ARMENIA'S PRECARIOUS BALANCE:

THE EUROPEAN UNION (EU) AND THE EURASIAN ECONOMIC UNION (EAEU)

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Table of Contents

FOREWORD

When smaller countries are forced to choose between their larger neighbors under

pressure from geopolitical competition, it only leads to loss and never gain. At the end of 2013, the Armenian leadership decided to open accession negotiations to the Eurasian Economic Union (EaEU). In turn, Armenia rebuffed the offer and opportunity of an Association Agreement and related Deep and comprehensive Free Trade Agreement (DCFTA) with the European Union (EU). Although negotiated with Armenia, neither agreement was signed, as the former President of Armenia, Serzh Sargsyan, decided that Armenia would join the Russian-dominated customs union EaEU instead, explaining the decision as being driven by the impulse to turn to Russia for security and stability. Thus, Armenia has been part of the Eurasian Economic Union since 2015.

However, Armenia continued to work closely with the EU within the framework of the Eastern Partnership, with the aim of establishing a deeper partnership. This goal was achieved with the signing of a bilateral EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) in November 2017.

This agreement is mostly similar to the previously negotiated Association Agreement, with the exception of a free trade area, which is no longer available due to Armenia's accession to the EaEU. Nevertheless, a closer approximation to the standards and regulatory system of the EU should take place, contributing to the trade and investment opportunities of CEPA. Furthermore, developments within the framework of cooperation with those two unions are interesting. Armenia can be a good example of how membership in the EaEU and participation in the EU's neighborhood program can be constructive on both sides, for example.

Four Armenian experts, Mr. Richard Giragosian, Mr. Benjamin Poghosyan, Dr. Vahe Davtyan and Ms. Anna Barseghyan assessed the political, geopolitical, economic, energy and legal aspects of these developments. We hope that this research will be interesting as an informative analysis of the potential for cooperation between the EU and the Eurasian Economic Union, as well the implications from continued reform in Armenia.

For many years, in addition to organizing various events, the Konrad-Adenauer-Stiftung has published various books dedicated not only to Armenia-EU, but also related to Armenia-EaEU cooperation. Hopefully, this work will also receive significant recognition and public attention, as was the case with our previously successful publications and books.

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Introduction

For Armenia, a landlocked country limited by small size in both demography and territory, one of the most serious challenges stems from isolation. Burdened by a daunting combination of closed borders and exclusion from regional trade and transport, the imperative for Armenia has long been to overcome the limits of geography. This threat of isolation was only exacerbated by the danger of becoming disconnected from the globalized marketplace and from the technological and economic changes inherent in the broader process of globalization. Thus, from a broader strategic perspective, Armenia pursues a strategy to gain greater balance, between the necessity of a security partnership with Russia against the need to deepen economic and trade ties with the European Union (EU).

And in terms of this strategic pursuit of "balancing," Armenia stands out for its ability to adapt and adopt a more flexible and responsive model of foreign policy innovation. More specifically, Armenian foreign policy seeks to bridge the inherent contradiction between its alliance with Russia and a Western orientation. Beyond this bid to garner strategic balance, Armenia has also followed a "small state" strategy of pursuing policies designed to maximize its options and expand its room to maneuver amid much larger regional powers.[1]

Against that backdrop, Armenia now faces a distinctly new reality, however. From the beginning of 2020, the onset of the COVID-19 pandemic triggered an initial shock of an unexpected public health crisis. Struggling to contain the spread of the coronavirus, Armenia struggled with a dual challenge of forcing a "lockdown" of the economy while bolstering hospital capacity to weather the crisis. In this context, Armenia was alone, as

[1] For more, see: Giragosian, Richard, "Small States and the Large Costs of Regional Fracture: The Case of Armenia," in Ohanyan, Anna, Editor, *Russia Abroad. Driving Regional Fracture in Post-Communist Eurasia and Beyond* (Georgetown University Press: 2018). https://www.jstor.org/stable/j.ctv75db6w

each country retreated behind closed borders and responded to its own national emergency.

As if the urgency of the COVID-19 crisis was not enough, Armenia then faced an equally unexpected challenge with the war with Azerbaijan in late September 2020 that triggered an intense 45-day war over Nagorno Karabakh, resulting in a devasting defeat for Armenia and the Karabakh Armenians. By the end of that war, Armenian Prime Minister Nikol Pashinyan was forced to accept a Russian-imposed ceasefire agreement in early November 2020 that was marked by a humiliating loss of territory that only exposed a significant degree of vulnerability and insecurity of what remained of the Nagorno Karabakh enclave. And most significantly, the Russian-imposed agreement was cemented by the unilateral deployment of Russian peacekeepers to Nagorno Karabakh. In turn, this new reality only consolidated the reassertion of power and position of a resurgent Russia, with wide implications for Armenian political stability, democracy, and economic reform. Faced with new limitation to Armenia's options regarding the West, and its capacity to deepen ties with the EU in particular, the outlook for Armenia's resiliency seems bleak. Yet there is a degree of opportunity, as once again, Armenia retains the possibility of leveraging its strategic position as a "bridge" between Russia and the West.

As both a supporter and donor for political and economic reform, the European Union (EU) have long been important to several consecutive Armenian governments. And as a pivotal source for Armenia's pursuit of strategic alternatives, developing and deepening ties between Armenia and the EU were essential to garner greater options and to gain more "room to maneuver." In recent years, moreover, this policy was also aimed at overcoming the setback of a forced sacrifice of its Association Agreement with the

European Union (EU), after Russian pressure on Armenia in 2013, and its subsequent commitment to join the Russian-dominated Eurasian Economic Union (EaEU).[2]

Fortunately, and to the credit of both Yerevan and Brussels, both sides were able to regain confidence and restore confidence through a rare “second chance” that culminated in the signing of a new EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) in November 2017.[3]

The CEPA Agreement also reflects a successful example of political will and compromise based on a realistic consideration of Armenia’s commitments and limitations as a member of the Eurasian Economic Union (EaEU). And the agreement incorporates substantial content from the previous Armenia-EU Association Agreement in a range of sectoral areas of cooperation, including political dialogue, energy, and even security. Nevertheless, for Armenia, the successful implementation and results of CEPA will be a real test of leadership and a challenge of political will for the Armenian government. real test of the efficacy and impact of CEPA remains as a test of Armenia’s implementation and a challenge of political will for the Armenian government.[4]

Although CEPA offers significantly less than the prior Association Agreement and the related Deep and Comprehensive Free Trade Agreement (DCFTA), it is strategically significant for Armenia as a framework for deeper relations with the EU. And for the EU, the CEPA is also significant as an example of the principle of ‘differentiation’ reaffirmed

[2] Giragosian, Richard, “Armenia’s Strategic U-Turn,” European Council on Foreign Relations (ECFR) Policy Memo, ECFR/99, April 2014. www.ecfr.eu/page/-/ECFR99_ARMENIA_MEMO_AW.pdf

[3] For more, see: Kostanyan, Hrant and Richard Giragosian, ““EU-Armenian Relations: Seizing the Second Chance,” Centre for European Policy Studies (CEPS) Commentary, 31 October 2016. www.ceps.eu/publications/eu-armenian-relations-seizing-second-chance

[4] Kostanyan, Hrant and Richard Giragosian, “EU-Armenian Relations: Charting a fresh course,” Centre for European Policy Studies (CEPS) Commentary, 15 November 2017. www.ceps.eu/publications/eu-armenian-relations-charting-fresh-course

by the 2015 European Neighborhood Policy (ENP) Review.[5] Although CEPA does not directly affect customs or tax rates, the implementation of the agreement is widely expected to bolster reform and bring the Armenian regulatory system and related standards much closer to EU standards and norms. This conformity is also expected to further elevate Armenia as the one Eurasian Economic Union (EaEU) member state with the closest approximation of EU standards and the most significant relationship with the EU.

[5] Kostanyan, Hrant (2017) (ed) *Assessing the European Neighbourhood Policy*. London: Rowman & Littlefield International.

CHAPTER I. POLITICAL AND ECONOMIC CONTEXT OF ARMENIA-EU RELATIONS

Richard Giragosian, Director, Regional Studies Center (RSC)

Overcoming the "Strategic U-Turn"

In an unexpected move that was widely seen as response to direct Russian pressure, Armenia's then-President Serzh Sargsyan announced in September 2013 that Armenia was sacrificing its Association Agreement with the EU. Instead, Sargsyan committed the country to join the Russian-dominated Eurasian Economic Union (EaEU). Yet the sweeping nature of such a shift in policy, made only more embarrassing after Armenia's successful three years of negotiations over a draft Association Agreement and related Deep and Comprehensive Free Trade Agreement (DCFTA), had much wider strategic implications for the country that many realized at the time.[6]

For example, the Armenian sacrifice of its Association Agreement and DCFTA was the first sign of a more assertive Russian move to impose new limits over the EU's Eastern Partnership (EaP) programme and, more broadly, to impede European engagement in the wider Post-Soviet area. From this perspective, the "U-Turn" in policy in September 2013 was not an Armenian reversal alone but related to a prior shift in Russian policy first. And this precedent paved the way for a much more aggressive Russian stance on EU engagement of other former Soviet states, culminating in the seizure of Crimea and military operations in eastern Ukraine in 2014. In fact, Ukraine was Russia's main target, with Armenia's abortive Association Agreement and DCFTA more as collateral damage.

[6] Kostanyan, Hrant (2015) The Rocky Road to an EU-Armenia Agreement: From U-turn to detour. CEPS Commentary, 3 February (https://www.ceps.eu/publications/rocky-road-eu-armenia-agreement-u-turn-detour).

For Armenia, it was the surprising commitment to join the Eurasian Economic Union (EaEU) that had more local implications, including a serious submission that only further undermined the country's independence and sovereignty and stood out as a significant subversion of the country's natural economic and trade orientation.[7] This latter point was by far the more destructive, as it only forced an artificial re-orientation of the Armenian economy, shifting away from its natural export markets.

This export-related re-orientation was particularly limiting, as it forced Armenia to revert to a Russian-centric trade model, exacerbated by both the country's weak trade links with fellow EaEU members Belarus and Kazakhstan, as well as the absence of any land border with either Russia or other EaEU members. Another related setback was the requirement to transfer core elements of its external trade policy to the Union and to accept conformity to the EaEU's common set of higher external tariffs, although Armenia was able to secure "transitional exemptions" for some 800 goods and products.[8]

A More Sophisticated Strategy

Beyond the recognition of the importance of Armenian-EU relations, more recently, the Armenian government has also pursued a more sophisticated policy of engaging the EU in two ways: through a bilateral approach, defined by the CEPA, and from a second position as a member of the Eurasian Economic Union (EaEU), and secondarily, as a member state in the EU's Eastern Partnership (EaP) programme. While this Armenia approach relies on a leveraging of the synergy from underlying bilateral ties in order to first explore, and then to expand the opportunities for closer integration between the EaEU and the EU.

[7] Giragosian, Richard (2014) "Armenia's Strategic U-Turn," European Council on Foreign Relations (ECFR) Policy Memo, ECFR/99 www.ecfr.eu/page/-/ECFR99_ARMENIA_MEMO_AW.pdf.

[8] Treaty on the Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union of May 29, 2014.

More specifically, as seen in the February 2020 meeting between Armenian Prime Minister Pashinyan and German Chancellor Angela Merkel, representing the third such meeting in 18 months, the Armenian government is determined to pursue closer ties with Germany and France in particular. The visit to Germany also highlighted the important role the country holds as Armenia's largest EU donor and trading partner, demonstrated by the $451 million in bilateral trade for 2019 that although represents a rather marginal four percent increase, still offers consistent and considerable economic support to Armenia. And the policy of engagement is also rooted in a recognition of the emerging role of France as a pivotal geopolitical power, especially as German Chancellor Merkel is expected to be replaced by French President Macron as the primary driver of EU foreign and security policies. Although both factors seek to exploit Armenia's special relationship and close ties with both countries, it is also in part a response to a recent French initiative to engage Russia, which Armenia sees as an opening and opportunity to forge a greater role as a strategic "bridge" or "platform" to guide closer EU ties to both Russia and the EaEU.

Moreover, the momentum from Armenia's reform programme is particularly important, as it forges an Armenian commitment to "common values" with the EU; further cooperation aimed at improving democratic institutions, including the judiciary; promoting human rights, the rule of law, and good governance; combatting corruption; and strengthening civil society. Some of the practical benefits available to Armenia include the EU's commitment to improve and deepen trade and investment relations, as well as the promises of visa liberalization and increased sectoral cooperation.

Other Benefits

There are also other important and substantial benefits from holding relations with both blocs. For example, although the decision to join the Eurasian Economic Union precludes the trade benefits from the earlier DCFTA, Armenia still has an advantage in EU market access due to its continued access to the Generalised System of Preferences (GSP+), allowing Armenia to export goods under some 6,400 tariff lines to the EU with zero or reduced tariffs.[9] Yet the higher trade tariffs of the Eurasian Economic Union (EaEU) pose an inherent challenge to Armenian exports beyond the limited EaEU markets, exacerbated by the fact that Armenian trade remains overly dominated by trade with Russia, with only meager and marginal trade conducted with the other EaEU members.

Another important positive result of the CEPA implementation will be in the area of strengthening the Armenian government's regulatory system. This will be important in terms of encouraging more transparent policies and laws to improve market competition and remove both technical and informal barriers to market entry, especially for small- and medium-sized enterprises (SMEs). CEPA will also bolster existing Armenian legislation regarding competition by enforcing measures against price collusion and market manipulation, which have been serious impediments under the previous oligarchic system, and through the enhancement of the State Commission for the Protection of Economic Competition (SCPEC), the state body empowered to ensure a more "level playing field" in the business sector. The implementation of the CEPA will also help other related improvements in other state institutions and authorities that support competition, safety and health requirements, tax and customs, and public procurement, for some notable examples. In this area, therefore, Armenia's CEPA will also anchor harmonization efforts with the EU on a range of laws, regulations, and policies relevant to economic affairs, also advanced by Armenian membership in the WTO and its

[9] Although this is less than what Armenia could have had under the DCFTA, which would permit 99% tariff-free access to the EU single market.

conformity to the technical regulations to the WTO Committee on Technical Barriers to Trade as a signatory to the Trade Facilitation Agreement.

