



EUROPEAN PARLIAMENT

**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION  
DIRECTORATE B  
- POLICY DEPARTMENT -**

***NOTE***

ON ARMENIA: POLITICAL AND ECONOMIC SITUATION, EU-RELATIONS

**ExPo/B/POLDEP/Note/2006/027  
[PE N°366.181**

**27 February 2006  
FdR 604271 [EN]**

This note was requested by: the European Parliament's Delegation to the EU-Armenia, EU-Azerbaijan and EU-Georgia Parliamentary Cooperation Committees

This paper is published in the following languages: English (original), French.

Author: Dag SOURANDER (History section: Pedro NEVES)  
DG External Policies, Policy Department

Manuscript completed in February 2006.

Copies can be obtained through: E-mail: [dsourander@europarl.eu.int](mailto:dsourander@europarl.eu.int)

Brussels, European Parliament, 27 February 2006.

Any opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

## **CONTENTS**

	<u>Page</u>
I. HISTORY.....	4
II. POLITICAL SITUATION.....	5
III. ECONOMIC SITUATION.....	10
IV. EU-ARMENIA RELATIONS.....	12

ANNEXES: Maps, basic country data, membership of selected international organisations

## I. HISTORY

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.

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.

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. A diaspora of a similar size live mainly in the USA, France and other European countries. It is active in mobilising political support for Armenia and is also a source of remittances and investments which play a significant role in the Armenian economy.

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.

## II. POLITICAL SITUATION

### Internal political situation

A referendum on constitutional amendments was held on 27 November 2005. The opposition had first strived to turn the referendum into a vote of no confidence in President Robert Kocharian. It then called for a boycott.

Officially, there were 93.3% of positive votes on a 65.3% turnout. Allegations of massive fraud and serious irregularities were to a considerable extent supported by reports from international observers. In particular, the participation rate seemed unbelievable to Council of Europe observers who spent hours in polling stations without seeing much voter activity at all. According to Armenian law, at least a third of the eligible voters must participate for the result to be valid and a referendum on constitutional amendments held in 2003 failed to satisfy that requirement. There was no suggestion from the Council of Europe observers that also the referendum just held should have been declared invalid.

The opposition attempted to stage mass demonstrations, but its rallies drew extremely few participants. They did not receive any noticeable international support.

Amending the constitution had become acutely necessary because of commitments Armenia entered into in connection with its accession to the Council of Europe in 2001 and intense pressure from the Parliamentary Assembly of this organisation for amendments to be adopted. The amendments transfer some power from the President to the Parliament and should increase the independence of the judiciary from the President. They had the support of the Council of Europe's Venice Commission's experts on constitutional law and from the international community at large. A possibility to hold dual citizenship was also introduced. This is of importance to the huge Armenian diaspora and could strengthen the support base of President Robert Kocharian.

As to the impact which the constitutional amendments will have on the actual mode of operation of the different branches of government, few share the Council of Europe's optimism. For example, the International Crisis Group is much more cautious in its predictions and the European Bank for Reconstruction and Development (EBRD) writes in an annexe to its new strategy for Armenia, approved on 7 February 2006, that *'[c]onstitutional reforms that would enable reinforcement of checks*

*and balances in the political system have been endorsed in a national referendum. However, the political will to implement these commitments remains uncertain*<sup>1</sup>.

### ***The President, Government and Parliament***

The President is elected by universal suffrage for a five-year term, renewable once. Mr Robert Kocharian is President of Armenia since 1998. Power is shared between the President and the government and the constitutional regime may therefore be described as semi-presidential.

In June 2003 a new government was sworn in following controversial presidential and parliamentary elections. In the parliamentary vote, Prime Minister Andranik Margaryan's Republican Party increased its share of the national vote to 24% and boosted its influence. The Republican Party (NHK) is now the main governing coalition member, with the anti-corruption Country of Law party and the nationalist, socialist Armenian Revolutionary Federation (Dashnak) as junior coalition partners.

Mr Margaryan is Prime Minister since 12 May 2000. He then 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.

The parliament, the National Assembly, is unicameral and its members are elected for a four-year term. The electoral system is a mixture of proportional representation and first-past-the-post. Changes to the Electoral Code enacted in 2005 increased the proportional element and reduced that of first-past-the-post. The President can dissolve the parliament.

