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JOINT STAFF WORKING PAPER

**Implementation of the European Neighbourhood Policy in 2010
Country report: Armenia**

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Implementation of the European Neighbourhood Policy in 2010 Country report: Armenia

1. OVERALL ASSESSMENT

Armenia and the EU first established contractual relations in 1996 through a Partnership and Cooperation Agreement which entered into force in 1999. On that basis, the EU-Armenia Action Plan (AP) was approved in November 2006 for a period of five years.

In 2010 EU-Armenia meetings took place at the level of the Cooperation Council, Cooperation Committee, the Subcommittee on Trade, Economic and Related Legal Issues, and the newly established subcommittees on Justice, Freedom and Security and on Transport, Environment and Energy and Nuclear Safety. The second meeting of the EU-Armenia dialogue on human rights took place in December 2010. In November 2010, the EU and Armenia agreed a EUR 100 million financial assistance package to alleviate the effects of the global financial crisis on the country.

Within the Eastern Partnership, the negotiations for an EU-Armenia Association Agreement (AA) were launched in July 2010. They progressed at a good pace. This Agreement is conceived by both Parties as illustrating the most advanced and ambitious approach to the Eastern Partnership vision of association, including a Deep and Comprehensive Free Trade Area and a comprehensive programme of approximation to EU *acquis*. The negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) will start in the same framework, once the necessary conditions have been met.

This document reports on the progress made in the implementation of the EU-Armenia ENP Action Plan between 1 January and 31 December 2010, although developments outside this period are taken into consideration when it is deemed relevant. It is not a general review of the political and economic situation in Armenia. For information on regional and multilateral sector processes in the context of the Eastern Partnership, readers should also refer to the sectoral report.

Overall, Armenia made some progress in the area of political dialogue and reform. Positive steps were taken to overcome the political crisis, with the gradual release of a number of persons detained for charges related to the March 2008 events. There was good progress on decriminalisation of defamation. Some progress was made on enhancing transparency in the court system but no progress was made on enhancing the independence of the Judiciary. Progress on enhancing media pluralism was limited. Some progress was made on enhancing the freedom of expression. Armenia also made good progress in improving the National Preventive Mechanism under the Optional Protocol to the UN Convention against Torture, and in the area of enhancing document security by making preparations for the introduction of biometric passports.

Armenia made some progress in the area of customs and border management, while overall more progress would have been desirable in trade-related areas. In view of the severe recession experienced by Armenia in 2009 and in the first half of 2010 as a result of the

global economic crisis, any progress towards meeting the objectives of the Action Plan related to economic reform, poverty reduction and social cohesion, as well as the protection of the environment, was limited. The situation of the Medzamor Nuclear Power Plant remains a topic of major concern and its early decommissioning is a key priority for both sides.

Armenia maintained prudent macroeconomic policies and introduced several structural measures to mitigate the impact of the economic crisis. Armenia also made good progress in the area of vocational education and training.

No developments took place after Armenia's suspension of the ratification process of the two protocols on the establishment and development of bilateral relations with Turkey in April. The EU continues to support the normalisation of relations between Armenia and Turkey without preconditions. Negotiations on a peaceful solution of the Nagorno-Karabakh conflict continued at the highest level with some progress notably regarding exchange of prisoners of war, as a necessary confidence-building step to further advancing the process. An increased number of incidents of exchanges of fire and casualties on the line of contact continued to be reported and are cause for serious concern.

In order to fulfil the ENP Action Plan commitments, Armenia should make greater efforts to protect human rights and to prevent cases of torture and ill-treatment, as well as improve detention facilities. Armenia should also continue its reform efforts in the area of policing, the security services and the Prosecutor's office. Proper implementation of legislation in all areas and its effective enforcement, capacity building, and enhanced independence of judiciary will be of key importance for the future implementation of the Association Agreement. Armenia should continue efforts to enhance media pluralism and step up the fight against corruption, in particular at the level of implementation. Significant additional efforts are needed in the area of the DCFTA preparations.

2. POLITICAL DIALOGUE AND REFORM

Democracy and the rule of law

A new draft electoral code to bring the legislation further into line with international obligations was submitted for public discussion with political forces and civil society representatives and to the Venice Commission (VC). The opposition announced its intention to prepare its own draft electoral code to be considered by the VC, illustrating the low level of trust between the political forces. During the parliamentary by-election in January 2010 in Yerevan's Constituency No. 10, a number of irregularities, including instances of interference with press activities, were reported.

Further steps were taken in 2010 to address the political crisis linked to the Presidential elections and the subsequent violent **events of March 2008**. A number of persons detained for charges linked to these events were released, but some still remain imprisoned despite the fact that they are eligible for a pardon. A trial monitoring report by the Organisation for the Security and Co-operation in Europe - Office for Democratic Institutions and Human Rights (OSCE-ODIHR) - published in March 2010 on the trials linked to the March 2008 events identified several issues of serious concern, including the right of defendants to a fair trial and the right to liberty, and it set out a number of recommendations. Work to implement the recommendations of the report is ongoing, notably in the area of the reform of the judiciary. However, the investigation of the March 2008 events was incomplete and has not led to

concrete results. Lawsuits against law-enforcement authorities filed by relatives of persons who died in the March 2008 post-election clashes were rejected.

Some progress was made on the implementation of the judicial reforms within the Strategic Action Plan for Judicial Reform 2009-2011, particularly on enhancing transparency in the court system, on improving the electronic court statistics data and on the construction and upgrading of court buildings. However, no progress was made as regards enhancing the independence of the **judiciary**, which remains a matter for concern. Judges are still strongly influenced by prosecutors, as well as by politically and economically powerful figures. The number of qualified barristers remains low, especially outside the capital. Greater efforts are needed to ensure proper enforcement of legislation in all areas.