A Bridge between the Blocs

Despite the initial optimism, as a project of Eurasian integration, the Russian-led EaEU project suffers from a "crisis of credibility." In fact, beyond the ceremonial fanfare, the launch of the EaEU was defined from the start as a very different project than originally envisioned, and quickly became significantly less attractive and even less viable than Moscow initially conceived, due to four main reasons.[10]

First, the "loss" of Ukraine as even a potential member seriously undermined the economic and trade potential of such a union. Ukraine was always the "prize" for Russia, and despite the seeming "victory" of Russian annexation of Crimea, that aggression only triggered the loss of any hope to link or leverage the sizeable Ukrainian economy, making the Eurasian Union much less viable as a project for (re)integration.

Second, the impact of Western sanctions on the Russian economy has only further lessened the value and viability of the union. And as is now obvious, the economic downturn in Russia and the impact from the decline in world oil prices reveal a Russia that is no longer the economic dynamo it once was, demonstrating the diminished role for Russia and much less the main economic and trade driver of the EaEU.

The third factor driving the loss of appeal and attraction of the union is that the motivation for integration rests largely on coercion and pressure, which has been resisted at times

[10] Giragosian Richard, "Armenia and the Eurasian Economic Union: The view from Yerevan," European Council on Foreign Relations (ECFR) Commentary, 8 January 2015. www.ecfr.eu/article/commentary_armenia_and_the_eurasian_economic_union_the_view_from_yerevan387

by both Belarus and Kazakhstan. For Armenia, this may offer an opportunity to hide behind these much larger members and find a way out without unnecessarily confronting or challenging Russia. And a final fourth factor was the unexpected “national awakening” in Belarus, which now undermines Belarus as a reliable pillar of the Union, and whose won instability only weakens the credibility of the Eurasian reintegration project.

Against this backdrop, therefore, Armenia offers numerous advantages. For one, the country is the only member of the EaEU that has a strategic agreement with the EU, which greatly improves its position. Second, Armenia is also the only stable neighbor for Iran, and is a reliable partner of a re-emerging Iran. Armenia should, therefore, enhance its strategic significance by adopting a more innovative role as an economic bridge and commercial platform to larger markets. Indeed, it can exploit the EaEU’s need for greater legitimacy and credibility, stressing the importance of CEPA as an avenue for institutional engagement and cooperation. And although Armenia’s geographical location is often a problem, in this instance, Armenia could simultaneously leverage its stable and friendly relations with Iran, its proximity to the Middle East, and the benefits from the possible reopening of the closed border with Turkey. [11]

Conclusion

[11] For the broader context, see Giragosian, Richard, “Paradox of power: Russia, Armenia, and Europe after the Velvet Revolution,” European Council on Foreign Relations (ECFR) Policy Brief, 7 August 2019. www.ecfr.eu/publications/summary/russia_armenia_and_europe_after_the_velvet_revolution

From the broader context of an Armenia as a bridge between the two blocs of the EU and the EaEU, Armenia's role is attractive. As Russia recognizes the necessity for the EaEU to garner greater credibility, especially after the insecurity and unpredictable situation facing EaEU member Belarus, Armenia can secure an important new instrument of leverage of its own. Thus, Armenia may, and should, seek to reorientate itself as a potential bridge between the EaEU and the EU – as well as a bridge to Iran and beyond. And although Armenia's is still relatively weak, it has a chance for more, from a position between an assertive Russia, but still in need of shoring up a weakened Eurasian Union, and a European Union still eager to become a more strategic partner and more of a global player. [12]

[12] Ibid.

CHAPTER II. POLITICAL AND ECONOMIC CONTEXT OF ARMENIAN MEMBERSHIP IN THE EURASIAN ECONOMIC UNION

Dr. Benyamin Poghosyan, Chairman and founder, Center for Political and Economic Strategic Studies

Historical background

Since Armenia gained independence in 1991, the cornerstone of its foreign policy has been based on a “complementarity” rooted in the desire to build partnerships both with the neighboring states and with powerful regional actors involved in the South Caucasus. This choice reflects the geopolitical imperatives of the independent Armenian state, which is a guarantor of the sustainable development and security of the Republic of Armenia, Nagorno-Karabakh, and the Armenian Diaspora.

Meanwhile, it should be noted that the balanced foreign policy of Armenia does not necessarily mean equal or similar relations with all partners, however. For Armenia, the primary strategic ally and main security partner is Russia and the alliance with Russia is the cornerstone of Armenian foreign and security policy. In this context, Armenia is a member of the Collective Security Treaty Organization (CSTO), a Russian-led military bloc comprising six former Soviet republics. Additionally, Armenia hosts a Russian military base, has a joint air defense system with Russia, Russian border troops, along with their Armenian counterparts, are responsible for the control of Armenia's external borders with both Turkey and Iran.

Moreover, Russia owns or controls many of Armenia's strategic economic assets, ranging from the national railway that is under Russian concession through 2038, to the near-monopoly position of the Russian energy giant Gazprom, which owns Armenia's sole gas distribution company. In the energy sector, Russia also controls the Armenian part of the

Armenia-Iran natural gas pipeline, parts of the country's network of thermal and hydroelectric power plants, and in a sale in 2006, gained control over the national electricity grid and distribution networks.

What stands behind the Armenia's loyalty towards Russia? Two main factors play a key role here -history and geopolitics. Even the Russia-Turkey alliance of 1920 was not sufficient to substantially damage the image of Russia in Armenian society. Subsequent Soviet-era propaganda only further cemented the view of Russia as Armenia's savior and "big brother," without whose support Armenians would come under a real threat of total annihilation.

Since 1991, the geopolitical situation in the South Caucasus has only fostered these deeply rooted pro-Russian sentiments among Armenians. The war in Nagorno Karabakh, as well as the blockade imposed on Armenia by NATO member Turkey, left Armenia with no choice but to align itself with Russia to balance the Azerbaijan-Turkey tandem. Not surprisingly, Armenia signed the Collective Security Treaty (predecessor of CSTO) in May 1992 and three years later, ratified the bilateral agreement over a Russian military base in Armenia. The 1997 bilateral Armenia-Russia agreement of friendship and mutual assistance later fostered even closer cooperation in defense and security. At the same time, the oil boom in Azerbaijan allowed for the rapid modernization of the Azerbaijani army, and only further compelled Armenia to deepen cooperation with Russia, thereby enabling Armenia to purchase discounted Russian weapons in pursuit of a military balance with Azerbaijan.

Other factors supporting the Russia's positive image in Armenia include the large Armenian Diaspora in Russia, estimated at somewhere between 2-2.5 million, and the importance of private remittances from Russia that, despite recent declines, still account for the majority of all remittances, with slightly over $1 billion transferred to Armenia from Russia in 2019.

Armenia Joins the EaEU: The Geopolitical Context

Given its geographic location in the South Caucasus, the geopolitics of the region are important to Armenia. And there are three key factors that will influence the regional geopolitics over the next five-ten years:

- Growing Russian attempts to regain control over the Post-Soviet space as a buffer zone against a perceived Western strategy to weaken and dismember Russia;
- Weakened Western interest and involvement in the region due to political upheavals in the US and the EU. Specifically, in the US as a result of President Trump's election, and in the EU, as a result of Brexit, the migrant crisis and a growing influence of forces that do not see the further enlargement of the EU as a viable option;
- The emergence of China as a global power with coherent strategy to expand its influence in the former Soviet space amid a rapidly growing US-China strategic rivalry.

Since President Vladimir Putin's ascent to power in 2000, Russia has significantly increased its capacities to project power in its immediate neighborhood and beyond. Russia's actions in Georgia, Ukraine, Syria, and Libya have proved that Russia, at least militarily, has returned into the ranks of the global powers. The active use of hybrid warfare tactics including a successful mix of propaganda and disinformation has multiplied Russian capabilities to influence the political environment around the world. The alleged Russian meddling in the 2016 US Presidential elections is a vivid example of this reality.

Since the end of the Cold War, US–Russia relations have gone through different and sometimes difficult ebbs and flows. The pattern has dramatically changed since late 2011 when then Russian Prime Minister Vladimir Putin decided to run for a third Presidential term in the Spring 2012 elections and put forward an idea to create the Eurasian Economic Union. The US establishment perceived this move as a clear sign of growing authoritarianism in Russia. The Eurasian Economic Union project was viewed as an effort to re-Sovietize the region under another name, and to restore Russian zone of influence within the post-Soviet space.

In the tense environment of confrontation with the West, Russia’s primary goal was to regain control over former Soviet Republics in order to use them as a buffer zone against alleged Western pressure on Russia. Key tools in this strategy are the Russian led military and economic integration projects – Collective Security Treaty Organization (CSTO) and Eurasian Economic Union (EaEU).

In 2010–2013, negotiations were held between Armenia and EU to elaborate an Association Agreement (AA), including the establishment of the Deep and Comprehensive Free Trade Area (DCFTA). They were successfully finished in summer 2013. However, since late 2011 the Eastern Partnership member states (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) have been caught in the middle of Russia and the EU promoted integration projects - the Eastern Partnership with its offer of closer ties with the EU, and the Russian led Eurasian Economic Union (EaEU). It should be noted that for Russia the Eurasian Economic Union is another instrument to foment its institutional influence over the former Soviet space. Russia views increasing control over Post-Soviet republics as vital for securing its core national interests, since arguably these territories may act as a buffer in countering alleged Western efforts to weaken or even dismantle Russia.

Meanwhile, the closer cooperation with EaP member states was never seen in the EU as a key foreign policy goal with a serious impact on the EU vital interests. The EU was interested in stability and prosperity in its eastern neighborhood, and the Association Agreements with DCFTA were perceived as effective tools to promote these goals through implementation of reforms, as envisaged in the agreements. Thus, Russia's and EU's perceptions on the importance of the region covered by the EaP had key differences, with Russia ready and willing to allocate much more attention in furthering its interests there through diplomatic, economic and if necessary military tools.

In the spring-summer 2013, Russia was aggressively pushing back against the EU Eastern Partnership. The trump card in that geo-strategic struggle obviously was Ukraine, and one of the reasons for Russia to press hard on Armenia was the scarcely veiled intention to send a warning message to both Brussels and Kiev.

These developments put additional pressure on Armenia. Being firmly anchored in the Russian sphere of influence through bilateral agreements, as well as being member of the CSTO, Armenia was trying hard to keep pragmatic relations with the US, NATO and EU. Given Armenia's geopolitical position, with no war no peace situation in Nagorno Karabakh and closed borders with Turkey, Yerevan has little if any alternatives to Russian security guarantees. Armenia clearly understood the main message from the 2008 Russia-Georgia war: Russia is the number one decision maker in the region, and no other power is able and/or wishing to decisively challenge Russian actions on the ground.

Thus, when Armenia, with a wide net of security and economic connections with Russia, was offered to enter the Customs Union (precursor to the EaEU) in September 2013, it had a choice either to decline Moscow suggestion which Russia most probably would perceive as a hostile action, or to disappoint the EU being not able to sign the negotiated AA with DCFTA. A simple cost-benefit analysis made Armenia's choice obvious. Ukraine faced the same dilemma a couple of months later, and Russia's tough reaction to the Euro-maidan revolution which brought a new elite to power that sought to deepen cooperation with the EU was another sign of Russia's readiness to regain its influence over the Post-Soviet space through a combination of diplomatic, economic, and military tools.

The September 2013 Armenian decision to join the Customs Union, and soon after to join as a full member of the Eurasian Economic Union made it impossible to sign the Association Agreement as the DCFTA was incompatible with Armenia's obligations within the Customs Union. Armenia's suggestion to sign only the political part of the Association Agreement was rejected by the EU as Brussels perceived DCFTA as an inextricable part of the agreement.

Thus, we may argue, that the key motive behind Armenia’s 2013 decision to join the Customs Union, and later the Eurasian Economic Union, was its geopolitical calculation over the need to maintain its security alliance with Russia. The deterioration of Russian relations with the West at the beginning of 2010s and the growing perception in Russia that the Eastern Partnership (EaP) was just another Western tool to encroach on Moscow’s backyard was only fomenting Armenian fears. Thus, with this security calculation in mind, Armenia signed in October 2014 an agreement to enter Eurasian Economic Union which came into effect in January 2015.

Speaking about the security component of Armenian decision to enter the Eurasian Economic Union, it should be noted that shortly after the decision, Russian provided Armenia with loans to Armenia to buy modern Russian weapons. The first loan agreement for $200 million was signed in June 2015 and a second agreement for $100 million was signed in October 2017. Despite no directs links between the loans and

Armenian membership into the EaEU, the Armenian decision to join the EaEU clearly played a positive role.

The Economic Context

Thus, the key factor behind Armenia's decision to enter the Eurasian Union was geopolitics and security concerns. However, economic considerations also played a role. Since independence, Russia was the key economic partner of Armenia and beyond bilateral relations, Armenian membership into EaEU was perceived as a possibility to both increase foreign investment in Armenia and increase exports to the EaEU without tariffs. Furthermore, the total volume of Russian investment in Armenia at the end of September 2018 reached $5.2 billion. Meanwhile, if in 1995 exports from Armenia to Russia were only $90.8 million, in 2018 that number was $666.5 million. At the same time, a sharp increase was registered especially in 2016-2018 after Armenian membership in the EaEU. Imports from Russia in 1995 amounted only to $135 million, while in 2018 they reached $1.4 billion. In the case of imports, there was also a sharp increase in 2016-2018. According to then-Prime Minister Karen Karapetyan, the level of Armenian-Russian trade turnover increased by 26.1% in 2017: exports from Armenia by 44.6%, and imports by 19.1%. The structure of exports from Armenia to Russia and imports from Russia to Armenia differ significantly. In terms of share of goods imported from Russia to Armenia in 2018, the first place is occupied by mineral products (first of all, energy resources) by 34.44%. In second place are cars, equipment and vehicles (19.05%), in third place are consumer goods and agricultural products (16.38%). Among the goods exported from Armenia to Russia in 2018, the first place is occupied by consumer goods and agricultural products, which make up almost half of the total export - 49.94%. Textiles and shoes are in second place (20.99%), followed by precious metals and stones (15.08%).

