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ACCESSION OF ARMENIA

Memorandum on Foreign Trade Régime

In a communication dated 31 January 1995 (WT/L/25), the Government of Armenia applied for accession under Article XII of the Agreement establishing the World Trade Organization (WTO).

Following Armenia's application and having regard to the Decision adopted by the General Council on 31 January 1995 (WT/GC/M/1), the Working Party on the Accession of Armenia to the GATT 1947 was transformed into a WTO Accession Working Party. The terms of reference of the Working Party are also contained in document WT/L/25.

In accordance with procedures (WT/ACC/1), the Secretariat is circulating the attached Memorandum on Foreign Trade Régime received from the Government of Armenia. Members of the Working Party wishing to submit questions on the Memorandum are invited to do so by 26 May 1995 for transmission to the Armenian authorities.

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I. INTRODUCTION

Since declaring independence from the former Soviet Union in 1991, Armenia has vigorously pursued free market reforms within a democratic framework, notwithstanding the acute political and economic difficulties that have beset the country in recent years. Among the factors that have contributed to these difficulties are the devastating earthquake in 1988, the economic blockade imposed upon Armenia as a result of armed conflict between the Republic of Azerbaijan and the enclave of Nagorno-Karabakh, the choking off of Armenia's major northern trade route because of civil conflict in Georgia, and the considerable economic dislocation associated with the disintegration of the Soviet Union. Economic decline has been reflected in sharp reductions in output, falling incomes, reduced trade flows, severe shortages of energy, and scarcity of food and other consumer goods.

Despite this adversity, the Government has persevered with the economic reform program, placing particular emphasis on liberalization, stabilization, and economic restructuring. Most agricultural land was privatized shortly after independence and privatization in other sectors is moving ahead. Demonopolization and deregulation have removed barriers to private sector participation in all but a few areas of economic activity. Price controls only apply to a limited number of essential goods and services, and are being phased out. On the macroeconomic side, stabilization policy is a government priority, given the challenge of the difficult budgetary position, combined with the need to contain inflationary pressures and maintain exchange rate stability. The Government has achieved some success in its stabilization efforts, recently bringing the monthly inflation rate down to single digits, from the triple-digit levels prevailing at the end of 1993. The Government is strongly committed to securing a sound and stable macroeconomic framework for future economic growth and development.

Fuller integration into the world economy, and continuing diversification of Armenia's economic relations with other countries, are central planks of the Government's reform efforts. The Government believes that these objectives can only be attained through open trade policies that emphasize specialization on the basis of international comparative advantage. It is for this reason that the Government of Armenia attaches priority to its accession to the World Trade Organization, and wishes to complete negotiations for membership at the earliest opportunity.

The present Memorandum contains detailed information on Armenia's economy and foreign trade and trade-related policies. It is intended to facilitate the deliberations of the Working Party on Armenia's accession. The Government of Armenia stands ready to provide any additional information requested by governments represented in the Working Party.

II. ECONOMY AND FOREIGN TRADE

2.1 *Economy*

2.1.1 *Background*

Located in the Transcaucasus, the territory of Armenia comprises 29,740 square kilometres. It is surrounded by Georgia to the north, Turkey to the west, Azerbaijan to the east and southwest, and Iran to the south. The length of the country in a south-easterly direction is 400 kilometres and the border extends for 1,422 kilometres. Armenia is situated 145 kilometres from the Black Sea, 175 kilometres from the Caspian Lake, 750 kilometres from the Mediterranean and almost 1,000 kilometres from the Persian Gulf.

The capital of Armenia, Yerevan, lies on the Hrazdan River, and is home to about one-third of the country's population of 3.7 million people. Another third of the population lives around Yerevan.

Other important centres of population include the towns of Gyumri (pop. 210,400) and Vanadzor (pop. 174,800). In all, there are 37 towns in Armenia. Ethnic Armenians account for about 95 per cent of the population, with the remaining 5 per cent comprising mostly Kurds, Yezidis, Russians, Jews, Assyrians and Greeks. The population of Armenia is highly educated. Ninety per cent of the population is literate, of which some 45 per cent has ten years of basic education combined with a technical education, and a further 13 per cent has a higher education degree.

A large part of the country is mountainous, with dozens of streams and rivers and mountain lakes. Lake Sevan is one of the largest mountain lakes in the world, covering 1,400 square kilometres. About one-third of the country is pasture land, while 12 per cent is forest and woodland and a further 18 per cent is arid. Permanent crops only cover 3 per cent of all land. Armenia has modest deposits of copper, zinc, aluminum, molybdenum, precious metals, oil and natural gas. The country depends overwhelmingly, however, on imported energy products to fuel the economy.

Of the employed population totalling some 1.5 million, one-third are engaged in agriculture, one-quarter in industry, and a further 20 per cent or so in construction, transport, communications, hotels and catering, and distribution. Agriculture accounted for approximately 59 per cent of net material product in 1993, followed by industry (32 per cent), construction (5 per cent), distribution and catering (3 per cent), and transport and communications (1 per cent). The largest agricultural sector in value terms is crop production (including vegetable and grape production), followed by cattle breeding, poultry farming, and dairy production. The main items of output in the manufacturing sector have traditionally included machinery, rubber and rubber products, textiles and carpets, footwear, canned food, wine and brandy, and cement. Production of many of these items has been severely curtailed recently, however, on account of energy shortages and transport difficulties. Alleviation of these problems could lead to a rapid resumption of higher production levels in most of the industries mentioned above.

2.1.2 *Current economic situation*

The Armenian economy has contracted sharply over the last few years, although with some signs of improvement in 1994. Four main factors account for the deterioration. First, the sudden and dramatic disruption of traditional economic ties within the former Soviet Union severely undermined traditional production and exchange relations, and ushered in a period of acute macroeconomic instability. Second, the economic blockade and civil strife in Georgia has exacerbated the disruption. Third, even without these external shocks, any country attempting to make the transition from central planning to a market-based economic system is bound to experience dislocation, and Armenia has been no exception. Fourth, Armenia's dependency on external energy sources, and the difficulty of acquiring fuel, has also made a significant contribution to the shrinkage of the economy.

National income declined by almost 60 per cent in 1991 and 1992, by a further 15 per cent in 1993, but increased in 1994. A positive growth rate of 5 per cent is forecast for 1995. Agricultural output has fallen by less than the average for the economy, and even rose following the privatization of land ownership, thus increasing the share of agriculture in total production. Industrial output contracted by some 50 per cent in 1992 and 14 per cent in 1993. Real wages fell by 60 per cent in 1992 and by 46 per cent in 1993. Inflation averaged 26 per cent per month from January to October 1993, and exploded in November and December of that year. By June 1994, however, inflation was down to a monthly rate of 9 per cent. The government budget deficit was 38 per cent of GDP in 1992, rose to 48 per cent in 1993, and then fell back to 24 per cent in 1994, following significant expenditure reductions by the Government.

Armenia's trade relations within the former Soviet Union were strongly influenced by the country's small size, its mining sector, and its relatively industrialized production base, as well as by heavy dependence on imported industrial raw materials and energy. The high degree of integration

within the Soviet system that these characteristics implied for Armenia made the country particularly vulnerable to the collapse of that system. In these circumstances, it was essential in the first instance to find ways of maintaining some continuity in trade flows. The Government is proceeding with efforts to reduce the role of the public sector in Armenia's external trade, but progress in this endeavour has been frustrated to a degree by transport difficulties, the economic blockade, shortcomings in the payments system, and the need to guarantee a minimum level of energy security. For this reason, in 1994 approximately 47 per cent of the country's exports and 25 per cent of imports took place on the basis of bilateral clearing (barter) arrangements among countries of the Former Soviet Union. It should be stressed, however, that as private sector producers and traders acquire adequate access to the means of transport and to a properly functioning payments system, the role of the state will be correspondingly reduced. The Government maintains no policies aimed at discouraging the development of private sector trade. On the contrary, the Government wishes to see private sector trade flourish.

