

The South Caucasus and the EU – Different Paths for Each Country

Nov 18, 2016 by [Vano Chkhikvadze](#)

Introduction

The three South Caucasus countries have taken different routes towards integration into the European Union (EU). Currently, only Georgia has decided to follow the track to eventual EU membership with the signing of an Association Agreement (AA) and a Deep and Comprehensive Free Trade Area Agreement (DCFTA).

Energy rich Azerbaijan, which provides the EU with 5% of its oil and 2% of its gas started negotiating an AA but has since abandoned it in favour of a Strategic Partnership Agreement (SPA). Azerbaijan's exports, 95% of which are hydro carbons have suffered significantly from the recent fall in the price of oil and a 48% depreciation of its currency.

Armenia, a frontrunner in negotiating an AA took three years to reach the final stages of the negotiations but President Serzh Sargsyan, while visiting Moscow on 3rd of September 2013, opted not to sign the agreement but to join the Russian led Eurasia Union instead. The EU and Armenia are currently negotiating a tailor made agreement more closely resembling the AAs that the EU has signed with Georgia, Moldova and Ukraine. The EU-Armenia agreement would exclude trade, however, since Armenia's membership of the Eurasian Union limits its ability to sign trade agreements with third parties.

Georgia is top of the class of South Caucasus countries in terms of relations with the EU. It has acceded to the European Energy Community, requiring implementation of the EU energy *acquis communautaire* that demands an adequate regulatory framework and the liberalisation of the energy market. Georgia has also implemented the requirements of the Visa Liberalisation Action Plan (VLAP) and the EU is close to scrapping short-term visa requirements for Georgians travelling to the EU. Lifting these visa requirements is highly significant as, despite being the front-runner among the Eastern Partner countries on EU integration, Georgia has had the highest number of Schengen visa refusals¹.

Territorial Integrity – 25 years of territorial disputes

The EU does not adequately address the main problems Armenian, Azerbaijan and Georgia are facing, namely their security and territorial integrity. All three South Caucasus countries are involved in conflicts that erupt from time to time and cannot therefore be considered as 'frozen'. These disputes date from the independence of the South Caucasus countries and they are highly damaging to their development. According to the 2011 World Development Report conflict can cost roughly 30 years of GDP growth for the average developing country and countries in protracted

¹ For more details please see "EU consultation: Towards a new European Neighbourhood Policy"; A consultation submission by the Heirich-Boll-Stiftung available at

https://eu.boell.org/sites/default/files/towards_a_new_european_neighbourhood_policy_fin.pdf

crises suffer a 20% reduction in their ability to overcome poverty. It takes 20 years for trade levels in countries affected by major episodes of violence to recover: on average, war reduces investment by 10%. In other words, a major episode of violence, unlike natural disasters or economic cycles, can wipe out an entire generation of economic progress.² Armenia, Azerbaijan and Georgia have been victims of wars, which have negatively impacted their development. In less than 25 years of independence, Armenia, Azerbaijan and Georgia have witnessed five full-scale wars: the Tbilisi civil war (1991); the South Ossetia war (1991-1992); the war in Abkhazia (1992-1993); the Nagorno-Karabakh conflict (1992-1994) and the Russia-Georgia war (2008).

This regional insecurity and its associated arms race have consumed enormous amounts of national wealth. Azerbaijan military expenditure as a proportion of total spending increased 95% between 1994 and 2012, with the defence budget growing 27% between 2014-15 to USD 4.8 billion (more than Georgia's state budget). This amounts to 5% of Azerbaijan's GDP and 18% of total state expenditure. In Armenia, where the total national budget is USD 3.2 billion, its 2015 military expenditure was approximately USD 500 million, equal to 21% of total state expenditure.

Poverty, unemployment and migration

In addition to these territorial conflicts, poverty, unemployment and economic growth are challenges that these societies face every day. This is particularly so in Armenia and Georgia. According to the Asian Development Bank, every third citizen of Armenia and every fifth citizen of Georgia live below the official national poverty level. This means that 30% of Armenians and 21.4% of Georgians live below the poverty line. The corresponding figure for Azerbaijan is only 5%³.

