

# EUROPEAN PARLIAMENT



Directorate-General External Policies

## Policy Department

### **The Political and Economic Situation in Armenia and its relations with the European Union**

#### **NOTE**

**Abstract:**

This note is a revised version of that prepared on a regular basis for meetings of the EU-Armenia Parliamentary Cooperation Committee. The next such meeting will take place on 14/15 March 2005.

The note is intended for the use of Members of the European Parliament.

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Sources: Economist Intelligence Unit  
Oxford Analytica  
European Commission  
Eurostat  
Eurasianet.org  
Keesings

## **Armenia - Basic Data**

### *Total area*

29,800 sq km, of which around 80% is mountainous

### *Population*

3.2m (end-2003)

### *Main towns*

Yerevan (capital; population 1.1m); Gyumri; Vanadzor

### *Climate*

Continental and dry, with cold winters and warm summers. The heaviest rainfall is in the mountains. The average temperature in July is 21°C; in January, the coldest month, it is -7°C

### *Languages*

Armenian is the national language; Russian is widely spoken in the towns

### *Weights and measures*

Metric system

### *Currency*

The Armenian dram was introduced as legal tender in November 1993 to replace the rouble. Average exchange rate in 2003: Dram578.76:US\$1; July 8th 2004: Dram533.98:US\$1

### *Time*

4 hours ahead of GMT

## **I. POLITICAL SITUATION**

### **1. *Historical background***

Armenia has traditionally been both a strategic crossroads for trade and military routes between Europe and Asia and a continual battleground for the great empires of East and West. It has been repeatedly conquered, ransacked and partitioned: where there has been a breathing space, it has been due to the balance of regional forces alone.

In AD 301, the Armenian people converted to Christianity. From the 14th century, Armenia was partitioned between the Ottoman and Persian empires.

Following the 1877-1878 war between Russia and Turkey, the Sultan was obliged to cede territories inhabited by a minority Armenian population to Russia. From then on, the Ottomans viewed the 'Armenian question' as a threat to the eastern border of their empire. In November 1914, the Ottoman empire entered the First World War, on the side of the Central Powers and against France, Britain and, above all, its traditional enemy Russia. The Turkish troops, retreating in disarray in early 1915, treated the Armenians as scapegoats. Attacks were followed by mass deportations between May 1915 and the winter of 1915-1916: the result were the first mass killings of the 20th century. A number of institutions have since highlighted the genocidal nature of these tragic events but the Turkish government continues to deny any official involvement in the deaths. While historians continue to disagree over the number of the victims, even Turkish historians do not deny that large numbers of people died.

The modern diaspora stems from these tragic events, which put an end to almost three thousand years of Armenian presence in the Turkish part of eastern Anatolia.

For the Caucasian Armenians, the First World War not only destroyed empires but also marked a turning point in their own history. As in Georgia and Azerbaijan, an independent republic was formed in the fallout from the Russian defeats, the revolutions of 1917 and the collapse of the Tsarist empire. 28 May 1918 saw the proclamation of the Republic of Armenia. Despite this, the Armenian army was defeated by the Turks, and Armenia was obliged to renounce its territorial ambitions by the Treaty of Alexandropol (2 December 1920), which reduced it to its present area (29 000 km). At the same time, the aspirations of the Armenian people to independence and democracy were rejected when the country was incorporated into the USSR.

For the first time in more than six centuries the different components of Armenian society found themselves together on the same territory of the Soviet Union. The sense of a shared destiny in the wake of pogroms and genocide also contributed to the forging of a modern national identity.

Today, half of the world's 6.5 m Armenians lives outside Armenia. This diaspora is, however, by no means homogeneous. The larger diaspora (1,6 m people) which was

formed out of the tragic events of the early 20th century is divided between Europe (c.400 000) and the Americas (1 200 000).

The Karabakh Committee, which was created in spring 1988, quickly became the main platform for those who rejected the Soviet system and aspired to democracy, freedom and national sovereignty. The Armenian National Movement (ANM), which emerged from the Committee and was legalised in June 1989, won the first legislative elections, which were held in summer 1990, on a programme demanding an independent Armenia: this goal was to be achieved by constitutional means, without an abrupt break with Moscow. On 21 September 1991, a referendum was held on independence: the result was 99% in favour on a 95% turnout. On 16 October 1991 Levon Ter-Petrossian became Armenia's first President, elected by universal suffrage with 84% of the vote. <sup>1</sup>

It was the most ethnically homogeneous of all the Soviet republics, and had the lowest proportion of Russians (2%, either soldiers or the descendants of settlers). The Azeris (5% of the population in 1979) who formerly lived in the villages near the border with Azerbaijan have now left Armenia, quitting the country in the population exchanges of refugees that followed the Karabakh crisis. The only other minority of importance (1.7%) is formed by the Yezidi Kurds, who are Zoroastrians. The total population of Armenia is around 3 000 000.

## ***2. Institutions and internal politics***

Armenia has been an independent state since 21 September 1991. The Constitution was adopted by means of a referendum held on 5 July 1995, with 68% voting in favour.