Reduced overall economic activity in the late 1980s and early 1990s was naturally reflected in smaller trade flows. Continuing a downward trend, imports fell by 9 per cent in U.S. dollar terms in 1993, and exports by 38 per cent. In volume terms, imports fell by considerably more than 9 per cent, on account of large increases in energy prices. Exports, on the other hand, did not contract in volume terms by as much as the 38 per cent dollar figure might suggest. The current account deficit fell to U.S.\$ 28 million in 1993, from U.S.\$ 55.7 million in 1992. However, this was largely due to increased transfers by way of commodity and technical assistance in 1993. The trade balance deteriorated in 1993, registering a negative balance of U.S.\$ 147.9 million, compared to U.S.\$ 51.2 million in 1992. The services balance, on the other hand, was negative at U.S.\$ 111.3 million in 1992, but was only U.S.\$ -59.2 in 1993. The statistical data for 1994 show a zero current account balance, following official transfers (grants) of U.S.\$ 239.4 million. The trade balance for 1994 was negative at U.S.\$ 189.8 million, and the services balance at U.S.\$ 85.6 million. The current account balance is expected to deteriorate somewhat in 1995, in the context of increased imports, stagnant exports, and reduced official transfers of commodity assistance.

2.1.3 *Economic policy*

Armenia's economic policy priorities over the next few years include: (i) the attainment of macroeconomic stability; (ii) the stimulation of market-based competition through continuing privatization, liberalization of prices and the trade and foreign exchange régimes, the dismantling of state trading and interstate clearing arrangements, and the elimination of obstacles to private sector development; (iii) the maintenance of strict financial policy, including through the elimination of subsidies to enterprises; (iv) reform of the banking sector; and (v) the development of appropriately targeted social safety net programs to protect the most vulnerable sections of society.

Among the Government's short-term stabilization objectives are the reduction of the monthly inflation rate to 1 per cent by the end of 1995, the establishment of foreign exchange reserves at the level of 1.7 months of imports by the end of 1995, and the removal of distortions affecting interest rates and exchange rates. On the fiscal front, the Government aims to reduce the fiscal deficit to 12 per cent of GDP by the end of 1995, further rationalize the tax system, to improve tax collection, and to reduce subsidies on bread and other consumer goods. In the monetary sphere, minimum interest rates were phased out, allowing rates to be fully determined by the market. Charges on cash withdrawals from bank accounts will be eliminated by 1 December 1995 and the difference between the cash and non-cash exchange rate reflects the transaction costs. The Central Bank will improve its capacity to supervise the commercial banking sector, on the basis of better prudential regulations. Multiple exchange rate arrangements have been eliminated, and the export surrender requirement was reduced from 50 per cent to 30 per cent by 1 January 1995 and will be eliminated by mid-1995.

Armenia has established an open trade régime. There are no quantitative restrictions on trade, tariffs have been set at very low levels, export taxes have been eliminated, and the exchange rate régime is about to be fully liberalized. This policy orientation is fully consonant with the market-based approach adopted by Armenia for its future economic development.

2.2 *Foreign trade*

2.2.1 *Trade flows by commodity composition*

Armenia's exports during the last three years have been dominated mainly by gold and jewellery, non-precious metals and minerals, and machinery. In 1994, gold and jewellery accounted for approximately 33.4 per cent of total exports, non-precious metals and minerals for 13.6 per cent, machinery and equipment for 16.8 per cent, and foodstuffs for 5.5 per cent. Other light manufactures, including some textiles products, accounted for the balance.

Food and energy have come to dominate the import bill in recent years, as effective demand for industrial raw materials has been squeezed by the economic crisis. In 1994, wheat and fuel imports accounted for approximately 37 per cent of the total import bill, and other food and agricultural products for 23 per cent.

2.2.2 *Trade flows by origin and destination*

Former Soviet Union (FSU) countries continue to account for a substantial part of Armenia's imports and exports, with Russia and Turkmenistan by far the most important FSU countries of origin and destination. Imports from FSU amounted to about 51 per cent of total imports in 1994, of which Turkmenistan and Russia accounted for 36 per cent and 52 per cent respectively. Other sources of imports within FSU included Ukraine, Belarus, Georgia and Lithuania. Of the non-FSU countries from which Armenia was importing in 1993, Iran was by far the most important commercial source. Relatively small quantities of commercial imports came from the United States and Western Europe, but these were the main origins of humanitarian aid.

On the exports side, Turkmenistan and Russia accounted for approximately 46 per cent and 49 per cent respectively of Armenia's exports to FSU countries in 1994, with Ukraine, Belarus and Georgia accounting for the rest. The FSU countries together accounted for some 70 per cent of Armenia's exports in 1994. Non-FSU destinations for Armenia's exports in 1994 included Iran, Belgium and Germany.

2.2.3 *Trade balance*

Armenia's overall trade deficit amounted to some US\$ 189.8 million in 1994, representing about 40 per cent of imports and 68 per cent of exports. On a regional basis, however, the trade deficit with FSU countries was comparatively small, at less than US\$ 58.2 million. The bulk of the deficit is accounted for by humanitarian aid, granted principally by the United States and the European Union.

III. FOREIGN TRADE RÉGIME

3.1 *Import regulations*

3.1.1 *The customs tariff*

A law on tariffs and a Customs Code, approved by Parliament in August 1993, provides legislative authority for setting tariffs and dealing with customs matters. Decree No. 615 issued by the Government in December 1993 introduced new customs duties, and these were further modified by Decree No. 224 issued in May 1994 and by Decree No. 39 issued in January 1995. Armenia has used the Harmonized System of Tariff classification since 1991.

Customs tariffs are expressed in *ad valorem* terms and levied on c.i.f. values. Only 132 items have been identified in Armenia's tariff schedule. There are five tariff rates - zero, 5 per cent, 10 per cent, 30 per cent, and 50 per cent. More than nine-tenths of the tariff schedule comprises rates of zero (86 items) or 10 per cent (36 items). Only five items incur a 30 per cent rate (certain luxury foods, certain confectionery, fur clothing, furs, and gaming machines) and two items (caviar and pet foods) a 50 per cent rate. After taking account of tariff exemptions (e.g. for humanitarian supplies) and zero-rated items, the weighted average tariff is still well below 5 per cent, and tariff revenue accounts for about 2 per cent of the Government's total tax collections in 1994.

Tariff exemptions are granted in respect of the following: essential equipment imported by foreign enterprises and joint ventures (with at least 30 per cent foreign ownership), vehicles imported for government use, humanitarian supplies, foreign currency and bonds, prosthetic and orthopaedic equipment, goods imported for duty-free shops, livestock, meat, fish, shellfish, milk and milk products, vegetables, coffee, tea, spices, fruits, animal and plant fats and oils, sugar and candies, mineral fuel and bitumens, leather, silk, wool, cotton and other textile threads, synthetic thread, glass and non-decorative glass products, aluminum, lead, zinc, pewter and objects made of these metals, tractors, flying apparatus, goods in transit, temporary imports, and any other instances foreseen in international agreements, including free trade agreements. Individuals are entitled to export or to import new goods up to a value of one thousand U.S. dollars.

3.1.2 *Import charges and fees*

A customs fee of 0.15 per cent is charged on the tariff-inclusive value of imports. No fee is charged on deliveries under credits to the Armenian Government, clearing operations made on the basis of international agreements, temporary imports, imports of raw materials for construction under bilateral inter-republican contracts, goods imported directly through the state budget, and humanitarian aid. No other import charges or fees are levied.

3.1.3 *Tariff preferences*

Tariff preferences are granted by Armenia in the context of the Treaty of Economic Union among members of the Commonwealth of Independent States (CIS) and the supplementary free trade agreements signed with several of these states in order to give specificity to the commitments contained in the CIS agreement. These arrangements are described more fully in Section 5.1 below.