There was uneven progress in the fight against **corruption**. Efforts were made to improve transparency in the public sector with the annual mandatory publication of information on the property of high ranking civil servants. The law on Prosecution was amended in May in response to the recommendations by the Council of Europe's Group of States against Corruption (GRECO), abolishing the decisive role of the Prosecutor General in the initiation of proceedings and lifting the immunity of prosecutors. The Chamber of Audit published a number of audits in state institutions and there was an increase in public discussion on corruption issues. Several high level officials were dismissed on corruption charges. The law on Combating Money Laundering and the Financing of Terrorism was amended in December 2010. Limited progress was made on the enforcement of anticorruption legislation and in the implementation of the Anti-corruption Strategy and Action Plan. The level of perceived corruption in Armenia decreased slightly in 2010. Amendments to the law on Public Service were adopted in June with a view to beginning a transition to a unified system of public service.

In the field of **Regional Policy dialogue** a seminar for regional and national officials was organised by the Ministry for Territorial Integration and TAIEX in January. Following this meeting a number of officials from the Ministry were invited to the Open Days-European Week of Cities and Regions in Brussels in October. Following discussions between the Minister and the Commission Armenia has requested to start a regional policy dialogue in 2011.

Human rights and fundamental freedoms

Work continued on the development of a **National Human Rights Action Plan**. In January 2010, the Concept for the National Human Rights Protection Plan was adopted and this will guide the drafting of the National Action Plan. A baseline study on the human rights situation in Armenia was finalised in July in consultation with the relevant stakeholders in the public sector, civil society and international organizations active in Armenia.

The institution of the **Human Rights Defender's Office (HRDO)** continues to play a major role in monitoring the situation on human rights and fundamental freedoms in Armenia. In 2010, the HRDO produced *ad hoc* reports on the right to peaceful assembly and on the right of freedom of speech in Armenia. There was good progress in improving the National Preventive Mechanism under the Optional Protocol to the UN Convention against Torture (OPCAT), operated by the HRDO, which was expanded in January by the creation of a Council which included the **Non-Governmental Organisations (NGOs)** and an expert group involving experts from human rights NGOs. The legislation related to the HRDO was amended in December, strengthening the financial independence of this institution. An inter-

agency working group with the participation of NGOs was established to implement the Universal Periodic Review (UPR) recommendations.

Cases of **torture and ill treatment** were reported in detention facilities, police stations and among military conscripts and these were generally not adequately investigated. No statistics are available as regards cases of reported torture and ill-treatment. The access of the HRDO to detention facilities both in prisons and in police stations improved in 2010. The report of the Council of Europe's (CoE) European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) was published in March 2010, revealing among others widespread cases of physical ill-treatment during detention after the March 2008 events.

There was no progress in improving **prison conditions** during 2010. The construction work on a new penitentiary facility for about 1000 inmates was halted due to the financial-economic crisis. Penitentiaries in general do not meet international standards. Overcrowding, poor health care provision, and low salaries and corruption in the prison administration, remain issues of concern.

Freedom of expression and information improved slightly, but further efforts are needed. In May, good progress was made on decriminalising the legislation on defamation. However, cases of violence against journalists without effective investigation and strong government influence on the broadcast media, including doubts around the independence of regulatory bodies, continue to be a cause for concern. Progress made towards media pluralism was limited.

The amendments to the law on Television and Radio passed in June, which laid the legal basis for the switchover from analogue to digital broadcasting, were criticized by the OSCE Representative on Freedom of the Media as failing to promote media pluralism. Work on amendments to the broadcasting legislation with a view to bringing them more closely into line with international standards is ongoing under the auspices of the HRDO in cooperation with the OSCE and CoE experts, as well as representatives of civil society. On the basis of the adopted legislation, the National Commission on Television and Radio announced 18 competitive tenders for broadcast licensing in July. The results of this process were announced in December 2010.

Some progress was made with regard to enhancing **freedom of assembly**. There was an improvement in the situation regarding the renting of venues to NGOs who were critical of the government. However, there were new cases of restrictions on holding meetings in the centre of Yerevan, even though alternative locations near the centre were suggested by the authorities. Cases of unjustified use of force by the police during the demonstrations continue to be reported.

No progress was made in the area of **freedom of religion or belief**. The Armenian Apostolic Church is considered as the national church and enjoys privileges compared to those of other religions, notably on issues such as support from the state budget, the right to proselytise, and development and implementation of the curriculum in educational institutions. A number of conscientious objectors remain in prison for refusing to serve their compulsory two-year military service, and alternative service remains of a discriminatory length.

There was no progress regarding the establishment of a system of specialised **juvenile justice**, which is laid down in the 2004-2015 National Plan of Action for the protection of the rights of

the child. Despite efforts to improve the situation, poverty is the major cause of children being excluded from basic social services including education and healthcare, especially in rural areas.

A draft law on NGOs, drafted in consultation with NGOs, is being discussed in the Armenian parliament. A decision to set up a unit within the ministry of justice, with the right to oversee the legality of work of all legal entities and to close down legal entities that violate any legal acts, has raised concerns among NGOs.

In September Armenia signed the CoE Convention on the **Protection of Children** against Sexual Exploitation and Sexual Abuse. A **Gender Policy** concept was approved in February. There was no progress on drafting a law on domestic violence.

Although the key legal framework on **social and employment policy** is in place, the labour code and the legislation on employment and social protection related to unemployment, social assistance and state pensions are not fully implemented. Trade unions, employers' organisations and collective bargaining are not well developed.

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

Armenia continued to align with CFSP declarations on a case by case basis. In 2010, Armenia aligned with 28 out of 44 CFSP declarations to which it was invited to subscribe. There was intense political dialogue with the Armenian government in 2010, including through two Political and Security Committee Political Dialogue meetings in June and September 2010 and a number of mutual high level visits.