### ***The judiciary and the rule of law***

The Constitution provides for an independent judiciary and the presumption of innocence, but according to the EBRD and many other sources, these principles are not always observed in practice. The EBRD writes in the above mentioned annexe to its new strategy for Armenia that *'[t]he judiciary continues to suffer occasionally from political interference and a lack of professionalism, while opposition activists have been detained arbitrarily'*. The EBRD goes on to quote a study by the American Bar Association's Central European and Eurasian Law Initiative which says that bribery is considered quite common and that the practice of "telephone justice", in which government officials seek to influence or dictate a court's ruling, is believed to persist.

Corruption is a huge problem and there is little sign that measures to combat it are having any major effect.

### ***Elections and major political developments in recent years***

In the presidential elections of February 2003, incumbent President Robert Kocharian won the most votes but failed narrowly to gain the 50% required for a first round victory. Stepan Demirchian,

---

<sup>1</sup> Making detailed and public assessments of political developments which do not directly concern economic matters is not a typical thing for an international financial institution to do. The fact that the EBRD does is explained by article 1 of the agreement establishing the bank. It states that *'[t]he purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiatives in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economy'* (emphasis added).

chairman of the People's Party of Armenia (HZhK), won just over 28% of the vote, and Artashes Geghamian, chairman of the Justice and Accord Bloc (IeM), won almost 18%.

Legislative elections were held on 25 May 2003. They too failed to meet international standards. They resulted in victory for the three main pro-presidential parties with the Republicans in the lead. The main opposition party is Justice, which includes the People's Party, led by the main contender in the Presidential election, Mr Demirchian. He is the son of the former speaker of the National Assembly, assassinated with other leading figures in 1999. Since 2004, opposition parties have with some minor or temporary exceptions boycotted work in the parliament. This boycott is still upheld by many opposition deputies.

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 had already suffered repeated blows from war, corruption and the impoverishment of the people.

Between 9 and 13 April 2004, in the wake of the Rose Revolution in Georgia, 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 by carrying out mass arrests, actions that prompted widespread international criticism. Dozens of people were reportedly injured and police raided the headquarters of several opposition parties.

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.

The Prime Minister Andranik Margaryan insisted that the use 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". Mr Margaryan 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 21 April. On the same day, the police launched a new wave of arrests of opposition activists. 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.

### ***Human rights***

As reflected by the above, there are a number of problems in relation to Armenia's respect for political rights and for the rule of law. Human Rights Watch (HRW) believes that the crackdown on opposition parties and supporters in 2004 explains why there were fewer public demonstrations in 2005. According to HRW, torture and ill-treatment in police custody remain widespread and the aim is usually to coerce a confession or evidence against third parties. Very poor and health-threatening

prison conditions are also a major concern. Criticism against the human rights situation in Armenia has come also from the ombudsperson for the Republic of Armenia, Larisa Alaverdian. She was removed from her post through a presidential decision 5 January 2006.

### **International relations**

*Show me a country's location on a map and I'll describe to you its foreign policy.* This quote was used by Armenia's Foreign Minister Vartan Oskanian when he spoke about his country's foreign policy at Chatham House<sup>2</sup> in 2004. Mr Oskanian explained that Armenia's location makes necessary 'a policy of multidirectional complementarity'. In practice, this means *inter alia* membership in the Russia-dominated Collective Security Treaty Organisation (CSTO), but also active participation in NATO's Partnership for Peace programme, friendly relations with Iran and, not least, a clear interest in developing closer relations with the EU.

Like the so called 'multi-vector' foreign policy of several other CIS countries, Armenia's 'multidirectional' policy seeks to maximize opportunities and avoid dangers inherent in excessive dependency on Russia. As the rapidly growing exploitation of energy resources in the nearby Caspian basin (and to some extent also developments in the equally close Middle East) raise the geo-strategic importance of the South Caucasus and the outcome of a slowly increasing US-Russian competition for influence cannot safely be predicted, the Armenian case for hedging its bets may be seen as ever stronger. On the other hand, up until what point different directions can continue to be 'complementary' and do not become incompatible remains moot.