3.1.4 *Tax régime*

Armenia has completely overhauled its tax system since 1992, as part of the Government's overall policy of economic transformation towards a market economy. In addition to import duties, Armenia has two other indirect taxes that fall on imports - a value-added tax and an excise tax - but

these two taxes also fall on domestic production. Direct taxes include personal income tax, an enterprise profits tax, land tax, and a state enterprises fixed assets, citizens' buildings and transportation devices tax. Other taxes, which raise very modest sums of revenue and only apply domestically, include a few state and local taxes and fees, some professional operating fees, and an environment tax on pollution and natural resource use.

The value-added tax (VAT) is legislated under the Law on Value Added Tax, which was approved by Parliament in July 1993 and amended in December 1994. The VAT was levied previously through a Presidential Decree, promulgated in January 1992. The VAT is charged on imports and domestic output at the rate of 20 per cent. Imports from the FSU are zero-rated. Exports outside the FSU are also zero-rated, while exports to FSU countries pay the tax. Tax credits are available on VAT paid in other states of the FSU, and on amortizable assets. Goods and services exempted from VAT include urban electrical transport, medicines and drugs, rents, insurance reinsurance and banking activities, certain kinds of entertainment, products and services imported as humanitarian aid and for charitable purposes, bread, milk, yogurt, children's food, clothing, and footwear, butter, sugar, margarine, wheat, cheese, milk, and vegetable oils. Goods subject to price controls (see below) are also exempted, except for cigarettes. The full list of VAT exemptions is provided in the Law on Value Added Tax.

The law on excise taxes was adopted by Parliament in June 1992 and amended in 1993 and 1994. Like VAT, the tax is collected on imports by the customs authorities, and on local production by the Tax Inspectorate. No excise taxes are levied on imports from within the FSU or on exports to any destination. Taxes on excisable items are the same on imports and domestic goods.

Code of the good in accordance with the official register	Name of product group	Rates (%)
1	2	3
22.08,22.09	Wine and vodka products	50
22.03,22.04, 22.05	Beer, grape wine and wine syrup	25
24.02	Tobacco production	25
1	2	3
71.13,71.14, 71.15,71.16, 71.17	Jewellery, fancy jewellery	25
43 42.03	Furs. for products (with the exception of sheep fur used in uniforms for workers and soldiers) and apparel made of leather	25
40.11,40.12	Tyres	25
	Porcelain and crystal	25
57.02	Handmade carpets	25

The differentials indicated in the above listing will disappear in due course, as the Government has decided to unify tax rates on imports and equivalent domestic goods.

The law on personal income tax was promulgated in Soviet times, but modified by a Presidential Decree in January 1992 and by a Government Decree in May 1992. Personal tax rates have been unified with the rates of the enterprise profits tax (see below). Personal income tax is levied on the basis of the multiple of the minimum wage that an individual's income reflects, and minimum wages are set by Presidential Decree. Incomes of two times the minimum wage or less are tax-exempt. Tax brackets are then defined in terms of multiples of ten above the minimum wage. Thus, for an income from two up to ten times greater than the minimum wage, the tax rate is 12 per cent, for multiples of the minimum wage between ten and twenty times the rate is 18 per cent, for multiples from twenty to forty times the rate is 25 per cent, and for multiples above forty times the rate is 30 per cent. In addition to the tax exemption for incomes at or below the minimum wage, other exempted categories or individuals include receipts from sales of private property, income from business activity during the first two years of operation, any income received by pensioners, invalids, veterans, and handicapped individuals, social security recipients, alimony payments, students' stipends, and military service pay. In January 1995, the Parliament passed a law "On Income Tax" that will be implemented from 1 April 1995.

The system for levying income tax in the agricultural sector is different. Private farmers pay a fixed share of their income, currently set at 15 per cent. The few remaining state farms pay a fixed share of their profits. In the event of adverse agricultural circumstances, the Government may reduce these liabilities, or exempt farmers altogether from taxation.

The enterprise profits tax was legislated in December 1991 and made effective from 1 April 1992. Various amendments were introduced in July and December 1992. All juridical persons operating in Armenia, including foreign enterprises, are liable to the enterprise profits tax. Dividends are paid out of after-tax profits, so individuals are not taxed on dividend income. New enterprises, excluding state enterprises, are exempted from profits tax for the first two years of their operation. Joint ventures may be able to secure additional tax credits for a period of seven years, depending on the share of foreign capital in the enterprise. These credits are set at 50 per cent if foreign capital comprises half or more of total share capital and is not less than US\$ 100,000, and at 30 per cent if foreign capital accounts for 30 per cent to 50 per cent of the total (with a minimum investment of US\$ 40,000 to US\$ 100,000). Exemptions are also foreseen, *inter alia*, in respect of profits attributable to the production of goods deemed of national importance, certain re-investment and re-tooling expenditures, research and development expenditures (on 50 per cent of expenditures), expenditure on environmental protection (on 30 per cent of expenditure), profits used to cover losses of joint ventures with foreign participation and foreign enterprises during the previous five years, and any enterprise carrying out reconstruction activity in the earthquake region.

As previously noted, corporate taxes are charged at the same rates as personal income taxes - 12 per cent, 18 per cent, 25 per cent and 30 per cent. The standard rates schedule for all enterprises, whether local or foreign, are 12 per cent for annual profits of up to 72,000 drams, 18 per cent for the next bracket up to 144,000 drams, 25 per cent for the bracket up to 216,000 drams, and 30 per cent for more than 216,000 drams. Banks and insurance companies pay a 45 per cent rate. The possibility of establishing a single corporate tax rate is under consideration.

The state enterprise fixed asset tax, introduced in January 1992, aimed to ensure that state enterprises would be liable for some minimum amount of tax. The average rate of this tax is 4 per cent. The tax base was changed dramatically in 1993, through a revaluation of assets by a multiple of fifty. In January 1995, the Parliament passed a law "On Property Tax". For the enterprises covered by

this law, the fixed asset tax will be replaced by the property tax, and for individuals the tax will be levied on property valued at more than 850 times the minimum wage.

3.1.5 *Non-tariff measures, quotas and licensing*

Policies relating to non-tariff measures are spelled out in Decree No. 17 of January 1995, which replaced Decree No. 520 (October 1993) and Decree No. 615 (December 1993). Most imports are free of any prohibitions, quotas or licensing requirements. The only restrictions imposed are for health, security, environmental reasons. The items affected are all kinds of weapons, components used in the production of weapons, explosives, nuclear materials, poisons, narcotics, strong psychotropic substances, devices for use in opium smoking, and pornographic material.

Most imports are also free of any licensing requirements. The only exceptions are in respect of medicines (HS headings 05.10, 12.11, 29.38, 29.41, 30.03, 30.04, and 30.13.02), whose importation must be authorized by the Ministry of Health, and agricultural chemicals (HS heading 38.08), which are imported under authorization by the Ministry of Agriculture. These licensing arrangements are not administered in a restrictive fashion, except in the sense of protecting health and the environment. Decree No. 17, which spells out the licensing regulations on imports and exports, states in its paragraph 8 that the licensing order does not apply to imports of raw materials for the production of commodities by enterprises with at least 30 per cent of foreign share capital.

Armenia does not, at present, have any anti-dumping or countervailing duty legislation, nor has a safeguards mechanism been developed. If any of these policy instruments are introduced in the future, this will be done in a manner fully consistent with the relevant WTO provisions.