### ***2.1. The executive***

a) *President*: the Head of State is Robert Kocharian, the former President of the 'self-proclaimed Republic of Nagorny-Kabarakh'. He succeeded Levon Ter-Petrossian, who had been Armenia's President since 1991, when the latter resigned on 3 February 1998<sup>1</sup>. In June 2003 a new government was sworn in following further controversial presidential and parliamentary elections. The government presides over a tenuous status quo, marred by increased opposition activism and potential rifts in the coalition. In the parliamentary vote, Prime Minister Andranik Markarian's Republican Party increased its share of the national vote (24%) and its influence in the Armenian political establishment. The Republican Party is now the main governing coalition member, with the anti-corruption Country of Law party and the nationalist, socialist Armenian Revolutionary Federation as junior coalition partners.

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<sup>1</sup> Mr Ter-Petrossian had been re-elected in September 1996, following an election characterised by numerous irregularities. These were criticised by the European Parliament in a resolution of 14 November 1996 (OJ C 362, 2.12.1996, p. 266).

The President is elected for a five-year term, renewable once, by universal suffrage. Power is shared between the President and the Prime Minister, and the constitutional regime may therefore be described as semi-presidential.

b) *Prime Minister*: this position has been held by Mr Andranik Markarian since 12 May 2000. Mr Markarian replaced Mr Aram Sarkisian, who had in his turn replaced his brother Vazgen Sarkisian in November 1999, following the latter's assassination.

The Prime Minister is appointed by the President, and appoints the remaining ministers in his turn.

## *2.2. The legislature*

Armenia has a unicameral parliamentary system. The members of the National Assembly are elected for a four-year term. The most recent parliamentary elections took place in June 2003. The electoral system is a mixture of proportional representation (56 seats) and first-past-the-post (75 seats). The results in two constituencies were annulled following objections by the OSCE. The President can dissolve the parliament.

## *2.3. The judiciary*

Judicial power in Armenia is invested in the courts. The courts of general jurisdiction are the tribunal courts of first instance, the courts of review and the Court of Appeals. The Constitution establishes a body called the Judicial Council (Article 94 of the Constitution) for the purpose of ensuring the autonomy of all judicial bodies. The President heads the Judicial Council.

The Constitutional Court is composed of nine members, of whom the National Assembly appoints five and the President appoints the remaining four. The Constitutional Court is responsible for ensuring the conformity of all laws, Presidential decrees and governmental resolutions with the Constitution (Article 100(1) of the Constitution).

Recently, there have been substantial reforms, but the legal environment remains riddled with practical problems.

## *2.4. Elections and political parties*

In the presidential elections of February 2003, incumbent President Robert Kocharian won the most votes but failed narrowly to gain the 50 per of votes required for a first round victory, thereby necessitating a second round of voting on March 5 against his main challenger Stepan Demirchian.

The Organisation for Security and Co-operation in Europe (OSCE), which had sent 200 observers to monitor the polling, said that the elections “fell short of international standards in several key respects”.

Stepan Demirchian, chairman of the People’s Party of Armenia (HZhK), won just over 28 per cent of the vote, and Artashes Geghamian, chairman of the Justice and Accord Bloc (IeM), won almost 18 per cent of the vote.

Legislative elections were held on 25 May 2003 but also failed to meet international standards. They resulted in victory for the three main pro-presidential parties with the Republicans in the lead.

The parties obtained the following results :

<b>Party/Coalition</b>	<b>Seats</b>
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Republican Party	31
Country of Law	19
Justice (including the People's party)	14
Armenian Revolutionary Federation (Dashnak)	11
National Unity	9
United Labour Party	6
Independents and small parties	38

Political parties have mushroomed since independence. The main ones are: the Republican Party (NHK) led by the current Prime Minister, Mr Andranik Markarian. The president is supported by this party and by Country of Law and Dashnak. The People's Party, led by the main contender in the Presidential election, Mr Demirchian, is now part of Justice. Mr Demirchian is the son of the former speaker of the National Assembly, assassinated with other leading figures in 1999.

## *2.5. Principal internal political developments*

The atmosphere of Armenian politics has been soured by the disputes between President Kocharian, various members of the government coalition, and the Parliament.

In October 1999, a violent attack on the Parliament was responsible for the deaths of eight leading political figures: among the victims were the Prime Minister, Mr Vazgen Sarkisian, and the speaker of the Parliament, Mr Karen Demirchian. These events, together with a series of other assassinations, had an adverse impact on the democratisation process, which has already suffered repeated blows from war, corruption and the impoverishment of the people.

In April 2004 opposition parties organised a series of demonstrations in the capital, Yerevan in an attempt to force the resignation of the government of Robert Kocharian. The government responded by using force to disperse the demonstrators and carrying out mass arrests, actions that prompted widespread international criticism.

The demonstrations were organised by former presidential candidate Stepan Demirchian, the leader of the Justice (Ardarutyun) bloc, Aram Sargisian, leader of the Republic (Hanrapetutian)--a member of the Ardarutyun bloc--and National Unity Party leader Artashes Geghamian. Mass demonstrations took place in Yerevan on April 9-12 and a number of opposition figures were arrested. Special police armed with batons, water cannons, and stun grenades attacked demonstrators who had congregated near the presidential palace early on April 13. Dozens of people were reportedly injured in the clash. The police then reportedly raided the Yerevan headquarters of a number of opposition parties.

The Prime Minister Andranik Markarian insisted that the use by the police of force to disperse protest participants was justified because “this was a coup attempt, and the authorities must take appropriate reactions within the legal framework”. Markarian offered a dialogue with the opposition, but at the same time categorically rejected its repeated calls for a nation-wide referendum of confidence in President Kocharian.