General unemployment and particularly youth (15-24 years) unemployment remain the main challenges that Armenia, Azerbaijan and Georgia have had to face since independence. According to 2014 World Bank data, unemployment stands at 17.1% in Armenia, 5.2% in Azerbaijan and 13.4% in Georgia. Youth unemployment in Armenia is 31.3% for men and 41.7% for women. In Georgia the corresponding figures are 33.2% men and 35.7% women, the highest in the region. Azerbaijan is doing far better on youth unemployment with 13.1% for men and 14.1% for women⁴. Lack of job opportunities is one of the main reasons for both young and older labour migrants heading to Russia and the EU. Remittances sent back home provide crucial support to household budgets and make up 2.4% of GDP in Azerbaijan, 14.1% in Armenia and 10.4% in Georgia⁵. Some 60% of all remittances sent back to Azerbaijan, Armenian and Georgia originate in Russia.

² World Development Report 2011 by the World Bank; Available at http://siteresources.worldbank.org/INTWDRS/Resources/WDR2011_Full_Text.pdf

³ Asian Development Bank; Available at <https://www.adb.org/countries/georgia/poverty>

⁴ The World Bank Data; Available at <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS>

⁵ Personal remittances received; the World Bank Data available at <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>

Remittance flows 2014⁶

Country	Total in USD	Remittances sent from Russian Federation in USD
Armenian	1,6220,000,000	1,040,000,000
Azerbaijan	1,483,000,000	865,000,000
Georgia	1,555,000,000	923,000,000

EU-South Caucasus relations – early days

The EU was one of the first to recognise the independence of Armenia, Azerbaijan and Georgia after the collapse of the Soviet Union but it did not have any clear vision as to how to deal with the region. The EU offered a one-size fits all approach to all three states with Partnership and Cooperation Agreements (PCA) signed in 1996 and ratified in 1999. The content of the PCAs was pretty much the same as those offered to some Central Asian countries. The EU had little knowledge of the region's previous short period of independence 1918-1921 when there had been no close links with core Europe. In the mid 1990s when there were only 12 EU Member States the South Caucasus region was not geographically in the EU's immediate neighbourhood. At this time the EU was busy dealing with its more immediate neighbouring states by offering them the perspective of EU membership and addressing the bloody conflicts in the former Yugoslavia. It was after the completion of the Eastern enlargement and the bringing of peace to the Western Balkans that EU started paying attention to the South Caucasus region. The shifting of the EU's eastern boundary, security issues and the need for diversification of energy supplies largely contributed to lifting the South Caucasus up the EU agenda.

The region appeared in the European Security Strategy adopted in 2003 entitled 'A secure Europe in a better world'. In this document the EU stressed the need to '*take a stronger and more active interest in the problems of the Southern Caucasus, which will in due course also be a neighbouring region*'.⁷

In 2004 the South Caucasus countries were included in the European Neighbourhood Policy (ENP). Five year ENP Action Plans, identifying agendas for political and economic reform, were offered to Armenia, Azerbaijan and Georgia. The EU has monitored these action plans and produced annual progress reports. The launching of the ENP post the 2004 enlargement (without offering any

⁶ The World Bank Data; Available

<https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

⁷ European Security Strategy "A secure Europe in a better world"; Brussels, 12 December 2003; available at <https://www.consilium.europa.eu/uedocs/cmsupload/78367.pdf>

