



**-Armenia-**  
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## Table of Contents

### GENERAL FEATURES OF TRADE POLICY

#### TARIFFS AND DUTIES

#### NON TARIFF BARRIERS

#### INVESTMENT RELATED BARRIERS

#### IPR

## GENERAL FEATURES OF TRADE POLICY

Modern Armenia, a small, strategically important country located at the crossroads of Europe and Asia, is in the midst of transition from a Soviet-style planned economy to a democratic society with a market economy. A legal and regulatory framework for private sector development is steadily being put into place. Political reforms are under way, and an increasing number of private businesses have already changed the economic landscape. Since its independence, on 21 September 1991, Armenia has been a model of reform among former Soviet Republics.

Armenia enjoyed strong GDP growth of 12.9% in 2002 and inflation remained low with 2%. The industrial growth was estimated at 14.2% year on year and the export growth at 47.8%. In 2002, the government reduced its deficit to 2.5%. As a share to GDP, tax revenue grew from 13.1% in 2001 to 14.6% in 2002. Official unemployment was 10.7% in 2000, but most likely at least twice that level in reality, with considerable differences among the various regions. External debt amounted to 44.1% of GDP in 2000. Foreign direct investment in 2000 is estimated at a net total of over € 150 million, a 22% increase over 1999. In 2000, the trade balance had a deficit of some € 700 million, 30.7% of GDP.

Armenia still heavily relies on budgetary finances from external resources (Armenia is one of the three CIS countries, together with Georgia and Kyrgyzstan, with the lowest tax collection rate). The distribution of the benefits of economic growth is very disputable.

The national currency, the Dram, is stable at about 500 Drams to € 1.

The largest share of exports include precious and semi-precious stones (essentially to Belgium) which are reexported after cutting and polishing, metals and machinery, transport equipment, textile goods, chemicals and related products, ferrous metals and products, and food. Imports into Armenia include fuel (over 1/4 of total imports), food and related products (25-30%), non-food raw materials, machinery, equipment, precious and semi-precious stones, chemicals and related products.

Armenia is a full member to WTO since February 2003.

At some € 500, GDP per capita is lower than the average for NIS economies.

Women represent 53% of the poor and 65% of the unemployed. The Government aims at lowering poverty to 44% in 2003 in the optimistic scenario. The level of poverty varies across regions, with the majority of the poor people living in the zones in the north-east of the country affected by the 1988 earthquake.

Since independence EU has given Armenia € 286.13 million of grant-based assistance. The main programmes of assistance being TACIS and ECHO.

A member of the Council of Europe since January 2001, Armenia is formally committed to democracy and the respect of human rights.

Internally, Armenia adopted two main priorities to guide the development of the country: resolution of the conflict with Azerbaijan over Nagorno-Karabakh and the economic and social transformation of the country within the framework of the conflict.

Recently there have been more and more discussions about the possibility of opening the border between Armenia and Turkey. It will bring Armenia colossal economic dividends and as Turkey is a member of the EU customs committee it will allow to simplify customs procedures when exporting Armenian goods to

Europe. The opening of the border is one of the main priorities for 2003-2004. This debate has become more active since Armenia joined the WTO this year, a fact that obliges Turkey to open the border. Until now Turkey maintained a blockade of Armenia's western road and rail links and Turkey does not have diplomatic relations with Armenia. The border has been closed ever since the beginning of Armenia's declared independence requiring a decision to the Nagorno Karabakh dispute.

In December 2000, the Government declared the development of information technologies, a sector in which Armenia has developed considerable know-how and expertise since Soviet times, as a main priority to foster the economy, create jobs and raise education standards.

Armenia has begun the process for the preparation and elaboration of a Poverty Reduction Strategy Paper (PRSP), which develops further the Government's economic policy disclosed at the beginning of 2000. The interim PRSP (iPRSP) was published in February 2001. The full PRSP is expected to be completed in 2002.

The iPRSP identifies four main economic and political changes since independence in 1991: 1) the earthquake of 1988, which affected 40% of the Armenian territory and about one-third of the population; 2) the collapse of the regional trade and payments agreement which followed the dissolution of the Soviet Union; 3) the conflict in NK and the resulting Azeri and Turkish blockade, as well as other regional conflicts; 4) the task of replacing the central planning system with one based on market principles.

The iPRSP confirms the existence of widespread poverty: 55% of the population are below the poverty line, of which 23% are the extreme poor; an additional 13.5% are only marginally above the poverty line. The strategy paper indicates that Armenia will have to embark on a long-term and concentrated effort to resolve these problems.