Some 20,000 people participated in a further protest march in Yerevan on April 21. On the same day, the police launched a new wave of arrests of opposition activists. A police spokesman said that 76 people were arrested, of whom 23 were sentenced to up to 15 days’ detention. Opposition sources, however, estimated the number of arrests at over 200. The protests subsided in June 2004. There seems little prospect of a change of government on the model of what happened in Georgia because the authorities are stronger, the Karabakh problem discourages national divisions and no opposition leader has the charisma of the current president of Georgia.

### **3. *External policy***

#### **3.1. *Relations with international organisations***

Armenia is a member of the following organisations: the CIS; the Collective Security Organisation (CSO)<sup>1</sup>; the OSCE; the Black Sea Cooperation Council; and the Council of Europe. It is also a signatory to NATO’s Partnership for Peace. Armenia is a member of the UN and its specialised organisations.

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<sup>1</sup> The Collective Security Organisation consists of Russia and the ex-Soviet republics which are closest to Moscow, i.e. Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan.



At its meeting of 26 September 2002, the Parliamentary Assembly of the Council of Europe adopted a resolution on the death penalty, which is still in force in Armenia. According to this resolution, Armenia's membership of the Council of Europe could be suspended if the authorities in Yerevan do not abolish the death penalty. On September 2003 the Armenian Assembly decided to abolish the death penalty. On 26th of April 2002, Armenia ratified the European Convention of Human Rights. 79 Appeals has been presented concerning Armenia in the Court of Human Rights in 2003.

### *3.2. Relations with other countries*

#### **a) Azerbaijan**

Armenia's relations with its neighbour Azerbaijan are adversely affected by a historic conflict.

The region of Nagorny-Karabakh, despite its majority Armenian population (93.5% in 1926, 77% in 1989), was made part of Azerbaijan, as an autonomous region, at the beginning of the 1920s. On 28 and 29 February 1988, anti-Armenian pogroms occurred in Sumgait, to the north of Baku, Azerbaijan's capital, claiming scores of victims. In July 1988, the Nagorny-Karabakh Soviet voted in favour of the region becoming part of Armenia. Azerbaijan and Armenia then began to expel each other's minorities, generating a first round of clashes. With the break-up of the USSR, the conflict escalated into war. Following the restoration of the Republic of Azerbaijan on 31 August 1991, Nagorny-Karabakh declared itself an independent republic on 2 September of the same year. In reaction, the Azeri parliament officially dissolved the autonomous region on 26 November 1991. Yerevan has actively supported the regime in Stepanakert<sup>1</sup>, but, fearing international opprobrium, has refrained from officially recognising the independence of Nagorny-Karabakh. The conflict between Armenia and Azerbaijan has led to over 20 000 deaths, and more than 1 m people were displaced in its wake over a six-year period. The war has been dormant since 1994, but no solution has yet been found as regards the problem of the status of the enclave or the return of the 20% of Azerbaijan's land area now occupied by Armenia. This unfinished business stands as an obstacle to the development of the entire region.

The OCSE was entrusted with the solution of this conflict in 1992. Proposals were put forward in 1997, but there were immediately rejected by the self-proclaimed Republic of Nagorny-Karabakh.

The negotiations on the region's status are now once again frozen, despite the progress towards a peaceful solution that had been registered on both sides before the October 1999 attack on the Armenian Parliament. Small steps are being taken

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<sup>1</sup> the capital of Nagorny-Karabakh

to bring the two sides together; foreign ministers have met on several occasions, but substantial progress is unlikely in 2005.

The failure of the so-called 'Minsk group' of the OSCE to make progress in resolving the conflict has caused dismay and impatience. The EU in the context of its Neighbourhood Policy is seeking to push the parties towards a resolution with the incentive of access to EU markets.

#### **b) Georgia**

There is a large Armenian minority in Georgia, some of whom are impoverished and live in a border region with few amenities. A traditional rivalry between the two countries has not prevented the establishment of good relations. Armenia's main land access to the outside world passes through Georgia.

The Baku-Tbilisi-Ceyhan oil pipeline now under construction avoids Armenian territory entirely.

#### **c) Turkey**

In view of the refusal of the Turkish authorities to recognise the Armenian genocide and Turkey's support for the Muslim and Turkic-speaking republic of Azerbaijan in the Nagorny-Karabakh conflict, the present state of relations between Armenia and Turkey leaves much to be desired. Under pressure from Azerbaijan, the Turkish-Armenian border remains closed and there is still a ban on Armenian exports to Turkey.

#### **d) United States**

There is a large Armenian-American community which ensures a continuance of flows of American financial aid, but relations have recently been chilly because of the internal political developments and criticisms of the recent elections in Armenia. Mr Kocharian has however offered to send a token number of troops to Iraq and in 2001, following the attacks on the US in September, Mr Kocharian stated Armenia's readiness to participate in the fight against international terrorism and opened its airspace to US aircraft. Washington in turn repealed Section 907 of the Freedom Support Act, which placed restrictions on aid to Yerevan and Baku following the Karabakh conflict.

In May 2002 the Bush administration decided to impose sanctions on certain Armenian companies which it accuses of helping Iran acquire the means of manufacturing weapons of mass destruction. The companies concerned have been barred from exporting to the US, and are no longer eligible for assistance from the US administration.