3.1.6 *Customs valuation*

Armenia uses the transaction value method of customs valuation. The customs valuation regulations contained in a Government Order attached to Decree No. 615 (December 1993) are fully based on the provisions of GATT 1994 Agreement of Implementation of Article VII. The Order foresees the same six methods of valuation laid out in the GATT 1994 agreement, and stipulates that the first method (transaction value) should generally be used. Other methods can only be used sequentially, when a valuation method higher in the hierarchy cannot be applied. Armenia is a member of the World Customs Organization (formerly the Customs Cooperation Council).

3.1.7 *Customs formalities*

In order to import, importers must provide a pro forma invoice or a contract indicating the specifications, quantity and value of the goods to be imported. Both imported and domestically produced tobacco and spirits require certificates of quality issued by the national certification body, ArmStateStandard (except where mutual recognition agreements are in place - see below). A certificate of origin is required for imports from FSU countries with whom Armenia has established preferential trading arrangements. As indicated in Section 3.1.5 above, import licences are also required in certain instances. All importers must complete a customs declaration form prior to importation.

3.1.8 *Rules of origin*

The rules of origin applied by Armenia follow the principals stated by GATT (Decree No. 615 - December 1993). Origin rules are defined in terms of wholly originating products, a change in tariff heading, process criteria, and the value-added criterion. The choice of approach for determining origin depends on the product concerned and any relevant international agreement in respect of which origin rules are being applied. However, with the exception of wholly originating products, the change

in tariff heading criterion (at 4-digit level in the HS classification) is used unless an alternative is stipulated. The customs authorities are entitled to require origin certificates in respect of: (i) goods subject to quantitative limitation; (ii) imports under preferential trading arrangements; (iii) for the protection of the environment, public health and safety and national security; and (iv) in situations where the authorities consider that inadequate information as to origin has been supplied. Certificates of origin must be signed by suppliers and verified by the relevant national certifying body. In Armenia's own case, certificates of origin are verified by Armexpertiza, an entity established under the auspices of the Armenian Chamber of Commerce.

3.1.9 *Standards and certification*

Armenia is in the process of developing its standards system. A National Certification System exists whose primary purpose is to protect consumers and the environment, and to promote the quality reputation of Armenian products in foreign markets. The National Certification Body, ArmStateStandard, is responsible for defining standards and accrediting standards certification bodies and laboratories within the framework of the National Certification System. Compulsory standards exist for a range of foodstuffs, electrical goods, alcoholic and non-alcoholic beverages, tobacco products, and children's clothes. ArmStateStandard is cooperating with standards organizations in other countries and is an observer in the International Standards Organization. As necessary, standards will be adapted to international norms, and new standards are based on ISO 9000. Work is also proceeding on the development of an Armenian Certificate of Quality, which will be granted to producers who comply with specified standards. New legislation is being drafted to replace the pre-independence statute. Drafts of laws "On Standardization and Certification" and "On Provision of Unified Measures" are under active consideration.

ArmStateStandard has signed cooperation agreements with counterpart bodies in the Russian Federation, Ukraine, Belarus, Georgia and Turkmenistan. These are Agreements on Product Certificates, Quality Promotion Systems, Certification Bodies and Mutual Recognition of Accredited Testing Laboratories. The purpose of these agreements is to harmonize standards and procedures, and to allow for mutual recognition of testing and certification. A similar agreement has been signed between ArmStateStandard and the Standards Institute of the Islamic Republic of Iran.

3.1.10 *Sanitary and phytosanitary measures*

Armenia has not developed any separate policies or provisions relating to sanitary and phytosanitary measures. Any matters arising in this field are dealt with by ArmStateStandard within the framework of the National Certification System. If Armenia decides to adopt separate machinery or policies, this will be done in full conformity with the Agreement on Application of Sanitary and Phytosanitary Measures.

3.2 *Export regulations*

3.2.1 *Export tax régime*

Armenia imposes no export taxes on any product.

3.2.2 *Export licensing system*

Export licences are required for textiles (to the European Union only), for medicines, and for certain live animals and plants. The export licences on textiles are required pursuant to an agreement with the European Union, but no restrictions on these exports are currently in place. The licences for medicines, live animals and plants are generally not restrictive - rather, they are to ensure public

health and safety. Enterprises with foreign participation of at least 30 per cent of share capital are exempted from export licensing requirements, except those relating to textile exports to the European Union. Export prohibitions apply to used machinery, weapons, components for manufacturing weapons, explosives, nuclear materials, certain works of art of national or historic interest, poisons, narcotics, strong psychotropic substances, devices for opium smoking, and confidential information whose dissemination could hurt the national interest. All other products may be freely exported from Armenia.

3.2.3 *Other measures*

In order to prevent exports at artificially low prices, or the under-invoicing of exports, the Ministry of the Economy establishes a list of "minimum" prices each month for a list of selected commodities. With effect from 1 January 1995, this list only covered ferrous and non-ferrous metals. If an exporter declares the value of commodities destined for export at less than the minimum established price, an amount equal to the difference is payable before the exportation is authorized. The minimum prices for most of the controlled items are established with reference to quotations on the London Metal Exchange, less a discount of 20-30 per cent.

3.3 *Export incentives*

Armenia does not offer any export incentives or export subsidies of any kind at the present time. Nor have any duty drawback or temporary admission arrangements been developed in respect of dutiable imports used in export production. The Government believes that export expansion is vital to Armenia's future economic viability. For this reason, consideration is being given to various ways of stimulating exports, particularly through promotional activities. The Government does not, however, intend to rely on export subsidies as part of an export expansion program.

3.4 *Regulations regarding trade in transit*

Armenia permits unimpeded and tax-free transit of goods through its territory, with the exception of those goods whose importation is prohibited (Decree No. 615 - December 1993). These items are weapons, components used in the production of weapons, explosives, nuclear materials, poisons, narcotics, strong psychotropic substances, devices for use in opium smoking, and pornographic material. These items would only be able to transit Armenian territory with the explicit consent of the Government of Armenia. Transit goods remain under customs supervision while they are on Armenian territory. Armenia is party to a plurilateral agreement on transit trade within the framework of the CIS Treaty on Economic Union. This agreement provides that signatories should not tax or impede transit trade through their territories. Armenia has also signed a bilateral agreement on this subject with Georgia. Similar agreements with Iran and the Ukraine are under consideration.

IV. OTHER POLICIES AFFECTING FOREIGN TRADE

4.1 *Industrial policy*

Armenia's industrial policy aims to ensure more efficient use of domestic resources within a market-oriented framework. A central policy objective affecting industry is privatization (see Section 4.7), which has so far only touched a small share of the manufacturing sector. It is estimated that approximately 95 per cent of industrial output still emanates from the public sector. Pending completion of the privatization program, the Government is obliging state-owned enterprises to operate according to market principles. Since the beginning of 1995, almost no direct subsidies have been granted to industry. This is in sharp contrast to previous years, when direct subsidies were provided on a fairly large scale via concessionary credits to firms.

The only beneficiaries of direct subsidies in 1995 will be the firms engaged in the production of strategic (military) equipment, for whom subsidies are to be granted for further construction and the equipping of plant. The beneficiary firms do not export their products. Indirect subsidies are notoriously difficult to measure, but any such subsidies that might arise as a result of clearing arrangements (see Section 5.1) are disappearing because of the contraction (and eventual elimination) of inter-governmental clearing contracts. Moreover, procurement via state orders (Section 4.6), which could also entail indirect subsidies, is being replaced by competitive tendering procedures.

In addition to the continuing reform of policies that might indirectly confer subsidies on industries, the Government also maintains a substantially deregulated business environment which, combined with open investment policies, means that there are effectively no barriers to market contestability - firms are free to enter and exit sectors on the basis of their own market-based decisions. Additional measures designed to safeguard and strengthen this business environment are the establishment of anti-monopoly and bankruptcy laws. The relevant statutes are under preparation.