Armenia pursued cooperation with the UN, participated in the NATO Partnership for Peace programme and cooperated with experts from the United Nations Office on Drugs and Crime (UNODC), INTERPOL, the World Customs Organization, CIS and CoE, in exchanging information on terrorism issues. Armenia cooperated successfully with the United Nations Counter-Terrorism Committee (CTC) established under UNSC Resolution 1373.

No progress was made on the signature and ratification of the Rome Statute of the **International Criminal Court**.

Strengthening regional cooperation

The ratification of the two protocols on the establishment of diplomatic relations and the development of bilateral relations between Armenia and Turkey, including prospects for opening their common border, was suspended in April 2010. The EU has continued to express support for the ratification and implementation of the bilateral protocols without preconditions.

The Southern Caucasus Integrated Border Management (SCIBM) promoted by the EU within Georgia, Armenia and Azerbaijan started in March 2010 (*See chapter 5 on cooperation on justice, freedom and security*). The Regional Environmental Centre (REC) for the Caucasus carried out regional activities in 2010, including in the fields of information and public participation, environmental policy and local environmental action plans (*See Chapter 6 on environment*).

Contribute to a peaceful solution of the Nagorno-Karabakh conflict

Negotiations within the Minsk Group on a peaceful settlement continued with the Presidents of Armenia and Azerbaijan holding three bilateral meetings in 2010. At their meeting in Astrakhan in November, the Armenian and Azerbaijani Presidents agreed to exchange prisoners of war and the bodies of dead servicemen. Courageous steps by both sides will be needed in order to find a resolution to the conflict.

In autumn 2010, the Minsk Group Co-Chairs intensified their activities with a visit to the Line of Conduct; and a Field Assessment Mission to the territories surrounding Nagorno-Karabakh (NK). A joint statement by the OSCE Minsk Group together with the Presidents of Azerbaijan and Armenia during the OSCE Summit in Astana in December stressed that "the time has come for more decisive efforts to resolve the Nagorno-Karabakh conflict" and that a peaceful resolution to the conflict is the only way to bring real reconciliation to the peoples of the region. However, tensions remain and the situation continues to be fragile. An increasing number of incidents of exchanges of fire and casualties on the line of contact continued to be reported and are a cause for concern.

In support of the negotiations led by the OSCE Minsk Group, an EU-funded project to contribute to the peaceful resolution of the Nagorno-Karabakh conflict was launched in June. The project supports activities in the area of media, public policy and groups affected by the conflict.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

Economic activity in 2010 recovered from the deep recession (Gross Domestic Product (GDP) contracted by 14.2% in 2009), although the pace of recovery was slow. GDP grew by around 2.6% driven by a recovery in services and industry, and despite the gradual withdrawal of the fiscal stimulus and the unprecedented decline in agricultural output due to adverse weather conditions. The economic recovery had a positive impact on the official unemployment rate, which fell to 6.7% at the end of 2010, from 7.3% at the beginning of the year. Growth prospects are still uncertain due to a lack of diversification of exports, the closed borders with two neighbouring countries, the lack of competition in the private sector and the need to improve the business climate.

Domestic and external supply shocks, as well as the sharp decline of agricultural output, pushed up the inflation rate to 8.1% year-on-year, in December 2010. The Central Bank of Armenia (CBA) has left the reference interest rate unchanged at 7.25% since May 2010, as the pace of recovery slowed in the second half of 2010 and the inflationary pressures were not demand driven. In 2010, the authorities continued their efforts to improve the transmission channels for monetary policy. To this end, preparations were put in train for the active management of liquidity and the development of transactions in dram-denominated securities. Measures to encourage de-dollarization had some positive results, while the new legal framework for insurance and private investment funds was submitted to the parliament. In order to have a lasting effect on inflation, the effectiveness of monetary and exchange rate policies needs to be further enhanced, and competition in the domestic market needs to be promoted.

The fiscal deficit shrank to 4.9% of GDP in 2010 from 7.9% of GDP in 2009, reflecting the economic recovery and the tightened fiscal policy. However, the public debt-to-GDP ratio

nearly tripled, from 16.1% of GDP in 2008 to 44% of GDP in 2010, as a result of the counter-cyclical measures and the financial support from the international community (financial assistance in the form of loans in support of the authorities' economic programme). The external component of the public debt represents around 90% of the total public debt, thus increasing exchange rate vulnerability and the dependence on concessional financing to address future financing needs. To ensure fiscal consolidation and put the debt on a downward path, the authorities re-introduced and strengthened the Medium Term Expenditure Framework in 2010 and adopted a new debt management strategy. At the same time, they introduced a wide-ranging tax reform agenda aimed at modernising the tax and customs administration and eliminating arbitrary treatment of tax payers. With the tax-to-GDP ratio being at the very low level of 16.2% in December 2010, the improvement in tax collection will be crucial for fiscal consolidation and debt sustainability.

The recovery in investments and remittances was fairly muted in 2010. In addition, despite the increase in metal prices, export growth was moderate due to weaker demand for Armenian exports in Europe. As a result, the current account deficit remained very high in 2010: it narrowed only to 14.6% of GDP from 16% of GDP in 2009. The government adopted some measures aimed at strengthening competition and reducing barriers to trade. However, these measures should be followed by more intense efforts to promote export diversification and the establishment of a more open and transparent trade regime. In 2010, as a consequence of the recovery, increases in social spending were more moderate compared to those of 2009. However, as a percentage of GDP, social spending remained above the pre-crisis levels. The targeting of social spending has been significantly improved and the authorities are working to improve the coverage of social programmes, which currently reach only about 35% of the poor.

Employment and social policy

Owing to the economic crisis, the suspension of the implementation of the Sustainable Development Programme on **poverty reduction** continued in 2010.

The official **unemployment** rate fell to 6.7% at the end of 2010, from 7.0% at the beginning of the year. Young people and women continued to be particularly affected, with 19% and 75% of official unemployment respectively. Disabled people continue to suffer from low levels of employment.