#### **e) Russia**

Russia is Armenia's main trading partner and the biggest investor in the country. On 5 November 2002, the Armenian and Russian governments signed an agreement settling Yerevan's debt to Moscow. According to this agreement, Armenia will hand over five state-owned companies to Russia against a debt of US\$ 98 m. The Russian-Armenian military axis created in 1997, with the signing of the Treaty of Friendship and Cooperation, appears to be operating smoothly. Armenia is, at a time when both Azerbaijan and Georgia are aiming at closer ties with NATO.

Despite Armenia's traditional dependence on Russia, the closing of the border between Russia and Georgia in 2004 - intended to control the movement of terrorists - had a major negative impact on the Armenian economy and caused serious frictions.

#### **f) Other countries**

Relations between Armenia and Iran are cordial. Iran is concerned to prevent any spread of Azeri nationalism inside its borders. Armenia, which is suffering from the blockade imposed by Turkey and Azerbaijan, is negotiating the provision of gas supplies and the improvement of road links with Tehran. These relations are not viewed favourably from Washington.

Armenia is also trying to build up special links with those countries which have large Armenian communities, such as France and the US. Those countries were among the first to offer Armenia their support, by establishing diplomatic relations and signing agreements.

## **II. ECONOMIC SITUATION**

### **1. *Introduction***

The economy has been stabilised with international aid assistance and the key macro-economic indicators are generally encouraging. Growth in GDP has been impressive and reached nearly 15% in 2003, falling to about 9.5% in 2004, but output levels have still to match those achieved in 1990. Inflation was higher than expected in 2003 because of poor grain harvests but has subsequently fallen, with prices possibly even dropping in 2004.

The authorities have continued to operate a rigorous monetary policy in order to maintain the stability of the national currency, the dram.

### **2. *Recent trends***

#### **2.1 *Industry and external trade***

Following the near-total post-independence collapse of the industrial sector in the wake of Armenia's loss of markets, the war in Nagorny-Karabakh and the blockade imposed by Turkey and Azerbaijan, industrial growth increased rapidly from 2000. This achievement was due to a strong performance of the mining sector and especially the processing of precious stones such as diamonds. The secondary sector employs 25% of the active population.

The importance of the primary sector in the economy has grown recently following a strong performance for both crops and livestock in 2004 and a decline in diamond processing, although the latter remains Armenia's principal source of export revenue.

High trade deficits have been compounded by the problems affecting access to foreign markets (the sole possible route is through Georgia). Despite the encouraging export performance of recent years, the trade deficit remains high. The bulk of Armenia's exports go either to the EU or the CIS.

Armenia joined the WTO in 2003.

#### **2.2. *Social conditions***

Landlocked, with scarce natural resources, Armenia has one most important asset: its people. But Armenia ranks low in terms of human and social development as compared to many developing and transition economies.

In 2002 the government approved a new labour code, unifying and standardising previous regulations that were liable to be unclear and subject to sudden change. It also follows Armenia's accession to the European Social Charter in October 2001, and is being accompanied by new legislation on pensions.

Comprehensive legislation on trade unions was introduced in 2001. It covers their establishment, activities, legal relationship with the government and with companies, and the rights and obligations of union members. It maintains the principle of voluntary union membership and aims to ensure union independence both from the state and from employers.

Official sources state that unemployment peaked in 2000 and has since been moving downwards. It is mainly an urban phenomenon, especially in Yerevan, the capital, where it is in excess of 30%. Standards of living have fallen considerably, particularly because of the endemic political violence, and the failure of the Armenian authorities to introduce adequate legislation in such areas as tax collection.

Observers have estimated that over 55% of Armenians are living below the poverty threshold. These circumstances, combined with inadequate job creation, have led to high levels of emigration. It appears that between 800 000 and 1 million Armenians, or one-quarter of the population, have left the country in the last decade.

### **3. *Policy objectives***

The government finalised its main economic policy documents - a memorandum of economic and financial policies (MEFP) and a poverty reduction strategy paper - in the final quarter of 2003. The MEFP contained the following short-term policy objectives:

- monetary policy to be geared towards maintaining price stability, with an inflation target of 3%;
- fundamental improvements in tax and customs administration;
- enhanced control, reporting and prioritisation of government expenditure, in particular close monitoring of the effectiveness of social spending;
- reforms of the main state-owned companies in the energy, water supply and irrigation sectors; and
- reduction in administrative barriers to business and in opportunities for corruption.

The poverty reduction strategy, which is widely referred to as a centrepiece of Armenia's development strategy, has a much longer time-scale, and contains the following policy priorities for the period until 2015:

- promoting sustainable economic growth through macroeconomic stability and development of the private sector;
- enhancing human development and improving social safety nets;
- maintaining prudent fiscal policies and reforming the tax system;
- improving infrastructure; and

- improving core public-sector functions.

The IMF and the World Bank have endorsed the PRSP as "appropriate, coherent and outcome-oriented" in their joint staff assessment, but there are a number of risks to successful implementation.

In particular, there has been little reduction in the shadow economy which suggests that there are still serious administrative impediments to new entrants to the market. Unless it solves such issues, the state is unlikely to be able to enhance its ability to collect revenue.

A number of major reforms have been introduced in the sphere of public administration: laws or programmes are in preparation, or have already been submitted to the Parliament, concerning, for instance, introducing an obligation on senior officials to declare their sources of income and property interests, government monitoring of inspections and licensing, and reform of the civil service. Plans have been announced to slim down the bloated state apparatus and significantly cut the number of civil servants, but in fact it seems that the number of government workers is actually rising slightly.

