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COMMUNICATION FROM THE COMMISSION

**TOWARDS A EUROPEAN UNION STRATEGY FOR
RELATIONS WITH THE TRANSCAUCASIAN
REPUBLICS**

Commission Communication
Towards a European Union strategy for relations with the Transcaucasian republics

Executive summary

1. As the three republics of Transcaucasia, Georgia, Armenia and Azerbaijan, seek to come to grips with the problems caused by internal conflict, external isolation and economic collapse, the EU is increasingly seen there as a partner of the first importance. In 1994 the EU raised its profile considerably, with all three benefiting from one of the largest single food assistance programmes the Community has ever carried out. This was in addition to ongoing emergency humanitarian help to refugees and other particularly disadvantaged elements of the population, and to the continued provision of technical assistance. Following the cease-fires in Abkhazia and Nagorno-Karabakh all three republics requested the opening of negotiations on full Partnership and Cooperation Agreements (PCAs).
2. Despite the fragile cease-fires in 1994, the region continues to be dominated by the conflicts in Nagorno-Karabakh and Abkhazia. These have exacerbated internal problems in Georgia and Azerbaijan in particular. The economic situation is a matter for serious concern, and their dependency on humanitarian assistance is likely to continue for several years.
3. The EU has, inter alia, geopolitical and economic interests in the region. It also has a moral interest in participating in humanitarian activity in a part of the world which is a bridge between Europe and Asia.

A coordinated strategy is required to assist the three republics through what is likely to be a lengthy transitional period, and eventually to set the conditions for sustained development.

4. The Union can establish a credible strategy towards the three republics based upon the negotiation, under appropriate conditions, of a PCA with each republic, but this should be supplemented by measures intended to ensure the physical survival of the population (food and humanitarian aid) and technical assistance for post-war reconstruction. Exceptional financial assistance is an option to be considered in the context of IMF stand by arrangements and would facilitate the repayment of EC loans.
5. An overall strategy of this kind would be virtually unprecedented in terms of both scope and content. If implemented it would undoubtedly represent a major factor in the three republics' future development and would give the Union very substantial leverage in the pursuit of its objectives. Accordingly, the Community should link its implementation to progress in meeting those objectives: acceptance by all parties of each of the republics' sovereignty, independence and territorial integrity; the resolution of conflicts; the promotion of political reform especially as regards human rights and democratic institutions; the repatriation of refugees, and progress on economic reforms, all essential elements in achieving regional stability. The presence of the Community in the region is also essential in order to promote its interests in the energy sector.
6. A more active regional and bilateral political dialogue with the partners and with Russia, Turkey and the Economic Cooperation Organisation of which Azerbaijan is a member can support the reconstruction process.
7. A number of components of the coordinated strategy (notably in the field of political cooperation, support for democratic institutions and possibly some fields of assistance) could be the object of a Common Position. A draft Common Position is presented in conjunction with this Communication.

- Annex A:** Summary of the economic situation in the Transcaucasian region
- Annex B:** Trade between the EC and the Transcaucasian countries
- Annex C:** Summary of Tacis activities in Transcaucasia
- Annex D:** Checklist of instruments for implementation of a coordinated strategy.

Towards a European Union strategy for relations with the Transcaucasian republics

Introduction

1. As the three republics of Transcaucasia, Georgia, Armenia and Azerbaijan, seek to come to grips with the daunting problems caused by internal conflict, external isolation and economic collapse, the EU is increasingly seen there as a partner of the first importance. In 1994 the EU raised its profile considerably, with all three benefiting from one of the largest single food assistance programmes the Community has ever carried out. This was in addition to ongoing emergency humanitarian help to refugees internally displaced persons and other particularly disadvantaged elements of the population, and to the continued provision of technical assistance. Following the cease-fires in Abkhazia and Nagorno-Karabakh all three republics requested the opening of negotiations on full Partnership and Cooperation Agreements (PCAs).
2. If only because of the political and economic conditionality the EC attaches to the conclusion of PCAs, the question of contractual relations cannot be treated in isolation from the internal state of these countries. Nor should it be divorced from the EU's existing policies as they are applied in the region. The purpose of this communication is therefore:
 - to assess the EU's interests in Transcaucasia,
 - to place EC actions there to date in an overall context,
 - to assess the scope for further cooperation, including in the field of contractual relations,
 - to outline possible elements of an overall strategy and identify the instruments for its implementation.

Current state of the republics

3. The region continues to be dominated by the conflicts in Nagorno-Karabakh, Abkhazia and (to a lesser extent) South Ossetia. Events in recent months have demonstrated the difficulties in moving from the current cease-fires towards permanent political settlement. The republics' efforts to build democratic national institutions, particularly in Georgia and Azerbaijan where parts of the country became battle zones and where large tracts of land are no longer under central control, have been severely damaged. Their economic state is also a matter for serious concern. Again in Georgia and Azerbaijan the problems caused by internal conflict and political instability, and the lack of institutions capable of upholding the rule of law, have combined with the disruption following the break-up of the Soviet Union to reduce once relatively prosperous economies to a state of prostration. The prospects for recovery are variable.
 - In Georgia's case, no solution is on the horizon regarding the repatriation of Georgian refugees (currently numbering 280.000) to Abkhazia; and the situation has become more critical following gross human rights violations against Georgian returnees. Internally, the Abkhaz conflict has accentuated the country's endemic difficulties stemming from the weakness of the power structure and of democratic institutions, which has favoured the emergence of competing armed groups, political violence and organised crime and which last year threatened to lead to a complete breakdown of law and order. Adjara and South Ossetia are virtually autonomous. Under these circumstances it remains to be seen whether President Shevardnadze will succeed in his current campaign to reimpose a measure of governmental authority. The collapse of the industrial fabric of these countries is particularly marked in Georgia, where industry is reported to be running at less than 10% of capacity and where foreign currency reserves are at virtually negligible levels. Between 1990 and 1994, the cumulative economic decline is estimated at around 80% of GNP. GNP per capita stood at

\$563 in 1993 (Russia: \$2336). Physical isolation from Russia due to the Abkhaz conflicts has exacerbated these effects.

In the longer term, Georgia may be able to capitalise on the fact that its communications are better than those of its neighbours, and its Black Sea ports are important assets. But the sheer scale of economic decline - Georgia is virtually dependent on aid both for staple foods and energy - and the degree of internal disorganisation make its case perhaps the most serious of the three.

- **Armenia** has been able to maintain outwardly democratic governmental institutions. Nevertheless the anti-Turkish ARF ("Dashnak") opposition party was suspended in December 1994 and its participation in the Parliamentary elections set for July 1995 is uncertain. Armenia's relatively cohesive society, and the contributions of its diaspora, have helped it to survive the economic consequences of the war and its virtual dependence on uncertain supply-lines through Georgia (and, to a far lesser extent, Iran) due to the Turkish embargo and the Nagorno-Karabakh conflict. Nevertheless, GDP fell by about 70% from 1991 to 1993 and average wages stand at around \$4-5 a month. The country still suffers from serious shortages of staple foods, energy, medicines and agricultural inputs. Armenia is the most advanced of the three towards implementation of a serious economic reform programme and it is hoped that it has already passed the economic nadir, with a modest recovery in output forecast for this year. The role of the diaspora will continue to be fundamental in this process. The country's external financing situation remains, however, extremely fragile.
- In the case of **Azerbaijan** 20% of the national territory is under occupation, including a substantial swathe of land outside Nagorno-Karabagh itself. The government is struggling to cope with more than one million refugees and internally displaced persons. Human rights organisations have attributed blame for atrocities to both sides. The cease-fire has been periodically broken, with front-line skirmishing and (in March 1995) a flare-up in fighting on the north-west frontier.