In June 2010, Armenia adopted amendments to the Labour Code relating to **social dialogue**. According to the law, trade unions have exclusive rights - in addition to the general employee rights - in the areas of public consultations and strikes. According to trade unions, the amendments focus on improving the business environment rather than improving employees' social conditions. In June 2010, Armenia adopted amendments to the law on Labour Inspection. Armenia continued implementation of the 2007-2011 Decent Work Programme. It also established a Working Group which will prepare regular reports on the implementation of the EU Social Charter and on approximation to EU legislation in the field.

In December 2010, in the field of **social inclusion and protection**, Armenia adopted amendments to the Law on State Pensions and a package of laws ensuring transition to a funded pension scheme, including a minimum safety net for those who do not contribute, indexed to the CPI, a basic pension based on years of contributions, indexed to the CPI and a funded pension component reflecting individual contributions which is invested and paid out in the form of annuities.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Bilateral trade improved in 2010 from the 2009 slowdown with 17% increase year-on-year. EU exports to Armenia increased by 4.2%, while exports of Armenian products to the EU increased by 59.9 %. In terms of commodity structure, however, Armenian exports to the EU are still concentrated in a few commodities of low value added (in particular, base metals formed 61,9% and pearls and precious stones 19,1% of Armenia's exports to the EU in 2010).

Armenia continued to benefit from the special incentive arrangement for sustainable development and good governance - **GSP+** within the EU Generalized System of Preferences (GSP). The Armenian authorities continued their efforts to raise awareness of the GSP+ and EU Export Helpdesk among the business community with a view to improving Armenia's export performance.

The Armenian tax and customs system for alcohol products continues to be incompliant with the WTO obligations (see under taxation)

Armenia continued to take steps towards implementing the “key recommendations” made by the European Commission on the basis of the 2009 fact finding mission in order to prepare for the DCFTA negotiations with the EU. During 2010, the government developed and approved a strategy for quality infrastructure reform, and drafted strategies for the development of the food safety system and the intellectual property sector reform. However, tangibly more progress is needed in the key regulatory areas in order to meet the pre-conditions for starting negotiations. Making the institutional structure for the negotiation process fully operational and administrative capacity building also remains a significant challenge.

Armenia continued improving the institutional capacity of the **customs** service. Since April 2010, the “Mulberry” electronic document circulation system was installed in the State Revenue Committee (SRC) to provide coordination among customs and other authorities. It makes it possible to connect all customs houses and customs checkpoints by means of a unified flow of documents. The Customs Service continued upgrading its risk management system by reinforcing cooperation between the various internal departments and by providing additional training. During the third quarter of 2010 the SRC created three new customs offices, one customs point and one new customs warehouse with a view to reducing the time and paperwork needed for customs clearance. Concerns still remain around procedures for the verification of customs valuation. Further improvements are needed in areas such as risk management, integrity, verification of certificates of preferential origin, cooperation with other enforcement agencies and access to the main international customs instruments, as well as the role of customs in intellectual property rights (IPR) protection.

Progress was made as regards the **free movement of goods and technical regulations**. In particular, the Strategy for the Reform of Armenia’s Quality Infrastructure 2010-2020 was approved by the government in December after extensive consultations with stakeholders.

On **sanitary and phytosanitary** (SPS) issues, Armenia continued preparations towards a food safety strategy and action plan. It further developed horizontal legislation including amendments to the food safety law, the veterinary law and the law on the registration of food establishments. In December 2010, Armenia established a unified food safety agency and further strengthened its laboratories. In June 2010, Armenia connected to the external window of the EU’s Rapid Alert System for Food and Feed. In January 2010, Armenia expressed an interest to extend its exports to the EU to include fish and fishery products. It developed a

surveillance system for aquaculture diseases. If it is to meet ENP Action Plan objectives, facilitate trade and prepare for a future DCFTA with the EU, Armenia needs to make considerable progress with regard to legislation and its enforcement, as well as to strengthen the capacity of, and coordination among, the institutions.

On the issues of **business climate, establishment and company law**, a new Action Plan for improving the business environment was approved in early 2010. Amendments to the draft laws on Limited Liability Companies, Individual Entrepreneurs and State Duty, as well as amendments of the Civil Code initially approved at a government session in September, were suspended. The Corporate Governance Code was amended based on recommendations provided by the Global Corporate Governance Forum of the International Finance Corporation (IFC) and it was approved by the government in December 2010. Armenia slipped four places in the World Bank's 'Doing Business' 2011 ranking, to finish 48th among 183 nations, despite a clear improvement in trading across borders. In the field of **financial services**, the CBA continued its efforts to implement the Basel II principles for effective banking supervision. The banking sector is well capitalised and has exhibited resilience to stress-tests. The ratio of non-performing loans fell from 10% in 2009 to 5% in August 2010. Nevertheless, financial intermediation remains low, with private sector credit accounting for around 24% of GDP. The crisis has also increased foreign currency lending, exposing banks to indirect credit risks. The authorities are taking steps to ensure that these risks are managed, but there is a need for continued strengthening of the financial sector supervision in order to maintain robust confidence in the banking system and improve its resilience to shocks. The foreign capital share of the banking sector remains high.

Other key areas

In the area of **taxation**, Armenia still has to adopt a consolidated version of the tax code. In October, Armenia approved amendments to the law on excise tax, the law on presumptive taxes for tobacco products, the law on Value Added Tax, and the law on Domestic Market Protection. The Armenian tax and customs system for alcohol products continues to be incompliant with the WTO obligations and should be modified accordingly. The implementation of the Tax Administration Strategy for 2008-2011 continued in 2010 with the focus on the development of an electronic declaration system, risk-based controls, and the development of the electronic taxpayers' database. At the end of the reporting period, Armenia had agreements on avoidance of double taxation with sixteen EU member states, fifteen of which were already ratified and had entered into force.