* Youth unemployment refers to the share of the labor force ages 15-24 without work but available for and seeking employment

membership perspective to the South Caucasus) provided fresh momentum to the relationship. Initially, the South Caucasus countries were outside ENP scope but the peaceful Rose Revolution in Georgia was key to attracting EU attention to the region. The ENP aimed to reform and modernise state institutions and the economies of Armenia, Azerbaijan and Georgia. The ENP, however, was not ambitious enough for the government of Georgia led by Mikheil Saakashvili, who desired a more tailor made approach. Consequently Georgia lost its appetite to deliver ENP goals. The reforms Georgia did implement were arguably more the result of the goals of the administration than a desire to meet the requirements of the five-year ENP Action Plan signed in November 2006. The post Rose Revolution Georgian leadership regarded the ENP as a disappointing offer as it had won the election on promotion of Georgia's EU and NATO membership. On one of his first foreign visits, President Mikheil Saakashvili, addressing the Council of Europe Parliamentary Assembly (PACE) said 'in my opinion, our Rose Revolution showed not only who Georgians are but that we were willing to take the first brave step. Today I am asking that we take the next step together recognising Georgia's membership in wider Europe.'⁸

Overall, the ENP cannot be described as being a game changer in the South Caucasus region for a number of reasons: elites were not fully dedicated to the implementation of painful judicial reforms; they did not fight against corruption and promote protection of human rights. The EU's support was modest and did not offer 'the light at the end of the tunnel' of EU membership. Further enlargement to the east was, and is, an issue which divides EU Member States, hence its reluctant to take on any new commitments.

But the major weakness of ENP and other EU programmes for Armenia, Azerbaijan and Georgia was that they did not address regional security issues. The most reformist government in the South Caucasus region in 2004-2012, led by President Mikheil Saakashvili, carried out some important reforms like border patrol policy, procurement etc. They also made a number of mistakes in the process but this was not necessarily because of external factors or the requirements of the ENP Action plan but rather due to domestic political considerations.

Eastern Partnership – a game changer?

A new Eastern Partnership, proposed by Poland and Sweden, formed the basis of the EU approach towards the six former Soviet countries: Armenia, Azerbaijan, Belarus, Georgia, Ukraine and Moldova. The EaP offered assorted benefits to these countries. Closer political association with the EU was offered via the ambitious AAs and access to the EU internal market of 500 million consumers via the DCFTAs. Visa free travel was to proceed more cautiously '*taking gradual steps towards visa-free regimes in due course on a case-by-case basis provided that conditions for well managed and secure mobility set out in two-phase action plans for visa liberalisation are in place*'⁹.

⁸ Council of Europe Parliamentary Assembly; 28.01.2004; Address by Mikheil Saakashvili, President of Georgia; Available at http://www.coe.int/T/E/Com/Files/PA-Sessions/Jan-2004/disc_saakashvili.asp

⁹ Joint declaration of Eastern Partnership Summit, Warsaw, 29-30 September, 2011; Text of the declaration is available at https://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/124843.pdf

At the same time, Russia, which views the South Caucasus as its ‘near abroad’ launched a Eurasian economic integration project. Russia exerted pressure on Armenia, Azerbaijan and Georgia to become members of this customs union, membership of which is not compatible with having a DCFTA with the EU. In other words Russia could control the external trade policy of these countries.

The South Caucasus region is not coherent when it comes to EU integration. In 2013 it became clear that the countries of the region have different views and approaches. Armenia, which is the most vulnerable to Russia’s political and economic pressure, decided to make a U-turn and join the Russian led Eurasian Economic Union despite spending three years negotiating an EU-Armenia AA and a DCFTA. Georgia finalised negotiations and signed an AA, which fully entered into force on 1 July 2016¹⁰. Azerbaijan has more ambivalent relations with the EU and has asked for a strategic partnership agreement. The EU, however, has been reluctant to go that far. Azerbaijan demonstrated little interest in the offered Association Agreement and not being a member of the World Trade Organization was unable to qualify for a DCFTA. As a consequence talks with Azerbaijan stalled. As a diplomat from one of the EU institutions confessed several years later “it was a European Union mistake offering an Association Agreement with Azerbaijan”¹¹

Public attitudes towards EU integration

Regional public support for, and trust in, the EU have been shaken in the last couple of years. The only country where support remains relatively high is Georgia but even this has slightly decreased, particularly after Georgia signed the AA. According to the latest survey¹² prepared by ACT LLC and their regional partners every second Georgian (52%) feels positive about the EU (18% - very positive; 34% – fairly positive), while 31% of Georgians feel neutral. Only a small minority of Georgians had a fairly negative (4%) or very negative (4%) image of the EU.