Thus, Russia was and remains Armenia's key economic partner in EaEU. According to the Eurasian Economic Commission (EEC), in 2018, the total value of mutual trade between EaEU member states (measured as the sum total of intra-union exports) increased by 9.2% year-on-year. However, mutual trade growth rate in 2018 was lower than in 2017 (+27.4% compared to 2016), which can be explained, for 2017, by the low base effect of 2016.

Armenia is the only member to see the share of its trade with EaEU nations rise over the past two decades or so. In 2000, trade with the countries that would become the EaEU accounted for 15.6 percent of Armenia's total foreign trade turnover; this rose to about 27 percent by 2018. Again, trade with Russia dominates: Of Armenia's $2 billion trade with the EaEU in 2018, trade with Russia accounted for about $1.92 billion.

The Russian gas price also played a significant role in Armenia's decision to join the EaEU. Given the fact that Armenia produces 40 percent of its electricity by thermal power plants which use natural gas and more than 70 percent of cars use natural gas as fuel, the gas price has a significant impact on the Armenian economy. In summer 2013, as Armenia finished its negotiations with EU on the Association Agreement, Gazprom threatened to significantly increase the gas price for Armenia. However, as a result of the Armenian decision to join the Eurasian Economic Union, Armenia and Russia signed gas agreements in December 2013 which fixed the basic gas price for Armenia as $189 per 1000 cubic meters till the end of 2018 (this price was decreased first to $165 and then to $150). Simultaneously, Armenia transferred the remaining 20 percent shares of Armrusgazprom (operator of Armenian domestic gas networks) to Gazprom, which was transformed into 100 percent Gazprom owned company – Gazprom Armenia.

The Iran Factor

The free trade deals between EaEU and several countries, especially with Iran, were welcomed in Yerevan. On December 15, 2017, the Meghri Free Economic Zone (FEZ) was officially launched in Syunik region of Armenia, near the Armenia - Iran border. The FEZ will be developed in two stages. During the first stage the necessary infrastructure will be constructed, and first companies will launch their activities. The second stage will see an increase of FEZ territory by an additional 70 hectares, including the establishment of a 10 hectares logistic hub.

Given the tough geopolitical situation of Armenia, and its isolation from the main transit projects implemented in the South Caucasus, this new initiative may play a vital role in diversifying the Armenian economy and help strengthen its ties with neighboring Iran. Armenia, as a member of the Eurasian Economic Union, enjoys tariff-free exports to the EaEU markets. Meanwhile, an interim agreement leading to the formation of a free trade area between the EaEU and Iran came into force in October 2019.

The launch of FEZ will give opportunities for Iranian companies to establish branches trhere and export their products both to EaEU and EU markets. Armenia is the only EaEU member which has a land border with Iran, and this creates opportunities for EaEU member states to use Meghri FEZ as a launch pad to enter the Iranian market. The involvement of Iranian companies in the FEZ was one of the key issues discussed during the visit of the Armenian Prime Ministers' to Iran in October 2017 and in February 2019 as well as during Iranian President's October 2019 visit to Yerevan to participate in the EaEU summit. In 2017 and the first half of 2018, Armenia was negotiating with several Chinese companies to secure their involvement in the Meghri FEZ. Armenia has proposed to them to use FEZ as a launchpad to enter the Iranian market with zero tariffs once a Free Trade Agreement is signed between the EaEU and Iran. Another opportunity for Chinese companies is to export products with zero tariffs from Armenia to Southern Russia given the geographical proximity of Armenia to the North Caucasus, Krasnodar and Stavropol regions. Thus, Armenia, Iran, China and EaEU member states may benefit form Meghri FEZ.

The "Velvet Revolution" and the Future of Armenia-Russia Relations

Immediately after the "Velvet Revolution" in Armenia during the spring of 2018, the main narrative regarding possible developments in Armenian and Russian relations focused on negative expectations. The new Armenian leadership has stated on many occasions that no strategic shift in Armenian foreign policy is prepared and Armenia still values its strategic alliance with Russia. Simultaneously, Armenian Foreign Minister declared the sovereignty as one of the three fundamental foreign policy principles of Armenia. Given the widespread perception in Armenia, Russia, and the West that Armenia before the "Velvet Revolution" was gradually becoming a client state of Russia, this principle may be interpreted as the intent of Armenia to review its relations with Moscow and put it in more equal grounds.

Conventional wisdom brought plenty of reasons for such a negative mood. Russian authorities do not like leaders who come to power through street demonstrations, and Russia, as argued by some experts, mainly exerts power in its neighborhood through a network of corrupt and oligarchic elites. Therefore, any genuine democratization threatens Russian influence. In the case of Armenia, there are also other issues. Some key members of the new administration had previously worked in Western-funded NGOs that are regarded as hostile organizations in Russia; while in opposition, they often criticized Russia and overtly spoke about Armenia's dangerous overdependence on the Moscow.

Immediately after the formation of the new government Armenia – Russia relations have soured. The criminal investigation opened against Collective Security Treaty Organization's incumbent Secretary-General Yuri Khachaturov was perceived in Russia is a deliberate action done by Armenian new government to undermine the CSTO and damage its image. The arrest and criminal investigation against former President Robert Kocharyan, who is largely perceived as a staunchly pro-Russian politician with personal connections to President Vladimir Putin, only exacerbated the negative expectations. Meanwhile, if we take aside political statements, we will notice some facts pointing to some scale Russian discontent regarding Armenia. The key message sent by Russia was the increase by 10 percent of gas price for Armenia in January 2019 ($165 per 1000 square meter instead of $150).

Another sign was the statement by the Russian Transport Ministry that Moscow may cancel the 30-year concession agreement signed in 2008 regarding the management of Armenian railways by Russian Railway Company. The cancellation of railway concession could be painful. According to the agreement, the Russian railway is an owner of all wagons and locomotives, which means that Armenia may simply remain with no trains and will be forced to rent them from Russia which inevitably will increase transportations costs. However, it should be noted that railway saga will have no immediate catastrophic effects but will make life of ordinary Armenian citizens a lot more difficult. The disappearance from Armenia's political arena of the former Prime Minister Karen Karapetyan, who had high-level personal and business contacts in Russia and was expected to take the position of Prime Minister after the April 2018 transition to a parliamentary republic could also contribute to Russia's unease.

However, the Russian reaction to the events in Armenia in general was surprisingly quiet. It is difficult to assess the main reason for this. It is possible that Russia was too surprised to make any strong action or was confident that due to the Karabakh conflict and absence of relations with Turkey, Armenia could not afford to break with Russia, regardless of who holds power. Meanwhile, high-level contacts between the two countries began immediately after the election of Nikol Pashinyan as Prime Minister. During the two years in his new capacity, Pashinyan had six meetings with the Russian president: on May 14th, June 13th, September 8th, and December 27, 2018, as well as on June 6, 2019 and October 1, 2019.

Russian-Armenian Rapprochement

Since November of 2018, the active bilateral meetings have been launched at different levels, including parliamentary commissions, intergovernmental committees, commissions on military technical issues, and discussions between various agencies. As a goodwill gesture towards Russia, Armenia's new leadership agreed to send a humanitarian mission to Syria, a suggestion supposedly rejected by the former President Serzh Sargsyan. Many viewed this decision as a sort of compensation for flatly rejecting Russian offers to release Kocharyan from pretrial detention.

We may assume that the improvements in Armenia–Russia relations during this period are mainly based on geopolitical calculus of Armenian new leadership. It should be noted that the April and May 2018 "Velvet Revolution" in Armenia has the potential to bring about substantial changes domestically but offers little in the way of changing the geopolitical reality surrounding Armenia.

Armenian–EU relations are based on the Comprehensive and Enhanced Partnership Agreement signed in November of 2017 before the "Velvet Revolution" and developed within the general framework of the Eastern Partnership initiative launched in 2009. The agreement provisionally came into force in June of 2018. The CEPA implementation roadmap was finalized by the Armenian Government in the beginning of June 2019 and was approved during the second Armenia–EU partnership council meeting held on June 13, 2019.

Signs of Deterioration

On April 1, 2020, the Gazprom Armenia (a 100 percent subsidiary of Gazprom which owns 100 percent of Armenian domestic gas distribution system) announced its intention to increase domestic gas price for Armenian population and businesses by 11 percent. Thus, Gazprom publicly rejected Armenian government suggestion done on March 31 to start negotiations to decrease the gas wholesale gas price for Armenia.

Even small increase in gas price may create complications for Armenian economy and worsen the socio-economic situation in the republic. It should be noted that despite the 10 percent increase of wholesale price in January 2019 both population and businesses continue to pay the old price. This was possible through reduction of losses and other steps undertaken by “Gazprom Armenia.” Of course, these developments will not immediately ruin Armenian economy and negative effects will take time to be felt. However, they will make Armenians poorer which could contribute to the decline of the current leadership popularity.

Given the growing economic crisis in Armenia triggered by COVID–19 pandemic (Armenia registered astonishing 16.3 percent decrease of economic activity indicator in April 2020 and 12.8 percent decline in May 2020), even slight increase of gas price increase will affect vulnerable sections of Armenian population. Obviously, Armenian leadership actions to join efforts with Belarus and establish a “joint anti-Russia gas alliance” within EaEU were perceived negatively in Russia. Russian President publicly rejected Armenian and Belarusian leaders' suggestions to reevaluate the formula of Russian gas price formation during EaEU virtual summit on May 19, 2020.

Overall, there are three key reasons which may contribute to the increase of distrust towards Armenian new leadership in Kremlin. The main indictment against Kocharyan of overthrowing constitutional order during the March 1, 2008 events may raise concerns in Russia. From Moscow perspective, the March 1 events in Armenia may be equivalent to another "Color Revolution" attempt in the Post–Soviet space after the 2003 "Rose revolution" and 2004 "Orange Revolution." Thus, according to Russian logic, the second President of Armenia thwarted "Color revolution" simply being more successful than Leonid Kuchma in Ukraine in 2004.

The second reason are the pre-revolution political activities of some members of current leadership. Russia may think that a strategic ally should avoid appointing in some key positions persons who at least previously had clear anti-Kremlin attitude. Russia may believe that these are at least not friendly actions which require some countermeasures.

The third reason is the continuing criminal investigation against South Caucasus Railway Company (Armenian railways) and Gazprom Armenia. Here again narrative has two sides. Armenia urges that its actions are totally within the fight against corruption and no other actor can be against it or try to thwart it. However, Russia may think that some scale corruption is everywhere, even in Western countries, thus fight against corruption is only a pretext to create obstacles for Russian companies working in Armenia.

The Way Ahead

Given the recent tensions in bilateral relations – the rejection of the Armenian suggestion to decrease the wholesale gas price for Armenia, actions to increase the domestic gas price for businesses and population, we may assume that Russia decided to put additional pressure on Armenian leadership. Meanwhile, Russia as for now has mainly hinted on possible actions which will have long-term impact and will not bring about quick and significant consequences for Armenia. There could be two key reasons. The first is the fact that Armenia is not among Russia's top foreign policy agenda and only tiny portion of Russian foreign and security policy apparatus is involved in dealing with Armenia. Thus, there is a no urgent push from the highest level of political leadership to deliver suggestions aimed at quick changes of situation.

The second reason is Russia's growing understanding that she should not antagonize the neighborhood societies. The Georgian example has shown that Russia has capacities to contribute to the demise of not friendly leader. However, though since late 2012 there is a Russia neutral administration in Georgia, the recognition of Abkhazia and South Ossetia independence has fomented a very negative image of Russia within large portions of Georgians society. The June 2019 events in Tbilisi have proved that Georgians have not forgiven Russia and this animosity most likely will outrun the current Georgian leadership.

In case of action threatening Armenian vital national interests Russia simply will create another hostile society in its immediate neighborhood which will have only negative impact on Russian regional interests. Most probably, Kremlin understands that while pressing leaders, it should not touch the sensitive strings of the Armenian nation. Thus, at least in the short-term perspective most probably Russian will seek to put some pressure on the Armenian leadership but will be quite cautions not to cross red lines of Armenian society.

As for Armenian membership in the EaEU, there no surprises are possible here. Armenia will continue its participation in this organization based mainly on geopolitical considerations, though economy plays a role too. Obviously, any Armenian movement to leave the EaEU would be possible in case of deep crisis in Armenia–Russia relations and will mark the end of the strategic alliance between two states. As for now, no clear signs of such developments are evident.

CHAPTER III. THE PROBLEMS OF ARMENIA'S ENERGY SECURITY IN THE CONTEXT OF THE INTEGRATION PROCESS WITH THE EU AND THE EAEU

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Structure and main indicators of the energy system of Armenia

Energy continues to be one of the key sectors of the Armenian economy, ensuring economic growth and demonstrating sustainable and predictable development, which becomes possible mainly due to the scientific school of Armenian energy sector, which has been functioning for decades, the existing scientific and technical groundwork, human resources, as well as the traditional consideration of the industry as an important component of national security.

The basic challenge to the energy security of Armenia is the definition of a long-term energy balance (at least 20 years ahead), without pragmatic forecasting of which it is impossible to ensure the full development of the industry. At the same time, the development of such a long-term vision should be based on the doctrinal foundations of the country's energy system management. It is known, however, that the last time the concept of Armenia's energy security underwent changes in 2013, while in recent years, both the domestic and regional energy markets have been experiencing profound transformations that generate new risks and challenges for Armenia. Among them, we can consider the attempts by the countries of the region to form mutually exclusive electric power corridors - Iran-Armenia-Georgia-Russia, and on the other hand, Iran-Azerbaijan-Russia and Azerbaijan-Georgia-Russia, activation of Azerbaijan in the electric power market of Georgia, signing in August 2018 of the Convention on the Legal Status of the Caspian Sea, etc. It is obvious that these and many other processes are not included in the above concept, and therefore, the participation of Armenia in these processes cannot be carried out without geostrategic and security planning. After the Velvet Revolution in 2018, the Armenian authorities are making some attempts to determine long-term scenarios for the development of the domestic energy sector, which is reflected in the Government's 2019 program, as well as in the long-term energy development program of Armenia for 2020 presented for public discussion in December 2019.