The State Commission for the Protection of Economic Competition (SCPEC) continued its efforts to strengthen the legal and institutional framework for **competition policy** in 2010. Stakeholder consultations on the proposed legislative amendments, to which both the European Commission and World Bank contributed, started in September 2010. The SCPEC developed a Strategic Programme for improving the competitive environment for the years 2010-2012. The role of the SCPEC is weakened by the lack of financial independence. So far, progress in introducing a system for **state aid** has been very limited.

Regarding **intellectual property**, the new laws on trademarks and geographical indications entered into force in July 2010. Draft implementing legislation of the law on trademarks was submitted to the government. Draft amendments to the Law on inventions, utility models and industrial designs were submitted to the government in August 2010. Armenia still needs to ratify the International Convention for the Protection of New Varieties of Plants (UPOV Convention). While preparing ratification, Armenia prepared a law on the protection of new

plant species which should become UPOV-compatible. Armenia developed draft amendments to the Code on Administrative Violations, which aim at re-enforcing the protection of intellectual property. Armenia ranked fifth in a May 2010 software piracy study by an independent expert organisation, with 90% of pirated software, down from 95% in 2006 and 92% in 2009. The Armenian authorities drafted an IPR enforcement strategy and action plan. These drafts, however, still need to be finalised. In 2010, the government submitted draft legislation on **public procurement** to the parliament. Armenia also finalised the negotiations on the accession to the WTO Government Procurement Agreement (GPA) in 2010. The GPA Committee approved the terms of accession of Armenia to the Agreement in December 2010, subject to the adoption of the GPA compliant procurement law. In 2010, Armenia initiated the development of a system of electronic tendering for public procurement.

Armenia made progress in the area of **accounting**. The international financial reporting standards (IFRS) and international financial reporting systems for small and medium-sized enterprises (IFRS for SME) were made obligatory in March and September 2010 respectively. Armenia adopted a draft accounting law. There are no developments to report regarding the establishment of an independent regulatory body for accounting and **auditing**.

In the area of **statistics**, the Armenian national classification of economic activity was revised to make it compatible with the NACE (Rev. 2) Statistical Classification of Economic Activities in the European Community. In 2010, the National Statistical Institute (NSI) developed and adopted the “Armenian Classification of territorial units for statistics” in accordance with the main EU methodological recommendations and principles. The AA negotiations on statistics were provisionally concluded in November 2010.

In the area of **enterprise policy**, some progress was made. In October 2010, Armenia adopted amendments to the law “On State Support of Small and Medium Entrepreneurship”. The government allocated AMD 150 million (EUR 278,000) to the SME Development National Centre (SME DNC) to continue supporting SME development, by providing technical, financial and international cooperation assistance. The SME DNC Hotline received numerous inquiries, complaints and recommendations. In order to better respond to these communications, the SME DNC established a cooperation mechanism with the Tax and Customs Services, the Register of Legal Persons of the ministry of justice and the Land Register. SMEs still face difficult conditions despite tax and customs reforms, and there is still a need for improvements in access to information.

In the area of **public internal financial control**, the Internal Audit law was adopted by the Parliament in December 2010, providing the full legal basis for functioning of the Central Harmonisation Unit for Financial Management and Control (FMC) and Internal audit, which was institutionally already set up in the Ministry of Finance in June 2010. In November 2010, the government adopted a Policy Paper and Action Plan for 2010-13 including the introduction of managerial accountability. With regard to **external audit**, the Chamber of Control started cooperation with the State Audit Institution of the Netherlands on adapting audit practices to the standards of the International Organisation of Supreme Audit Institutions (INTOSAI), while also cooperating with SIGMA on its own Strategic Development Plan.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

A first meeting of the EU-Armenia Subcommittee on Justice, Freedom and Security took place in Yerevan in July 2010, underlining the strong mutual willingness to deepen relations in this policy area. Discussions started between the EU, Armenia and a group of interested EU Member States on the establishment of an EU-Armenia Mobility Partnership.

In November 2010, Armenia adopted its Border Security and Comprehensive Border Management Strategy, to be followed by a time-scheduled Action Plan. In September 2010, as part of the Southern Caucasus Integrated Border Management (SCIBM) project, Armenia hosted a bilateral workshop on integrated **border management** strategies with Georgia. Work continued on border demarcation with Georgia alongside the further professional training of border guard personnel, including the abolition of the conscription system.

Work also continued on a national action plan on **migration and asylum**. With support from OSCE and the International Organisation for Migration (IOM), Armenian government officials received training in biometrics and ID management to prevent identity fraud, irregular migration, migrant smuggling and human trafficking. Good progress was made in the area of document security with the preparations for the introduction of biometric passports. Technical requirements for Armenian passports and ID cards with biometrical parameters were finalised and a tender for their procurement was launched.

With regard to the fight against **organised crime**, in September 2010 Armenia signed the 2007 Council of Europe Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse. It is yet to accede to the Third Additional Protocol to the United Nations Convention on Transnational Organized Crime on the Illicit Manufacturing and Trafficking of Firearms, their Parts and Components. Inter-agency work continues on developing a national strategy to combat organised crime.

Armenia continued its efforts to comply with the minimum standards for eliminating the **trafficking of human beings**. Legislation was enacted to increase the minimum penalty for convicted trafficking offenders, to allow the confiscation of their assets, and to exempt trafficking victims from criminal prosecution for crimes committed as a direct result of being trafficked. The government allocated some funding for victim assistance and made some progress in the implementation of its national trafficking victim referral mechanism. The topic of trafficking in human beings was introduced into the school curriculum in Armenia.

With regard to the fight against **drugs**, a timetable for action was adopted in July 2010 under the 2010-12 National Programme on Combating Drug Addition and Trafficking of Narcotic Drugs. It included specific actions for rehabilitation as well the establishment of a monitoring and evaluation system to assess its impact, under the coordination of the ministry of health. In this regard, capacity building, data collection and international cooperation remain key issues. A national awareness preventive campaign “Hemp Poppy 2010”– was organised by the Armenian police in August-September 2010. In October 2010, Armenia attended the ENP regional seminar on the EU drug monitoring system organised by the Commission and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) in Brussels.