4.2 *Agricultural policy*

As in the case of industry, the Government of Armenia does not maintain state planning of any kind in the agricultural sector. The situation in the agricultural sector is also similar to industry in respect of subsidies. The past practice of supplying concessionary credits has been discontinued, and farmers no longer receive any direct subsidies. Indirect subsidies are also minimal, with electricity supply prices perhaps representing the most significant remaining element. In contrast to the slow pace in industry, Armenia has privatized almost 90 per cent of agricultural land, and made land titles freely transferable.

As far as inputs are concerned, two large state enterprises are dominant suppliers of agricultural services and inputs such as seeds and fertilizers. These enterprises have recently been transformed into stock companies in preparation for privatization. The enterprises accept payment in kind on the basis of pre-negotiated contracts, and they are required to be self-financing. There is nothing to stop other suppliers entering the market. Nevertheless, the predominance of these firms, together with the fact that they receive at least some of the payment for their services in kind, means that competition remains somewhat constrained in both input and output markets. The Government regards this as a transient phenomenon, since the conditions are expected to develop in which more firms become involved in these activities. Moreover, the state-owned enterprises involved are due for privatization. A Law on Agricultural Policy is being prepared. Among other things, it will confine the role of the Government in the sector to the provision of training, technical support, and extension services.

4.3 *Financial, budgetary and fiscal policy*

The primary emphasis of economic policy in Armenia over the next few years will be upon macroeconomic stabilization and structural adjustment, in order to create favourable conditions for sustained growth. The Government is acutely aware that it will take some years to regain pre-independence output and income levels, but is confident that the painful stabilization and structural adjustment process the economy is now undergoing will establish the preconditions for a prosperous, market-oriented economy.

In the immediate post-independence period, a series of circumstances led to hyper-inflation and acute economic instability. Membership of the ruble area until late 1993 denied the Government the ability to control monetary expansion. In the last two months of 1993, consumer prices increased by 900 per cent. At the same time, and in order to ensure some continuity in economic activity, the Government expanded credit to enterprises and created a budget deficit that was greater than one half of national income. This situation fed the spiralling inflation. Once the dram was introduced at the

end of 1993, the Government was able to launch a stabilization plan. In the circumstances of late 1993, considerable discipline was required in the fiscal and monetary sphere.

On the fiscal side, the Government reduced expenditures drastically in 1994, cutting the deficit to 24 per cent of GDP, from its 1993 level of 57 per cent. The Government aims to bring the deficit down to 12 per cent of national income in 1995. A major contribution to lower government expenditure is subsidy reduction, both in respect of production and consumption. In December 1994, for example, the Government took the politically difficult step of virtually eliminating the consumer subsidy on bread, which caused the price of bread to increase eleven-fold. Other areas of government expenditure, such as defence and wages, will also be tightly controlled. On the income side of the government's accounts, revenue will be enhanced through reduced exemptions and improved collection.

Monetary policy is focusing upon the establishment of market-determined interest rates. The refinancing rate of the Central Bank of Armenia is to be determined through credit, and directed refinancing is being phased out. The interest rate minima imposed at credit auctions are also being removed. Since mid-1994, interest rates have been strongly positive. Financial sector reform is also a priority of the Government, in order to ensure an efficient allocation of financial resources and a greater mobilization of savings. The financial sector has developed significantly since independence. In addition to five large former state banks, some 50 private commercial banks have been established. Laws have been introduced to regulate the banking system, and prudential control of the banking sector has been strengthened through increased capital and reserve requirements, as well as improved supervisory capabilities in the Central Bank. The Government will continue to press these reforms and monitor developments in the financial sector carefully, particularly as financial constraints upon indebted enterprises tighten along with greater macroeconomic policy stringency on the part of the Government.

4.4 *Foreign exchange and payments system, relations with the International Monetary Fund*

Exchange rates in Armenia are established through a foreign exchange auction that takes place twice a week. The auction establishes four different exchange rates - cash/cash, cash/non-cash, non-cash/cash, and non-cash/non cash. The vast majority of transactions at the auctions are non-cash/non-cash. In average a 2 per cent fee is levied on local currency cash withdrawals, which reflects to the banks transaction cost. This in part explains the difference between cash and non-cash exchange rates. Up until the end of 1994, Armenia maintained a 50 per cent surrender requirement in respect of export receipts. As from 1 January 1995, the surrender requirement was reduced to 30 per cent, and it will be eliminated altogether during the course of 1995.

Armenia has been a member of the International Monetary Fund since 1992. Armenia maintains an exchange restriction arising from the Central Bank of Armenia's system of correspondent accounts with central banks of some FSU countries. This restriction is justified under Article XIV (the "grandfather" provision). In addition, Armenia has an exchange restriction, under Article VIII, arising from a bilateral payments agreement with another IMF member. None of these arrangements have a significant effect on trade. Armenia has negotiated a Systemic Transformation Facility with the IMF, which may be complemented by a Stand-by Arrangement.

4.5 *Foreign investment policy*

Armenia's policies towards foreign investment are set out in the 1994 Law on Foreign Investments. The Law defines a liberal policy, designed to attract investment from foreign sources. It provides a guarantee against nationalization, and against confiscation, except in extreme circumstances and upon a judicial decision. In the unlikely event of confiscation, full compensation would be applied. Foreign investors are indemnified against damages resulting from illegal actions by Government, or the improper performance by Government of its obligations (as determined in a court of law). The

Law also guarantees investors the right to repatriate profits and assets without hindrance. In the event that foreign investment legislation is changed after an investment has occurred, the investor concerned is entitled to an exemption from any less favourable provisions during a five-year period. No investment performance requirements are maintained, and foreign investors receive full national treatment (or better).

For foreign enterprises or joint ventures comprising at least 30 per cent of invested capital, all profits are free of taxes for two years, and after that profits tax is charged at 70 per cent of the full rate. For enterprises with at least 50 per cent foreign ownership, profits taxes are charged at only 50 per cent of the full rate after the initial grace period. Enterprises with any foreign ownership at all are entitled to indefinite duty-free treatment on all their imports of capital equipment and recurrent inputs and are exempted from any export taxes (none are applied currently in Armenia). In addition, foreign enterprises (defined as those with at least 30 per cent foreign ownership) are also entitled to certain exemptions from import and export licensing requirements (see Sections 3.1.5 and 3.2.2 above).

4.6 *Government procurement*

When government entities wish to procure goods, they may do so either through an entity called Armcontract, which is under the Ministry of Material Resources, or directly. These purchases, which are given effect through State Orders, are financed directly from the budget, and only involve the acquisition of goods and services by government entities for their own consumption (i.e. not for resale or use as inputs into production). In the past, these arrangements have sometimes involved implicit subsidy elements for the suppliers concerned, since prices under State Orders have not necessarily corresponded to market prices. As markets develop, however, and more competition occurs, both among Armenian enterprises and with imports, subsidized procurement is becoming a less frequent occurrence.

With effect from 1995, the State Orders in excess of US\$ 50,000 will be subject to competitive tender. The tenders will be administered by the ministries and departments concerned, or by their representatives. Procurement decisions following the evaluation of bids require approval from the Ministry of the Economy, which is also a pre-requisite of the provision of funds for procurement by the Ministry of Finance.

4.7 *Privatization and state trading enterprises*

The privatization of economic activity in Armenia is a central plank of the structural reform process. As a starting point, a Law on Enterprises and Entrepreneurial Activities was introduced in 1992. This law defines the conduct of economic activity in terms of natural persons (businessmen) and juridical persons (businesses), and the different forms that such enterprises can take. The law also defines the rights and obligations of enterprises, as well as government guarantees in respect of the right to trade (do business).