Energy is an integral part of both Armenia's economic and political relations with its immediate neighbors, Iran and Georgia, and an important component of cooperation with global centers of power in the context of common integration processes within the Eurasian Economic Union (EaEU) and the European Union (EU). Cooperation in the energy sector, the formation of common energy markets is an important component of the EaEU integration processes. At the same time, issues of energy security and reforming the energy market, the introduction of new technologies and the expansion of the share of renewable energy have traditionally been an important area of cooperation between Armenia and the European Union.

In recent years, the largest share of electricity generated in Armenia falls on thermal power plants (Yerevan and Hrazdan TPPs) - about 40%, hydropower plants (including small hydroelectric power plants) - about 30%, nuclear power plant - 30%. Armenia has a surplus of generating capacities: of the installed capacity of 3555 MW, only 2320 MW are used today, which indicates the country's great export potential[13].

Annual electricity production in Armenia is about 7,5-7,7 billion kWh. The main export destinations of electricity generated in Armenia are Iran and Georgia. At the end of 2019, electricity supplies from Armenia to Iran amounted to about 1,5 billion kWh (within the framework of the "gas in exchange for electricity" barter deal). As for Georgia, the export

[13] Concept of ensuring energy security of Armenia / Appendix to the RA Government Decision No. 50 of December 22, 2011. // https://www.e-gov.am/u_files/file/decrees/arc_voroshum/12/MAR50-14_1.pdf

of electricity in this direction has been decreasing in recent years. In 2018, the export of Armenian electricity to Georgia amounted to 7,8 million kWh, imports – 82,3 million kWh. At the same time, in 2019, imports amounted to 59,3 million kWh, exports - 0 kWh[14].

Nuclear power. The Armenian NPP (ANPP) consists of two power units. The capacity of each power unit is 407,50 MW. In 2016, the service life of the second operating power unit was exhausted. In this regard, in 2015, an agreement was signed between the Government of the Russian Federation and the Government of the Republic of Armenia on the provision of a state export credit to the Government of the Republic of Armenia to finance the program to extend the life of a nuclear power plant in the territory of Armenia[15]. Under this agreement, Russia provided Armenia with a loan in the amount of up to $270 million at a rate of 3% per annum to finance work to extend the exploitation of the ANPP for 10 years. Also, Armenia was provided with a grant of $30 million for the program. However, as it became known in June 2020, the Yerevan refused the rest of the Russian loan. Instead, the Armenian government allocated over 63 billion drams from the state budget for the modernization of the 2nd power unit of the ANPP. In accordance with the official statement, “due to the events that took place before 2019, it was not possible to fully use the available loan amount. The balance at the moment is $107 million[16].

Heat power engineering. The construction of thermal power plants (TPPs) in Armenia began in the 1950s. Under the government of USSR, 3 thermal power plants were built - in Yerevan, Vanadzor (decommissioned) and Hrazdan. Hrazdan TPP is the largest power

[14] Energy Balance of the Republic of Armenia for 2018: Final Report of the Ministry of Territorial Administration and Infrastructure // http://www.mtad.am/u_files/file/energy/Balance2018%20ARM%E2%80%9424,01,2020.pdf
[15] Agreement between the Government of the Russian Federation and the Government of the Republic of Armenia on the provision of a state export credit to the Government of the Republic of Armenia to finance the program to extend the life of a nuclear power plant in the territory of Armenia, 05.02.2015. // International Treaties Bulletin, September, 2015. № 9, pp. 67–73.
[16] Armenia refused part of Russian loan for modernization of ANPP // https://rus.azatutyun.am/a/30665383.html

plant in Armenia in terms of capacity: its installed capacity is 1100 MW, 800 MW of which is unit capacity, 300 MW is off-unit capacity[17].

In March 2019, the Armenian government and a number of major international companies (Renco, Siemens) signed an agreement on the construction of a thermal power plant in Yerevan. According to the project, the capacity of the facility will be 250 MW, while the entire volume of generated energy will be purchased by the state. The expected investments are amounted $250 US dollars[18].

Hydropower. Hydropower plays an important role in ensuring the energy security of Armenia. Armenia's potential energy resources are estimated at 21,8 billion kWh, taking into account the potential of large and medium (18,6 billion kWh) and small rivers (3,2 billion kWh). It is possible to fully use this potential by ensuring the full operation of two complexes of hydroelectric power plants - Sevan-Hrazdan and Vorotan, by building three new large hydroelectric power plants and using the potential of small hydroelectric power plants.

According to article 59 of the "Law on Energy" of Armenia, electricity produced by small hydroelectric power plants for 15 years and by power plants using other sources of renewable energy (wind, solar, geothermal, biomass) - within 20 years, according to the established procedure, is subject to mandatory purchase[19]. At the same time, at present, the state energy policy in Armenia is aimed at liberalizing the hydropower market in order to attract investments for the construction of new small hydropower plants and the modernization of existing cascades[20].

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[17] 100th Anniversary of the Energy Industry of Armenia / Ed. L.V. Yeghiazaryan. Yerevan: "Media Model" publishing house. 2003. P. 98.

[18] Direct agreement signed on the construction of a new TPP in Yerevan // http://minenergy.am/article/1677

[19] Law on Energy of RA / Adopted on March 7, 2001 // http://www.irtek.am/views/act.aspx?aid=150007

[20] Strategic Development Program for Hydropower in the Republic of Armenia / Annex to the RA Government Decision N35 of September 8, 2011 // http://www.irtek.am/views/act.aspx?aid=61880

Renewable energy. Armenia has a rich potential for the development of solar energy. A quarter of the country's territory has solar energy resources with an intensity of at least 1750 kWh per year. At the moment, there are 12 local licensed companies operating in the country, which are already producing energy or are under construction. The total capacity is approximately 10 MW. It is planned that by 2022 the share of solar power plants (SPP) in the structure of domestic consumption will be 10%[21], which, taking into account the pace of construction of SPP in Armenia, as well as harmonized legislation, is quite an achievable indicator. At present, the largest solar power plant in the region, Masrik-1 (55 MW), is being built in the republic, which is expected to significantly change the structure of the internal energy market of Armenia. Together with the European Bank for Reconstruction and Development, preparatory work has begun on the construction of five SPPs in Armenia with a total capacity of 120 MW. The government approved the investment program of the Masdar Company (UAE) for the construction of a solar power station with a total capacity of 400 MW in the Aragotsotn and Kotayk regions of Armenia. Investments in this project will exceed $300 million.

The economically feasible wind energy potential in Armenia is estimated at 450 MW of total installed capacity and with an electricity generation of 1,26 billion kWh per year. The first wind power plant in Armenia was put into operation in 2005, its capacity is 2.6 MW[22]. The station is located at the Pushkin Pass in the Lori region at an altitude of 2060 m above sea level and provides an average annual electricity generation of 5 million kWh[23]. A number of European companies are involved in the process of monitoring the terrain and assessing the wind potential of Armenia in different regions and attracting

[21] Program of the Government of the Republic of Armenia / Appendix to the Decision of the Government of the Republic of Armenia No. 65-A of February 8, 2019 // https://www.gov.am/files/docs/3133.pdf
[22] Wind energy programs in the Republic of Armeni // http://www.minen ergy.am/ru/page/545
[23] Odabashyan V., Khachatryan S. Renewable energy in the Republic of Armenia // 21st century: Information and analytical journal. № 2. P. 152.

investments for the construction of wind farms, including the Italian private company "Ar Energy", "Zod Wind", the Spanish company "Acciona Energia Global S.L", etc.

Armenia also has the potential to develop geothermal energy. Electricity generation in this sector in the amount of 150-200 MW is considered quite realistic. Geological surveys in the central volcanic zone have revealed promising geothermal and mineral deposits (Jermakhpyur, Sisian, etc.). The potential of the Jermakhbyur deposit is 25–30 MW of capacity and 195 million kWh of electricity generation. Geological and geophysical studies were carried out at the Gridzor and Karkar geothermal sites within the framework of financing by the Armenian government and the International Bank for Reconstruction and Development ($8 million).

Prospects for energy cooperation between Armenia and the EU

Since the formation of the Eastern Partnership policy, the energy sector has always been a subject of both bilateral and multilateral cooperation. This issue was reflected in all the final declarations of the Eastern Partnership (EaP) summits, as well as in the bilateral agreements of the EaP countries with the EU (Association Agreements with Ukraine, Georgia and Moldova and the Agreement on Comprehensive and Enhanced Cooperation between the EU and Armenia).

At the stage of developing the concept of the Eastern Partnership policy, energy security was considered as one of the platforms for EU cooperation with partner countries. Following goals were identified:

- promoting framework conditions and solidarity, including the development and provision of general energy support and the introduction of common mechanisms aimed at early identification of threats and their overcoming, strengthening contacts in the field of energy security, etc.

- supporting infrastructure development, connectivity and supply diversification. This included the development of an Energy Infrastructure Action Plan, planning and implementation of a number of projects for the construction of gas pipelines, the development of the energy market of the South Caucasus, etc.
- harmonization of energy policy: organizing a series of seminars, ensuring close dialogue and cooperation, introducing European working methods, etc [24].

The final declaration of the 2011 Warsaw Summit notes that “Turning to energy interdependence, the participants in the Warsaw Summit agree to strengthen energy cooperation. They welcome the existing bilateral and multilateral energy cooperation. They will develop inclusive and open energy security, transit and supply policies. The participating countries agree to continue to work towards the integration of their energy markets, including closer involvement of interested Eastern Partnership countries in the Energy Community Treaty”. Also addressing the issue of nuclear safety, the participating countries welcomed the increased cooperation in this area and called for transparency, ensuring the availability of information and full compliance with international treaties on nuclear safety and environmental protection. Participating countries also called for special attention to stress testing.

In 2013, at the Vilnius Summit, the participating countries noted Armenia's active participation in the Energy Community as an observer and welcomed Armenia's active implementation of EU nuclear stress tests, called for the implementation of the recommendations emanating from these tests[25].

[24] Commission staff working document accompanying the communication from the Commission to the European Parliament and the Council, Eastern Partnership Sec. (2008) 2974/3 // https://eeas.europa.eu/archives/docs/eastern/docs/sec08_2974_en.pdf

[25] Joint Declaration, Eastern Partnership Summit Vilnius, 2013 / http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/139765.pdf

The main goal of the EU energy cooperation with the EaP countries is to provide alternative routes for the supply of energy resources through them. For this, it is important both to ensure the stability of the region, mutual and multilateral cooperation, the continuity of supplies, as well as the development of infrastructure and the approximation of the energy systems of these countries to European standards. On the other hand, the energy security of the neighboring region is important for the EU, first of all, from the point of view of protecting the environment and preventing possible threats.

In this context, cooperation with Armenia and Armenia's inclusion in European energy institutions pursues the goals of modernizing Armenia's energy system, ensuring environmental protection and energy stability of the country in order to prevent risks, including environmental ones. The emphasis is also placed on the development of renewable energy resources in the energy system and on improving energy efficiency, which in the future, among other things, is aimed at creating an alternative to the Armenian nuclear power plant.

According to the Comprehensive and Enhanced Partnership Agreement between the European Union & Armenia (*CEPA*), signed in November 2017, cooperation with the EU on energy issues should include the following areas:

- energy strategy and policy, including energy security and diversifying energy supply and production,
- expanding energy security, including the diversification of energy resources and ways of its transmission,
- development of competitive energy markets,
- promoting the use of renewable energy resources, energy efficiency and savings,
- encouraging the development of regional energy cooperation and market integration,

- encouraging general regulators of trade in petroleum products, electricity and other potential energy resources,
- civil energy sector, taking into account the peculiarities of Armenia and paying special attention to a high level of nuclear safety,
- tariff policy, transit and transit cost system,
- promoting non-discriminatory accessibility to energy networks and infrastructure,
- scientific and technical cooperation[26].

Nuclear Energy Issues in the EU-Armenia Comprehensive and Enhanced Partnership Agreement

The EU energy policy towards Armenia, even before the signing of the CEPA in 2017, was aimed at developing alternative energy resources that would bring to the conservation of the nuclear power plant. In 2000, at a meeting of the European Commission-Armenia joint working group (EU Technical Assistance Program for CIS Countries (TACIS)), a decision was made to provide financial assistance to Armenia with the aim of conserving the Armenian NPP. The financial assistance included:

- construction of new and modernization of existing hydroelectric power plants in the republic during 2000-2003 (34 million euros);
- restoration and construction of gas transportation infrastructure in Armenia with the aim of connecting with Iran within the framework of the INOGATE program (Program of international cooperation in the energy sphere between the EU, the Black Sea and Caspian states, as well as neighboring countries) in 2000-2004 (16 million euros);

[26] The Comprehensive & Enhanced Partnership Agreement between the European Union & Armenia (*CEPA*). Bruxelles, 24/11/2017 // https://eeas.europa.eu/sites/eeas/files/eu-armenia_comprehensive_and_enhanced_partnership_agreement_cepa.pdf

- implementation of the Intergovernmental Program of Action on Nuclear Safety in 2000-200. - 50 million euros (10 million per year);
- a loan of 138 million euros by "Euroatom" for the decommissioning of NPP units[27].

Of particular interest is the vision of cooperation in the field of nuclear energy reflected in the CEPA. In the second chapter of the Agreement "Energy cooperation, including nuclear safety" it is noted that cooperation in this area should include the exchange of technologies, best practices and training in the field of safety and waste control in order to ensure the safe use of nuclear power plants, as well as the adoption roadmap or action plan for the decommissioning of the Metsamor nuclear power plant, taking into account the need to replace it with new capacity to ensure energy security and conditions for the stable development of the Republic of Armenia"[28]. It is important to pay a special attention to the emphasis on the need to replace a nuclear power plant with new capacity, which means a gradual and step-by-step process leading to the decommissioning of a plant. Also, Article 43 of the Agreement states that a regular dialogue should be organized around issues related to the NPP, which once again emphasizes Armenia's right to a decisive vote in resolving this issue.