Assistance from the international financial institutions has been particularly important for the government's budget, as revenue from privatisation remains low. Most small enterprises in Armenia were privatised in 1994-97, and by mid-1999, 75% of medium-sized and large enterprises and more than 85% of small enterprises had been privatised. Since 1999 the privatisation process for the remaining state-owned enterprises has slowed. The government has tried to attract suitable strategic investors to raise levels of productivity and bring in technical expertise rather than merely raising cash for the budget. This has led to delays in the privatisation process.

The bulk of Armenian state assets have been privatised over the past decade, with the private sector now accounting for over 75% of Armenia's GDP. However, the privatisation process is not proceeding at the expected speed, especially in the key sector of electricity distribution. This raises concerns, not least with regard to budget implementation and subsequent IMF support, on which the EU exceptional financial assistance and the food security programme also depend.

The privatisation of the large industrial plants has been difficult, partly because of populist objections to the sale of what are regarded as national institutions, such as the Yerevan brandy factory (which was bought by Pernod Ricard of France). There has also been justified criticism that the lack of transparency in the privatisation process has sometimes resulted in sales to enterprise insiders who lacked the commitment or the capacity to streamline operations. Many of the remaining state-owned enterprises have accumulated large debts and are burdened by obsolete equipment, and are therefore unattractive to potential investors. Nevertheless, several large companies, such as the Zangezur copper-molybdenum combine, were set for privatisation in 2004.

Foreign direct investment is rising with companies from Russia, the US and the EU being the largest investors. Telecommunications, foodstuffs and the airline industry have been the largest recipients.

### III. EU-ARMENIA RELATIONS

Armenia shares in the Christian heritage and is the country of origin of a large diaspora spread across various EU Member States.

Based on the Partnership and Cooperation Agreement (PCA) entered into force on 1 July 1999, the EU's cooperation objectives are to build a relationship with Armenia in which the respect of democratic principles, the rule of law and human rights, as well as the consolidation of a market economy are fostered and supported.

The PCA provides for trade liberalisation and cooperation in a wide range of areas. Tacis is the main financial and technical assistance instrument supporting the implementation of the PCA and providing grant assistance for projects in priority areas that are defined on a biannual basis. The EU has an interest in Armenia developing in the context of a politically stable and economically prosperous southern Caucasus. In this respect, the conflict with the Republic of Azerbaijan over Nagorny-Karabakh (NK) remains the major impediment to development in Armenia and contributes to regional instability.

The Delegation of the European Commission in Tbilisi, Georgia, is also accredited to the Republic of Armenia. The Head of Delegation is Mr. Torben Holtze.

Armenia for its part has reiterated that its main target in foreign policy is "progressive integration into EU models and standards". A high-level inter-ministerial commission on PCA implementation, under the aegis of the Ministry of Industry and Trade, has been established and meets regularly. The work of this commission is supported by technical assistance provided by TACIS.

Although EU-Armenia trade remains negligible in absolute terms (see annexes), the EU accounts for more than one third of Armenian exports and imports respectively. This is three times more than US-Armenia trade, but it is essentially because of trade in diamonds which are polished in Armenia and re-exported to the EU (Belgium).

#### *EU Assistance*

EU assistance to Armenia since 1991 amounts to more than €380 million. Humanitarian assistance (notably ECHO and Food Aid Operations through the European Agricultural Guarantee and Guidance Fund, EAGGF) has been provided for nearly €120 million, which has contributed to alleviating the very severe humanitarian situation in the mid-1990s. TACIS national allocations and the Food Security Programme each represent around €100 million.

TACIS: Since Armenian independence, the EU has provided assistance under the TACIS programme to contribute to the transition towards market economy. Assistance has notably been provided in the fields of legal and regulatory reform, approximation of Armenian legislation to that of the EU and to support Armenia's WTO accession. The EU also contributed to Armenia's economic recovery through support to the private sector and small and medium sized enterprises.

With the approval of the Country Strategy Paper in December 2001, TACIS assistance to Armenia in the period 2002-2006 is focussing on continued support for institutional, legal and

administrative reform as well as on support in addressing the social consequences of transition. TACIS also provides essential assistance to the implementation of Armenia's Poverty Reduction Strategy approved in 2003. The 2002-2003 Action Programme (€10 million) is currently being implemented. The 2004-2005 Action Programme (also €10 million) has recently been agreed.

Food Security Programme: The FSP has provided significant budgetary support to key agricultural and social sectors in Armenia and has thus played an important role in tackling poverty in the country, notably through its support for family allowances and child care. The combination of budget support and technical assistance through FSP (with complementary TACIS technical assistance) has also enabled significant reforms to be made in the field of land reform and public finance management. Implementation of FSP has been very successful and further support is envisaged for 2005-2006 (€21 million), notably to assist Armenia in continuing to implement its Poverty Reduction Strategy.

Macro Financial Assistance: In December 1998, Armenia settled the remaining amount of its debt to the Community. The country subsequently benefited from a new Macro Financial Assistance package of a €28 million loan and a total grant of €30 million to be disbursed over the period 1999-2005, subject to macro-economic performance and structural reforms. In the context of the IMF-supported economic programme, this assistance has contributed to the sustainability of Armenia's external debt.