The privatization program began in 1991, with agricultural land. By the end of 1993, some 87 per cent of land had been privatized, and by early 1994, the ownership of land could also be transferred through sale. Over 700 state and collective farms (out of a total of 800) have been broken up into 300,000 private farms. In 1991/2, 335 small commercial enterprises were also privatized. Owing to an inadequate legal framework for privatization and some opposition to the program, the privatization effort came to a virtual halt for about two years. However, a Law on Privatization and Denationalization of State Enterprises and Unfinished Construction was approved in 1992, and at the beginning of 1994, Parliament approved a program for the privatization of 4,700 firms, of which 2,500 were small-scale enterprises. This represents some 35 per cent of the productive assets owned by the state, and the Government aims to complete the transfer of most of these assets to private hands by

the end of 1997. Certain strategic enterprises will remain in the public sector, including some of those involved in the mining, armaments, energy and metallurgical sectors.

The modalities for privatization envisage the distribution of vouchers to the public to a value of 30 per cent of assets to be privatized, the transfer of 20 per cent of the shares of large enterprises to employees, and the disposal of enterprises through auction for cash and vouchers. The Government is committed to an acceleration of the privatization program in order to meet the medium-term target mentioned above for the divestiture by the public sector of almost all productive assets. As part of this effort, anti-monopoly and insolvency laws are being drawn up, in order to ensure an appropriate environment for private sector activity.

Until the privatization program has been completed, the Government seeks to ensure that the many enterprises remaining in the public sector are fully accountable to the rigors of the market. Thus, the Government does not grant special rights or privileges to enterprises. Industries in these sectors make their purchasing and selling decisions in a manner consistent with the principle of non-discrimination. In all other sectors of economic activity, the government seeks to ensure that barriers do not exist to the entry and exit of enterprises.

4.8 *Price controls*

The transition of the Armenian economy from a system in which all prices were administered to one in which market forces determine prices is almost complete. Price controls remain on urban electrical transport, electricity, natural gas, water, sewage services, house rent, garbage collection, telephone services, air freight for state needs, salt and medicines. Many of these items are still supplied exclusively by the state, which partially explains why prices are controlled. With effect from July 1995 the Government will control the prices of the mentioned products, excluding the air freight for state needs and medicines, in terms of profit margins (on a cost-plus basis).

As noted above, the large consumer subsidy on bread was removed on 1 December 1994, leading to an eleven-fold increase of the price of this commodity. The price of bread has also been de-controlled. The government is keeping its price control policies under continuous review, with the intention of de-controlling prices if the controls are no longer warranted because of monopoly supply, subsidies, or social welfare considerations.

4.9 *Free trade zones*

Armenia does not maintain any free trade zones in which special duty privileges of any kind are granted. Armenia has, however, established a Frontier Trade Area in the Meghri Region, on the border with Iran. The zone was established to promote trade between Armenia and Iran. Under the arrangement, Armenian enterprises are encouraged to establish a presence in the border area and Iranian enterprises are encouraged to do the same on their side of the frontier. Forty citizens from each country are entitled to enter each other's zones in order to explore business and trading opportunities, but no special customs régime or privileged duty treatment is associated with any exchanges agreed on the basis of these contacts.

4.10 *Trade in services*

4.10.1 *Overview of policies affecting trade in services*

As in many economies, especially those of developing countries and countries in transition, only limited information is available on services sectors and on trade in services. One consequence of this situation is that many service industries remain largely unregulated, particularly in relation to

the distinction between foreign and domestic supply. As policies are developed, the situation described below may change. The Government is currently engaged in efforts to improve the information base on this sector, and will supply such information to interested parties as soon as it becomes available. Several areas of trade and trade-related policies described in this Memorandum are of general relevance to the services sector.

As far as cross-border supply of services is concerned, neither numerical quotas nor economics needs tests exist in respect of imports. The Government does not maintain any monopoly or exclusive supplier rights in services that could be traded across the frontier. No taxes are charged on cross-border trade, nor restrictions imposed upon access to distribution networks (such as telecommunications).

In regard to consumption of services by Armenian nationals and residents in the territory of Armenia's trading partners, there are likewise no restrictions. Nationals and individuals may travel freely outside Armenia, and in the process contract foreign services should they so wish.

Establishment rights, or commercial presence, is guaranteed through the Law on Foreign Investments described in Section 4.5. This law does not distinguish between goods and services suppliers, and provides ready access to service suppliers within the framework of Armenia's laws as they apply to all investors. As in the sphere of goods, certain sectors are exclusively in the public domain, including certain public utilities (such as sewage) and energy supply (such as electricity). In these cases, however, foreign investors receive full national treatment. Also important here is the Law on Enterprises and Entrepreneurial Activities, referred to in Section 4.7, which defines the trading rights of enterprises. These trading rights are not subject to any sectoral restrictions and apply equally to activities in the spheres of goods and services production.

Natural persons (as opposed to juridical persons or incorporated enterprises) also enjoy relatively free access to the Armenian market. All individuals, whether intra-corporate transferees or individual business persons, must acquire a visa to enter Armenia. These visas are issued in a non-restrictive manner upon the issuing of a letter of invitation by the relevant governmental or non-governmental entity, endorsed by the Ministry of Foreign Affairs. Professionals wishing to exercise their profession in Armenia must be approved and registered.

4.10.2 *The Banking Sector*

The Central Bank of Armenia is responsible for regulating the banking system in Armenia, as provided for in the law "On the Central Bank of the Republic of Armenia." In its role as regulator, the Central Bank licences commercial banks to perform banking services, and the banks are subject to the law "On the banks and banking activities in the Republic of Armenia." Subject to satisfying criteria relating to the satisfactory performance of banking services, the Central Bank maintains a liberal policy towards the provision of banking licences. Among the preconditions for establishing a commercial bank is a minimum capital investment of US\$ 100,000, and certain reserve requirements. Some fifty commercial banks are currently licensed to operate in Armenia. In accordance with the Law on Foreign Investments and the Law on Enterprises and Entrepreneurial Activities, foreign banks are subject to a regulatory régime at least as favourable as that facing local banks.

4.10.3 *The insurance sector*

Prior to independence, insurance was obligatory and was provided by the state insurance company. This system no longer operates, and the insurance system is now regulated by the Ministry of Finance. The legal framework for insurance activities is not yet fully developed, and a draft law on the subject is under consideration. Temporary regulations are in place pending the adoption of the new law. The Ministry of Finance licences insurance providers to operate in the Republic of

Armenia, and some 65 private and state companies are currently registered. Foreign and local insurance companies are given equal treatment. Among the services provided by these companies are life insurance, property insurance, accident insurance, and insurance against certain medical and financial risks. The nature and conditions of insurance and insurance premiums are determined freely by insurance companies and their clients. Under the new law, the Government intends to stipulate certain kinds of obligatory insurance.

4.10.4 *The telecommunications sector*

The Armenian telecommunications sector is relatively small, comprising some 537,000 telephone numbers and 1,600 telegram numbers (including telex). There are approximately 6,700 intercity communication lines. The telecommunications system is owned by the state. Agreements have been signed with a number of telecommunications companies and organizations, including AT&T, British Telecom and PTT of France. The Government is currently undertaking a program to rehabilitate, re-equip and modernize Armenia's telecommunications system.

4.11 *Protection of intellectual property rights*

The intellectual property right system in the former Soviet Union was reluctant to recognize the rights of individuals. Industrial property rights were expressed through the system of inventors' certificates, which had little to do with property rights. The copyright system, on the other hand, established strict political control in the field of creation, dissemination and protection of literary and artistic works in the interest of the "socialist community." Armenia is in the process of transforming this heritage into a system that responds to the conditions and requirements of a market economy.

A first step in this direction was the establishment in 1992 of the Armenian Patent Office. Since December 1992, it has been possible to file applications for patents in respect of inventions, and as from August 1993, to register utility models and industrial designs. During 1993-4, the Armenian Patent Office received some 400 applications for inventions from Armenians and over 100 applications from foreigners. If an applicant is not a national of Armenia and is not domiciled in Armenia, he must conduct his affairs through a patent attorney registered with the Armenian Patent Office.