The compatibility issue with the greatest potential to become acutely problematic in the short term is probably Armenia's simultaneous cultivation of its relationships with the USA and Iran. While developing energy cooperation with Iran<sup>3</sup> in order to reduce its huge dependency on Russia and on transit through Georgia, Armenia is likely to avoid upsetting the USA by letting its relations with Iran extend to security matters. The situation already came to a head once, when in 2002 the USA decided to impose sanctions on a number of Armenian companies which had allegedly transferred sensitive technology and equipment to Iran.

Two directions are almost completely absent in Armenia's foreign relations. The Armenian-Turkish border is kept closed by Turkey and instead of a normal border with the eastern neighbour Azerbaijan, there is for the most part a *line of contact*. There is frequent shooting over this line and there are apparently tens of military and civilian casualties every year.

The conflict between Armenia and Azerbaijan, mainly over the Nagorno-Karabakh region and adjacent Azeri provinces, took some 20 000 lives and made perhaps as much as a million people refugees and Internally Displaced Persons (IDPs) in connection with the break-up of the Soviet Union. It continues to claim lives and remains a defining issue for much more still than the landlocked Armenia's relations to Azerbaijan and Turkey - the two neighbours with which it shares the longest *de jure* as well as *de facto* borders. Among other things, this conflict has led to exclusion from major regional infrastructure projects (as detailed in a separate section further down in this note), which in its turn is exacerbating Armenia's isolation and depriving it of significant economic development opportunities.

---

<sup>2</sup> Also known as the Royal Institute of International Affairs, in London.

<sup>3</sup> A gas pipeline from Iran to Armenia is currently under construction and is expected to be completed in the beginning of 2007.

The Nagorno-Karabakh conflict has also to a large extent shaped the political landscape within Armenia. It determined the rise and fall of Armenia's first President after its independence in 1991, Mr Levon Ter-Petrossian, as well as the accession of his successor, the former *de facto* President of the self-declared and by no state recognised Nagorno-Karabakh Republic, Mr Robert Kocharian.

### ***The Nagorno-Karabakh conflict***

The region of Nagorno-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 Nagorno-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, Nagorno-Karabakh declared itself an independent republic two days later. In reaction, the Azeri parliament officially dissolved the autonomous region on 26 November 1991. Yerevan has actively supported the regime in Stepanakert<sup>4</sup>, but, fearing international opprobrium, has refrained from officially recognising the independence of Nagorno-Karabakh. 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.

Mediation efforts are made by a troika consisting of Russia, France and the USA. Formally, these countries act as co-chairs of the so called Minsk Group, which after the ceasefire was created in the framework of the OSCE to deal with the conflict. The OSCE plays a supporting role through its Personal Representative of its Chairman in Office, the Polish diplomat Mr Andrzej Kasprzyk. He also leads a small team of field assistants who report on incidents in the frontline area. On the basis of the field work, Mr Kasprzyk provides early warnings when risks of major escalation become acute.

In the last years, direct talks known as the Prague Process have been held between Armenian and Azerbaijani representatives at the highest levels. The Minsk co-chairs have tried, so far without success, to make President Kocharian and his Azeri counterpart Ilham Aliyev agree on principles for a settlement.

The co-chairs proposal is that the principle of self-determination should be applied to the Nagorno-Karabakh region proper, while the principle of territorial integrity should be applied to all of the seven Azeri districts which are now occupied by Armenian forces. Five of these districts should be given back to Azerbaijan at an early stage, while two districts which separate Nagorno-Karabakh from Armenia should only be returned in connection with a referendum on the future status of Nagorno-Karabakh. Deployment of international peacekeepers and return of displaced persons are other key components of the solution proposed.

Most recently, the presidents met in Rambouillet, France, 10-11 February 2006. There were hopes that an agreement on the principles could be reached, but the summit ended in failure. Both sides want the dialogue to continue and it is gradually becoming more urgent to make progress, since after this year, approaching elections in Armenia and Azerbaijan will make compromises more difficult. On both

---

<sup>4</sup> The capital of Nagorno-Karabakh

sides, the public opinion is very unprepared for the compromises that will be necessary and it is generally assumed that neither of the leaders has sufficient courage to make important concessions before an election.