Political stability has been hard to achieve in Azerbaijan and President Aliev has consolidated his rule following short-lived insurrections in October 1994 and March 1995. The "state of emergency" introduced after the October coup remains in force, although at the Joint Committee on 10 March the Azerbaijani side said it will be lifted before elections then scheduled for August 1995. Azerbaijan's potential as an energy supplier is considerable - as witness the willingness of Western oil companies to commit huge sums despite very substantial political risk. The recent agreement with the international oil consortium (of which 51% is controlled by US companies) covers the exploitation of only 7% of Azerbaijan's offshore oil reserves. But for the moment it is still dependent on imports of gas and staple foods, and desperately needs a period of peaceful consolidation and some relief from the crushing refugee burden.

4. An overview of the republics' current economic situation is annexed at A. All three have launched reform programmes; the IMF has already agreed loans under the Systemic Transformation Facility with Georgia and Armenia, and most recently with Azerbaijan ¹⁾.

It is now becoming clearer that the dependency of all three on humanitarian assistance will continue for some time - possibly, in the absence of political solutions to the conflicts, for several years.

This view has been amply confirmed in dialogue with the three republics, in particular on the occasion of the Joint Committees held in Brussels in December 1994 (Georgia) and March 1995 (Armenia and Azerbaijan).

¹⁾ Azerbaijan is also negotiating a rehabilitation credit with the World Bank.

Role of third countries

- 5.1 A key element in an eventual resolution of the conflicts will be the attitude of Russia. It is not clear that Moscow considers that its interests in the region will be best served by the pursuit of political settlements brokered by the OSCE or other international bodies. These interests concern both Azerbaijan's potential oil wealth (and the pipelines which would distribute it) and the defence of the CIS's southern borders, including the basing of Russian troops in the republics: (Armenia and Georgia have concluded basing agreements; Azerbaijan is refusing to do so). Finally, the Chechen conflict has led to severe disruption of transport related to Russia's closure of its borders to the Caucasus.
- 5.2 Turkey's role has so far been essentially limited to its support of Azerbaijan, in particular the embargo on Armenia¹⁾. But its participation in the future development of the region will be a vital one. It borders on all three republics and dominates the communications to the Mediterranean and the West. Turkey has obtained from the Azeri government an increased share in the Caspian offshore oil consortium, and is one of the countries interested in ensuring the transit of oil products through its territory. Iran, having failed to join the consortium, is now siding with Russia's view on joint maritime jurisdiction over the Caspian Sea. This would give either country an effective veto on offshore developments. Despite its ethnic and religious links with Azerbaijan, Iran has good relations with all three republics. The US has been unwilling to supply aid to Azerbaijan. It is assumed that this attitude owes much to lobbying by the Armenian diaspora, but is also linked to US policy towards Russian involvement in the region. However, now that the US has extensive economic interests - US companies control 51% of the Caspian consortium - the US may become more supportive of the peace process, especially in the light of the Chechen war and of differences with Russia regarding Iran. Washington may also be expected to play a major role in decisions on the pipeline. Another important aspect is the role of the Economic Cooperation Organisation which includes Azerbaijan, Turkey, Pakistan, Iran and the Central Asian Republics.

The EU's role to date

6. The Union's interests in the region may be examined under five main headings:

Human rights and democracy: The development and consolidation of democracy and the respect of human rights constitute one of the objectives of the Common Foreign and Security policy of the EU and are the basis for security and peace in the region. Economic development and the construction of a civil society which observes human rights and the fundamental freedoms are intrinsically linked.

Geopolitical / security: The promotion of regional stability is important in a part of the world where, as is noted above, Russia, Turkey and Iran all have interests; where they are already involved in a competition for influence; and where access to energy reserves in the Caspian Basin is proving to be a significant geopolitical factor.

The EU has also an interest in cooperation given the importance of organised crime links in the republics.

Humanitarian: The sheer volume of human suffering in this region, which is a bridge between Europe and Asia, presents the EU with a moral interest in participating in humanitarian activity.

¹⁾ Turkey's decision to open the air corridor to Armenia is a significant development.

Economic: The EU has economic interests particularly in Azerbaijan's energy sector. As the Caspian offshore oil fields come on stream EU can hope to benefit both through the investments, goods and services offered by EU companies, and as a major consumer. There is however a risk of ecological disaster if the Caspian Sea oil exploitation would proceed without appropriate environmental guidance. This environmental consideration should be a scope of action for the EU. The EU will need to ensure that it will play a key role in the negotiations of contracts for the exploitation of the remaining huge reserves; in determining the routing of pipelines; and in ensuring that the outcome of the debate on the maritime jurisdiction over the Caspian will not prevent the successful extraction of offshore oil. This could be assisted by improvement of existing EC relations with the Economic Cooperation Organisation. Moreover, when the Customs Union with Turkey comes into force, Transcaucasia will be directly adjacent.

Environmental: The EU's interests concern above all the future of the Medzamor NPP, in Armenia, and the risks attendant upon its recommissioning.

7. Bilateral relations to date

The Union has sought, hitherto to maintain an even-handed approach, insofar as this is possible. It has accorded similar benefits, under the same instruments, to all three republics:

Contractual

Formal relations are still based upon the 1989 Trade and Cooperation Agreement with the USSR, which offers MFN treatment for tariffs and duties and establishes an institutionalised dialogue on all matters affecting the Agreement through Joint Committees. Joint Committees were held with Georgia in December 1994 and with Armenia and Azerbaijan in March 1995. Exploratory discussions on a possible future agreement were held concurrently. All three republics have signed the European Energy Charter Treaty.

Trade and investment

These start from a very low base (see annex B) with the single exception of the consortium to develop the three Caspian sea oil fields. The EC has undertaken to assist the three republics to maximise the opportunities offered by the Community's GSP.

Humanitarian aid

In 1994, the Commission provided emergency humanitarian aid to the three republics valued at 54.55 MECU (up from 34 MECU in 1993). This includes ECHO's share of the 204 MECU food aid operation (see below). This assistance is aimed at particularly disadvantaged groups, in particular refugees, internally displaced persons and victims of conflict (food parcels, baby and children's food, medical equipment, hygiene products, vaccines, shelters for refugees) and includes fuel aid in the form of mazout (Georgia and Armenia).

Food aid

In July 1994, the Commission, acting on the basis of the Council Decision of that month, launched an exceptional operation to supply foodstuffs valued at 204 MECU to tide those republics facing the worst shortages of essential commodities over the winter of 1994-1995. The Transcaucasian republics' share of this operation is 137 MECU. To date, deliveries have been almost completed, with registered losses of less than 2%.

Particular advantages accrued from the choice to use the Community's own resources (4 MECU, from Tacis) in order to finance a monitoring operation on the ground and so to control directly both the transport and the distribution of the food and the operation of the counterpart funds. This could not have been achieved had the entire operation been carried out solely by non-governmental organisations. The results have been significant:

- very low losses;
- indirect support to the economy; in Georgia, sales of EC foodstuffs provided much needed backing for the currency and actually allowed the coupon to appreciate against the rouble;
- direct dialogue with the recipient governments at the highest level on the operation itself and on related matters, notably Operation Good Will;
- much greater visibility of the EU in the region;
- creation of a climate of confidence between the republics' leaders and the EU.