**The following table is an overview of the tradeflow between the European Union and Armenia**

Section	Year	Import(Euro)	Export(Euro)
<b>Animals &amp; animal products</b>	1996	85,040	2,468,430
	1997	163,310	4,837,060
	1998	251,810	6,187,150
	1999	196,630	2,954,000
	2000	216,730	1,985,040
	2001	101,550	2,694,810
	2002	1,440,970	3,037,280
	2003	2,541,630	3,939,690
<b>Vegetable products</b>	1996	0	6,090,560
	1997	2,860	8,749,140
	1998	17,290	12,621,400
	1999	0	2,226,220
	2000	17,160	17,288,310
	2001	81,940	14,200,610
	2002	74,750	1,563,050
	2003	47,130	1,546,530
<b>Animal or vegetable fats</b>	1996	0	1,111,170
	1997	0	416,860
	1998	0	777,820
	1999	0	682,950
	2000	0	1,087,780
	2001	70,300	1,295,390
	2002	0	280,630
	2003	0	403,600
<b>Prepared foodstuffs</b>	1996	84,840	14,615,810
	1997	43,310	23,641,930
	1998	36,670	26,262,480
	1999	68,400	9,820,010
	2000	183,170	12,705,330
	2001	421,180	17,922,600
	2002	452,720	10,599,610
	2003	312,590	11,870,420
	1996	3,864,020	94,590

<b>Mineral products</b>	1997	1,977,710	330,010
	1998	7,557,060	264,800
	1999	3,436,350	292,400
	2000	2,656,370	466,660
	2001	1,994,150	555,220
	2002	3,560,100	774,480
	2003	4,116,390	478,410
<b>Chemical products</b>	1996	125,790	2,134,980
	1997	328,190	4,174,450
	1998	75,420	7,336,570
	1999	232,590	6,426,200
	2000	225,620	10,104,260
	2001	369,310	11,618,220
	2002	69,910	14,807,630
2003	146,780	13,734,150	
<b>Plastics &amp; rubber</b>	1996	60,050	1,572,750
	1997	5,570	2,030,690
	1998	20,740	2,869,350
	1999	98,270	3,048,600
	2000	106,350	3,434,220
	2001	0	3,403,420
	2002	135,610	3,452,670
2003	36,840	4,592,020	
<b>Hides &amp; skins</b>	1996	28,040	61,210
	1997	17,130	164,340
	1998	441,500	299,100
	1999	92,630	286,680
	2000	77,480	505,140
	2001	1,923,850	541,970
	2002	955,350	327,810
2003	217,130	981,900	
<b>Wood &amp; wood products</b>	1996	2,440	151,860
	1997	10,630	351,690
	1998	48,060	321,660
	1999	388,020	888,340
	2000	2,389,020	924,280
	2001	475,770	890,950
	2002	727,650	1,046,280
2003	246,870	1,359,310	
<b>Wood pulp products</b>	1996	930	763,000
	1997	142,000	1,304,200
	1998	38,900	3,290,130
	1999	10,000	3,634,210
	2000	6,030	4,771,190
	2001	216,470	5,231,180
	2002	18,960	3,459,950
2003	77,990	4,834,900	
<b>Textiles &amp; textile articles</b>	1996	415,370	2,402,030
	1997	187,990	3,849,700
	1998	303,630	6,023,570
	1999	276,860	4,545,210
	2000	257,960	6,475,270
	2001	1,113,930	7,028,520
	2002	630,900	6,660,820
2003	744,090	8,835,370	
<b>Footwear, headgear</b>	1996	0	975,120
	1997	1,580	2,049,690
	1998	3,910	2,407,770
	1999	0	2,016,650
	2000	3,130	4,086,430
	2001	29,210	4,325,140