Azerbaijan considers that it has the right to retake its lost territory through military action if negotiations fail to produce results. A part of Azerbaijan's almost sky-rocketing oil (and soon also gas) export revenues are being used to more than triple the country's military spending, as compared with 2003.

### ***Other major international relations issues***

The absence of official relations with Turkey is explained not only by a Turkish wish to support Azerbaijan against Armenia, but also by two other disputes. The most well-known concerns the events in 1914-16 which in Armenia's and much of the international community's view amounted to genocide, while Turkey presents a different version of what occurred. When faced with Armenian and international demands that it open the border to its neighbour, Turkey often points to a wording in the Armenian constitution which it argues implies a territorial claim and concludes that the border cannot be opened before it is recognised by Armenia in an unambiguous way.

Relations with Georgia are strained by Georgian participation in regional infrastructure projects which circumvent Armenia (see below). The rights and difficult economic conditions of the possibly 150\_000-strong Armenian minority in Javakhetia<sup>5</sup>, on the Georgian side of the border between the two countries, has so far not been a major issue in the Armenian-Georgian relations. In case tensions in Javakhetia increase, this could theoretically change. Armenia can, however, ill afford any deterioration of its relationship with Georgia since this could bring its dependence on Iran to a critical and very dangerous level.

Armenia is the only country in the South Caucasus which is a member of the Collective Security Treaty Organisation (CSTO)<sup>6</sup>. Russia is thus its ally and the Russian military presence in Armenia in 2005 looked set to be strengthened, as Russia transferred military equipment from a base it was leaving in Georgia to a base it operates in Armenia. It is, however, not clear if any further such transfers will occur.

The USA promotes market economic reforms in Armenia through bilateral aid as well as the International Monetary Fund (IMF) and the World Bank. In a speech in Tbilisi, Georgia, 10 May 2005, President George W Bush said *'We are living in historic times when freedom is advancing, from the Black Sea to the Caspian, and to the Persian Gulf and beyond. Now, across the Caucasus, in Central Asia and the broader Middle East, we see the same desire for liberty burning in the hearts of young people. They are demanding their freedom - and they will have it.'* Understandably, people in Armenia, as well as Azerbaijan, wanting to stage a new 'coloured revolution' took this as a promise of support. Later, US officials made clear that evolution, not revolution was what the USA favoured and concrete actions appear to follow that line.

### ***Infrastructure projects in the region***

Although increasing Armenia's isolation is hardly a US objective, the strong and ultimately successful US push for the Baku-Tbilisi-Ceyhan (BTC) oil pipeline to be built had that effect. A largely parallel

---

<sup>5</sup> Ethnic Armenians also live elsewhere in Georgia, bringing the total figure well above 200 000.

<sup>6</sup> The other members of the CSTO are Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan.

Baku-Tbilisi-Erzurum (BTE) gas pipeline is currently under construction and the opening of a Baku-Tbilisi-Kars ('BTK', although that abbreviation has not become common) railway line is under consideration. All of these routes link the capital regions of Azerbaijan and Georgia with towns in eastern Turkey.

The purpose of BTC, BTE and to a big extent also the 'BTK' is to provide capacity to dramatically increase the export of fossil fuels from the Caspian basin to western markets while hindering both Russia and Iran from exercising any control. Because of the conflict between Armenia and Azerbaijan, routes through Armenia which from a geographic as well as an economic point of view would make much more sense are out of question.

Armenia now seeks to prevent that plans to build a railway stretch between Kars in Turkey and Akhalkalaki in Georgia will materialise and make possible the opening of a 'BTK' line. It points to that a Kars-Giumri (in north-western Armenia)-Tbilisi railway line already exists and could be reopened at a much lower cost. The issue is made more complicated still by the fact that Akhalkalaki is the biggest city in the mainly ethnic Armenian populated region of Javakhetia in Georgia and that campaigners for autonomy for this region are strongly against the creation of an important link to Turkey. This project would, moreover, follow on the heels of the closure, in 2008, of a Russian military base in Akhalkalaki.