The Counterpart funds set up under the FEOGA section of the 204 MECU operation (165 MECU out of ¹⁾ 204 MECU) are economically highly significant for the recipient countries. They represent a considerable proportion of the total amount of local money in circulation (20% in Georgia) and have done much to provide much needed backing for the currency, especially in Georgia and Armenia ²⁾. The IMF has commented favourably on these results.

Coordination with the US has been close throughout. Building upon this positive experience, a joint EC-US mission has been assessing food needs for the coming winter.

In view of the shortage of trains for transport of food aid, the Community, together with the Armenian and Azerbaijani governments, launched "Operation Good Will" intended to release rolling stock which had been blocked due to the Nagorno-Karabakh war, and repair and put into operation a part of the railway communications in the region. In order to capitalise on the progress achieved so far it is necessary to address the underlying political problems (see para. 12).

Technical assistance

In the years 1991-1994, Tacis national allocations for the three republics amounted to around 64 MECU -of which 12.5 MECU in 1993 and again in 1994 (see schedule at Annex C). This amount is likely to be increased in 1995. In addition they benefit from the Interstate programme and from regional programmes in the fields of telecommunications, agriculture, energy, environment and enterprise support. Of particular interest to the partners is the TRACECA Programme which is designed to encourage transport links between Europe, Caucasus and Central Asia. The Tacis Democracy Programme runs a number of projects in the Transcaucasus (including six in Georgia).

Financial assistance

Loans have been taken up by all three countries under the 1250 MECU facility decided in 1991 for the former Soviet Union (and allocated among the NIS in 1992) intended to finance imports of food and medical products. So far Armenia has borrowed 58 MECU and is on time with its interest payments, but has stated that it will have difficulty in repaying principal. Azerbaijan contracted its loan (68 MECU) only in October 1994 and has requested an extension of the drawing period. In August 1995, Georgia is due to repay 70 MECU of principal; under present conditions, without new international support this country, which has no foreign exchange reserves, would be unable to do so. In the same month Armenia should

¹⁾ Aid from the ECHO budget continues to be given as a grant to targeted recipients in the beneficiary countries.

²⁾ Total amounts to be collected in the three republics exceed 27 MECU. In Georgia they represent 45% of the State budget.

repay 38 MECU and is likely to face similar difficulties. A default by either country would have serious consequences for further EC non-humanitarian aid, and for their position vis-à-vis external lenders.

Political and diplomatic

The EU has, in its statements on the conflict in Nagorno-Karabakh, underlined its support for the Minsk process and for the multinational peacekeeping force decided at the OSCE Budapest Summit, and has encouraged direct contacts between the parties; it has also supported UN peacekeeping in the security zone on the Georgia-Abkhaz frontier and the political negotiations under OSCE/Russian mediation through the Joint Control Commission for South Ossetia.

The Commission delegate in Tbilisi presented his credentials on 12/12/1994. Georgia and Armenia have missions in Brussels and Azerbaijan intends to open one this year.

8. It follows from the above that the EU can expect to be involved in the region on a long term basis. Indeed, it is already a major actor, with the capacity to shape the course of events in the region:
 - The EC and the Member States are, taken together, the single most important donor, and virtually the only bilateral donor in Azerbaijan, apart from Turkey;
 - The United States is expected to reduce its future aid to the region significantly;
 - New incentives are needed to deblock the current stalemate in the Minsk process;
 - Given Russia's drive to dominate the region militarily, culminating in its basing agreements with Georgia and Armenia, many look to the EU as the only other actor capable of playing a major political role.

However, the Union has not, as yet, capitalised on this to promote its political objectives. The three republics are still in the early stages of a transition the first stage of which may last 3-5 years, and will continue to require large scale humanitarian aid. In the later stages the EU can be expected to assume the role it has elsewhere in the former Soviet Union - as the region's principal Western trading partner and source of investment capital. Thus the Union has, if it wishes to use it, the ability to influence Transcaucasia's development in other ways, and actively help steer the three republics towards stable, democratic norms. Moreover, given that their future depends intimately upon the resolution of the conflicts, and the opening of communications within the region and between the region and its neighbours, it may become difficult for the EC to amplify its current role (essentially as an aid donor) while abstaining from political involvement. Dialogue with Russia will have to be an important element in such involvement.

Objectives of a coordinated strategy

9. In view of the EU's interests in the region, a strategy aimed at seeking to assist the three republics to pass through what is likely to be a lengthy transitional period, and eventually to set the conditions for sustained development, is required. Given that the EC does not have additional resources which could be diverted to this purpose, (unless further financial assistance can be made available) this strategy will need to focus on deploying all instruments at our disposal in a coordinated way. It could consist of the following components:
 - i) political support for sovereignty, independence and territorial integrity. Acceptance by all parties of the inviolability of borders, and the inadmissibility of the use of force to acquire territory, are essential elements in achieving regional stability.

ii) political dialogue on a bilateral/regional basis.

The objective is to use the means at the Union's disposal to promote peace processes in the regional conflicts, especially Nagorno-Karabakh.

iii) support for the strengthening of democratic institutions

iv) humanitarian aid including food and fuel aid

v) financial support.

Exceptional support will be needed in view of the republics' dramatic economic situation and major balance of payments difficulties.

vi) support for post-war reconstruction

- promotion of trade and investment
- technical assistance (institution building; enterprise support; restructuring of agriculture and energy sectors)
- promotion of communications links within the region and with other neighbours (in particular, pressure on Russia and Turkey to unblock transit to Armenia and Azerbaijan).

vii) cooperation and coordination with other major donors

Instruments

10. Partnership and Cooperation Agreement (components i), ii) and vi)).

10.1. The Commission's October 1992 negotiating mandate foresaw virtually identical PCAs with all NIS. The reasons for current hesitations to go ahead with the Caucasian republics were outlined in a Commission working paper communicated to the Council in September 1994. This queried how realistic it is to expect full implementation of the relatively high levels of obligations inherent to a PCA, by countries which were facing the difficulties which confront the Transcaucasian republics and which may have serious problems in satisfying the EC's conditionality.

10.2 A number of variants could be put forward, but in the final analysis these boil down to two principal options:

- (a) to negotiate a PCA, in one form or another ("Ukraine" or "Kyrgyz" model, or something in between) or
- (b) to propose an agreement which is less ambitious than a full PCA, on the understanding that it will be upgraded once conditions on the ground permit.

A PCA would convey a message of political support to the republics at a critical time. It would underline the EU's support for their independence and sovereignty, and go some way towards dispelling the impression that the Union is not willing to take major steps in their support. At the same time, it would provide a leverage for the EU to influence their future development as concerns political and economic reforms in particular. It would also avoid charges that these republics are being discriminated as compared to the six NIS which have already negotiated PCAs, and where events have shown that human rights conditionality is not always being met.

The risk involved in the negotiation of a PCA is that it may be a long time before its provisions can be properly implemented and, indeed, that partners may seek to suspend some of their obligations on grounds of national security or national emergency. If the EC were to conclude

international agreements, knowing that its partners were unwilling or unable to comply with some of its key provisions, other partners may well attach considerably less value to respect of those obligations.

- A less ambitious agreement could consist of trade, cooperation and investment provisions similar to those of PCAs, but with a less ambitious preamble and without an institutionalised political dialogue. There could be an "evolution clause" allowing for the agreement to be eventually upgraded.