In particular, cooperation should include “the closure and safe decommissioning of the Armenian NPP and the early adoption of a roadmap or action plan, taking into account the need to replace it with new capacities to ensure energy security and sustainable development of the Republic of Armenia”[29]. And although this provision was presented in the media space almost as a sensation, it, in fact, repeats the EU's position on the future

[27] EU Technical Assistance Program for CIS Countries (TACIS) 2000-2006.
[28] The Comprehensive & Enhanced Partnership Agreement between the European Union & Armenia (*CEPA*). Bruxelles, 24/11/2017 // https://eeas.europa.eu/sites/eeas/files/eu-armenia_comprehensive_and_enhanced_partnership_agreement_cepa.pdf
[29] Ibid

Armenian nuclear energy development in the early 2000s, which was shown above by the example of the TACIS program aimed at conservation Armenian nuclear power plant. The same principle is applied today within the framework of the CEPA, with the only difference that renewable energy is proclaimed as the main direction for creating new capacities. In general, as is known, the EU is currently pursuing a policy of "atomic discrimination", which is aimed at lowering the share of nuclear energy in the energy balance of the EU.

There is a widespread thesis that “Euratom” will be the main actor in the process of conservation of the Armenian NPP, and the standards set by this organization should be backbone during the possible construction of a new nuclear block in the future. In this regard, it should be noted that "Euratom" is a supervisory body designed to promote the development of a peaceful atom, help lower prices for enriched uranium, and form general rules of the game for the members of the European "nuclear club". The participation of "Euratom" in the processes related to the further operation of the Armenian NPP is formal, since the organization performs only a recommendatory function. In fact, "Euratom"s standards apply only to EU members. The country associated with the EU does not bear any specific obligations to "Euratom", but can only adopt the principles and criteria of the European nuclear policy.

At the same time, Armenia will have to adhere to the "Euratom" standards if the construction of a new NPP unit in case it is initiated by the EU at the expense of its funds, which, however, is still difficult to foresee. At least today, the EU's rhetoric completely lacks the thesis about participation in the construction of a new block, which, however, is quite understandable in view of the fact that the EU today has a tangle of unresolved problems associated with the anti-nuclear lobby, as a result of which a consistent policy of closure of nuclear reactors is being pursued in Germany, Belgium, Switzerland and even in France, the leading EU country in nuclear energy.

On the other hand, these problems also boil down to the fact that the EU today is actually unable to materially contribute to the construction of new units in some countries of the former socialist camp, for example, in Lithuania, where the EU initially financed the conservation of the Ignalina nuclear power plant with a promise to allocate funds for the construction of a new unit, and then postponed it indefinitely.

In general, nuclear energy, despite the possibility of developing alternative capacities, is a strategic necessity for Armenia, and not only in the context of ensuring internal energy security. First of all, the question "to be or not to be an Armenian nuclear power plant?" should be viewed from the point of view of increasing the export of Armenian electricity. After all, since the 1970s, the nuclear power plant has been the main producer of electricity, which is cheap in terms of cost. It was during this period when the energy system of Armenia began to appear as an energy surplus, which has been preserved to the present. Moreover, today in the region there is a noticeable dynamic development of nuclear energy (Turkey, Iran). This dictates to Armenia the need to continue developing nuclear power in order to increase its strategic importance in the region.

EU support for the development of energy efficiency and renewable energy in Armenia

The European Union promotes safe, competitive and sustainable energy in the EU member states. In 2015, the Framework Strategy for the Energy Union was put forward as one of the 10 priorities of the European Commission. The goal of the strategy is to provide safe, sustainable, competitive and affordable energy. In addition, the EU supports the energy sector in its neighboring and allied countries. The EU supports many projects in Armenia to ensure sustainable energy development and increase the country's potential in the use of renewable energy sources and energy security.

The EU, together with its partners and the Armenian government, has long supported a large number of reforms and projects. Their goal is to help Armenian communities take action to improve energy efficiency and reduce energy costs. The cooperation between Armenia and the EU seeks to diversify energy resources and make the country less dependent on energy imports. The EU supports the use of renewable energy sources, as well as the implementation of energy security and efficiency reforms in Armenia, which will act in the interests of its citizens. EU support also extends to business.

In times of rising energy prices, efficiency is one of the priorities. ˝EnergoCredit˝, a program of the European Bank for Reconstruction and Development funded by the European Union and the Austrian Ministry of Finance, helps individuals and businesses to take the right measures to reduce energy consumption and to invest in energy efficiency. "EnergoCredit" provides loans to companies that operate in various sectors and industries such as agriculture, construction, manufacturing, transportation and many others so that they can invest in efficient equipment, reduce energy consumption and minimize energy costs[30].

In 2019, within the framework of the EU Action Program, Armenia allocated 69 million euros for energy efficiency programs. Within the framework of this program, 45 buildings were repaired for an amount of 1 million euros. In addition, 5 solar photovoltaic stations were built - 1 in Spitak and 4 in Vayk on public buildings. 1160 people in Spitak and 2640 people in Vayk became beneficiaries of the program. The European Union announced its intention to increase funding for projects in the Armenian energy sector. Special attention will be paid to issues related to the renewable energy, increasing the level of energy efficiency. For these purposes, it is even envisaged to form an Energy Efficiency Council, which will regulate projects in this area. For the implementation of the programs, the funds

[30] Energy efficiency in Armenia. EU CLEEN // http://cleenet.org/index.php/ru/201-energoeffektivnost-v-armenii

of the EU Eastern Partnership Program will also be attracted, within the framework of which Armenia will receive about 80 million euros. Another 300 million euros will be allocated by the EU and European financial institutions to improve the security of the country's energy complex and diversify energy sources. Most of the funds will be provided in the form of loans, the rest - in the form of grants. At the same time, projects in the field of energy efficiency will be considered a priority, which should be aimed at reducing dependence on energy imports, smoothing the growing demand for it and providing more affordable, cost-effective, as well as environmental energy solutions[31].

The program to support Armenia in the field of renewable energy and energy efficiency also continued in 2020. In February 2020, the Armenian government signed a package of EU financial agreements. As part of the support, the EU provided the republic with 65 million euros in three programs - for energy efficiency and the environment, community development and the formation of instruments for the implementation of an extended and comprehensive agreement with the EU. Within the framework of the first program, several components are envisaged, in particular, 5 million euros will be allocated to clean up lake Sevan, 3,7 million euros - to develop the legislative framework in the field of energy efficiency and energy saving, and 17 million euros - to form investment platform tools in the same sphere. The second agreement provides for the development of communities, in particular, one of the components of the program in the amount of 11 million euros will be aimed at the economic development of communities. In particular, it is planned to form active groups that propose to implement economic development programs for the regions in order to promote the development of business[32].

[31] EU allocates EUR 69 million to Armenia for energy efficiency programs // https://finport.am/full_news.php?id=40240&lang=2

[32] EU to provide Armenia with 65 million euros under three agreements - for cleaning up Sevan, community development and energy efficiency // http://arka.am/ru/news/economy/es_predostavit_armenii_65_mln_evro_po_trem_soglasheniyam_na_ochistku_sevana_razvitie_obshchin_i_ener/

The EU actively cooperates with financial institutions to provide financial and advisory support to the Eastern Partnership countries in the field of energy and energy efficiency. In particular, the European Bank for Reconstruction and Development (EBRD) and the European Union (EU) are joining forces to stimulate green finance, i.e. will provide financing and support for green, innovative investments. Within the framework of the program, Egypt, Morocco and the Eastern Partnership countries, including Armenia, will benefit from new climate finance and technical assistance. Beneficiaries must take measures to improve energy efficiency, reduce energy costs and support cyclical economy[33]. The program *"EU for Yerevan: solar community"* is the evidence of mentioned "green policy" implementation. The goal of this program is to reduce energy consumption and related greenhouse gas emissions through the use of renewable energy sources and the implementation of energy efficiency measures in multi-apartment buildings in Yerevan. The total expected reduction in carbon dioxide emissions is about 850 tons per year. The project envisages assisting the management bodies of apartment buildings in optimizing energy consumption by introducing energy efficiency measures in buildings, and installing photovoltaic modules for the local generation of electricity required to supply power to common areas of buildings[34].

Prospects and problems of Armenia's integration into the common energy markets of the EaEU

One of the key components of the Treaty on the Eurasian Economic Union is Section XX "Energy". The formation of common markets for energy resources will allow eliminating barriers to mutual trade in them, helping to create equal conditions for economic entities

[33] EBRD and EU join forces to stimulate green finance // https://finport.am/full_news.php?id=42393&lang=2
[34] EU for Yerevan: solar community // https://www.yerevan.am/ru/eu-for-yerevan-solar-community/

of the member states and increasing the volume of mutually beneficial supplies of these resources. The Energy Section includes Articles 79-85, which regulate the following issues:

- interaction of the member states in the field of energy;
- indicative (forecast) balances of gas, oil and oil products;
- formation of a common electric power market of the Union;
- ensuring access to services of natural monopoly entities in the electric power industry;
- formation of a common gas market of the Union and ensuring access to services of natural monopoly entities in the field of gas transportation;
- formation of common markets for oil and oil products of the Union and ensuring access to services of subjects of natural monopolies in the field of transportation of oil and oil products[35].

In general, among the basic principles of the formation of a common market, we can single out market pricing, the development of competition, the elimination of technical and administrative obstacles to energy integration, the development of transport infrastructure of the common market, the creation of favorable conditions for attracting investment, the harmonization of national norms and rules for the functioning of energy systems. Thus, one of the key goals of Eurasian economic integration is the formation of a single market for electricity, gas and oil and oil products. Moreover, each of these areas is a separate software package of systemic activities aimed at ensuring the integration process.

Common natural gas market.

[35] Treaty on the Eurasian Economic Union (Signed in Astana on 05/29/2014) (entered into force on 08/12/2017) // www.eurasiancommission.org

In 2018, the Eurasian Economic Committee the program for the formation of a common gas market, the decision on which was adopted in 2016[36]. The program for the formation of a common gas market in the EaEU space is, in fact, a backbone, since the economic development of the member states largely depends on the efficiency of the energy and, in particular, the gas transmission complex. In fact, this is an important mechanism for economic integration. It is no coincidence that the idea of creating a single gas market (as well as electricity and oil) was initially viewed as a key component of a single economic space. Moreover, upon a detailed study of the program of the common gas market itself, it becomes obvious that it harmoniously fits into the philosophy of Eurasian integration, built on the basis of the principle of freedom of movement of goods, capital, services and labor.

Uniform supranational rules for regulating the natural gas market can lead to increased guarantees of energy security, especially for purchasing countries that are dependent on external supplies. The Common Gas Market Program is being implemented in three stages. The **first stage** (until 2020) is characterized by the solution of such tasks as the harmonization of the laws of the member states, ensuring the availability and completeness of disclosure of information on the free capacity of gas transmission systems located in the territories of the member states, unification of norms and standards, the creation of an information exchange system, the formation indicative (forecast) gas balance of the EaEU, etc.

Within the framework of the **second stage** (until 2021), a transition to market mechanisms for determining prices is expected. It is planned to launch a commodity exchange where gas trades will be carried out. At the same time, it is supposed to ensure non-discriminatory access of participants to exchange trading. Consequently, thanks to

[36] On the formation of a common gas market in the EaEU // https://docs.eaeunion.org/docs/ru-ru/01420195/scd_07122018_18

the application of market mechanisms, gas prices will be more predictable, although, they will not cease to periodically play the role of a geopolitical indicator. However, it is important to understand that this is about border prices and that domestic tariffs will be regulated in accordance with the domestic laws of the member state. Also, within the framework of the second stage, it is planned to increase investment activity in the common gas market, provide access to gas transmission systems located on the territory of the member states, etc.

The **third stage** (no later than January 1, 2025) envisages the entry into force of the international agreement on the formation of a common gas market, ensuring free supplies of gas purchased under direct contracts or through exchange auctions, maintaining market prices, as well as the adoption of an agreed decisions on transition to equal profitable gas prices[37].

The program for the formation of a common gas market in the EaEU space is systemic, since the economic development of the member states largely depends on the efficiency of the energy and, in particular, the gas transportation complex[38].

In general, in the energy balance of the EaEU, the share of heat power engineering operating on natural gas is quite high. On average, it is about 70%.

Turning directly to Armenia, it is important to underline that the dependence of the Armenian economy on natural gas supplies is great today. It is enough to turn to the energy balance of the republic to come to the conclusion that without stable gas supplies (the annual volume of natural gas imported into the republic reaches 2-2,2 billion cubic meters), the energy system of the republic, and along with it, its entire economy will be in crisis condition. Prospects for Armenia's integration into the electricity markets are also

[37] On the Concept of Forming a Common Gas Market of the Eurasian Economic Union // N7, May 31, 2016, Astana www.eurasiancommission.org

[38] Ibid.

directly related to the supply of natural gas, and the lower its price, the lower the cost of electricity produced at TPPs.

Thus, integration into the common gas market will help lower prices for natural gas, which will inevitably affect the prime cost and, therefore, the competitiveness of electricity produced in Armenia, which is potentially the main export item of the republic. Armenia is able to process additional volumes of natural gas and supply electricity along the North-South corridor to the Russian market and further to Kazakhstan and Kyrgyzstan through swap supplies. The development of the Eurasian energy markets, as well as the supply of more competitively priced electricity to the Georgian and Iranian markets can mitigate the costs of Armenia from energy blockade.

At the same time, tariffs for natural gas traditionally continue to be one of the most sensitive issues in Armenia, which is conditioned by both the socio-economic condition of citizens and very active attempts to translate the issue into a political plane. The political component of tariff policy often has a pronounced character, which allows us to consider this issue in the context of Russian-Armenian relations. However, it does not seem to be an objective approach to reduce the very fact of high gas tariffs in Armenia only to political processes and, in particular, to the growing tension in Russian-Armenian relations. It is important to understand that, in addition to the well-known tendency of "Gazprom"s traditional use of gas prices as a geopolitical tool, the problems in the Armenian gas transportation system play an equally important role in the formation of tariffs.