In comparison, positive attitudes are lower among the citizens of Armenia. According to the same survey 44% of Armenians have a positive attitude towards the EU, while 36% are neutral and only 13% are negative with 5% very negative¹³. Of the negative respondents many view the EU as

¹⁰ EU-Georgia Association Agreement provisionally entered into force in June, 2014.

¹¹ Experts workshop on Eastern Partnership; organized by Heinrich Böll Foundation European Union in October, 2016

¹² Annual Survey report – Georgia 1st Wave (Spring 2016); Open Neighbourhood – Communicating for a stronger partnership: connecting with citizens across the Eastern Neighbourhood; available at http://www.euneighbours.eu/files/publications/EU%20Neighbours%20East_Annual-Survey_GEORGIA_Spring%202016.pdf

¹³ Annual Survey report – Armenia 1st Wave (Spring 2016); Open Neighbourhood – Communicating for a stronger partnership: connecting with citizens across the Eastern Neighbourhood; available at http://www.euneighbours.eu/files/publications/EU%20Neighbours%20East_Annual-Survey_ARMENIA_Spring%202016.pdf

selfish, think it has a negative attitude to Armenia and seeks to impose its opinions, conditions, norms.

The results of a similar study demonstrate that 37% of Azerbaijan's population knows nothing about the EU. In addition, one in four inhabitants (16%) is neutral towards the EU. The most 'unaware' region of the country is the west, where more than 85% of population stated that they have never heard of the European Union. Of those who do have some idea of the EU, positive perceptions (27%) outweigh the negatives (11%)¹⁴.

Despite Georgia being the regional leader when it comes to public support for EU integration it has also seen a decrease between 2013-2015 from 78% to 62%¹⁵. Fall in public support coincided with the period when Georgia was negotiating the AA promising closer political integration and access to the EU's internal market. There are two possible reasons why popular support declined:

- The effects of Russian propaganda and insufficient efforts made by the Georgian government and civil society to assuage popular fears that EU integration would threaten Georgian traditions and identity.
- The decline of Georgian *Euroromantism* and a better appreciation of the requirements for joining the EU and Georgia's ability to fulfil the necessary criteria has led to a more realistic assessment of Georgia's accession in the foreseeable future.

In Azerbaijan negative attitudes are directly associated with the EU failing to provide enough support in the conflict in the Karabakh region. They are also linked to accusations that the EU practices double standards and operates predominantly in its own interest.

Russian soft power also contributes to negative popular sentiments in the region. Russian media spreads messages about the EU and its liberal values. Russian TV channels, news portals and newspapers are quite popular in Armenia. Every fourth Armenian follows Russian media, especially TV channels -RTR (67%) and ORT (63%) TNT (32%).

Russian media, in contrast, is not popular in Azerbaijan with 61% of the population never following it and only 21% being regular consumers. The most popular Russian TV channels among this latter group are ORT 68% , NTV (57%) and RTR (55%).

Russian media is not much followed in Georgia. One out of two Georgian citizens never follows Russian media sources. Some 10% of the population always follows it and another 13% often does.

¹⁴ Annual Survey report – Azerbaijan 1st Wave (Spring 2016); Open Neighbourhood – Communicating for a stronger partnership: connecting with citizens across the Eastern Neighbourhood; available at http://www.euneighbours.eu/files/publications/EU%20Neighbours%20East_Annual-Survey_AZERBAIJAN_Spring%202016.pdf

¹⁵ “Knowledge of and Attitudes towards the EU in Georgia: Trends and Variations 2009 – 2015”; Eurasia Partnership Foundation; Available at http://www.epfound.ge/files/eu_attitudes_survey_eng_nov_24_1.pdf

The most propaganda media outlets like Russian Today and Sputnik do not have much of following and if the Georgians turn to Russian TV it is for entertainment programs, movies and documentaries with NVT (61%), RTR (48%) and ORT (44%) the main sources.