Such a "half-way house" would have the advantage of recognising current realities in the partner countries and so preserving the EU's international credibility. It would also provide partners with an additional incentive to put their house in order. But it would convey a negative political signal which would certainly be resented by their governments, with possible consequences for the EU's future role in these countries, and could prove damaging to the interests of our economic operators. Above all, it would exclude institutionalised political dialogue, which would constitute the major vehicle by which the EU could influence future developments in these countries.

10.3 Certain conclusions can be drawn:

(a) any form of agreement concluded by EC, whether or not a full PCA, will be subject to human rights conditionality.

(b) A less ambitious agreement could offer no less than what already exists (in the 1989 EC-USSR Agreement), and the trade and cooperation elements in a PCA are largely based on these. The added value of a PCA is rather in the political statements contained in the preamble, in the political dialogue, and in the investment - related aspects. There is no advantage to be gained in delaying an agreement on investment related matters, which is in the interest of EC economic operators as much as of the NIS.

(c) Thus (given also partners' fear of being discriminated) the choice would appear to be not so much between a PCA or another kind of agreement, but between a PCA now or a PCA later.

10.4 Under these circumstances, the Commission considers that a further postponement of the decision would serve little purpose and accordingly favours the opening of negotiations with all three republics in the course of this year.

NB: In the context of PCA negotiations, it should be noted that the gap between NIS' ambitions and their ability to realise these is particularly wide in the case of Georgia and Armenia. They have requested "Ukraine" style PCAs including the perspective of a free trade area. But it is inconceivable that these countries could be ready for a free-trade agreement with the EU for a long time to come. Were PCAs to be negotiated with them, a non-binding "evolution clause" might offer a way out. No other modification in the 1992 mandate would appear justified at this stage. Indeed, in view of the uneven progress of the countries towards market economy, careful consideration will have to be given to the content of the PCAs, in particular in the trade chapter.

The PCAs could include provisions on cooperation in certain security-related areas, notably on illegal activities.

11. Enhanced Diplomatic links

(components i), ii) and vi))

A first step could be for the Commission's Delegation in Georgia to be accredited also to the other two republics. Further Delegations should be established as soon as budgetary means permit.

12. EU political role in the region

(components i), ii) and iv))

12.1 Regarding Nagorno-Karabakh in particular, it is possible, and desirable, to add an EU dimension to the work going on in the OSCE and in particular the Minsk Group. The peace process can be given a powerful boost through the introduction of incentives to cooperate; one way in which this can be achieved would be through the inclusion of conditionality into future EC and Member State's assistance operations mounted in the context of this strategy. The EU's objectives would be to force the pace in achieving the tasks set out in the statement by the President of the UN Security Council on 26 April 1995, i.e. the implementation of confidence-building measures, including repatriation of refugees and internally displaced persons, the withdrawal of forces, the convening of the Minsk Conference and the deployment of the multinational OSCE peace-keeping force agreed at Budapest.

It would remain to be seen whether similar action could be taken in the rather different circumstances pertaining in the Abkazia and South Ossetia conflicts.

12.2 The EU also has a role in persuading Russia and Turkey to participate constructively. Particularly relevant would be the task of obtaining support from Russia and Turkey for the reopening of transit routes in the region and especially to and between Armenia and Azerbaijan.

12.3 Part of the dialogue with the republics and with neighbouring countries should be aimed at promoting the EU's interests in the energy sector, concerning both the extraction of hydrocarbons in the Caspian (including questions of maritime jurisdiction) and the routing of pipelines. Questions of investment and transit may also be raised in the European Energy Charter Conference.

12.4 The EU position should be expressed through political dialogue with the three republics themselves, but also through specific meetings with Russia and Turkey on the situation in Transcaucasia. Such meetings could be on a regional basis or on a bilateral basis, if appropriate.

12.5 The EU should offer its good offices, to promote cooperation within multilateral fora (OSCE; UN; Partnership for Peace Programme) and possibly with the Council of Europe.

13. Support for democracy

(component iii))

The Community has always placed the support of democratic development among its priorities. Similar objectives apply in the case of other NIS, including the Transcaucasus. Measures should therefore include: advice on legislation; practical assistance in establishing democratic institutions; and contacts at various levels between European Parliamentarians, officials and non-governmental organisations and counterparts in the republics. The Tacis Democracy Programme, which is already active in the region, could complement such activities. The monitoring of the elections currently foreseen for July (Armenia) August (Azerbaijan) and perhaps October (Georgia) 1995 should also be a part of the EU's overall strategy on democracy questions.

14. Food aid, humanitarian aid, fuel and agricultural inputs
(component iv))

Food aid

- 14.1 In the light of the results of the joint EC/US evaluation mission which was recently sent to the Caucasus and, subject to the availability of resources (both financial and organisational) the EC should look into the possibility of launching a substantial food aid operation on a similar basis to the 1994 - 1995 campaign.

Humanitarian aid, fuel and agricultural inputs

- 14.2 Aid through ECHO is expected to continue on a similar basis to 1994. But neither ECHO's resources nor food aid can be used for anything like a sufficient supply of commodities which are desperately needed for the ongoing reconstruction of the economy including fuel and other agricultural inputs. It is essential that the Council Regulations on structural food aid and food security¹⁾, which allow not just the supply of foodstuffs but the improvement of food security in general, (including the co-financing of certain inputs and the creation of rapid alert systems and storage capacities) be modified so as to cover the Independent States. Given the limited resources available - these are intended to cover the whole developing world - it would in any event not be possible to provide by this means food aid to the Transcaucasian republics on the scale of the current 204 MECU operation.

The EC does not at present have instruments, other than those of ECHO, to supply fuel. However, this is a problem sui generis to which resources need to be diverted (particularly in Georgia and Armenia). If Member States are willing to provide bilateral assistance, the Commission may be able to help organise transport and monitoring. Alternatively, it could be viewed as part of the general balance of payments problem. It has so been treated in the case of other NIS outside the area.

15. Financial assistance (component v))

The IMF, which approved a first "systemic transformation facility (STF) tranche for both Georgia and Armenia, is now aiming at the conclusion of stand-by arrangements before the summer of 1995. As underlined by the IMF at the World Bank informal donors meeting on 22nd March 1995, owing to their critical economic situation and balance of payments difficulties neither Georgia nor Armenia would be able to implement ambitious adjustment and reform programmes, and to remain current on their external financial obligations without the highly concessional complementary support from the international community. In the context of the stand-by arrangements that Georgia and Armenia are expected to agree shortly with the IMF, the EC has been invited to demonstrate its solidarity and to provide its financial support to these countries at this critical juncture.

Although the Community is not in a position to provide standard macro-financial assistance to these countries, the Commission is exploring possibilities for exceptional financial support by other means, to be made available to Georgia and Armenia for humanitarian purposes. The Commission intends to put proposals to the Council shortly.

16. Post-war reconstruction (component vi))

The EC does not have the means to enable it to participate actively in post-war reconstruction through major transfers of resources. But apart from the supply of food aid and humanitarian assistance, and measures to assist in resolving the question of outstanding debts, it can consider what more can be done in the context of technical assistance.