	2002	2,900	3,155,590
	2003	2,460	4,213,770
<b>Articles of stone, plaster, cement, asbestos</b>	1996	0	740,420
	1997	1,420	2,476,740
	1998	4,460	3,399,060
	1999	54,590	1,963,520
	2000	7,140	2,958,050
	2001	9,960	3,996,770
	2002	35,050	5,246,210
	2003	130,820	5,856,490
	<b>Pearls, (semi-)precious stones, metals</b>	1996	35,312,200
1997		54,758,750	41,030,110
1998		48,793,340	40,096,610
1999		83,032,160	73,815,460
2000		93,229,840	82,188,390
2001		46,142,770	49,698,470
2002		116,163,520	90,879,590
2003		99,283,790	108,205,680
<b>Base metals &amp; articles thereof</b>	1996	2,044,920	954,510
	1997	3,443,420	2,918,560
	1998	5,405,640	3,985,260
	1999	5,002,570	4,470,210
	2000	23,067,500	4,321,720
	2001	18,511,360	4,837,960
	2002	27,626,540	6,713,880
	2003	37,400,490	4,949,520
<b>Machinery &amp; mechanical appliances</b>	1996	208,760	50,633,090
	1997	260,410	35,363,040
	1998	1,265,500	22,232,430
	1999	333,950	33,512,790
	2000	432,010	60,688,930
	2001	580,190	34,532,010
	2002	347,050	50,461,800
	2003	1,210,910	44,221,250
<b>Transportation equipment</b>	1996	9,370	3,494,950
	1997	3,810	2,845,320
	1998	2,660	4,197,370
	1999	86,340	5,351,550
	2000	495,530	4,321,140
	2001	44,990	5,457,230
	2002	45,530	7,319,410
	2003	1,970	8,132,260
<b>Instruments - measuring, musical</b>	1996	185,690	1,659,800
	1997	64,510	2,616,190
	1998	283,760	4,837,080
	1999	167,530	2,102,220
	2000	362,550	2,975,450
	2001	154,180	4,535,200
	2002	46,350	4,936,770
	2003	78,370	5,531,600
<b>Arms &amp; ammunition</b>	1996	0	16,180
	1997	1,500	0
	1998	0	27,160
	1999	0	27,160
	2000	0	69,530
	2001	0	37,690
	2002	0	57,420
	2003	272,680	42,730
	1996	100	1,201,810
	1997	0	2,125,910
	1998	72,080	3,301,480

<b>Miscellaneous</b>	1999	15,060	3,492,510
	2000	18,770	4,296,240
	2001	13,880	4,782,310
	2002	91,770	3,977,590
	2003	158,230	5,722,560
<b>Works of art</b>	1996	14,890	0
	1997	40,570	0
	1998	197,960	48,410
	1999	109,000	52,120
	2000	203,950	39,470
	2001	654,560	606,850
	2002	282,000	297,780
	2003	280,620	144,980
<b>Other</b>	1996	22,730	1,673,990
	1997	141,210	854,690
	1998	329,180	839,190
	1999	105,070	821,700
	2000	184,260	755,930
	2001	217,290	1,110,870
	2002	78,790	364,000
	2003	117,890	900,170

[back to top](#)

## TARIFFS AND DUTIES

Goods originated in countries that have free trade agreements with the Republic of Armenia are free of import customs duties.

The following duties and taxes apply to spirits:

- Customs duty: 10%
- Excise tax: 30% ad valorem (minimum rate AMD 100 per litre) + AMD 7.5 for each 1% vol above 40% volume
- VAT: 20%.

In the context of its WTO accessions negotiations, Armenia is understood to have offered to bind its tariff at 15% upon accession and reduce it to zero by 2007.

Due to a large shadow economy, almost half of FDI is believed to go unregistered and a difficult investment climate is still reported as foreign investors continue to face difficulties linked to the inconsistency of the legislation and the lack of law enforcement. Key concerns include the customs valuation (duties are imposed arbitrarily as a tool to fulfil the share of the budget that is expected to be generated by customs and not according to international standards based on the real value of goods), reimbursement of VAT (for exporting companies) and above all, illegal advance collection of taxes. There has been strong insistence by the European Commission that Armenia should stop the practice of illegal advance tax collection so as to bring its policy in line with standard approaches.

[back to top](#)

## NON TARIFF BARRIERS

One step toward WTO membership for Armenia involved bringing Armenian customs laws, regulations, and procedures into conformity with the WTO norms. Armenia has committed to an overhaul of customs legislation and administration in its last negotiating efforts for WTO accession. This commitment included a primary focus on legislation pertaining to the classification and valuation of imports as well as rules concerning the country of origin of products

The customs regulations of the Republic of Armenia are set with accordance to international standards.

In foreign economical transactions the Republic of Armenia has used Harmonic System encoding since 1 January 1997

The tariff and non-tariff procedures in Armenia foreign trade policy are deliberately liberal and especially attractive for foreign companies.

Provision of licenses for export and import of goods is regulated by the Government of the Republic of Armenia.