EU-South Caucasus – trade links

South Caucasus countries trade relations are mostly split between Russia and the EU. This was also true for Georgia until 2006. After the imposition of the Russian embargo on Georgian products Georgian exporters have been trying to diversify trade relations. The EU is the main trade partner for all three South Caucasus countries.

Around 32.6% of all Georgian trade takes place with the EU, followed by Turkey (17.2%) and Russia (8.1%). The EU-Georgia AA, which provisionally entered into force in June 2014 helped increase trade flows. Between 2014 and 2015, Georgian exports to the EU increased by 12.5% from EUR 660 million to EUR 742 million. EU exports to Georgia fell slightly in the same period from EUR 1,910 million to EUR 1,843 million¹⁶.

The EU is Armenia's main trading partner, accounting for around 29.7% of its total trade. The EU continues to be Armenia's biggest export and import market with a 39.4 % share of exports and 26.5 % share in imports. Between 2013 and 2015, however, there has been a decrease in trade value from EUR 978 million to EUR 938 million. In 2013 the total value of Armenian exports to the EU was EUR 261 million increasing modestly to EUR 274 million in 2014 and by 12% to EUR 307 million in 2015. On the other hand EU exports to Armenia have decreased from EUR 717 million in 2013 to EUR 713 million in 2014 and EUR 631 million in 2015¹⁷.

Azerbaijan is an important energy partner for the EU, currently supplying around 5% of the EU's oil and playing a pivotal role in bringing Caspian gas resources to the EU market through the Southern Gas Corridor. Due to its energy resources Azerbaijan is the only country in the region, which has a positive trade balance with the EU. Azerbaijan exports to the EU have significantly decreased in recent years from EUR 14,370 million in 2013 to 13,207 million in 2014. The last 5 years have seen exports drop 19.1% at their lowest point of value, EUR 10,679 million. EU exports to Azerbaijan have also decreased slightly from EUR 3,729 million in 2013 to EUR 3,478 million in 2014 and EUR 3,460 million in 2015¹⁸.

¹⁶ European Union, Trade in goods with Georgia; European Commission DG Trade; available at http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113383.pdf

¹⁷ European Union, Trade in goods with Armenia; European Commission DG Trade; available at http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf

¹⁸ European Union, Trade in goods with Azerbaijan; European Commission DG Trade; available at http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf

Mobility and people to people contacts

EU regulation 523/2001 listing the third countries whose nationals must be in possession of visas when crossing the external borders and those whose nationals are exempt from that requirement puts all three South Caucasus countries on the so-called Black List. It means that the citizens of Armenian, Azerbaijan and Georgia must possess visas when crossing the EU's external border.

At the EaP Warsaw summit a declaration was adopted paving the way to visa free travel for the citizens of Armenia, Azerbaijan and Georgia (as well as Moldova, Ukraine and Belarus). Armenia (2013), Azerbaijan (2014) and Georgia (2011) have visa facilitation and readmission agreements with the EU, which facilitates the issue of visas for certain categories of citizens of the three South Caucasus countries. Despite the fact that the visa facilitation agreement reduced visa fees, reduced the length of procedures and increased the issue of multi-entry visas it did not significantly enhance people to people contacts. The visa refusal rate is significantly higher for the citizens of South Caucasus Countries applying for short-term visas particularly those from Armenia and Georgia. For comparison the visa refusal rate in other Eastern Partner countries is 0.3% for Belarus and 3.4% for Ukraine. Citizens of Moldova have benefitted from visa free travel to the Schengen area since 2014.