EIDHR: The EC European Initiative for Democracy and Human Rights (EIDHR) Programme launched its activities in support of NGOs in Armenia in 2003 with the objective of promoting and protecting human rights and democratisation as well as conflict prevention and resolution.

#### Total EC assistance to Armenia since 1991

	1991-1993	1994	1995	1996	1997	1998	1999	2000	2001	2002-2003	2004-2006	Total (M €)
Tacis National Allocations	28.90	-	6.00	14.00	-	10.00	-	10.00	-	10.00	20.00	98.90
Nuclear Safety	-	-	-	10.00	1.00	-	-	11.00	-	-	-	22.00
Humanitarian	10.40	19.90	23.96	5.07	2.10	1.60	2.30	1.10	2.10	1.00	-	69.53
EAGGF	-	-	34.00	13.20	-	-	-	3.00	-	-	-	50.20
FSP	-	-	-	13.00	6.00	12.00	10.00	10.00	10.00	20.30	21.00	102.30
Macro financial assistance (disbursed)	-	5.70	-	-	-	8.00	4.00	-	-	11.00	7.00	35.70
Aid against effects of Russian financial crisis	-	-	-	-	-	-	1.50	-	-	-	-	1.50
<b>Total (M€)</b>	<b>38.30</b>	<b>25.60</b>	<b>63.96</b>	<b>55.27</b>	<b>9.10</b>	<b>31.60</b>	<b>17.80</b>	<b>35.10</b>	<b>12.10</b>	<b>41.80</b>	<b>48.00</b>	<b>380.13</b>

#### *The role of the European Parliament*

In the post-independence period, the EP has exercised vigilance on human rights<sup>1</sup> (in particular when it welcomed Armenia's accession to the Council of Europe in January 2001); it has also paid close attention to the emerging conflicts between Armenia and its neighbours and to the

<sup>1</sup> EP resolutions on, respectively, the blockade against Armenia and the human rights situation in the republic (OJ C 16, 22.4.1991, p. 121), and the elections in Armenia (OJ C 362, 2.12.1996, p. 266)



overall situation in the Caucasus region<sup>1</sup>, above all in view of Armenia's strategic location. It has also more recently drawn attention to economic and trade relations<sup>2</sup>. In this field, Parliament, in addition to stressing the importance of the ties between the EU and Armenia, has consistently expressed its support for the Commission's actions to boost cooperation, deplored the Azerbaijani/Turkish embargo on Armenia and condemned the reopening of the Medzamor nuclear power station. It has endorsed the Council's proposal for exceptional financial aid for Armenia<sup>3</sup> and urged the Council and Commission to come up with a common strategy for the southern Caucasus<sup>4</sup>.

In its resolution of 15 December 2004 on Turkey's progress towards accession the Parliament called on the Commission and the Council to demand that the Turkish authorities formally acknowledge the historic reality of the genocide perpetrated against the Armenians in 1915 and open the border between Turkey and Armenia at an early date<sup>5</sup>.

The European Parliament's interest in Armenia has also led to the institution of a direct dialogue between the EP and the Armenian Parliament, within the framework of the regular meetings of the EU-Armenia Parliamentary Cooperation Committee. The sixth meeting of this committee took place in Yerevan on 15 and 16 March 2004. At the meeting a statement and recommendations were adopted which refer to a wide range of issues including human rights and the development of democracy, as well as resolution of the status of Nagorny Karabakh<sup>6</sup>.

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<sup>1</sup> See the EP's resolutions on, respectively, the Armenia-Azerbaijan conflict (OJ C 61, 28.2.1994, p. 251) and support for the peace process in the Caucasus (OJ C 175, 21.6.1999, p. 251).

<sup>2</sup> EP resolution on the economic and trade aspects of the cooperation and partnership agreement with Armenia (OJ C 115, 14.4.1997, p. 190)

<sup>3</sup> EP resolution on exceptional financial aid for Armenia (OJ C 304, 6.10.1997, p. 38)

<sup>4</sup> EP resolutions on the South Caucasus (OJ C 293, 28.11.2002, p. 96) and that of 26 February 2004, not yet published in the OJ.