¹⁾ Reg. 3972/86 and 2507/88 and 2508/88

The 1995 Tacis programmes are in the process of finalisation, in consultation with the three governments. As from 1996 there will be a new Tacis regulation and a new Indicative Programme. Depending on political developments and the needs of the partners, amounts available for allocation to national programmes could be determined, and the content of the programmes for 1996 and subsequent years oriented, towards some of the building blocks of post-war reconstruction, including: enterprise support and institution building; restructuring of energy and agricultural sectors; and regional integration, including communications links, (through TRACECA ¹⁾, as appropriate) and telecommunications. Further support for regional initiatives such as Black Sea Economic Cooperation could be considered.

The EU could use its resources to help prepare the republics for membership of other international fora, notably GATT/WTO.

The Community is opposed on safety grounds to Armenia's project to reopen the Medzamor nuclear power station, which is located in a seismically unstable area. Although Armenia has now obtained Russian assistance for this purpose, no measures should be taken which might encourage it to persist in this course.

17. Cooperation with international donors (component vii))

Existing cooperation with international financing institutions, with EBRD and with the US, Canada and Japan will need to be intensified, so as to ensure satisfactory burden-sharing and avoid duplication. This must be seen in the context of the wider picture: the US has chosen to support Georgia and Armenia, but the EC (together with Turkey) has so far been the only important Western donor, other than the IFIs, in Azerbaijan's case. Cooperation is also needed with NIS creditors (in particular Russia and Turkmenistan).

* * *

Conclusions:

- 18 a) The EC can build upon its existing instruments to establish a credible strategy towards the three republics. This strategy can be based upon the negotiation, of a PCA with each republic, but this must be supplemented by measures intended to ensure the physical survival of the population (food and humanitarian aid) and technical assistance for post-war reconstruction. Exceptional financial assistance is an option to be considered in the context of the expected IMF stand by agreements (Georgia and Armenia).
- b) An overall strategy of this kind would be virtually unprecedented in terms of both scope and content. If implemented it would undoubtedly represent a major factor in the three republics' future development and would give the Union very substantial leverage in the pursuit of its objectives. It would also serve the EU's interests in various areas, i.e. human rights, geopolitical, humanitarian, economic and environmental. Accordingly, the Union should link its implementation to progress in meeting those objectives: acceptance by all parties of each of the republics' sovereignty, independence and territorial integrity; the resolution of conflicts; the promotion of political reform, especially as regards human rights and democratic institutions; the repatriation of refugees; and progress on economic reform, all essential elements in achieving regional stability.
- c) A more active political dialogue with the partners and with Russia and Turkey can support the reconstruction process.

¹⁾ TRACECA: Transport Corridor - Europe - Caucasus - Asia. Commission initiative supported through Tacis.

- d) It is important to continue with as even-handed an approach as possible between the three republics in applying these instruments. However, in Azerbaijan's case the circumstances regarding financial assistance differ from those of Georgia and Armenia.
19. A number of components of the coordinated strategy (notably in the field of political cooperation, support for democratic institutions and possibly some fields of assistance) could be the object of a Common Position.

A checklist of the instruments referred to in paragraphs 10 - 17 is attached at Annex D.

**Draft Common Position
on the objectives and priorities of the European Union
towards the Transcaucasian Republics**

The Commission, in forwarding to the Council a Communication on the totality of the European Union's relations with the Transcaucasian Republics, considers it necessary, in parallel, to propose that the Council adopt a Common Position by virtue of Article J.2 of the Treaty on European Union

COMMON POSITION

of

**defined by the Council on the basis of Article J.2 of the Treaty on European Union
on the objectives and priorities of the European Union towards Armenia,
Azerbaijan and Georgia**

(95/.../CFSP)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on European Union, and in particular Article J.2. thereof,

SETS OUT THIS COMMON POSITION:

A. The European Union will pursue the following objectives and priorities in its relations with the Republics of Armenia, Azerbaijan and Georgia :

1. to support the Republics' independence, sovereignty and territorial integrity, while contributing to the permanent resolution of the conflicts in the region;
2. with this end in mind, to institute dialogue with the three Republics, and with neighbouring countries, with a view to the achievement of permanent political settlements, the repatriation of refugees and the reopening of communications in the Transcaucasus ; this in support of, and in close coordination with the work of the UN and OSCE. Regarding Nagorno-Karabagh, a European Union dimension could be added the peace-process going on within OSCE and in particular the Minsk Group, bearing in mind the incentives to improved cooperation in the region;
3. to support initiatives aimed at fostering cooperation and mutual confidence between the countries in the region;
4. to support the further development of democratic norms and institutions, the promotion of human rights and individual liberties and the rule of law within the three Republics, as well as the monitoring of electoral processes. In this respect, advice on legislation and practical assistance in establishing democratic institutions through contacts between officials, parliamentarians and non-governmental organisations, through Community and Member States' programmes, will be pursued.
5. to underline the importance of the European Community's role as a major provider of assistance to the three Republics, in order to promote the above objectives and the process of political and economic reform generally.
6. to take steps to assist the three Republics to pass through the difficult period of transition and eventually to help set the conditions for their sustained development, once the conflicts in the region have been resolved. This shall be done through inter alia:

- supporting efforts to consolidate economic reform, based upon agreements with the IMF and other international financing institutions;

- cooperating as closely as possible with those institutions, other donors and other Independent States which are creditors of the three Republics;

- providing humanitarian assistance, including the supply of essential foodstuffs and fuel, where this is deemed necessary, in addition to Community operations in these areas,

7. to support equitable solutions regarding access to, and transit for export of, energy products;

8. to include in the European Union's political dialogue with the three Republics security-related areas of mutual interest, including combating illegal activities;

9. to promote: cooperation within multilateral fora, including the UN, the OSCE and the Energy Charter Conference; the development of Partnership for Peace programmes ; and, as appropriate, cooperation between the Republics and the Council of Europe.

B. Member States shall ensure that their national policies conform to this common position.

THE COUNCIL NOTES that the Community, on the basis of the Commission's initiatives, will contribute to the above in particular through the negotiation and implementation of Partnership and Cooperation Agreements and through implementation of the European Energy Charter Treaty.

THE COUNCIL WILL UNDERTAKE the necessary measures to promote the above mentioned objectives and priorities, where appropriate on the basis of Commission proposals.

C. This common position shall be published in the Official Journal.

Done at Brussels,

For the Council,

The President,

**SUMMARY OF THE ECONOMIC SITUATION
IN THE TRANSCAUCASIAN REGION**

ARMENIA**Background note on the economic situation****General background.**

The Armenian economy has been living under severe shock circumstances since the 1988 earthquake and the dissolution of the USSR in 1991. The earthquake destroyed about 40% of the country's manufacturing capacity; about half a million people out of a total population of 3.7 million became homeless. Within the FSU, the country's economy was very dependent on trade with other republics, which collapsed after the dissolution of the Union. This was aggravated by war with Azerbaijan and the blockade to which Armenia, a landlocked country, was submitted, which had a severe impact as Armenia's principle transit route for energy and other goods had traditionally been Azerbaijan. As a result, industrial production and living standards fell sharply. GDP fell by about 70% between 1991 and 1993. Statistical indications show that, except for agriculture, the drop of production was even sharper in other sectors such as construction, transport and trade services. Real revenues fell sharply, with wages reaching a level of 4-5 \$ per month in 1994.

The need for stabilisation.