Submitted in April 2020 by "Gazprom Armenia" (a 100% subsidiary of "Gazprom" PJSC) an application to the Public Services Regulatory Commission of Armenia (PSRC RA) for revising the country's tariffs[39] for gas has several reasons. However, the key of them, perhaps, is the business model of the functioning of the company. This model is based

[39] "Gazprom Armenia" applied to PSRC with a proposal to increase gas tariffs // http://www.psrc.am/news/topic/10849

on an internal rate of return (IRR) of 9%, which, taking into account the macroeconomic situation in Armenia, is a rather difficult indicator from the point of view of its provision. It is important to take into account how many factors influence the formation of operational risks for the company, forcing its management to come up with statements about unprofitable activities. At the same time, this rhetoric began to be most actively used after the increase in the gas price at the border by $15 ($165) on January 1, 2019, while maintaining domestic tariffs at the level of 2018. Referring to some of these factors, inflation in Armenia, according to the results of 2015-2019, totaled about 7%, and in 2020, according to the forecasts of the World Bank, it will exceed 3%[40]. At the same time, throughout this time, the company's revenues were not indexed along with the rise in prices, therefore, gas tariffs did not grow either.

The investment program continues to be another important factor creating problems for the company's profitability. The total volume of investments of Gazprom Armenia CJSC in the gas transmission system over the past few years amounted to $900 million[41]. If we take the company's investment plans as a basis, then in 2020-2024, investments in the amount of $128 million are planned, with the great share of these funds going to expand the underground gas storage facility in Abovyan. Consequently, the company's investment program should be considered, first of all, in the context of Armenia's energy security, since expanding the capacity of underground gas storage is one of the important components of ensuring uninterrupted gas supply in the republic.

On June 19, PSRC of Armenia approved a new tariff policy[42], according to which the final tariff for individuals in the amount of 139 drams per 1 cubic meter remains in force against 135,9 drams offered by the company. Also, the tariff for socially disadvantaged segment of the population has been preserved - 100 AMD per 1 cubic meter. However,

[40] World Bank forecast: inflation in Armenia in 2020 will be 3% // https://www.armbanks.am/2020/04/09/128085/
[41] "Gazprom Armenia" today // https://armenia.gazprom.ru/about/today/
[42] Gas tariffs for the population remain unchanged // http://www.psrc.am/am/news/topic/10910

the tariff for greenhouses and enterprises for processing agricultural products has slightly increased - $224 instead of the current $212 per 1000 cubic meters. As for the segment consuming more than 10 thousand cubic meters per month, the tariff is set at $255 per 1000 cubic meters[43].

For a more comprehensive understanding of the problem, it is necessary to refer to the structure of the gas tariff in Armenia. The gas tariff includes three basic components:

Price at the border - $165;

VAT and customs duties - about $42;

The costs of the company - about $50.

The first two components, for obvious reasons, remain unchanged due to the price fixed at the border until the end of 2020. As for the third component, here we should pay attention to the following features. In the indicated $50, which include material and administrative costs, expenses for repairs, depreciation, etc., about 60% are gas losses in the system, as well as the company's expenses. Thus, in the final structure of the tariff, gas losses amount to $11, salary - $19.6. Indicators of gas losses in the system can be confidently designated as critical. The level of losses in the Armenian gas transportation system is about 6,7%, which requires immediate management decisions[44]. With regard to the salary fund, it is obvious that in gas transmission companies, the staff is formed using a specific management methodology, based on technical and volume indicators and system features. Consequently, the proposed PSRC of Armenia and, in general, adopted by the management of the company, to significantly reduce the staff (by 1000 units) of employees of "Gazprom Armenia" does not seem appropriate, taking into account the social risks of such a decision. Modern economics has in its arsenal methods

[43] Gas tariffs for the population remained unchanged: PSRC // http://www.psrc.am/news/topic/10910

[44] Gas price for Armenia: what is Armenia negotiating with Russia about? // https://armeniasputnik.am/economy/20181108/15554181/ inchpes-e-goyanum-gazi-sakaginy-hasarak-qaxaqacineri-hamar.html

and tools used to reduce company costs without resorting to such an unpopular and generally dangerous step as mass layoffs. Hopefully, the management arsenal of "Gazprom Armenia" and the state regulator has not yet been exhausted.

Common electricity market

One of the main tasks of the Eurasian economic integration is the formation of a common electricity market. The common electricity market of the member states is a system of relations between the subjects of the internal electricity markets of the member states associated with the purchase and sale of electricity and related services, acting on the basis of general rules and relevant agreements[45]. The Eurasian Economic Commission identifies the following principles for the functioning of the common market:

- cooperation on the basis of equality, mutual benefit and non-economic harm to any of the member states;
- maintaining a balance of economic interests of producers and consumers of electric energy;
- step-by-step harmonization of the legislation of the member states in the field of the electric power industry;
- priority use of mechanisms based on market relations and fair competition in competitive activities;
- unimpeded access to the services of natural monopoly entities in the electric power industry, etc[46].

[45] The concept of forming a common electric power market of the EaEU // http://www.eurasiancommission.org/ru/act/energetikaiinfr/energ/Documents/%D0%9A%D0%BE%D0%BD%D1%86%D0%B5%D0%BF%D1%86%D0%B8%D1%8F%20%D0%9E%D0%AD%D0%A0%20%D0%A1%D0%BE%D1%8E%D0%B7%D0%B0.pdf
[46] Eurasian Economic Commission: Energy // http://www.eurasiancommission .org/ru/Documents/_eec_energy_all_150623.pdf

According to the Eurasian Economic Commission, “the effect of the functioning of the common electric power market of the EaEU due to the development of market mechanisms and competition will be expressed in an increase in the volume of electricity trade, increased transparency of pricing, increased efficiency in the use of generating and transmission capacities, a decrease in the energy intensity of GDP, and an increase in the energy security of the Union member states. The cumulative effect will consist in the expansion of cooperation between our countries in related areas, namely: in the construction and operation of infrastructure facilities of the electric power complex, power engineering and innovation”[47].

Turning to the indicators of mutual trade in electricity between the EaEU member states, it should be noted that Armenia is practically absent in this process.

Mutual trade in electricity between the EaEU member states[48]

Export/import, bln kWt/h	**Armenia**	**Belarus**	**Kazakhstan**	**Kyrgyzstan**	**Russia**	**EaEU**
Armenia	-	-	-	-	-	0
Belarus	-	-	-	-	3,18	3,18
Khazakhstan	-	-	-	0,2	1,13	1,33
Kyrgyzstan	-	-	0,33	-	-	0,33
Russia	-	-	2,77	-	-	2,77
Total	0	0	3,1	0,2	4,31	7,61

The construction of the North-South electricity corridor will provide Armenia with an opportunity to enter the Russian electricity market. In general, breaking the energy

[47] Ibid
[48] Energy statistics of the EaEU member states // http://www.eurasiancommission.org/ru/act/energetikaiinfr/energ/energo_stat/Pages/default.aspx

blockade through Eurasian integration is the main challenge for the Armenian economy. In this regard, it is necessary not only to pursue an active policy aimed at the construction of new infrastructure, but also to apply market mechanisms to ensure a low cost of electricity produced. This will allow Armenia to be more competitive in foreign markets, while at present the electricity generated in the Armenian energy system is inferior in its pricing to the electricity produced at Georgian hydroelectric power plants. It is obvious that with the continuation of the tendency to increase the cost price, the Armenian electricity will become less and less attractive for the Georgian market. It is important to note that the formation of such a trend, on the one hand, is conditioned by the limited sales market, and on the other hand, it is directly related to the multimillion-dollar loans periodically attracted to the Armenian energy system, which affect the tariff setting.

The formation of a common electricity market assumes that members of the Union will be able to purchase electricity both under bilateral contracts and within the framework of centralized bidding, for which a special electricity stock market will be formed. At the same time, a general analysis of the national energy systems of the EaEU member states shows the presence of a very low demand for electricity imports. Today, only in Belarus there is a certain deficit, which will soon be covered with the launch of two units of the BelNPP (2400 MW) in 2020 and 2021, which will allow Minsk to act as an exporter of electricity with a focus, in particular, on the Baltic markets.

In Kazakhstan, the power industry is developing dynamically, and in the coming years Nur-Sultan aims to reach the level of complete self-sufficiency. At the same time, it is planned to provide up to 50% of electricity generation from renewable sources by 2050, which will also allow starting the development of export strategies towards Asian markets[49].

[49] Transition to green energy / EBRD, Climate Investment Funds, Green Climate Fund // file:///C:/Users/User/Downloads/1062%20E2C2-kazak-casestudy_JULY19_RU.PDF

In Russia, generating capacities are also excessive and dozens of times higher than the rest of the EaEU members combined, which also testifies to the export orientation of its energy sector. Russia is one of the largest exporters of electricity, annually exporting up to 18-19 billion kWh[50].

There is a surplus of capacities in both Kyrgyzstan and Armenia. And if in the case of Kyrgyzstan the great share of power generation is carried out at hydropower facilities, which provides, perhaps, the lowest cost and tariffs for electricity in the entire EaEU, then in the case of Armenia, the structure of generation is based on thermal power plants, nuclear power plants and only then hydro energy. With such a structure, with an excess of capacity in the context of negative consumption dynamics and a huge credit burden in the energy system, it is extremely difficult to ensure low cost of electricity.

To ensure healthy competition in the common Eurasian electricity market, it is important to return to the issue of forming a common natural gas market, without which the common electricity market is unlikely to be able to be launched, since electricity generation in the EaEU, with the exception of Kyrgyzstan, is carried out mainly at thermal power plants operating on natural gas. At the same time, only Russia and Kazakhstan are engaged in gas production, and it is quite natural that the cost of electricity produced by them will be much lower than, for example, in Belarus, where 90% of generation is carried out using gas imported from Russia. Armenia is in approximately the same position, where, as already noted, thermal power plants provide more than 40% of power generation. Consequently, both Belarus and Armenia will be uncompetitive in the emerging common electricity market. That is why the official Minsk calls to launch the common gas market and only then proceed to the electricity market[51].

[50] Report on the functioning of the "Unified Energy System of Russia", 2018 // https://www.so-ups.ru/fileadmin/files/company/reports/disclosure/2019/ups_rep2018.pdf

[51] The EaEU did not support the idea of Minsk to accelerate the creation of a single gas market // https://ria.ru/20181221/1548401635.html

Common market for oil and oil products

Within the framework of the integration process, for Armenia, which does not have its own reserves of hydrocarbons, the program for the formation of a common oil and oil products market until 2025 is of particular importance[52]. The EaEU defines the common market for oil and oil products as "a set of trade and economic relations between economic entities of the member states in the field of production, transportation, supply, processing and marketing of oil and oil products in the territories of the member states, necessary to meet the needs of the member states". Among the basic principles for the formation of a common market for oil and oil products, we can single out the non-use of quantitative restrictions and export customs duties in mutual trade, ensuring environmental safety, providing information support to the common markets of the EaEU, etc.

The formation of a common market for oil and oil products, first of all, presupposes the demonopolization of national markets. In the case of Armenia, this issue is perhaps one of the most painful. Since 2013, Russian "Rosneft" company has been a de facto monopoly on the Armenian fuel market[53]. Prior to its arrival, several large companies functioned in Armenia ("Flash", "City Petrol Service", etc.), importing oil products mainly from Romania, Bulgaria and Iran. Today these companies continue to function, but already as distributors purchasing fuel from the same "Rosneft". Having arrived in Armenia, the Russian company ensured a 2% decrease in the price of petrol, but the gradual monopolization of the market led to an increase in prices.

Demonopolization, which is necessary for the formation and functioning of a common oil and oil products market, is also associated with some internal market issues. Depriving "Rosneft" of its monopoly will lead to the activation of some oil traders who had previously

[52] Formation of a common market for oil and oil products in the EaEU // http://www.ipr-ras.ru/articles/loginov15-06.pdf

[53] Monopoly of "Rosneft" and gasoline prices / Union of Informed Citizens // https://uic.am/en/542

lost their positions. Traditionally operating on the principle of cartel collusion, they are likely to impede full market liberalization.

Problems of Liberalization of the Electricity Market of Armenia as an Important Condition for Energy Integration with the EaEU

One of the most important questions arising in the implementation of the policy of liberalization of the energy market is how radical it is necessary to approach the separation of generation from transmission and distribution of electricity. For example, in France and Germany, they oppose the division according to the principle of ownership, limiting themselves to division according to legal entities. At the same time, there is a sharp division in the UK and the Scandinavian countries. Outside the EU, relatively radical models of separation of generation from transmission and distribution operate in Australia, China, Brazil, Canada, Japan, etc.

According to the reformers of the Russian electric power system E. Gaidar and A. Chubais, such market transformations have been carried out or are being carried out in the absolute majority of countries with a developed electric power industry[54].

Not all researchers agree with this position. As noted by the honored power engineer of Russia, Professor V.V. Cudryaviy, the real results of the reforms in the electric power industry in Russia are:

- decrease in the capacity of management in the center and at the local level;
- collapse of the maintenance system;
- massive use of non-localized foreign equipment;
- loss of responsibility for the reliability of power supply;
- sharp reduction of managers with technological competencies, etc[55].

[54] **Gaidar E., Chubais A.** Economic notes. - M.: Russian political encyclopedia, 2008 .- 191 p.
[55] **Kudryavy V.V**. Risks and threats to the Russian power industry. Ways to overcome. - Moscow: MEI, 2015.- 112 p.

In Kazakhstan and Kyrgyzstan, liberalization is generally of formal nature: electricity generation is separated from transmission and distribution, however, the assets of energy companies, although divided, continue to be controlled by the state, which is the result of the acquisition of energy assets by companies with state equity participation. In turn, Belarus is in no hurry to liberalize, which is associated, firstly, with the upcoming launch of the Belarusian NPP, which will fundamentally change the structure of the energy system and market.