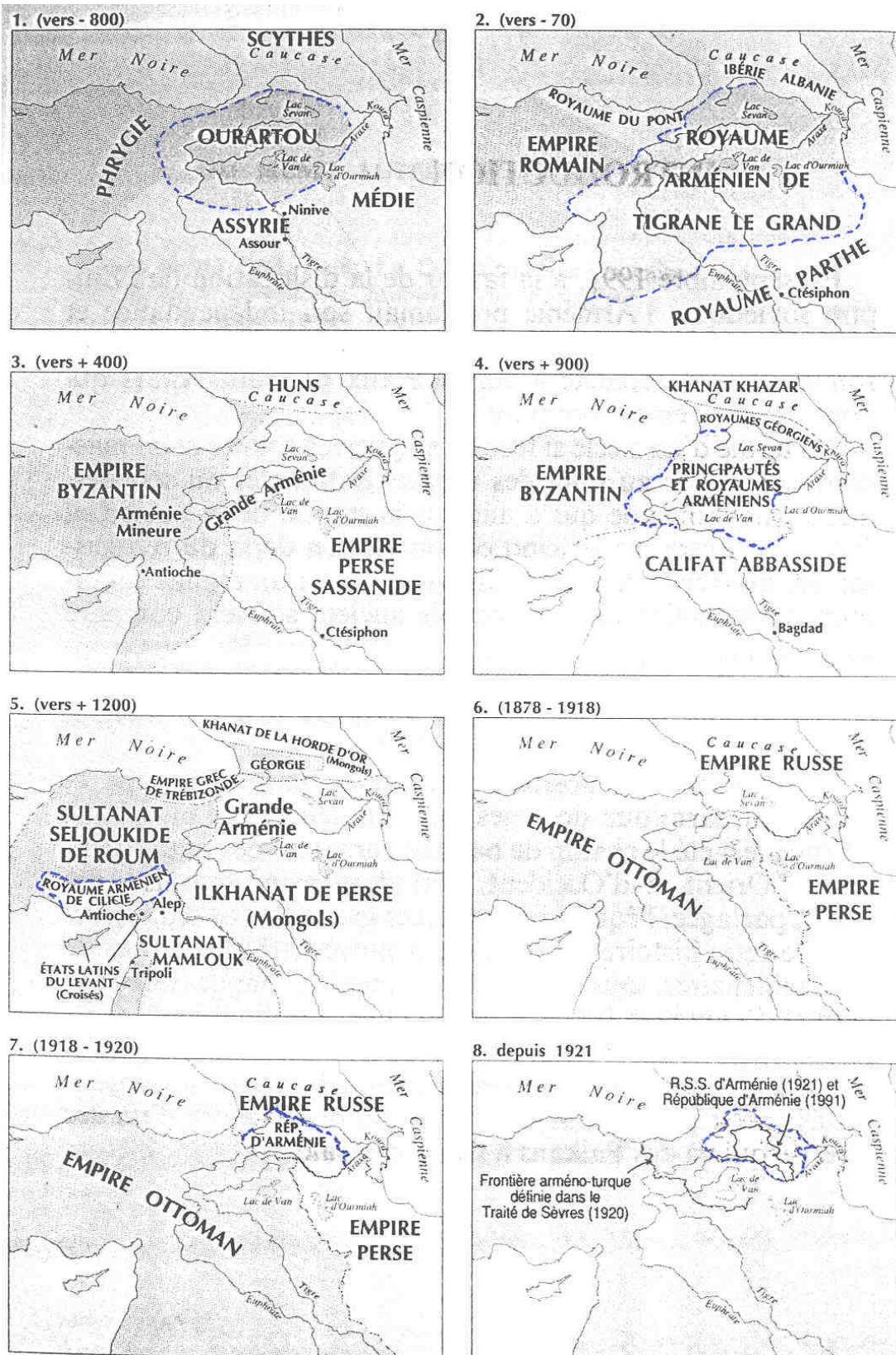
<sup>5</sup> EP resolution of 15.12.2004 point 41, not yet published in the OJ.

<sup>6</sup> Document DV/531829EN, PE 342.044.