Prices increased 100% in 1991 and were multiplied by eight in 1992. In 1993, hyperinflationary levels were reached with monthly inflation levels of an average 26% over the first 10 months. A new national currency, the dram, was introduced in November 1993. However, in the absence of a stabilisation policy, inflation rose further in the first months which followed the introduction of the dram. In early 1994 the authorities tightened their public expenditure and monetary policies. As a result, inflation considerably declined from an estimated 50% in January to 4% in August 1994; however, inflationary pressures resumed at the end of 1994.

The main reason for past inflation has been the disequilibrium of public finance. The state budget was under strain in an economy of war, with defence spending amounting 11% of GDP in 1993. Subsidies were high (still 20% of GDP in 1994), particularly for basic food. Furthermore, in the context of the payments crisis in 1993 the state increased its direct concessional lending to state enterprises through the budget. On the other hand, the fiscal basis had become extremely fragile. Tax revenue fell from 21% of GDP in 1992 to 15% of GDP in 1994. As a result, the budget deficit rose to 70% of GDP in 1993 and about 46% in 1994 (without taking into account humanitarian grants on which the country heavily relies, worth 23% of GDP in 1994).

Structural reform.

One of the main areas of concern is the inadequacy of social safety measures, most of the financial support by the state being channelled through price subsidies. The high level of social spending is poorly targeted. The authorities are conscious of this situation and have requested external support to prepare building up a new social safety net. Privatisation started in 1991 with agriculture. A law on privatisation was approved in 1992, and a privatisation programme passed in 1994, representing about 35% of state-owned productive assets. Most of the legal framework of a market economy is now in place. Laws regulating the Central Bank activity and the financial sector have been adopted.

Central bank refinancing is allocated through auctions since 1993 and banks have been requested to improve their capital base. Much remains however to be done to suppress government intervention in the allocation of credit and to improve the solidity of the banking sector burdened with bad loans.

Recent developments.

In early 1994 the authorities began to tighten their expenditure: subsidies to enterprises were reduced, as well as lending on the budget. Public expenditure were limited and revenue collection improved. The need for monetary refinance of the budget thus declined, and monetary growth was lower. The output decline seems to have ceased in 1994, with an estimated GDP growth of 4 percent over the year. This remains to be confirmed, as the austerity measures on government spending and lending may still have a strong recessionary impact over the forthcoming period.

In Autumn 1994 the authorities approved a programme of enhanced stabilisation and reform measures over 15 months, including a progressive phasing out of customer subsidies, the hardening of budget constraints for state enterprises, improving the tax collection, raising interest rates and further progress of privatisation. This programme was supported by the IMF by an SDR 16.9 million (about US dollar 25 million) "systemic transformation facility" which was approved in December and is expected to be followed by a stand-by arrangement in June 1995.

The external situation. The need for international support in 1995.

The country's external situation is very fragile. Armenia, which had no foreign exchange reserves when it became independent in 1992, has experienced growing trade and current account deficits (US dollar 190 million in 1993 and US dollar 240 million in 1994). In 1993 and 1994, the capital account mainly reflected external support given by the EU, Russia and other bilateral donors. The current account deficit is expected to amount US dollar 355 million in 1995, according to the latest IMF estimates. Together with the need for an increase in reserves, the country's external financing requirement would reach some US\$ 465 million in 1995. After possible disbursements from the international financial institutions worth US\$ 200 million (including further IMF support in the context of the expected forthcoming stand-by arrangement and US\$ 80 million World Bank concessional loans), the residual financing gap would amount to US\$ 265 million and, considering the country's dire economic situation, would have to be financed by concessional finance and humanitarian assistance from bilateral donors.

AZERBAIJAN

Background note on the economic situation.

General background

The dissolution of the FSU at the end of 1991 and war in Nagorno Karabakh since 1992 which led to hundreds of thousands of refugees have dramatically affected Azerbaijan over the past few years. This was further aggravated by other regional conflicts in Abkhazia and, more recently, Chechnya, which disrupted the northern commercial routes, and recent civil unrest in the country. As a result output dropped, GDP is estimated to have fallen by 20% in 1993 and again in 1994. Average individual revenues declined by about 60% since 1992 down to a level of 9 US dollars per month by the end of 1994. The country, which would have a strong industrial potential based on the oil industry, and could be one of the most wealthy NIS, is thus in a dire economic situation.

Macroeconomic stabilisation

A large public budget deficit (worth 13% of GDP in 1994) financed by uncontrolled monetary expansion (900% in 1994) have led over the recent period to hyperinflation and large economic imbalances. Inflation, which after Spring 1994 slowed down to 6% in August owing to the government's efforts to control public expenditure resumed at the end of 1994 to over 50% per month in November and December after subsidies had been substantially increased. General lack of financial discipline led to growing inter-enterprises arrears. The lack of confidence in the local currency triggered a growing flow of transactions in dollars, fuelled by a remaining substantial inflow of foreign exchange earned on cotton and energy exports. In 1994 total hard currency deposits reached 50% of the broad money. Also the government became more dependant on hard currencies revenues. The surrender requirement on foreign exchange earnings reached 65 to 70% of the most important exported goods, and amounted to almost 50% of government revenues.

In early 1995 the authorities adopted a comprehensive programme of stabilisation measures which was supported by the IMF. The main target of the programme was to reduce inflation down to 5% per month by mid-1995 and 2% per month at the end of the year. To achieve this, a tight monetary policy is being implemented. The central bank refinancing rate, which was still negative in real terms by the end of 1994 has already been raised. Credit auctions were introduced in March. A new central bank law is to be enacted by the middle of 1995. A GDP 2% ceiling has been introduced for bank credits to the government. The target for the budget deficit has been set at 5% of GDP. Public expenditure shall be cut, which will be all the more necessary to compensate for the decision to abolish the surrender requirement.

Structural change

Prices have already been liberated except for bread, energy, housing and public utilities goods and services, which are highly subsidised. The aim of the new 1995 programme is to completely phase out price subsidies except for natural monopolies. The state order system is being dismantled, and external trade liberalised, but a temporary tax on exports shall apply in order to partly compensate for the loss of revenue on the abolished

surrender requirement. The phasing out subsidies is to be compensated by the introduction of a social safety net for the most vulnerable groups.

Privatisation, which had been slow until 1994, shall be accelerated. A quick privatisation scheme for SMEs is to be implemented, while a mass privatisation programme should ensure the privatisation of large enterprises, after prior steps such as the distribution of vouchers and the corporatisation of large enterprises have been implemented.

The external account.

The current account was already in deficit in 1993 (US dollar 37 million); this deficit aggravated in 1994 (US dollar 179 million, i.e. 15% of GDP). For the latter year, this deficit was mainly financed by Turkish Exim bank credits, modest foreign direct investment flows and substantial payment arrears vis-à-vis Turkmenistan. The outlook for 1995 is a current deficit over US dollar 200 million (IMF estimate). On the capital account side, repayments in 1995 on loans from Russia and Turkey shall be compensated by the release of part the ECU 68 million EU commercial credit for food and medical imports which was made available in 1992 but on which drawings by Azerbaijan only started in 1994.

In April 1995 the IMF approved the disbursement of a first STF tranche of the equivalent of 44 million US dollars in support of the government programme, to be followed by a similar second tranche by the end of the year. This, together with credits from the World Bank (worth US dollar 37 million) and an expected rescheduling of arrears owed to Turkmenistan should provide the bulk of the financing of the current account deficit.

A consortium of major international oil companies recently signed an agreement with the authorities on the development of the Caspian offshore fields. This should allow for short term inflows of investments and future revenues on oil exports. While, on the long term, this will contribute to consolidate the balance of payments, on the short-medium term the country's external situation will remain constrained.