The liberalization process in Armenia, which was launched in 2017[56], has many problems for the electric power industry, most of which boil down to a large credit burden and high cost of electricity produced. In general, the main obstacle to the formation of a common EaEU energy market is the lack of a common vision of the liberalization of national markets among the member states - an important condition for the implementation of the integration project.

Today, the Armenian electricity market operates according to the "single buyer-seller" model, which was introduced in 2004. According to the model, the right to purchase electricity from producers and sell it to consumers on the wholesale market remains with the person holding a distribution license. In 2017, the Armenian government approved a program for the liberalization of the Armenian electricity market, which was also dictated by the prospects for connecting to the common energy markets of the Eurasian Economic Union[57]. On February 7, 2018, the National Assembly of Armenia amended the Law on Energy[58]. The amendments provide for the liberalization of the republic's electricity

[56] Electricity Market Liberalization Program and Measures for the Development of Interstate Trade of the Republic of Armenia: Appendix to the Protocol of the Government of the Republic of Armenia 32-10 dated July 27, 2017 // https://www.e-gov.am/protocols/item/774/

[57] EaEU and the Customs Union: Who Benefits? - Kazakhstan 2016 // https://kazdata.kz/04/2016-03-eaes-ts-kazakhstan-torgovye-otnosheniya.html

[58] Electricity market in Armenia on the eve of liberalization // https://regnum.ru/news/economy/%202328243.html

market. The aim of the program is to improve the efficiency of the domestic market and stimulate exports. The program provides for the creation of mechanisms for the export of the entire volume of electricity unclaimed in the domestic market, subject to synchronization of the rules of interstate trade with neighboring countries. It is expected that this may lead to the formation of a competitive environment in the domestic market, which can mainly be achieved through the formation of the institution of electric power traders. Traders will purchase electricity from producers and sell it to consumers, paying the "Electric Networks of Armenia" CJSC (ENA) a margin for distribution services. At the same time, in the sphere of distribution, the ENA monopoly will be preserved. It is assumed that this will not lead to an increase in domestic tariffs, since the company will actually be freed from supply costs. Distribution costs will be carried out by the ENA. The program provides for the creation of a market operator that will act as the main institution responsible for electricity trading[59].

The formation of an electronic exchange is planned within the framework of the new model. At the exchange, a qualified consumer will be able to purchase electricity on an unregulated market at a free price. It is postulated that market liberalization will allow the country to pursue a socially oriented tariff policy by introducing night and day tariffs. Seasonal, peak or nightly busy times will also be considered for setting new rates.

Today, the program of liberalization of the electric power market in Armenia is carried out with the assistance of the United States Agency for International Development (USAID): software has been developed that allows all market participants to receive information about their rights and obligations. According to official statements, "there will be no situations in which companies that worked at a loss will shift the difference to the final

[59] On introducing amendments and additions to the Law On Energy / Adopted on February 7, 2018 // https://www.arlis.am/documentview.aspx?docid=119953

tariff for consumers"[60]. In accordance with the program, a new model of the internal electricity market will be launched in February 2021.

With regard to the liberalization of the export market, the problems existing here are mainly of an infrastructure nature. In particular, when supplying electricity from Georgia, Armenia must turn off the power supply on the "island" of its territory, located in the regions of Tavush or Lori, due to the fact that today the countries do not have the opportunity to work in parallel. In turn, the parallel mode can be activated in 2023-2024, when the construction of the Iran-Armenia and Armenia-Georgia power transmission lines is completed[61] (within the framework of the program for the construction of the North-South international electric power corridor connecting the power systems of Iran, Armenia , Georgia and Russia).

Conclusion

The energy system of Armenia is redundant and is capable of meeting the consumer demand of its population and economy, as well as increasing the export of electricity to foreign markets. In this regard, Armenia-EU cooperation plays a significant role, especially in the issue of energy efficiency improvement, implementation and modernization of mechanisms for economical energy production and consumption. Cooperation with the EU in the legal field of regulation of the energy system creates preconditions for integration into international systems, as well as promotes regional cooperation with Georgia, as a country on the path of joining the EU energy space.

The Agreement on Comprehensive and Enhanced Partnership with the EU provides the necessary legal basis for expanding and deepening cooperation with the EU in the field of research, exchange of experience, introduction of modern methods and mechanisms,

[60] Liberalization of the electricity market continues in Armenia // https://finport.am/full_news.%20php?%20id=40523&lang=2

[61] Deputy Minister: Liberalization of the domestic electricity market in Armenia will take place from February 2021// https://finport.am/full_news.php?id=41046&lang=2

as well as reforming the legal framework and increasing the role of the private sector in electricity production. In terms of energy security, the most sensitive issue of the EU-Armenia cooperation and the CEPA in particular is the issue of the operation of the Armenian NPP.

As regards Eurasian energy integration, a key problem that can impede this process is a complex of disagreements in the bilateral relations of some member states. This can be attributed to Russian-Belarusian relations, the energy component of which periodically finds itself in a state of crisis. The general tendencies demonstrated by the Russian-Belarusian energy dialogue may put the project of a common market at risk. Russian-Kazakh relations are far from being cloudless as well. For example, since 2013, the volume of trade between countries has shown a decline. As for Armenia, the main problem of its full integration into the common energy market is its remoteness from the gas transportation infrastructure of its partners in the EaEU. Gas supplies to Armenia via the Northern route (Mozdok-Tbilisi) will inevitably include a transit component, which will inevitably affect prices. At the same time, the most difficult and actively politicized issue of the Russian-Armenian interstate agenda continues to be the price of natural gas supplied to Armenia.

CHAPTER IV. ARMENIA AS A BRIDGE: EU-EURASIAN ECONOMIC UNION RELATIONS

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There are different levels of economic integration and in order for Armenia to serve as a bridge between the European Union (EU) and the Eurasian Economic Union (EaEU), Armenia must first reassess its precise stage of integration with each bloc. For example, Armenia enjoys a level of integration with the EU that is comparable to a free trade area or, more precisely, a Preferential Trade Area (PTAs), which serves as a stepping stone toward the creation a trading block. And in the case of Armenia-EU relations, this is expressed through a specific type of PTA: the Generalized Scheme of Preferences (GSP+).[62] Under the terms of the GSP+ arrangement, Armenia "maintains a GSP+ utilisation rate of over 90%, with a slight drop in 2018," with its "usage of GSP+ continues to be highly concentrated on base metals (aluminium, iron, and steel)."[63]

GSP is a trade promoting program offered by the EU to some developing countries. An extension of the program, GSP+, offer more beneficial market access based on the positive conditionality. More broadly, the GSP partially or fully eliminates custom duties on two-third of tariff lines for low- and middle-income countries, while GSP+ is an initiative to boost sustainable development and good governance by reducing the same tariffs included in GSP almost to zero.

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[62] "EU report on trade preferences reveals information about Armenia," European Commission, 12 February 2020. https://www.euneighbours.eu/en/east/stay-informed/news/eu-report-trade-preferences-reveals-information-about-armenia

[63] Ibid.

In the scope of the Eastern Partnership (EaP) programme, more advanced Association Agreements (AAs) were signed with Georgia (2016) Moldova (2016) and Ukraine (2014) which included the related "Deep and Comprehensive Free Trade Agreements" (DCFTAs). DCFTAs give access to the EU's internal market in selected sectors, reduce non-tariff barriers, and provide regulatory convergence and approximation between partner countries and the EU based on the *acquis communautaire*. The convergence is meant to implement reforms of accountability and increased participation in policymaking in particular sectors.[64]

In contrast to the EU, Armenia's integration with the EaEU is different, as it is based on a Custom Union model that envisages a deeper level of collaboration, not only removing tariff barriers between the member states but also imposing unified external tariffs for external trade with foreign markets. Within the union, the movement of goods is free, with only a need for one single payment to any of the member states, thereby sharing the tariff revenue between member states.

Both in case of the EU and the EaEU a common market or internal single market eliminates not only tariff barriers and imposes common external tariff policy but also provides an opportunity for the free movement of goods, capital, services, and labour, as an integral process in the chain of economic integration. For a successful common market, there is a need for deep harmonization, and common macroeconomic policies. Complete economic integration is a very complicated and long-term process, however. It entails "the unification of monetary, fiscal, social, and countercyclical policies" and "the

[64] Theuns, Tom, "The legitimacy of free trade agreements as tools of EU democracy promotion," *Cambridge Review of International Affairs* 32(8), January 2019.

setting up of a supranational authority whose decisions are binding for the member states."[65]

Given this background, it is obvious that the members of the EaEU are unable to sign a Deep and Comprehensive Free Trade Agreement or have an Free Trade Agreement regime with the EU. However, as with the case of Armenia, it is possible to ensure cooperation between the two blocs. This is also affirmed by other scholars, such as Peter van Elsuwege, who point out that "an evident way out of this legal deadlock would be the conclusion of a free trade arrangement between the EU and the EaEU customs union but is not a very realistic scenario as the EU is very reluctant to formally engage with the EaEU as a regional organization."[66]

Since the adoption of the EU Global Strategy in 2016, principled pragmatism became one of the mottos of the EU's foreign policy which allows building relations not only with the democratic partners but also with autocratic states.[67]

The strategy notes that "managing the relationship with Russia represents a key strategic challenge. A consistent and united approach must remain the cornerstone of EU policy towards Russia. Substantial changes in relations between the EU and Russia are premised upon full respect for international law and the principles underpinning the European security order, including the Helsinki Final Act and the Paris Charter…….At the

[65] Ibid

[66] Van Elsuwege. Peter, "The European Union and the Eurasian Economic Union: Searching for the Lowest Common Denominator," in Potemkina, Olga, Ed., The EU Global Strategy: Implications for Russia / Institute of Europe, Russian Academy of Sciences; Egmont – The Royal Institute for International Relations, 2017. http://en.instituteofeurope.ru/publications/other-monographs/item/the-eu-global-strategy-implications-for-russia

[67] "Shared Vision, Common Action: A Stronger Europe - A Global Strategy for the European Union's Foreign and Security Policy," European External Action Service, Brussels, 2016. https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf

same time, the EU and Russia are interdependent. We will, therefore, engage Russia to discuss disagreements and cooperate if and when our interests overlap."[68]

Before the Ukrainian crisis in 2013, there were several initiatives to create the Common European Economic Area. The pioneer of the initiative was the former head of the European Commission Romano Prodi in 2001. Later, after the Russian-Georgian war in 2008, former French President Nicolas Sarkozy proposed a vision according to which in the next 10-15 years, the EU and Russia should have a common economic space, common security concept, and visa-free regime. In 2012, the successor of Prodi, José Manuel Barroso, again expressed willingness to contribute to the creation of free trade area from Lisbon to Vladivostok. Even after the Eastern Partnership Vilnius summit in February 2014 the EU High Representative for Foreign Affairs and Security Policy Catherine Ashton urged that the common economic space would help to overcome obstacles and would strengthen relations in the various sectors such as politics and economics.[69] However, Russia's subsequent annexation of Crimea changed the trajectory of relations. Yet there are various groups of member states within the EU that expect a different level of cooperation with Russia andEaEU.

Potential Effects of Free Trade Agreement (FTA) between the EU and the EaEU

In terms of the potential export growth in the case of FTA between the EU and the EaEU, it is obvious that a FTA with the EaEU will be economically beneficial to most EU member states. However, the attitude towards cooperation with the EaEU is not that

[68] Ibid.

[69] Potapov, Pavel, Overview of EU Member States' attitude towards the Eurasian Economic Union, TSU Center for Eurasian Studies. 2019. http://eurasian-studies.tsu.ru/en/analytics/publications/pavel-potapov-obzor-pozitcii-stran-es-v-otnoshenii-evraziiskogo-ekonomicheskogo-soiuza/

straightforward, as the historical legacy and current geopolitics have a crucial role in forming the mood towards the EaEU.

According to research implemented by the TSU Center for Eurasian Studies, most of the Western European states are inclined toward cooperation with the EaEU. Austria, Germany, Luxembourg, and France have contacts with the EaEU both in the official and business level, while Ireland has no links, and the positions of Belgium and Netherlands are vague.

The opinions of the Northern European countries are quite different. In the case of Sweden, the historical legacy has a crucial role, which restrains ties with the EaEU. Denmark and Finland have a more balanced approach. And among the EU states of Lithuania, Latvia, Estonia, Poland, and Romania, there is the most critical attitude toward the EaEU. Due to their geographical proximation and historical legacy, they perceived the EaEU as the new form of the Soviet Union, as a tool by which Russia tries to establish its hegemony in the Eurasian space. Slovakia and the Czech Republic have a more moderate approach towards the EaEU and are more inclined and open to dialogue. Hungry and Bulgaria have a mainly positive approach towards the EaEU. They even have meetings with the EaEU representatives and seek official cooperation. In 2016, a Memorandum of Understanding between the Eurasian Economic Commission and the Ministry of Agriculture of Hungary was signed, for example.[70]

In Southern Europe, the attitude towards Russia and EaEU is mainly positive, with a relatively passive approach by Cyprus and Malta. However, Greece, Spain, Italy, and Portugal are in favor of establishing cooperation both with Russia and the EaEU. Greece is the first EU state which signed a Joint Declaration on Cooperation with the Eurasian

[70] "Memorandum of Understanding between the Eurasian Economic Commission and the Ministry of Agriculture of Hungary was signed," The Eurasian Economic Commission, Moscow 27 September 2016. http://www.eurasiancommission.org/en/nae/news/Pages/27-09-2016-5.aspx

Economic Commission (EEC) putting the relations at the institutional level in 2017. In particular, the EEC and the Government of the Hellenic Republic "intend to exchange experience and information in such areas as technical regulation, application of sanitary, veterinary & sanitary, and quarantine phytosanitary measures, public procurement, financial markets, intellectual property, trade policy, competition policy, and antitrust regulation, etc."[71] Italy is one of the more enthusiastic supporters of the EU-EaEU relations and stands ready to play the role of mediator. Thus, despite the radical differences between the EU and the Russian led EaEU the cooperation between two blocks seems unavoidable.