With regard to the fight against **money laundering**, Moneyval adopted a progress report in September 2010 on Armenia’s implementation of recommendations resulting from the third round mutual evaluation report adopted in September 2009, particularly in relation to key recommendations of the Financial Action Task Force (FATF). The Central Bank submitted a

draft amendment to the law on the Fight against Money Laundering and Financing of Terrorism for the government, which was amended by parliament in December. Consolidation of technical and human resources to combat money laundering, corruption and terrorism financing remains a priority.

In the area of **police and judicial cooperation** Armenia has yet to ratify the Second Protocol to the European Convention on Mutual Assistance in Criminal Matters. Armenia also has yet to sign two key Hague Conventions on international judicial cooperation, namely the 1965 Convention on the Service of Documents and the 1970 Convention on the Taking of Evidence Abroad in Civil or Commercial Matters. No progress can be registered regarding the accession of Armenia to some important international Conventions regarding family law such as the 1980 Hague Convention on the Civil Aspects of International Child Abduction and the 1996 Convention on Parental Responsibility and the Protection of Children. In November, Armenia signed a cooperation agreement to strengthen police and judicial cooperation with Poland, while a declaration on a similar agreement with Germany was awaiting signature in early 2011.

As regards **data protection**, Armenia signed the 1981 Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data and the Additional Protocol on supervisory authorities and trans-border data flows in April 2011.

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

Armenia started to implement its 2009-2020 **transport** sector development strategy. As regards infrastructure policy, Armenia made progress on the planned North-South road corridor (scheduled from 2009 to 2017) and on the rehabilitation of the existing Yerevan-Tbilisi rail link.

The newly established National Road Safety Council of Armenia (NRSCA) held its first meeting in September 2010. Thanks to the successful implementation of the National Road Safety Strategy, the number of casualties due to road accidents fell in 2010. As regards the introduction of the digital tachograph under the UN-ECE European Road Transport Agreement on driving times and rest periods, Armenia did not implement all the measures provided for in that agreement concerning the issuing of cards for drivers, undertakings, workshops and controllers before the end of the tolerance period on 31 December 2010.

In the air sector, Armenia has not fully removed restrictive commercial and regulatory measures in order to improve aviation efficiency and connectivity.

Armenia and the EU stepped up their **energy** dialogue, inter alia, via the first ever Energy Subcommittee meeting, held in October 2010 in Yerevan. Armenia pursued the safety upgrading of Medzamor Nuclear Power Plant (MNPP) and continued to credit the nuclear decommissioning fund in view of the planned closure of this plant by 2016. The EU continued to request closure as soon as possible before this date since the MNPP cannot be upgraded to meet internationally recognised nuclear safety standards.

In August 2010 Armenia and Russia signed an intergovernmental agreement to build a nuclear power plant (NPP) probably between 2012 and 2018. The Armenian government and Rosatom (Russia) are participating in the project, which is open to other international

investors. In 2010, Armenia made progress on technical studies concerning the future NPP, including issues related to the seismicity of the site. The spent nuclear fuel/radioactive waste strategy and the detailed decommissioning plan for the existing plant are still in a preparatory phase. A joint Armenian-Russian company continued with a survey on the possible use of domestic uranium resources.

In May 2010 Armenia applied to become an observer under the Energy Community Treaty. The parliament examined draft amendments to the electricity, gas and energy efficiency acts. In April 2010, Armenia increased its gas prices. It initiated an assessment on the possible use of domestic oil shale.

Armenia prepared a draft action plan on energy efficiency and the use of renewable energy sources. The country further developed the use of renewable sources. In addition, (small) hydro, wind, photovoltaic, geothermal and bio ethanol were targeted. Armenia continued to construct and upgrade power plants. In 2010, the country completed a study on the extension of the Abovyan underground gas storage (UGS), which it plans to implement. Armenia continued building domestic gas pipelines and connecting customers to the gas network. It also increased the safety of the gas network. Armenia further upgraded its electricity networks and advanced the development of new electricity interconnections with Georgia and Iran. Armenia and Iran initiated plans for constructing a new oil product pipeline between their two countries.

In the field of **climate change**, Armenia submitted its Second National Communication (SNC) to the UN Framework Convention on Climate Change (UNFCCC), including a greenhouse gas inventory, and mitigation and adaptation measures.

Armenia also took steps to prepare further Clean Development Mechanism (CDM) projects, even if no new projects were registered at the UN level, leaving the total number of registered projects at five. The European Commission continued to support Armenia in implementing the Kyoto Protocol.

Armenia is encouraged to fully implement the Cancun agreement and in particular devise a low carbon development strategy including update information on target or actions that it will implement

In the field of the **environment**, Armenia continued implementing its environment action plan for 2008-2012, inter alia with regard to the development of the legislation. However, the legislative framework continues to require further development, in particular as regards implementing legislation. The act on environmental protection and legislation on environmental expertise and self-monitoring of compliance are still under preparation. Changes to existing air quality legislation are also being prepared, including introduction of the concept of Best Available Techniques (BAT). Preparatory works are also under way for the protection of water resources through decentralised management at river basin level and for reducing risks of hazardous substances. Continued attention is required in order to implement existing strategies and plans and to further enhance monitoring and enforcement. Armenia established inventories of landfills, obsolete pesticides and PCBs. Further strengthening of administrative capacity at all levels of the country remains a major challenge, and coordination between authorities continues to require attention. Armenia took some steps to promote the integration of environmental considerations into other policy sectors, such as industrial policy.

There were no significant developments with regard to preparations of state-of-the-environment reports. Armenia nevertheless continued to carry out some other activities to provide information to the public. Procedures and consultation with the public in the context of environmental assessments continue to require particular attention. Amendments to the law on environmental impact assessment being debated in the parliament raise concerns about possible negative environmental effects arising from procedural simplification.