GEORGIA

Background note on the economic situation.

General background and recent developments.

Faced with a war in Abkhazia and disruptions which followed the dissolution of the FSU, the Georgian economy suffered severe drops of output. War led to disruptions in transport and production; about 200 000 to 300 000 refugees fled from Abkhazia to other regions. The trade shock following the dissolution of the FSU was severe, as 96% of the country's exports had been going to the FSU until 1990. This led to a sharp decline in output, hyper-inflation, a deterioration of the fiscal revenues and a growing external debt. Between 1990 and 1994, the cumulative economic decline is estimated to about 80% of GNP and GNP per capita has fallen to US\$ 563 in 1993, compared with US\$ 2,336 for Russia.

The signature of a cooperation treaty with Russia in February 1994 led to some progress towards stability. Nonetheless, the situation remains critical. The output decline continued, the average monthly rate of inflation was around 6% and tax revenues, below 2% of GDP, dramatically insufficient to cover basic needs. Households continued to rely on external humanitarian assistance and informal sector activities resources to cover their basic needs.

Macroeconomic stabilisation

In Autumn 1994, in order to achieve macroeconomic stability the government prepared in close cooperation with the Fund a programme which entails a drastic fiscal adjustment followed by a strict monetary policy. An agreement with the IMF on detailed policy measures was reached in December 1994 and the Fund subsequently allocated a first Systemic Transformation Facility (STF) tranche. The programme aims at bringing inflation from hyper inflationary levels (60% per month in early 1994) down to 1% per month by the end of 1995, and to stabilise the temporary currency, the coupon.

The centrepiece of the government's strategy is the reduction of the budget deficit to 6-7% of GDP in 1995 mainly through phasing out subsidies on bread, electricity, gas and public transport. The implementation of a tax package (including increase in the VAT rate, suppression of VAT exemption, increase of excise and customs taxes) should contribute to the reduction of fiscal imbalances. Consistent with the inflation objective, the monetary part of the programme aims at tightening the budgetary constraint on the enterprises and the state. Direct credits to state-owned banks from the central bank have been suppressed. New central bank credits to banks are allocated through auctions. A 20% reserve requirement on domestic credits has already been introduced for banks.

The government has unified the exchange rate for both cash and non-cash trading. The tightening of the monetary policy which already led to an appreciation of the coupon vis-à-vis the rouble is also intended to prepare for the introduction of the new money, "the Lari", in the middle of 1995. By the end of 1994 foreign currency deposits represented 60% of all deposits.

Structural reform

Prices have been liberalised in Georgia, but bread, medicine and energy remained highly subsidised until 1994. In September, it was decided to charge formerly subsidised goods at cost covering prices. By the end of 1994, budget transfers to state owned enterprises were phased out. Major reforms remain however to be implemented. The social transfers, which up to 1994 went through subsidised prices, are inadequate for the most vulnerable groups. A modern social security system has to be build and the financial sector has also to be reformed and strengthened.

Privatisation is almost complete for housing. By the end of 1994 about 38% of arable land had been privatised. In spite of the immediate focus on macroeconomic stabilisation, the government programme also accelerates structural reforms. This includes the total phasing out of subsidies to enterprises, the settlement of inter-enterprises arrears in 1995 and the dismantling the remaining state orders system. Privatisation of small scale enterprises, which already took place fairly rapidly, should be completed by auctions. Large scale enterprises privatisation, which had not started before the end of 1994, will be implemented. This will start with the corporatisation of state-owned enterprises, thus providing a stream of enterprises for the mass privatisation programme for which vouchers will be distributed. A regulation on investment funds shall be enacted. The restructuring of the government should involve a substantial reduction in size (at least 25%) and a functional re-organisation of the government's current structure.

The external account. The need for international support.

In 1993 the current account deficit reached 28% of GDP, at a level of US\$ 190 million. In 1994, despite a further contraction of trade, the deficit reached about US\$ 490 million (excluding official transfers). This deficit was mainly financed by EU and US humanitarian grants. Georgia faces a heavy external debt service burden, and has accumulated arrears on gas imports from Turkmenistan and also on servicing existing external financial obligations.

Despite a further contraction of imports, the IMF expects the current account deficit to remain high in 1995 at about US \$ 390 million. On the capital account side, amortisation payments are expected to rise sharply, including total ECU 75 million maturities on the EU commercial credits. The IMF estimates the gross financing requirement to US\$ 1050 million for the year. After IMF and World Bank disbursements, the residual financing gap would reach some US\$ 900 million for the programme period. Despite an expected rescheduling agreement with Turkmenistan on the energy supplies arrears, which could be worth US\$ 450 million, the remaining financing gap is considerable and will mainly have to be filled by means of complementary financing and humanitarian assistance from bilateral donors.

Trade between the EU and the Caucasian countries
(in mecu)

	(*)	1st sem. 1993	2nd sem. 1993	1st sem. 1994	1993	1994 10 months
Georgia	I	26.9	11.4	8.8	38.3	13.9 (- 61%)
	E	45.1	38.9	51.2	84.0	70.7 (- 9%)
	B	+ 18.2	+ 27.5	+ 42.4	+ 45.7	+ 56.8
Armenia	I	4.8	11.0	12.1	15.8	24.9 ¹ (+116%)
	E	21.0	29.9	16.0	50.9	37.2 (- 16%)
	B	+ 16.2	+ 18.9	+ 3.9	+ 35.1	+ 12.3
Azerbaijan	I	20.9	18.0	7.4	38.9	16.2 (-51%)
	E	28.7	24.6	28.9	53.3	54.6 (+22%)
	B	+ 7.8	+ 6.6	+ 21.5	+ 14.4	+ 38.4
Caucasian countries	I	52.6	40.4	28.3	93.0	55.0 (-32%) ²
	E	94.8	93.4	96.1	188.2	162.5 (- 3%) ³
	B	+ 42.2	+ 53.0	+ 67.8	+ 95.2	+ 107.5

I : EU Imports - E : EU Exports - B : EU Balance

1) Of which 93 % are pearls, precious stones and metals, jewellery, ... (CCT XIV).

2) 0,3 % of total EU imports from the 12 NIS.

3) 1,3 % of total EU exports to the 12 NIS.