According to Olga Potemkina, "cooperative competition or competitive cooperation" would be a very positive scenario for EU relations with the EaEU. However, there are many internal and external issues that have to be solved. The cooperation should be based on the respect of international laws, in fair and mutually beneficial cooperation. It will ease the lives of Post-Soviet states which are in between these unions.[72]

Russia-EU

In order to understand why Armenia should be the bridge between the EU and EaEU, there is a need to assess EU relations with the other EaEU states. Russia is one of the major neighbors of the European Union with cultural and historically tight bonds. The geographic proximity was another key factor that contributed to the extensive cooperation between the major players in Eurasia- the EU and the EaEU in the various sectors. The legal basis of EU- Russia relations is the Partnership and Cooperation Agreement (PCA)

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71 "The EEC and the Government of the Hellenic Republic signed a Joint Declaration on Cooperation," The Eurasian Economic Commission, Moscow, 26 June 2017. http://www.eurasiancommission.org/en/nae/news/Pages/26-06-2017-2.aspx

72 Potemkina, 2017.

which replaced the Trade and Partnership Agreement between the European Communities and the Soviet Union. In the case of Russia, since entering into force in 1997 with the possibility of renewal, the PCA covers a wide spectrum of relations including political and economic dialogue and seeks "to provide an appropriate framework for the political dialogue between the Parties allowing the development of close relations between them in this field, to promote trade and investment and harmonious economic relations between the Parties based on the principles of market economy and so to foster sustainable development in the Parties."[73]

Furthermore, within the legal pyramid of EU Agreements with non-members states, this PCA is considered the most basic instrument which defines the depth of the relations. And to bring Russia and the EaEU into the confined of the orbit of international law, there is a need for cooperation. Armenia has the potential to be the first brick to build a bridge between two blocs.

Why Armenia?

The EU-Armenia relationship is especially significant as EU-Armenia relations are more advanced than the relations of any other member of the EaEU. When the CEPA was signed in November 2017, some hailed it as an Association Agreement "lite." According some experts, "the agreement is the most far-reaching treaty signed with an EaEU Member State and goes further than advanced — falling short of association — agreement in the EU neighbourhood and goes further than ECPA with Kazakhstan."[74] However, from the legal perspective, such a conclusion was inaccurate and premature.

[73] Agreement on Partnership and Cooperation establishing a partnership between the European Communities and their Member States, of one part, and the Russian Federation, Article 1, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:21997A1128(01)
[74] Delcour, Laure and Narine Ghazaryan, "Armenia: A Precarious Navigation between the Eurasian Integration and the European Union," in Bossuyt, Fabienne and Peter van Elsuwege,

More specifically, as stated in article 2 of the legal elements of the article, it is mentioned that:

> "The Agreement contains a substantive trade title with important commitments in several trade policy areas. These will improve conditions for bilateral EU-Armenia trade while taking full account of Armenia's obligations as a member of the Eurasian Economic Union." Moreover "In certain areas, the Agreement is also designed to bring Armenian law gradually closer to the EU acquis. However, it does not go as far as to establish an association between the EU and Armenia."[75]

However, the Armenia-EU CEPA has many elements from the former Association Agreement, with the most important related to the convergence to the EU *acquis*. The EU *acquis* are common rights and obligations that are binding on all EU countries, includes the following sectors for the member states

- the content, principles and political objectives of the Treaties;
- legislation adopted in application of the treaties and the case-law of the Court of Justice of the EU;
- declarations and resolutions adopted by the EU;
- measures relating to the common foreign and security policy;
- measures relating to justice and home affairs;
- international agreements concluded by the EU and those concluded by the EU countries between themselves in the field of the EU's activities.

Principled Pragmatism in Practice: The EU's Policy Towards Russia After Crimea, Brill Studies in EU External Relations, Volume: 19, (forthcoming: April 2021).

[75] JOIN/2017/037 final - 2017/0238 (NLE), legal elements of the proposal 2.1 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017JC0037

The harmonization with the EU acquis is a must for the legal system of the applicant countries and has become one of the most significant tools to underpin EU's tailor-made actions and it is on the top agenda with the external actions.[76]

Prior to its membership in the EaEU, Armenia was one of the leaders of the approximation, according to the 2012–2013 European integration index of the EaP countries, following only Moldova and Georgia. Moreover, in energy, the transport sectors, in the policy areas on culture, youth, and information society, Armenia was the leader among EaP members.[77]

In order to have incentives for the candidate states or for the states who should sign an AA to adopt the EU acquis, the EU offered a FTA or other economic benefits. However, the case of Armenia is surprising. From the EU's carrot and stick policy, Armenia chose only the sticks, even before the Velvet Revolution of 2018. There were three main sectors where Armenia was obliged to make changes and adopt the EU *acquis* as part of the conditions for the DCFTA. These were food safety, state aid, and migration issues. Food safety is one of the sectors directly related to trade and Armenia made substantial progress to meet the requirement. Following the EU's requirement, Armenia merged all the inspection bodies under the auspices of the State Service for Food Safety in 2010. In 2012, a risk assessment centre and a network of specialized laboratories were set up. Under CEPA, Armenia and the EU agreed 13 veterinary harmonized certificates that are applicable for exports of the EU countries to Armenia.

[76] Petrov, Roman and Paul Kalinichenko, "On Similarities and Differences of the European Union and Eurasian Economic Union Legal Orders: Is There the 'Eurasian Economic Union Acquis'?" *Legal Issues of Economic Integration* (43)3, August 2016.
[77] Yeliseyeu, Andrei, "Eurasian Review. Highlights. Armenia in the EaEU: the thorny path is behind, but challenges remain," Belarusian Institute for Strategic Studies (BISS), November 2014.

Another important sector was related to state aid and protectionism. With the help of the EU, the State Commission for the Protection of Economic was engaged in the approximation process. The third sector was migration, where Armenia had posted substantial progress, seeking to sign a visa-free agreement with the EU. In 2009, Armenia upgraded the status of State Migration agency and granted it policy-making and coordination authority. Following EU recommendations, Armenia adopted a migration management concept establishing an intergovernmental working group in 2010 to better implement reforms and modernization.

Furthermore, the EU and Armenia signed The Joint Declaration on a Mobility Partnership in Luxembourg in 2011, which was a stepping stone in the area of mobility, ensuring better management of irregular and illegal migration. And regarding agreements for Visa Facilitation (VF) and Readmission Agreements (RAs), these entered into force in Armenia in 2014. Due to these agreements, the procedure for Armenian citizens to obtain a European visa became easier, with fewer required documents, reduced consular fees and the broadening of the category of persons who may qualify for free visas, widened to include pensioners, children under the age of 12. The other important document is a Visa Liberalization agreement. More than 60 have a visa-free regime with the EU, meaning that their citizens can enter the Schengen Area without a visa for a stay of up to 90 days within a six-month period.

Thus, Armenia is one of the leading EaEU members in terms of significant and sophisticated details integration with the EU through the implementation of the CEPA, which also gives Armenia the capacity to understand the EU better, to be an extended part of the European legal system, to be gradually ready for possible future accession, and to implement the role of mediator between the two blocs.

EU-EaEU win-win story - Armenia

Armenia is a bridge between Eurasian principles and European values. Armenia's Velvet Revolution in 2018 was not only the victory of Armenian people but also the success story of both the Eurasian Economic Union and the EU. Armenia offers a democratic model to the EaEU, standing out in contrast to the other solely authoritarian member states. Armenia became the bright example of geopolitical compromise between the EU and Russia after the Ukrainian crisis in 2013. As a country that embraced European values and the Eurasian principles, Armenia has earned a legitimate right to become the liaison between two important geopolitical and economic actors of the region. Armenia became a litmus test which proves the limits and the opportunities of compatibility of two unions.

Despite the serious differences over Ukraine, Russia and the EaEU have welcomed the CEPA's mentioning of the importance to keep the balance between the two unions. Russian Foreign Minister Sergei Lavrov commented on the common interest of the EU and the EaEU, noting that "I am quite optimistic about the future of EaEU-EU relations. Although this future will not arrive soon, the demands of life will force us to move closer together. I am sure that Armenia…..will facilitate movement in this direction." Moreover, he brought the example of Armenia by noting that "Armenia indeed shows it has the sense to develop relations in all areas. It is a winning and beneficial policy for a country. Post-Soviet counties must not accept this false choice between Russia and the West. This is an ideologically and politically charged approach. I believe the fact that Armenia insisted on such relations with the EU – with Armenia's rights and responsibilities in other integration processes recognised in approved documents – is a step in the right direction."[78]

Armenia's Geopolitical Significance

[78] "Foreign Minister Sergey Lavrov's answers to questions from the Armenian media," Russian Foreign Ministry, 8 April 2018.

Armenia is a landlocked country with a small market of less than three million consumers and has always been at the crossroads of civilization where Europe meets Asia. In the past, Armenia's geopolitical and geographical location made Armenia an East-West battleground. Now Armenia has a unique chance to take advantage of its location, however.

As Armenian President Armen Sarkissian argues, "Armenia is a crossroad. That's why our country has learned to work with all and has close relations with Russia and other member states of the Eurasian Economic Union. But, at the same time, Armenia has signed an agreement with the European Union, and I do not see any contradiction here. Moreover, Armenia has an advantage, and the international community should try to use this advantage because Armenia is the only country that has deep relations both with the EU, Russia, and Eurasia. So why not to use the opportunities of Armenia which serves as a bridge?"[79]

Conclusion

Thus, Armenia should implement a more proactive policy towards both the EU and the Eurasian Union. It is undeniable fact that Armenia is already a member of the Eurasian Economic Union (EaEU) and there is no likelihood that even the democratic government that came to power from the "Velvet Revolution" would cancel EaEU membership. In fact, it is beneficial for Armenia to strengthen the position of the EaEU. And as Armenia was deprived of the opportunity to sign the past DCFTA with the EU, it can now seek to foster ties between two Unions which can eventually lead to the FTA between them.

[79] "Armenia can become cooperation bridge between Eurasia and EU – President Sarkissian,: ArmenPress, 23 May 2019. https://armenpress.am/eng/news/975893.html

Officially, the Armenian leadership looks beyond the bipolar world mindset and tries to execute a balanced foreign policy. As stated by the then-Armenian Foreign Minister, Zohrab Mnatsakanyan:

> "there's no contradiction. The European Union has not been building relations with Armenia in a way that it would insist that you have to have relations only in this dimension without other dimensions, since our biggest challenge and a very important priority in our foreign policy is not to build relations with one partner at the expense of the other. This is a very difficult act, but this is what is required for our national security."[80]

And when Armenia assumed the presidency of the Eurasian Economic Union, Prime Minister Nikol Pashinyan envisaged the priorities of the Armenian presidency. One of the pillars of the presidency was the development of multi-vector tights with third countries and associations. And as Pashinyan stated at that time:

> "The signing of relevant (trade) agreements with Iran and China, and the completion of the ongoing talks with Singapore, Serbia, Egypt, Israel, and India can give additional impetus to the process of integrating the Union into the global economy. Combining efforts to promote EaEU goods to foreign markets - in conditions of self-sufficiency of the Union many sectors of the economy - is gradually becoming one of the main challenges for ensuring the balanced growth of our economies. Such efforts will help the joint access of Eurasian producers to foreign markets and promote new cooperative chains within the Union."[81]

[80] "**Interview of Armenia's Foreign Minister Zohrab Mnatsakanyan to BBC HardTalk," Armenian Foreign Ministry, 25 October 2019.** https://www.mfa.am/en/interviews-articles-and-comments/2019/10/25/fm_hardtalk/9915

[81] Prime Minister Nikol Pashinyan Presents Priorities of Armenia's Presidency in EaEU, Office of the Prime Minister of the Republic of Armenia, 25 January 2019. https://www.primeminister.am/en/press-release/item/2019/01/25/Nikol-Pashinyan-EEU/

In July 2019, Armenian Prime Minister Pashinyan paid an official visit to the Southeast Asian countries Vietnam and Singapore. Although bilateral trade turnover with Vietnam and Singapore remains slight, at below $1 million, Armenia took an initiative to advocate signing trade agreements between those countries and the EaEU. This was followed by an Armenian bid that successfully concluded a new FTA with neighbouring Iran that was signed in May 2018, and officially came into force in October 2019, capped by the visit to Armenia of Iranian President Hasan Rouhani to take part in the EaEU's annual summit held in October 2019, thereby demonstrating Armenia's ability to be an effective bridge between Iran and Eurasian Economic Union.

One more advantage for Armenia lies in the power of its global Diaspora. Armenian communities are broadly dispersed and well-connected both politically and financially. Russia possesses the largest Armenian population outside of Armenia proper, making it home to the largest community in the Armenian diaspora, and are also well represented in the EU as well. In this context, Armenia can leverage its diaspora communities to advocate and seek a partnership with the EaEU, offering yet another factor that can make Armenia more of a balancing power between two unions. And this can also significantly raise Armenia's geopolitical importance and political weight. Meanwhile, it is also a solid impetus for developing the Armenian economy into a real gateway to major markets within and beyond both the EU and the EaEU.

Against that backdrop, Armenia holds tremendous potential and real capabilities to build a bridge and to serve as a cooperation platform between the EU and the EaEU. Armenia is the only EaEU member state which has the most advanced legal basis with the EU, which is also a litmus test for the two unions to check the compatibility of the norms. Armenia has equal diversification not only in economy but also in the political system. Meanwhile, considering the historical legacy and the current alliance, Armenia is developing partnership relations with Russia and the EaEU. From the perspectives of various kind of freedoms, democracy and market economy Armenia is close to the EU states, making Armenia's practice an instructive model for the other EaEU member states. To raise its geopolitical significance Armenia could implement proactive diplomacy and initiate conciliation measures between two Unions. Armenia has a good experience, success stories in its record, huge diaspora potential, solid relations with the key EU member states which could be the flagship of the reconciliation idea. Armenia should show its significance as a small state but a global nation which can play a significant role in the international relations. Armenia has always been a dividing line between the West and the East, but now has a unique chance to change the pattern of the history and to be the path of unification and reconciliation between them instead.

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