Armenia ratified the Protocol on Strategic Environmental Assessment to the United Nations Economic Commission for Europe (UNECE) Convention on Environmental Impact Assessment in a Trans-boundary Context. There were no significant developments as regards the accession or ratification with regard to the remaining relevant UNECE Conventions and Protocols. Furthermore, the implementation of several agreements, which have already been ratified, requires particular attention. Armenia participated in the EU Water Initiative, which included a national policy dialogue. Cooperation and information exchange took place between the European Commission and Armenia, including on water, forestry, waste management, environmental data, nature protection and air quality.

The **Regional Environmental Centre (REC) for Caucasus** carried out regional activities in 2010, including in the fields of information and public participation, environmental policy and local environmental action plans. The REC also further improved its internal management, fund-raising and visibility in 2010. Nevertheless, it carries over a financial shortfall from previous years which is hampering its activities.

In the field of **civil protection**, a concept paper on seismic safety and the establishment of a crisis management centre were approved. Preparatory actions for strengthening various aspects of civil protection are under way, including management reforms and new legal acts. There are also activities under the EaP framework (*please see the sectoral report*).

Progress in regulatory reform in the area of **Information Society** was modest in 2010, even though Armenia's regulator (the Public Services Regulatory Commission) plans to introduce mobile number portability, access to the infrastructure and a simplification of the market entry procedure. The adoption of these measures would be key in creating the conditions for competitive markets, which currently still constitute a de facto monopoly in the fixed telephony market. The number of Internet users rose significantly, although consumers still have complaints about the quality of the Internet. The leading mobile operator is introducing a 4G network (LTE technology) in Armenia.

In the **audiovisual** sector, freedom of reception and retransmission of television broadcasts coming from other countries remains difficult, as Armenia has not yet ratified the Council of Europe Convention on Transfrontier Television.

Armenia's **research** investment and capacity remains relatively modest. Armenia continued to increase the number of applications submitted to the 7th Framework Programme (FP7). Eighteen research organisations were successful in their applications as of November 2010, receiving EUR 880,000 of EU funding, particularly under parts of the programme relating to international cooperation, research infrastructures, and information and communication technologies.

Armenia continued to participate actively in the International Science & Technology Cooperation Network for Eastern European and Central Asian countries (FP7 IncoNet EECA

project), which aims to support a bi-regional EU-EECA policy dialogue on science and technology and to increase EECA participation in FP7.

Armenia is a target country under the new FP7 International Cooperation Network for Central Asia and South Caucasus countries (FP7 IncoNet CA/SC) which was launched in April 2010 and aims to strengthen and deepen EU S&T cooperation with the CA/SC countries, and also with the Republic of Moldova.

Armenia is also playing an active part in the Black Sea ERA-NET project, which aims to contribute to the coordination of research programmes of the EU member states and partner countries targeting the extended Black Sea region.

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

In the field of **higher education**, the ministry of education and science developed new admissions rules for public and private universities in order to create fair and equitable access based upon the results of a unified school graduation examination. Under the requirements of the Bologna Process, the National Centre for Professional Education (ANQA) drew up its strategic plan for 2010-15 in June, while quality assurance standards for higher and vocational education, which are compatible with the European standards (ESG), are being developed. In February, the ministry also adopted a new policy on distance learning. Work on the development of a comprehensive national qualifications framework comparable to the European Qualifications Framework (EQF) advanced well, while a new law on secondary education in July enabled 91 new high schools to be established.

Higher education reform in Armenia continued to benefit from participation in **Tempus**, with four projects selected under the third Call for Proposals of Tempus IV. Armenia also continued its active participation in the **Erasmus Mundus** programme in the academic year 2010-11 with the expected award of six scholarships for Erasmus Mundus Masters Courses under Action 1 and a further 29 mobility grants for students and academics under Action 2. For the first time, in 2010 a **Jean Monnet** interdisciplinary module was awarded to Yerevan State University to increase understanding of EU relations with the Southern Caucasus in the context of the ENP.

With regard to **vocational education and training**, Armenia further consolidated reforms with substantial EU assistance in the areas of teacher training and refurbishment of vocational training colleges. The ministry of education and science adopted state standards for vocational education programmes for over 80 professions, while further expanding the modular learning approach. In addition, it established its own lifelong learning department in October 2010.

In the area of **culture**, Armenia participated in four projects under the 2010 Special Action for ENP countries under the Culture Programme. In January, the ministry of culture approved a programme for the protection and use of intangible culture for 2011 alongside a procedure for documentation and certification. To advance its regional cooperation in the framework of the Eastern Partnership and the Kyiv Initiative, Armenia is due to ratify the 2005 CoE Framework Convention on the Value of Cultural Heritage for Society.

Armenian young people and **youth** organisations continued to benefit from the opportunities offered by the Youth in Action Programme, through exchanges, voluntary service and youth cooperation activities in non-formal education.

Armenia continued the reform of its **health** sector, addressing primary health care and health insurance in particular. In November 2010, the amendments to the law on medical assistance and medical services, aimed at extending the list of free medical services, entered into force. The draft health care law remains in a preparatory stage. The government endorsed a concept for improving the quality of health services. In March 2010, as a result of last year's influenza A (H1N1) epidemic, the European Commission and Armenia established communication channels for the exchange of epidemiological information in the event of a public health emergency of international concern. In April 2010, Armenia adopted a strategic plan on HIV/AIDS and tuberculosis covering the period 2010-2014.