CURRENT TACIS ACTIVITIES IN TRANSCAUCASIA

**TACIS PROJECTS CURRENTLY BEING IMPLEMENTED
IN ARMENIA**

A total of over 21 Million ECU (1991-1993)

1. **ENERGY** (focal sector) - total 5,3 MECU
 - Technical Assistance to a project of implantation of two mini-hydroplants
0,2 MECU (1991)
 - Energy Centre
0,5 MECU (1991)
 - Evaluation of Armenia's potential of hydrocarbon deposits
0,5 MECU (1992)
 - Extension and Strengthening of the Energy Saving Strategy Programme
1,1 MECU (1992)
 - Technical support for the development of the gas industry (under preparation)
1,9 MECU (1993)
 - Extension and strengthening of the Energy Centre (under preparation)
1,1 MECU (1993)

2. **PRIVATISATION** - total 2,17 MECU
 - Technical Assistance for Implementation of an overall Privatisation Strategy in Armenia
0,97 MECU (1992)
 - Management and Services advice facility
1,2 MECU (1993)

3. **FINANCIAL SERVICES** - total 1,65 MECU
 - Armenian Agriculture Cooperation Bank
0,75 MECU (1991/92)
 - Technical Assistance to mutual and Investment funds
0,9 MECU (1993)

4. **SMALL AND MEDIUM ENTERPRISES** - total 1,3 MECU
 - SME Development Agency Yerevan
0,8 MECU (1992)

- **Business Communication Centre** **0,5 MECU (1992)**

- 5. **TRANSPORT - total 1,0 MECU**
 - **Government Advice to the Railway Department** **0,5 MECU (1992)**

 - **Urban passenger transport** **0,25 MECU (1992)**

 - **Yervevan metro leakage project** **0,25 MECU (1992)**

- 6. **FOOD AND AGRICULTURE - total 1,8 MECU**
 - **Agricultural and Irrigation Extension and Farmer Services Project** **1,8 MECU (1992)**

- 7. **HUMAN RESOURCE DEVELOPMENT - total 3,4 MECU**
 - **Reform and Strengthening of the Public Administration** **1,5 MECU (1993)**

 - **Reform of the Social Security System and Strengthening of the Social Security Services** **1,9 MECU (1993)**

- 8. **Armenia has also benefited or will benefit from a number of projects under the 1991, 1992, 1993 and 1994 Regional (Interstate) Programmes, amongst which the TRACECA programme.**

- 9. **As regards the 1995 Tacis Programme, projects have been identified for a total of 5,5 MECU (+ 0,5 MECU reserve) in the following sectors :**
 - ENERGY (focal sector)
 - ENTERPRISE RESTRUCTURING AND DEVELOPMENT
 - HUMAN RESOURCES DEVELOPMENT

TACIS PROJECTS CURRENTLY BEING IMPLEMENTED IN AZERBAIJAN¹

- a total of over 21 million ECU

1. ENERGY - TOTAL 5.1 MECU

- Advice to SOCAR, Azenergy - 1.5 MECU (1992).
- Development of the oil equipment industry - 2 MECU (1993). (Under tender)
- Improvement of consumer service in gas and electricity utilities - 1.6 MECU (1993). (Under tender)

2. ENTERPRISE RESTRUCTURING AND DEVELOPMENT - TOTAL 4.6 MECU

- Training for commercial banking - 0.6 MECU (1992).
- Assistance to the Privatisation agency - 1.5 MECU (1992).
- Establishment of a SME development agency - 0.6 MECU (1992).
- Management advice and services facility for enterprises - 1.2 MECU (1993).
- Tutoring programme for small and medium enterprises - 0.7 MECU (1993).

3. HUMAN RESOURCES DEVELOPMENT - TOTAL 4.8 MECU

- Strengthening of public administration - 3 MECU (1992).
- Strengthening of management training - 1.3 MECU (1993). (Under tender)
- Development of employment services - 0.5 MECU (1993). (Under preparation)

4. TRANSPORT AND TELECOMMUNICATIONS - TOTAL (+/- 4 MECU)

- Government advice to the Ministry of Communications - 2.3 MECU (1992). (Various transport projects under tender)

5. FOOD PRODUCTION, PROCESSING AND DISTRIBUTION - TOTAL 3.0 MECU

- Institutional Support to the Ministry of Agriculture - 0.6 MECU (1992).
- Assistance to private family farms - 0.9 MECU (1992).
- Privatisation of food distribution sector - 1.5 MECU (1992).

6. Azerbaijan has also benefited or will benefit from a number of projects under the 1991-1995 Regional (INTER-STATE) Programmes.

7. The programming mission for the 1995 Action Programme took place in March and resulted in the identification of projects to the value of a further 6 million ECU in the following priority sectors: Energy; Enterprise restructuring and development; and Human resources development

¹ (1992 / 3) = date of Action Programme

**TACIS PROJECTS CURRENTLY BEING IMPLEMENTED
IN GEORGIA**

A total of over 23 Million ECU (1992-1994)

1 - GOVERNMENT ADVICE - total 2,75 MECU

National Government Strengthening	934.800	(1992)
"Government Advice"	499.900	(1992)
Employment Services"	312.331	(1992)
Development of the Tbilisi Airport	250.000	(1992)
Development of an Energy Policy	700.000	(1992)
TOTAL		2.697.031

2. - SUPPORT FOR ENTERPRISES - total 7,1 MECU

Bank Training Restructuring	600.000	(1992)
SME Development Agency + Business Communications Centre	1.700.019	(1992)
1993/94 Programme SME Development	1.800.000	(1994)
Privatisation strategy	1.199.900	(1992)
Enterprise Policy Guidelines	1.800.000	(1994)
TOTAL		7.099.919

3. - HUMAN RESOURCES DEVELOPMENT -total 3,05 MECU

a) Management Training	954.092	(1992)
b) Employment Services	115.933	(1992)
c) Bank Training and Restructuring	288.565	(1992)
d) Civil Service Reform & Training	1.800.000	(1994)
TOTAL		3.158.590

4.- FOOD PRODUCTION & DISTRIBUTION - total 3,3 MECU

TA to the Georgian Agriculture	1.500.000	(1992)
TA to the Georgian Agriculture	1.800.000	(1994)
TOTAL		3.300.000

5 - HUMANITARIAN AID - total 6 MECU

Inspection Serv. Fuel Oil	327.267	(1993)
Oil Energy Supply	5.580.267	(1993)
Humanitarian Aid Georgia	28.296	(1993)
TOTAL		5.935.830

6. MONITORING AND EVALUATION + RESERVE - tottal 0,8 MECU

Food Aid Monitoring	400.000	(1994)
Energy Policy Development	200.000	(1994)
M&E Kiev, West and SW Core Team	200.000	(1994)
TOTAL		800.000

TOTAL
(1+2+3+4+5+6) **22.991.370**

Checklist of instruments***For strategy components i), ii) and vi)***

- Dialogue with the republics on conflict-related issues, including conditionality regarding future EU assistance;
- ad hoc meetings (until PCA in place) of Troika political directors with Caucasian counterparts, possibly on a regional basis;
- Framework agreement (PCA) to be negotiated shortly;
- Establishment/accreditation of EU delegation(s);
- Cooperation with multilateral organisations (OSCE; UN; NATO/P4P; Council of Europe),
- Political dialogue with Russia and Turkey with a view to reopen transit to Armenia and Azerbaijan;
- Dialogue on energy-related matters (extraction; pipeline routes; maritime jurisdiction)

For component iii)

- Support for democratic institutions; Parliamentary contacts; monitoring of elections.

For component iv)

- Food aid (through similar mechanism as 1994-5) - depending on findings of the food aid assessment mission;
- Fuel aid from Member States with Commission support for transport and monitoring aspects;
- Modification of Council Regulations on food aid/food security in order to include the Independent States;
- Continued emergency humanitarian aid through ECHO;

For component v)

- Consideration of exceptional financial assistance, for humanitarian purposes, in the context of the expected IMF stand-by agreements (Georgia and Armenia)

For component vi)

- Technical assistance for: Enterprise support and institution-building, Restructuring of energy and agriculture sector, regional integration, including TRACECA, Tacis/ PHARE/Black Sea initiative, preparation for WTO membership, human resources development, policy and legal advise.

Tacis initiatives in the framework of such a policy would need to be considered within the context of programming for 1996 and subsequent years.

For component vii)

- Cooperation with international donors (US, Canada, Japan, Russia, Turkmenistan; IFIs; EBRD).

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