### **III. ECONOMIC SITUATION**

A dramatic slump in the Armenian economy after the country gained independence has now been followed by an almost equally dramatic recovery, bringing the Gross Domestic Product (GDP) back to its 1989 level.

The slump was caused not only by the well-known difficulties and normal mistakes in the transition from a planned to a market economy. In the case of Armenia, major economic problems began already in 1988 when an earthquake caused destruction in industrial regions in the north of the country. Transition problems were then compounded by giant costs of the war with Azerbaijan and disruption caused also by the severance of vitally important infrastructure links with Azerbaijan and with Turkey.

Re-opening of the borders with Azerbaijan and Turkey would lower the very high transport costs that now burden Armenia's foreign trade. A World Bank study in 2002 estimated that there would be a 30% increase in Armenia's GDP as a result. In contrast to this, a report by the EU-sponsored think-tank The Armenian-European Policy and Legal Advice Center (AEPLAC) in July 2005 estimated that five years after opening of the border with Turkey, Armenia's GDP would be merely 2.7% higher than if this border remains closed.

The development of the Armenian economy is also influenced by important remittances and investments from the diaspora. A current construction boom in the capital, Jerevan, is fuelled not least by inflow of such investment. This construction boom is in its turn one of the main driving forces of Armenia's rapid economic growth.

Privatisation has come very far, but as in other transition countries, many allegations of mismanagement and corruption have been made. According to the economic transition indicators of the EBRD, Armenia was in 2005 among the most advanced CIS countries in nearly every respect.

The energy supply is a critical issue for the economy and it is also an important issue in the country's external relations. When deliveries of Russian gas to Georgia was interrupted in the beginning of 2005 (according to Russia because of sabotage in North Ossetia in the Russian Federation against the pipeline used), this also affected Armenia. Like other European CIS countries, with the exception of Belarus, Armenia now has to pay a much higher price than before for Russian gas. This price nevertheless remains far below those charged to the EU.

For its electricity supply, Armenia is very dependent on a nuclear power plant in Medzamor, in a zone where a risk of earthquakes exists. There are strong international concerns about this power plant (see also the section on EU-Armenia relations below).

The EU is by far Armenia's most important trading partner, representing more than a third of both exports and imports. It is followed by Russia, Israel and Iran - all with roughly a ten per cent share of Armenia's external trade. The trade deficit is huge and growing, indicating a need for Armenia to increase efforts to develop its export industry. Diamond processing provides according to the Economist Intelligence Unit around 40% of Armenia's export revenues, but this share is expected to go down. As to imports, food is important. Armenia is a member of the World Trade Organisation (WTO) since 2001.

Armenia has recorded double-digit growth for several years and the average for 2002-2004 was 12.4%. The 2005 figure is expected to be almost as high. Inflation has largely been brought under control, but unemployment continues to be very high. Lack of job opportunities and low salaries have led to large-scale emigration. Up to a million Armenians, i.e. a quarter of the population, may have left the country since its independence. Some analysts have doubts concerning the reliability of the official statistics in this as well as in some other fields.

Although receiving a more favourable rank than its South Caucasus neighbours in the UN Development Programmes measurement of human development<sup>7</sup>, Armenia faces a great challenge to fight poverty. Income inequality is according to the World Bank's Poverty Reduction Strategy Paper (PRSP) for Armenia, from 2003, the highest among the European and Central Asian countries. The brisk economic growth does, however, help to push back the poverty rate. The PRSP indicates a reduction in the incidence of poverty from 55 to 51% over the period 1998-2002 and the rate may in 2005 have fallen to 43%.

#### **IV. EU-ARMENIA RELATIONS**

##### ***Objectives and main instruments of EU policy***

EU's objectives for its relations with Armenia largely follow from its objectives for the South Caucasus region and they correspond to those of the European Neighbourhood Policy (ENP). This means stimulating political and economic reforms, support conflict resolution and generally deepen bilateral relations, without holding out any prospect of EU membership.

The European Security Strategy is also very relevant in this context. Although the Strategy, for reasons which one could speculate about, does not explicitly mention the Nagorno-Karabakh conflict or any of the other conflicts in the South Caucasus, it makes a vague and passing reference to '*problems of the Southern Caucasus*'. Moreover, various statements indicate that the strategy's general remark that

---

<sup>7</sup> See basic country data at the end of this note.