4.11.1 *Industrial property protection*

The Law on Patents was adopted in August 1993. Under the law, patents are granted for inventions, utility models and industrial designs. The term of patent protection is 20 years for inventions, 15 years for utility models, and 10 years for industrial designs. These periods are counted from the date of filing. Patents are granted subject to the requirements that the object of the patent is new, that it is suitable for industrial application, and that no conflict arises with respect to public order and security, good morals and law. Where a patentee fails to exploit the patented object within four years from the date the patent was secured, any party interested in the use of the invention, utility model or industrial design concerned may request that a compulsory licence be issued. As far as patents for inventions are concerned, the law provides for the so-called "differed examination" for a three-year period. A full examination of a patent application is carried out as a rule only upon request and payment of a fee by the applicant or any other interested party.

The owner of a patent for invention or an industrial design patent granted by the Patent Office of the Soviet Union and still in force may file with the Armenian Patent Office for an Armenian patent at any time during the validity of the inventor's certificate or industrial design certificate, but such filing must occur before 30 June 1995. Some idea of the potential volume of such filings is given by the fact that in the ten-year period to 1990, residents of Armenia registered 6,000 inventions with the Patent Office of the Soviet Union.

4.11.2 *Trade marks, service marks and appellations of origin*

A draft Law on Trade Marks, Service Marks and Appellations of Origin is currently under consideration in the Armenian Parliament. The provisions of the proposed statute are fully consistent with international norms in this area. A distinctive feature of the statute is the legal equality it establishes between trade marks and service marks. During 1993-4, the Armenian Patent Office received some 3,000 applications for trade marks, service marks and appellations of origin from foreign applicants. Registration of these applications will begin after the adoption of the draft law, which is expected in early 1995.

4.11.3 *Copyright protection*

In 1973 the Armenian branch of the Moscow Copyright Agency was established in Yerevan. Its aim was to protect the rights of Armenian and foreign authors, to collect and pay royalties, to collect and transmit deductions to the literary, musical and journalists' funds, and to act as intermediary between legal and natural persons and organizations abroad. This agency was closed in 1993 and replaced by the National Copyright Agency, whose functions are very similar. More than 2,000 authors, theatre and concert organizations are registered with the agency. A draft Copyright Law is currently before Parliament. The draft is consistent with international norms on copyright and neighbouring rights.

4.11.3 *Participation in international intellectual property agreements*

On 22 April 1993, Armenia deposited a declaration of continued application of the Convention Establishing the World Intellectual Property Organization (WIPO). On 17 May 1994, Armenia also deposited a declaration of continued application of the:

- Paris Convention for the Protection of Industrial Property;
- Madrid Agreement Concerning the International Registration of Marks;
- Patent Cooperation Treaty.

V. INSTITUTIONAL BASE FOR TRADE AND ECONOMIC RELATIONS WITH THIRD COUNTRIES

5.1 *Bilateral trade relations and integration agreements*

Armenia has developed a network of plurilateral and bilateral trade agreements with various countries. A number of these arrangements are short-term in nature, designed to respond to particular needs as they have arisen. Other agreements are viewed as more durable, representing the Armenian Government's perception of the directions in which future trade relations should develop. As a member of the World Trade Organization, Armenia will keep its bilateral and regional trade agreements under review, not only to ensure legal consistency, but also the coherence of Armenia's trade relations within a broad multilateral framework. Distinctions can be made between Armenia's plurilateral or regional agreements, bilateral free trade agreements, bilateral clearing arrangements, bilateral trade and cooperation agreements, and other non-trade bilateral agreements. Each kind of agreement is explained below.

5.1.1 *Plurilateral or regional agreements*

The Treaty of Economic Union is a framework agreement signed by nine Heads of State of the Commonwealth of Independent States (CIS) in 1993 (Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan). The treaty commits signatories to the

eventual establishment of a customs union and common market among CIS countries. Other economic and financial components of the CIS treaty relate to a payments union, cooperation on investment, industrial cooperation, and an agreement on customs procedures. The treaty sets out quite specific commitments in many of these areas (as well as on cultural, scientific, and defence matters). But because the treaty is essentially an evolving framework document, it does not “operationalize” these commitments. Instead, the specifics of preferential trading relationships are defined in bilateral free trade agreements and in clearing agreements.

Armenia is also a member of the Black Sea Economic Cooperation (BSEC) Organization, along with ten other countries (Albania, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine). This agreement covers a number of fields, including economic cooperation and trade, investment, scientific and technical cooperation, the establishment of a BSEC Bank, and cooperation on transport and communications. The agreement does not make any provision for preferential trade, although it envisages the possibility of free trade zones in the future. More generally, the organization seeks to cement relations among neighbouring countries through cooperation in such areas as transport, international payments and industrial development.

As far as the European Union is concerned, Armenia has not yet signed an economic cooperation agreement, but hopes to do so in the future. In the meanwhile, the 1989 Trade and Cooperation Agreement between the European Union and the Soviet Union defines Armenia’s bilateral relations with the European Union. Once again, this agreement does not provide for any trade preferences.

5.1.2 Bilateral free trade agreements and trade and economic cooperation agreements with CIS countries

Bilateral free trade agreements (FTAs) have been signed with Russia, Ukraine, Moldova, Kyrgyzstan, and Tajikistan. Except for the agreement with Russia, none of these FTAs have been “operationalized.” This reflects the fact that trade flows between Armenia and the countries concerned are small. Under the agreement with Russia, a list of exemptions from free trade treatment is foreseen. Exception lists may also be established under the other FTAs if trade flows of any significance began to occur.

Under the FTA with Russia, each party may exempt from duty free treatment any export items subject to quotas, licences and export taxes. Since Armenia does not maintain any export restrictions (other than those mentioned in Section 3.2.2, which are generally applicable for public security, health and safety reasons), there is nothing on Armenia’s exception list under the free trade agreement. Russia maintains certain export restrictions which could be covered by the exception provisions of the FTA, but in practice these often do not apply because of the trade and economic cooperation agreements that Armenia also signs annually with Russia (see below). No exceptions to duty-free treatment for imports are contemplated in the Russo-Armenian free trade agreement.

These FTAs are an outgrowth of the trade and economic cooperation agreements that Armenia signed with CIS countries immediately after independence, and which in many cases are still operational (Annex 1). Most of these early agreements were negotiated annually, they envisaged free trade (in line with the CIS Treaty of Economic Union), and they included lists of products that the parties agreed to trade with one another. The purpose of these agreements was to try to ensure that pre-existing trade links were not ruptured altogether in the disarray that followed the breakup of the Soviet Union. The specificity of product-wise commitments varied considerably, including as to the identification of prices and quantities to be exchanged. Particularly after 1992, product lists tended to become indicative, with no prior agreement on prices, and the commitments were only partially fulfilled. In 1993, for example, product commitments under these agreements were met to the extent of 20-50 per cent, and figures for 1994 are expected to be even lower.

In the case of some countries, Armenia has signed both trade and economic cooperation agreements and FTAs (Annex 1). This reflects the evolving nature of trade relations in the region. It is expected that the FTAs will increasingly supersede the trade and economic cooperation agreements, and indicative product lists will gradually disappear altogether. Indeed, the only trade and economic cooperation agreement signed in 1995 with a product list is the one with Ukraine. The reason for having a product list in this case is that this guarantees duty-free treatment, which would otherwise not apply, because Ukraine is not a signatory of the CIS Treaty on Economic Union.