Visa refusal rate as a percentage for the three South Caucasus states (2015)¹⁹

Country	# of uniform visas applied for	# of uniform visas issued	Refusal rate in %
Armenia	57,787	50,590	12.3
Azerbaijan	68,941	65,190	5
Georgia	100,549	87,043	12.9

Georgia is a frontrunner in visa free travel to the EU, having received a VLAP from the EU in 2013. The EU gave Georgia a positive assessment on meeting the criteria in December 2015. The final decision by the Council is still pending. At the time of writing it is likely that Georgian citizens will enjoy visa free travel to the EU by 2017. The impetus of the VLAP enabled the government to implement some painful reforms that it had previously been reluctant to carry out. It has made reforms, some not always perfect, in areas such as labour inspection, adoption of anti-discrimination legislation and improvements to infrastructure along the border.

Armenian and Azerbaijan have far to go before achieving this goal. Against the backdrop of the EU's migration crisis and the differences between Member States it will be hard to achieve a consensus on granting visa free access to Azerbaijan and Armenia. As one EU diplomat put it the

¹⁹ Visa Statistics for Consulates, 2015; European Commission, DG Migration and Home Affairs; Available at http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/visa-policy/index_en.htm

‘after Georgia visa shop might get closed for other consumers of South Caucasus’. Additionally VLAP requires deep reforms in the area of human rights. This might prove difficult in Azerbaijan where there have been serious violations of human rights and a crack down on civil society organisations. The situation in Armenia is more optimistic and a VLAP may be possible in 2017. The Head of the EU Delegation to Armenia, Ambassador Piotr Switalski indicated that VLAP would be on the agenda of the next Eastern Partnership summit in 2017²⁰.

What next in EU-South Caucasus relations?

The next milestone in EU-South Caucasus relations will be the 2017 Eastern Partnership summit bringing together heads of EaP states (except Belarus because of a travel ban) and all 28 EU Member States. The summit will be quite challenging, given the EU’s preoccupation with internal affairs such as the migration crisis and domestic political problems in the Member States. UK Prime Minister, Theresa May has also indicated she plans to trigger article 50 of the Lisbon Treaty before the end of March 2017, setting in motion the two-year process of leaving the EU. The upcoming EaP summit might offer more deliverables to Armenian and Azerbaijan than Georgia. In addition to VLAP, Armenia might finalise and sign a new legal framework, politically similar to an AA but being a member of the Eurasian Economic Union will exclude a trade deal. Ahead of the summit, Armenia also has to demonstrate that it has been able to conduct free and fair Parliamentary Elections in May 2017.

Azerbaijan, which abandoned negotiations on an AA in 2014, is now keen to draft a new agreement but this first requires a negotiating mandate from the EU side. The EU has to balance business versus value dealing with Azerbaijan and will require protection of human rights to be a core part of any new agreement.

It seems that the EU has already put on the table those deliverables available to Georgia. Given that the AA and the VLAP are in place with visa free travel a possibility in 2017, there is little left in the EU’s toolkit – the perspective of membership is not on offer.

The three South Caucasus states could unite forces and lobby together for further integration into the EU but this is hampered by the fact that each country is at a different stage, is dealing with different conflicts and has a different agenda. In addition, Russian bullying and propaganda is causing instability in the EU’s neighbourhood and challenging the European security order²¹. In parallel, a more inward looking EU has failed to promote its values and this has had a negative impact on its popularity in Armenia, Azerbaijan and Georgia.

²⁰ “Civil Society Perspectives on EU-Armenia Relations” conference held in Yerevan, Armenia, 15 July, 2016. Available at <http://asbarez.com/152953/visa-liberalization-with-armenia-on-2017-eastern-partnership-summit-agenda/>

²¹ A Global Strategy for the European Union’s Foreign And Security Policy - Shared Vision, Common Action: A Stronger Europe; Available at https://eeas.europa.eu/top_stories/pdf/eugs_review_web.pdf