'[n]eighbours who are engaged in violent conflict (...) pose problems for Europe ' and its declaration that '[o]ur task is to promote a ring of well governed countries' are regarded as relevant to the Nagorno-Karabakh conflict and to EU-Armenian relations.

The core element of the ENP is bilateral Action Plans with each of the countries covered by this policy<sup>8</sup>. These hold out prospects of deeper cooperation and inclusion in EU policies and programmes in return for political and economic reforms.

An ENP Action Plan for Armenia is at an advanced stage of preparation. It should serve the objectives mentioned above, but is not likely to hold out any firm promise of major-scale EU support to the implementation of an agreement settling the Nagorno-Karabakh conflict, should such an agreement be concluded. Outstanding issues concern the duration of the Action Plan (EU wants five years, Armenia three), acknowledgement of Armenia's 'European aspirations' (EU is not ready to accept this, since the expression could be interpreted as aspiration for 'EU membership'), visa facilitation (sought by Armenia, but the EU is reluctant) and the Medzamor nuclear power plant (Armenia currently plans closure by 2016, EU presses for a much earlier date). Ms Benita Ferrero-Waldner, the Commissioner for external relations, visited Armenia, Azerbaijan and Georgia on 16-17 February 2006 to discuss *inter alia* the Action Plans. These are planned to be adopted as a package and this is likely to happen during the Finnish Presidency, during the second half of 2006.

A **Partnership and Cooperation Agreement (PCA)**, which was negotiated in the mid-1990's and entered into force on 1 July 1999, constitutes the legal basis for the relations. It has an initial period of application of ten years.

The PCA provides for trade liberalisation, economic cooperation and cooperation in various other areas, including prevention of crime and illegal migration. Joint bodies, including a Cooperation Council at ministerial level and a Parliamentary Cooperation Committee, ensure a regular political dialogue and ensure proper implementation of the agreement. There are also different committees that bring together senior officials and experts.

The preamble of the PCA with Armenia, as well as that of the PCA with Azerbaijan, recognises that support for the independence, sovereignty and territorial integrity of the respective country will contribute to the safeguarding of peace and stability in Europe. Article 2 states that 'respect for democracy, principles of international law and human rights (...) constitute essential elements of partnership and of this agreement'. If either party considers that the other party has failed to fulfil an obligation under the agreement, it can 'take appropriate measures' (including suspending the application of the agreement or of a part of it).

EU **aid** to Armenia is given through the TACIS programme, which is due to be replaced by a new European Neighbourhood and Partnership Instrument (ENPI) on 1 January 2007. The general objectives of the aid are to support the institutional, legal and administrative reform as well as measures to address the social consequences of transition. TACIS also provides assistance to the implementation of Armenia's Poverty Reduction Strategy approved in 2003. Armenia is eligible for funding from for the promotion of democracy and human rights under the EIDHR programme. It has also received macrofinancial assistance from the EU.

The South Caucasus countries will with all likelihood be able to profit for the first time from loans on favourable conditions from the **European Investment Bank (EIB)** after the EIB's external lending

---

<sup>8</sup> Belarus and Libya are, however, special cases.

mandate for 2007-13 has been adopted later this year. The Commission is due to present a proposal, on which Parliament will be consulted, in April. The external relations commissioners have agreed to propose to the college of Commissioners inclusion of this region and an amount for Eastern Europe that is several times higher than the € 500 million in the current lending mandate.

In 2003, the EU Council appointed an **EU Special Representative** (EUSR) for the South Caucasus: Mr Heikki Talvitie. His task is to contribute to the implementation of the EU's policy objectives in the region, as described above. The EU and its Special Representative seek to play a supportive role, but do not directly participate in mediation in relation to conflicts within the region. Mr Talvitie is about to hand over to a new EUSR, Mr Peter Semneby.

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

Before the PCAs were concluded, the **European Parliament** gave its assent. Both the inclusion of the South Caucasus in the ENP and the appointment of an EU Special Representative for the region were preceded by calls from the European Parliament for these measures to be taken. Major resolutions on the South Caucasus adopted in 2003 and 2004 also called for greater efforts to promote conflict resolution and stability in the region, including through a Stability Pact, drawing lessons from the Stability Pact for South-Eastern Europe.

