networks based on the 3G standard; one operator has launched commercial 4G/LTE-based services in Yerevan. In 2012 the regulatory authority introduced mandatory shared use of the main fixed-line operator's 'passive' infrastructure to increase competition. In December 2012, the regulatory authority decided on the principles and schedule of mobile number portability, which is due to be launched in January 2014.

As regards **audio-visual policy**, according to Armenia's Human Rights Defender annual report, the National Commission on Television and Radio did not carry out sufficient oversight functions for prevention of concentration and monopoly in the broadcasting market.

Within the EU's Seventh Framework Programme for **Research** and Technological Development (FP7) and its ERA-WIDE Call for Proposals on Reinforcing Cooperation with Europe's Neighbours, three projects focused on Armenia were approved for funding in the fields of information and communication technologies, ecology and physics. This increased the number of ongoing FP7-funded projects that include Armenian partners to 25. The total EU contribution to these projects amounts to EUR 70 million, more than EUR 2 million of which went to the 17 Armenian institutions participating in these projects.

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

Implementation of Armenia's National **Education** Development Strategy 2011-2012 progressed, including through the preparation of legislative changes to reflect the special educational needs of young people with disabilities and the training of 1,000 teachers on new teaching methodologies.

In this context, **higher education** in Armenia moved decisively towards implementation of the Bologna principles, though additional accompanying measures are still needed. Challenges remain in the development of internal and external mechanisms for quality assurance, in reforming the financing mechanism for higher education, in integrating with international networks and in establishing links between the higher education sector and the labour market. Armenia assumed the Secretariat of the Bologna Follow-up Group in July for three years; Armenia will be the host country of the next Ministerial Conference of the European Higher Education area, which is to take place in 2015.

In July, the Armenian Government adopted a Concept Paper for the reform of **vocational education and training** (VET) and a related Action Plan for 2012-2016. The National Training Fund on Vocational Education and Training established its board of trustees, including representatives of public institutions and social partners. Armenia plans to introduce a monitoring and evaluation system in VET institutions in 2013. The EU's budget support to VET reform was increased by additional funds from the EaPIC programme.

Armenia continued to be actively engaged in the **Tempus** and **Erasmus Mundus** programmes. Nine Armenian projects were selected for Tempus IV programme support. Armenia also benefited from 13 new scholarships for Erasmus Mundus joint Masters courses and two for Erasmus Mundus Doctorates, together with a further 259 grants for short-term mobility organized within a university consortium. Ten institutions and thirteen individual researchers from Armenia participated in **Marie Curie Actions** to support researchers' training, mobility and career development.

Armenian youth and youth organisations continued benefiting from the opportunities offered by the **Youth in Action** Programme. For 2012 and 2013, the ENPI provides additional funds to the Youth in Action Programme to increase cooperation among young people, youth workers and youth organisations from the EU and the Eastern Partnership neighbouring countries. In 2012, the setting up of the Eastern Partnership Youth Window within the Youth in Action Programme boosted the number of young Armenian participants in this programme. 365 projects were selected in 2012 targeting 1022 young Armenians. In March, Armenia hosted the Eastern Partnership Platform 4 'Contacts between People' **youth** event organised by the European Commission; the event focused on increased opportunities for support, European Voluntary Service and training and networking in the region.

Preservation of cultural heritage and promotion of **culture** were strengthened thanks to support from the Eastern Partnership Culture Programme. In 2012, 11 projects were started in Armenia with activities centring on cinema, cultural spaces, preservation, and equal treatment of national minorities involving a variety of culture stakeholders.

In September, the President instructed the Ministry of **Health** to prepare an urgent action plan to improve quality of care and to address corruption in the sector including regarding public drug procurement. Armenia continued developing a new health strategy. Armenia is preparing a law on 'Medicines and biologically active additives' which it plans to approximate with EU standards.