[back to top](#)

## **INVESTMENT RELATED BARRIERS**

Under the old Soviet central planning system, Armenia had developed a modern industrial sector, supplying machine tools, textiles, and other manufactured goods to sister republics in exchange for raw materials and energy. Since the implosion of the USSR in December 1991, Armenia has switched to small-scale agriculture away from the large agroindustrial complexes of the Soviet era. The agricultural sector has long-term needs for more investment and updated technology. The privatization of industry has been at a slower pace, but has been given renewed emphasis by the current administration. Armenia is a food importer, and its mineral deposits (gold, bauxite) are small. The ongoing conflict with Azerbaijan over the ethnic Armenian-dominated region of Nagorno-Karabakh and the breakup of the centrally directed economic system of the former Soviet Union contributed to a severe economic decline in the early 1990s. The chronic energy shortages Armenia suffered in recent years have been largely offset by the energy supplied by one of its nuclear power plants at Metsamor. Continued Russian financial difficulties have hurt the trade sector especially, but have been offset by international aid, domestic restructuring, and foreign direct investment.

As private investment is a priority for Armenia's economic development, Foreign Direct Investment (FDI) has enjoyed an open-door policy since 1994. According to this policy, foreign and domestic businesses have equal legal standards. Property rights are secured in the Constitution and a special law on foreign investment was adopted in 1994. There are no restrictions on the conversion or repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management and technical service fees. Armenia is a signatory to the International Convention on Investment Disputes and is also a member of the International Center for the Settlement of Investment Disputes (ICSID). Armenia has signed bilateral treaties on investment and investment protection with 16 countries, and an additional 36 treaties are under negotiation. The State Investment Promotion and Protection Board (SIPPB) was established by presidential decree and, led by the Prime Minister, sets state investment policy. The Armenian Development Agency (ADA), established by SIPPB, will provide the basis for investment promotion and protection and will implement Government investment and export development policies. It will act as a "one stop shop" for investors and exporters, and will promote Armenia as an attractive investment economy. The inflow of FDI has accelerated since 1994, and this dynamic of FDI growth is encouraging. The number of companies registered with FDI amounted to 1100 from December 1988 to 1997. Among the multinational companies that have already started operations in Armenia are Bristol Myers Squibb, Castel, Coca-Cola, Caritas, First Dynasty Mines, Huntsman, IBM, Italtel, Midland Bank, Macmillan, and KPMG. FDI has grown substantially over the last four years.

From 1988-1997, FDI in Armenia was about \$137 million, coming mainly from countries where the Armenian Diaspora is concentrated such as the United States, Russia, Iran, and France.

According to preliminary figures from the Armenian Statistics Ministry, foreign direct investment (FDI) totaled \$100 million in 1999, down from \$232.4 million in 1998. The high 1998 FDI figure, suggests the 2000 EBRD Armenia profile, is a result of large-scale privatization that year, as well as a sale of the national telecom company, Armentel. Armenian officials attribute the 1999 drop in FDI to parliamentary elections in May and the political assassinations of October. In 1999, 51.6% of FDI went to industry, 8.4% to trade, and 50% to the service sector.

The Armenian government has organized a number of international conferences in an effort to attract potential investors.

[back to top](#)



# IPR

In January 31, 1995 the Government of Armenia applied for accession to the Agreement Establishing the World Trade Organization (WTO) and had taken commitment to bring its IPR legislation in conformity with the provisions of the TRIPs Agreement no later than the date of its accession to the WTO.

In this connection the Armenian European Policy and Legal Advisory Centre (AEPLAG) performed relevant works. The following Laws are currently enforced:

Armenian Law on Patents : The new version with the amendments and supplements due to the provisions of WTO TRIPs Agreement had been adopted by the President of the RA on 26.11.99

Armenian Law on Copyright and Neighboring Rights : The new version with the amendments and supplements due to the provisions of WTO TRIPs Agreement had been adopted by the President of the RA on 12.01.2000

Armenian Law on Trademarks, Service Marks and Appellations of Origin : The new version with the amendments and supplements due to the provisions of WTO TRIPs Agreement had been adopted by the President of the RA on 31.03.2000

Armenian Law on Trade Names : The new version with the amendments and supplements due to the provisions of WTO TRIPs Agreement had been adopted by the President of the RA on 15.12.99

Armenian Law on Selection Achievements : enforced from 07.01.2000

Armenian Law on Protection of Topographies of Integrated Circuits: enforced from 14.03.98

Armenian Law on Protection of the Economic Competition: enforced from 15.12.2000

Law on Advertising : enforced from 31.05.96

The provisions related to the Special Requirements related to Border Measures provided by the TRIPs Agreement (Section 4, Part III) had been included in the new Customs Code as a separate part and is in force since 1 January 1999.