8. FINANCIAL COOPERATION – 2010 KEY FACTS AND FIGURES

Cooperation framework

The Mid-Term Review of the programming document confirmed that the Country Strategy Paper adopted in 2007 remains a valid framework for cooperation with Armenia. The new National Indicative Programme (NIP) 2011-13 for Armenia was adopted in March 2010 and has a budget of EUR 157.3 million. The programme is geared towards supporting the achievement of key policy objectives as outlined in the EU-Armenia AP and pursues three priorities: (1) democratic structures and good governance, (2) trade and investment; regulatory alignment and reform, and (3) socio-economic reform and sustainable development.

The NIP 2011-13 includes a specific appropriation to finance new actions under the Eastern Partnership, notably a Comprehensive Institution Building programme (CIB) (a minimum of EUR 32.8 million) and Cohesion Policy (a minimum of EUR 7.1 million). The CIB Framework Document (FD) was signed in November 2010 and identified the following key areas for support: strengthening of the institutional structure for the negotiations for the AA; justice, freedom and security, anticorruption, and preparations for the negotiations of the DCFTA part of the AA. Core institutions identified in the FD will have to develop Institutional Reform Plans, to be supported as part of the Annual Action Programmes (AAP) 2011-2013, by means of a variety of tools including technical assistance, Twinning, TAIEX, SIGMA and training.

In the field of **Regional Policy dialogue** a seminar for regional and national officials was organised by the Ministry for Territorial Integration and TAIEX in January. Armenia requested in December to establish a regional policy dialogue with the Commission during 2011.

Implementation

Implementation of the measures covered by the NIP 2007–2010 is underway. These measures include the programme on Vocational Education and Training (VET) (AAP 2007, EUR 16 million) which was completed in July 2010. As a result, the VET Department of the ministry of education and Science has been reorganised and its monitoring capacities have been strengthened. Moreover, 12 VET schools have been selected to become multifunctional regional centres and modernized. A National Centre for VET Development has been established and is fully operational.

In addition, the "Justice reform programme" (EUR 18 million) is ongoing. Under this programme Armenia undertook to develop a comprehensive strategy for implementation of judicial reform and a proper Public Financial Management (PFM) system in the sphere of justice and to improve the law implementation system. Moreover, a substantial decrease in corruption in the judiciary should be achieved. Other objectives include improved access to justice, leading to a wider application of the right to justice and increased independence of the judiciary, in an effort to strengthen the credibility of court proceedings. Armenia also made efforts to establish cooperation with the judicial and law enforcement authorities of EU member states.

The need for further support in the area of VET led to the identification, under the 2009 AAP, of a further sector budget support operation to underpin the reform of the VET sector (EUR 15 million) focussing on better quality of VET design and delivery, establishing a technical support structure (National Centre for VET Development) and increasing government ownership of the reform process. Implementation will start in 2011.

In 2010, a total amount of EUR 27.7 million was committed to Armenia under the bilateral appropriation of the European Neighbourhood and Partnership Instrument (ENPI). The 2010 AAP included a EUR 21 million multi-sector budget support operation to assist the government in implementing a number of key areas of the EU-Armenia AP and in preparing for the negotiation of the AA in the area of DCFTA.

Considerable resources have been devoted to the funding of twinning operations (EUR 5 million in 2007, EUR 6 million in 2008, EUR 5.5 million in 2009, EUR 5.5 million in 2010). At the end of 2010, there were four twinning operations ongoing and a further 7 in preparation.

In addition to the bilateral allocation, Armenia also benefited from cooperation activities financed under the ENPI cross-border, inter-regional and regional programmes. Armenia participated in the ENPI Cross-Border Cooperation (CBC) programme Black Sea Basin (EUR 21.3 million for the whole programme in the period 2007-13). The main priorities of this programme are to support cross-border partnerships for economic and social development based on combined resources, to share resources and competencies for environmental protection and conservation, and to support cultural and educational initiatives to establish a common cultural environment in the Basin.

Under the ENPI-financed Neighbourhood Investment Facility (NIF), two projects in Armenia received provisional approval in 2010: they were the Yerevan Metro Phase II programme and the Kotayk Solid Waste Management programme.

Other EU instruments supplement the ENPI assistance package. Armenia has benefited from cooperation activities financed under horizontal instruments such as the European Instrument for Democracy and Human Rights (EIDHR) and the Development Co-operation Instrument (DCI) thematic programmes: Non-State Actors and Local Authorities in Development (NSA-LA) and Food Security.

In 2010 the EU Advisory Group continued to provide support to the core areas of the EU-Armenia AP. Substantial contributions were made to the Armenian reform efforts in the areas of customs, protection of human rights, anticorruption and good governance, and trade related areas, particularly technical barriers to trade. The EU is continuing to fund the activities of the EU Advisory Group to Armenia with EUR 4.2 million under the 2009 AAP. The EU

Advisory Group will provide targeted advice in the areas related to the AA and focus on the areas of democracy and human rights, justice, liberty and security and also preparations for the DCFTA.

With regard to assistance in the area of Nuclear Safety, projects providing On-Site Assistance and the supply of equipment worth EUR 11 million to the Nuclear Power Plant of Medzamor are currently being implemented under the Instrument for Nuclear Safety Cooperation (INSC) programme (2009 funding). Other safety upgrading projects worth EUR 13.6 million and aimed at further improving the safety culture of the Armenian nuclear power plant were programmed under the INSC Action Programmes 2008, 2009 and 2010.

In November 2010, the conditions governing EU Macro-Financial Assistance (a loan of EUR 65 million and a grant of EUR 35 million) were agreed with Armenia. The MFA was aimed to alleviate the effects of the global financial crisis. The first disbursement of the MFA is due to be made in the second quarter of 2011.

In 2010 the European Investment Bank signed its first lending operations with the government of Armenia. The EUR 5 million financing will be used for upgrading the metro in Yerevan, thereby helping to improve the urban environment in the Armenian capital.

Donor coordination

In 2010, donor coordination mainly concerned the four leading donors (WB, IMF, USAID and EC), with the participation of the minister of economy. Armenia has taken on increasing responsibility for the coordination of donor activities.