A resolution on the ENP adopted on 19 January 2006 included a section on the South Caucasus which largely supported the current EU approach. It also called on Turkey to open its borders with Armenia and proposed an EU stability pact for the South Caucasus, without elaborating on this idea. In its resolution of 15 December 2004 on Turkey's progress towards accession, 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>9</sup>. Against the background of reports on destruction of an Armenian cemetery in the Azerbaijani exclave of Nakhichevan, a resolution on Armenian cultural heritage in Azerbaijan was adopted on 16 February 2006.

---

<sup>9</sup> EP resolution of 15.12.2004 paragraph 41.

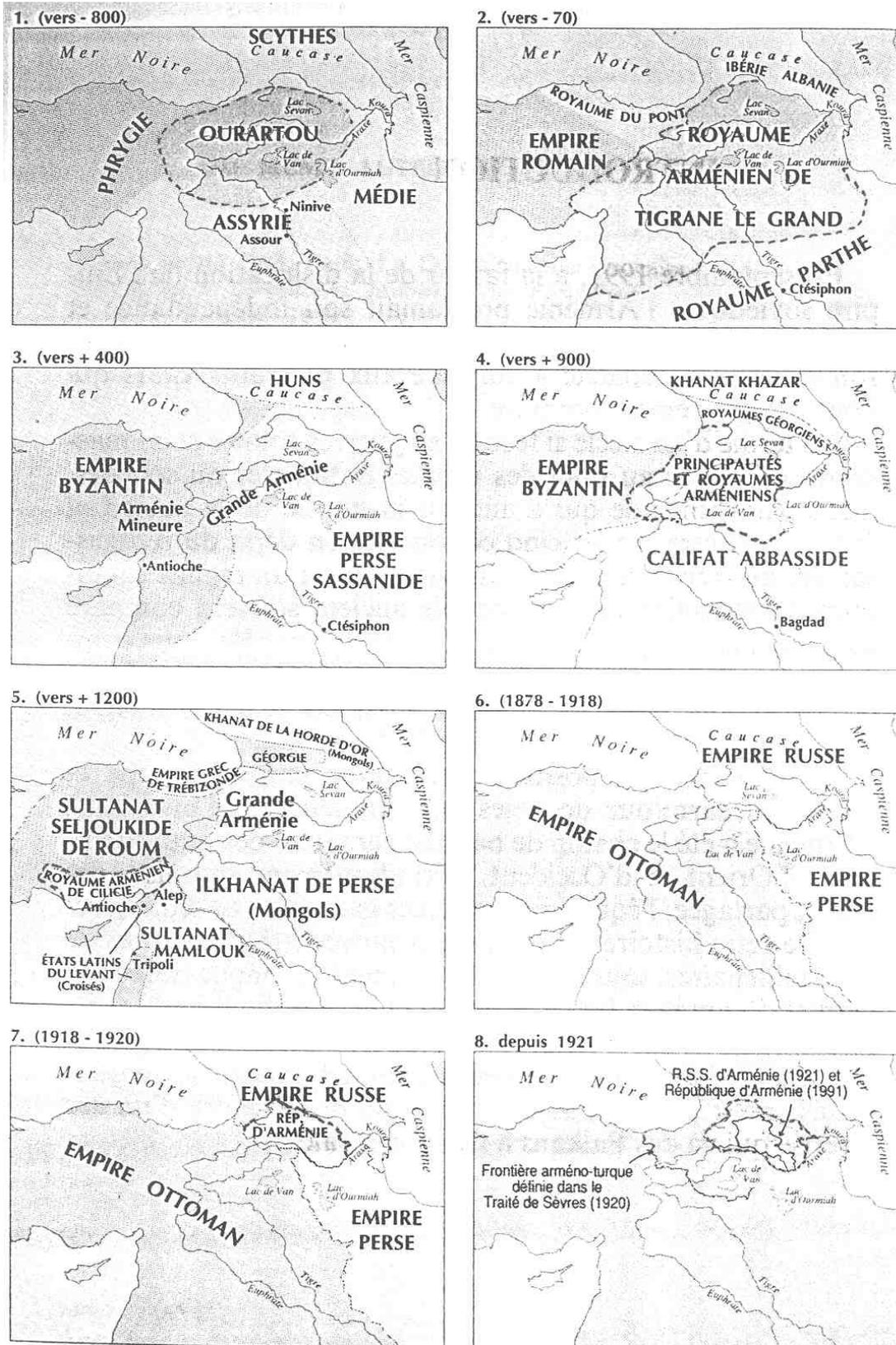


Reproduced by kind permission of The Institute for War and Peace Reporting.



L'Arménie au cours de son histoire

Annexe III



**Armenia, Azerbaijan and Georgia:  
Basic country data**

	Armenia	Azerbaijan	Georgia	refers to:	source:
Population (million)	<b>3.0</b>	8.3	4.6	2003	UNDP
Ethnic composition	<b>Armenians 98% (2001)</b>	Azeris 90.6% (1999)	Georgians 83.8%, Azeris 6.5% Armenians 5.7% (2002)		censuses
Official language (and other)	<b>Armenian (Russian)</b>	Azerbaijani (Russian)	Georgian (Russian, Armenian, Azeri)		various, incl US State Dept
Currency	<b>Dram (AMD)</b>	Manat (AZM)	Lari (GEL)		
President	<b>Robert Kocharian</b>	Ilham Aliyev	Mikhail Saakashvili		
Next (and most recent) presidential election	<b>2008 (March 2003)</b>	Oct 2008 (Oct 2003)	2009 (Jan 2004)		various, incl. EIU
Next (and most recent) parliamentary elections	<b>2007 (May 2003)</b>	Nov 2010 (Nov 2005)	2008 (March 2004)		various, incl. EIU
GDP per head (USD, PPP <sup>10</sup> )	<b>3.671</b>	3.617	2.588	2003	UNDP
Real GDP growth rate (%)	<b>10.5</b>	24.0	8.0	2005 (forecast <sup>11</sup> )	EIU
Human development rank <sup>12</sup>	<b>83</b>	101	100	2005 <sup>13</sup>	UNDP