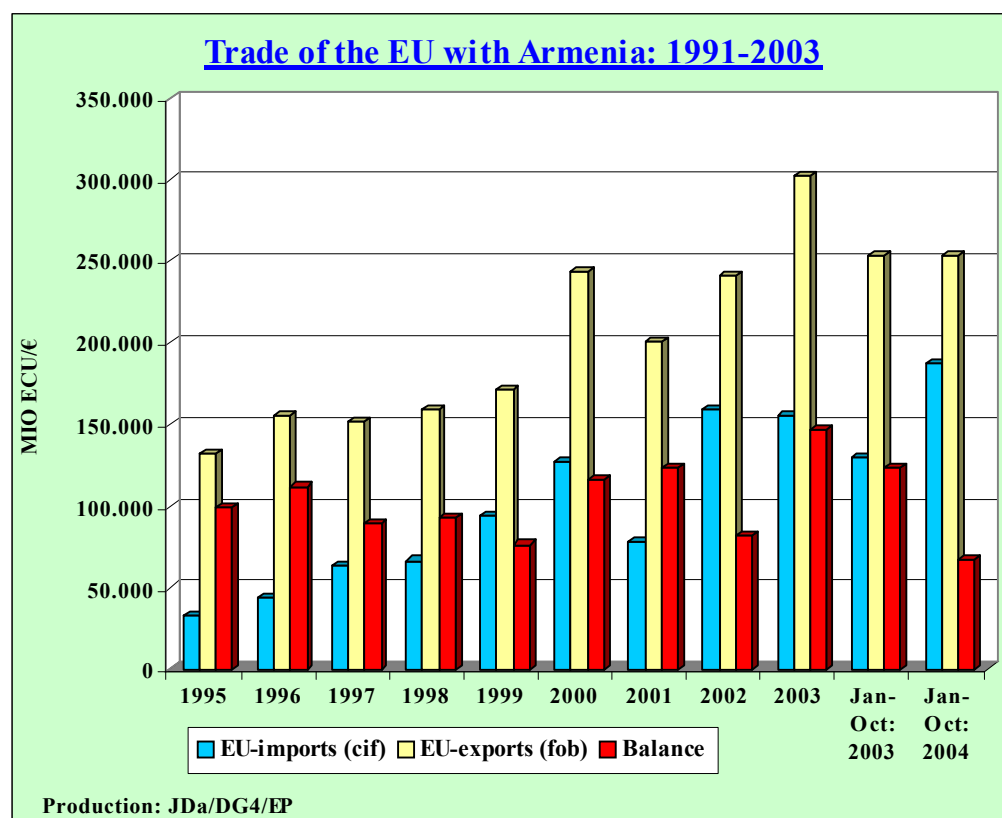








<b><u>Trade of the EU with Armenia: 1995-2003</u></b>			
			<i>1000 ECU/€</i>
	<b>EU-imports (cif)</b>	<b>EU-exports (fob)</b>	<b>Balance</b>
<b>1995</b>	33.344	132.138	98.794
<b>1996</b>	43.861	155.706	111.845
<b>1997</b>	63.317	152.217	88.900
<b>1998</b>	66.618	159.156	92.538
<b>1999</b>	94.478	170.800	76.322
<b>2000</b>	127.733	244.136	116.403
<b>2001</b>	77.985	201.149	123.164
<b>2002</b>	159.514	241.152	81.638
<b>2003</b>	155.673	302.180	146.507
<b>Jan-Oct: 2003</b>	130.010	253.713	123.703
<b>Jan-Oct: 2004</b>	186.766	253.535	66.770
Source: COMEXT database, EUROSTAT			
Production: JDa/DG4/European Parliament			



<b>Trade of the EU with Armenia by Member States</b>					
<b>EU-imports (cif)</b>					
	<b>2003</b>		<b>January-October:</b>		
	<b>1000 €</b>	<b>- % -</b>	<b>2003</b>	<b>2004</b>	<b>% change</b>
<b>Total</b>	155.673	100,0	130.010	186.766	43,7
<i>of which:</i>					
<b>France</b>	1.091	0,7	884	4.411	399,0
<b>Netherlands</b>	11.907	7,6	10.034	22.186	121,1
<b>Germany</b>	25.487	16,4	23.350	68.829	194,8
<b>Italy</b>	9.182	5,9	7.275	10.228	40,6
<b>United Kingdom</b>	352	0,2	309	872	182,6
<b>Ireland</b>	99	0,1	99	14	-86,3
<b>Denmark</b>	1	0,0	1	38	
<b>Greece</b>	953	0,6	900	592	-34,2
<b>Portugal</b>	2	0,0	2	2	13,2
<b>Spain</b>	832	0,5	664	1.818	173,9
<b>Belgium</b>	103.092	66,2	84.043	76.967	-8,4
<b>Luxembourg</b>	1.123	0,7	1.006	352	-65,0
<b>Sweden</b>	42	0,0	42	12	-72,2
<b>Finland</b>	0	0,0	0	0	
<b>Austria</b>	1.507	1,0	1.403	444	-68,4
<b>EU-exports (fob)</b>					
<b>Total</b>	302.180	100,0	253.713	253.535	-0,1
<i>of which:</i>					
<b>France</b>	15.791	5,2	10.188	38.713	280,0
<b>Netherlands</b>	8.164	2,7	7.072	6.005	-15,1
<b>Germany</b>	70.493	23,3	64.299	40.654	-36,8
<b>Italy</b>	44.833	14,8	36.654	41.040	12,0
<b>United Kingdom</b>	7.625	2,5	5.362	6.084	13,5
<b>Ireland</b>	1.256	0,4	955	612	-35,9
<b>Denmark</b>	1.679	0,6	1.260	1.087	-13,7
<b>Greece</b>	21.512	7,1	16.947	20.022	18,1
<b>Portugal</b>	887	0,3	595	628	5,7
<b>Spain</b>	6.247	2,1	5.103	4.729	-7,3
<b>Belgium</b>	114.649	37,9	99.075	82.863	-16,4
<b>Luxembourg</b>	13	0,0	10	303	
<b>Sweden</b>	2.693	0,9	717	2.164	201,6
<b>Finland</b>	2.303	0,8	1.912	2.996	56,7
<b>Austria</b>	4.036	1,3	3.564	5.636	58,1
Source: COMEXT database, EUROSTAT					
Production: JDa/DG4/European Parliament					

Trade relations EU(15)-Armenia, 2003					
By products					1000 EUR
CN Chapters		Imports (cif)		Exports (fob)	
		1000 EUR	% of total	1000 EUR	% of total
01-99	<b>Total</b>	155.673	100,0	302.180	100,0
	of which:				
01-24	Agricultural products	2.902	1,9	24.709	8,2
	of which:				
24	TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	22	0,0	8.397	2,8
28-38	Chemical or allied industries	148	0,1	14.281	4,7
50-63	Textiles and textile articles	8.925	5,7	17.093	5,7
	of which:				
61-62	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES	8.373	5,4	14.189	4,7
					0,0
71-83	Base metals and articles of base metals	136.684	87,8	113.583	37,6
	of which:				
71	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES, PRECIOUS METALS, METALS CLAD WITH PRECIOUS METAL, AND ARTICLES THEREOF; IMITATION JEWELLERY; COIN	99.284	63,8	108.206	35,8
76	ALUMINIUM AND ARTICLES THEREOF	14.207	9,1	1.182	0,4
84-85	Nuclear reactors etc	1.269	0,8	44.566	14,7
	of which:				
84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	220	0,1	21.471	7,1
85	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES	1.050	0,7	23.095	7,6
86-89	Vehicles, aircraft, vessels etc.	2	0,0	50.493	16,7
	of which:				
87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	2	0,0	9.313	3,1
88	AIRCRAFT, SPACECRAFT, AND PARTS THEREOF	0	0,0	41.179	13,6
Various		5.742	3,7	34.913	11,6
Source: COMEXT database, EUROSTAT					
Production: JDa/DG4/European Parliament					