Corruption rank <sup>14</sup>	<b>88</b>	137	130	2005	Transparency International

Explanation of sources:

UNDP United Nations' Development Programme, Human Development Report 2005

EIU The Economist Intelligence Unit, country reports

<sup>10</sup> PPP - Purchasing Power Parity

<sup>11</sup> Made in November 2005 for Armenia and Georgia, in February 2006 for Azerbaijan.

<sup>12</sup> Human Development Index (HDI) rank in 2005. The HDI provides an indication of the living conditions in the countries of the world which is less rough than the GDP per head, since it also includes life expectancy at birth, literacy and school enrolment.

<sup>13</sup> However based on data from previous years.

<sup>14</sup> Corruption Perception Index rank in 2005

*Armenia, Azerbaijan and Georgia:*  
**Membership of selected international organisations  
and participation in certain multilateral cooperation**

	OSCE	CoE	EBRD	ECT	CIS	CSTO	PfP	GUAM	BSEC	WTO	World Bank PRS
<b>Armenia</b>	<b>X</b>		<b>X</b>	<b>X</b>	<b>X</b>						
Azerbaijan	X	X	X	X	X		X	X	X		
Georgia	X	X	X	X	X		X	X	X	X	X

- OSCE            Organisation for Security and Cooperation in Europe
- CoE            Council of Europe
- EBRD          European Bank for Reconstruction and Development
- ECT            The Energy Charter Treaty (X indicates ratification)
- CIS            Commonwealth of Independent States
- CSTO          Common Security Treaty Organisation (other members: Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan)
- PfP            The Partnership for Peace Programme created by NATO  
(None of the countries is a NATO member, but Georgia has  
clearly expressed an interest in NATO membership.)
- GUAM          Georgia-Ukraine-Azerbaijan-Moldova political cooperation
- BSEC          Black Sea Economic Cooperation
- WTO           World Trade Organisation
- World Bank PRS    Cooperation with the World Bank that includes a Poverty Reduction Strategy