5.1.3 *Bilateral clearing arrangements*

Barter is the essence of the remaining clearing arrangements maintained by Armenia. Barter is borne of necessity and is not a preferred policy. Barter was deemed essential in the immediate post-independence period, in order to preserve the only trade links that Armenia had at that time, and was a feature of the trade and economic cooperation agreements described above. Moreover, barter offers a modicum of energy security, which in the current environment remains of paramount importance to the Government. Also, transport difficulties and a poorly functioning payments system have often made governmental support a *sine qua non* of doing business with FSU countries. As these kinds of constraints are relaxed, barter is expected to disappear. Indeed, the Government is committed to eliminating barter arrangements as soon as it is practicable to do so. The Government recognizes that its role as trader or as intermediary in trade inhibits the independent development of export capacity by enterprises, and the establishment of networks and contacts with foreign buyers that are so essential to exporting success.

In 1995, the only barter arrangements (called “clearing”) that will remain are those with Turkmenistan for gas, and Russia for oil and mazout. The agreement with Turkmenistan has already been signed. It involves the purchase of 2.2 billion cubic meters of gas at \$80 per thousand cubic meters. Payment for the gas will be in both cash (\$30 per thousand cubic meters) and in counterpart products (\$50 per thousand cubic meters). Counterpart products include such items as metals, chemical products, machinery, products of light industry, and products of food industries (including brandy, wine, jams, and cigarette filters). The clearing arrangements state the quantities and prices of goods guaranteed in exchange for the energy. In the case of the 1995 agreement with Turkmenistan, however, an additional list of products that might be exchanged has been included, in order to provide additional flexibility. This latter feature is akin to what a product list represents under a trade and cooperation agreement. Thus, the final composition of goods for exchange is established during the currency of the contract.

The 1995 agreement with Russia involves the purchase by Armenia of 200,000 tons of mazout and 200,000 tons of oil under the contract. The terms of this agreement are more rigid than those for Turkmenistan, and the composition, quantity and prices of goods fixed in the contract negotiation are not subject to any change. The 1993 clearing arrangements (which existed with Russia, Turkmenistan and Georgia, and included metals, paper wood products and industrial raw materials as well as energy) involved 74 per cent of total exports and 56 per cent of total imports. The respective figures in 1994 were 46 per cent for exports and 29 per cent for imports. Domestic producers are at liberty to choose whether or not to supply goods for the clearing arrangements. But in view of the difficulties many enterprises face in overcoming transport and payments problems relating to exports, the Government generally encounters little difficulty in securing the necessary supplies from local industries to fulfil the clearing contracts.

5.1.4 *Bilateral trade and cooperation agreements*

Trade and cooperation agreements have also been signed with many non-CIS countries, including Latvia, Lithuania, Estonia, Vietnam, China, Romania, Bulgaria, the United States, Argentina, Greece,

Austria, Iran, Syria, India, Poland, and Hungary. The possibility of such agreements with a number of other countries is under active consideration. These agreements seek to strengthen economic links, but do not contain any provisions for preferential trade.

5.1.5 *Other non-trade bilateral agreements*

Armenia has also signed a series of other agreements on investment and on customs relations. The investment agreements seek to encourage investment between the parties, primarily by guaranteeing national treatment, non-expropriation, and unrestricted transfers of investment funds and returns from the investments. Investment agreements have been signed with Ukraine, Kyrgyzstan, Vietnam, China, the United States, Argentina, Greece, and the United Kingdom. Agreements on customs relations are intended to ensure cooperation and smooth working relations between the customs services of the signatories. Such agreements have been signed with Ukraine, Tajikistan, Turkmenistan, Georgia and Iran.

5.2 *Multilateral economic cooperation*

Armenia is a member, *inter alia*, of the United Nations, the International Monetary Fund, the World Bank, The European Bank for Reconstruction and Development, the International Labour Organization, and is an observer to the General Agreement on Tariffs and Trade. Armenia is also a member of the World Customs Organization (formerly Customs Cooperation Council) and an observer at the International Standards Organization.

VI. LAWS AND LEGAL ACTS¹

I) Laws and Legal Acts Concerning Tariff and Non-Tariff Regulation of Foreign Trade

1. Decree of the Government of the Republic of Armenia No. 519 of 13 October 1993 *On Regulation of Foreign Trade and Improvement of Accounting and Monitoring.*
2. Decree of the Government of the Republic of Armenia No. 520 of 13 October 1993 *On Licensing and Allocation of Import and Export of Commodities (Jobs/Services).*
3. Decree of the Government of the Republic of Armenia No. 615 of 6 December 1993 *On Determining Customs Duties.*
 - a) Order Confirmed by Decree No. 615 *On Definition of Country of Origin for Commodities.*
 - b) Regulation Confirmed by Decree No. 615 *On Transmission of Goods by Citizens into the Customs Territory of Armenia.*
 - c) Regulation Confirmed by Decree No. 615 *On the Valuation of Goods for Customs duty Purposes.*
 - d) Annex to Decree No. 615 *On Customs Duty Rates.*

¹The texts of these laws and legal acts are available, in the English language, for consultation in the Secretariat (room 2075).

- e) List Confirmed by Decree No. 615 *Of Goods Forbidden for Export.*
- 4. *Customs Code of the Republic of Armenia (passed on 27 August 1993).*
- 5. *Law of Armenia of 18 August 1993 On Customs Tariff Rates.*
- 6. *Decree of the Government of the Republic of Armenia No. 17 of 17 January 1995 On Licensing and Allocation of Import and Export of Commodities (Jobs/Services).*

II) Laws and Legal Acts Concerning International Economic Activities and Intergovernmental Agreements Signed by the Republic of Armenia

- 7. *Agreement between the Government of the Republic of Armenia and the Government of the Republic of Georgia on General Principles of Transit Trade (signed on 19 May 1993).*
- 8. *Agreement between the Government of the Republic of Armenia and the Government of the Islamic Republic of Iran On Frontier Trade between the Meghri Region of the Republic of Armenia and the Marand Province of the Islamic Republic of Iran (signed on 31 May 1994).*
- 9. *Agreement between the CIS countries on the Creation of a Free Trade Area (signed on 15 April 1994).*
- 10. *Agreement on Creation of the Economic Alliance (adopted on 24 September 1993).*
- 11. *Agreement Between the Government of the Republic of Armenia and the Government of the Russian Federation on Free Trade (signed in 1992).*
- 12. *Agreement Between the Government of the Republic of Armenia and the Government of the Russian Federation on Trade and Economic Commercial Cooperation in 1994.*
- 13. *Resolution of the Government of Armenia No. 58 of 31 January 1994 On Accomplishment of the Intergovernmental Reciprocal Commodity Deliveries in 1994.*
- 14. *Decree of the Government of the Republic of Armenia No. 40 of 13 February 1993 On Additional Measures on State Regulation of International Economic Activities. (Not available)*
- 15. *Resolution of the Government of the Republic of Armenia No. 88 of 23 February 1994 On the Order of Submitting Statistical Reports Regarding the Importation and Exportation of Services in the Republic of Armenia.*
 - a) *Appendix to the Resolution No. 88 List of those Services About the Exportation and Importation of Which Statistical Reports are Required.*
- 16. *Decree of the Government of Armenia No. 422 of 12 August 1993 On Provision of Intergovernmental Agreements Signed by the Republic of Armenia in 1994. (Not available)*

III) Laws and Legal Acts Concerning Foreign Investments

- 17. *Law of Armenia of 31 July 1994 On Foreign Investments.*
- 18. *Decree of the Government of the Republic of Armenia No. 474 of 17 September 1993 On the Establishment of the National Financial-Investment Corporation. (Not available)*

19. Law of Armenia *On Enterprises with Foreign Capital (draft - not available)*
20. Resolution of the Government of the Republic of Armenia No. 162 of 05 March 1991 *On Confirmation of the Joint-Stock Companies and Limited Liability Companies Regulations.*

IV) Laws and Legal Acts Concerning Trade-Related Matters.

21. Law of Armenia *On Taxes and Duties.*
22. Law of Armenia *On Profits Tax.*
23. Law of Armenia *On Excise Tax.*
24. Law of Armenia *On Value-Added Tax.*
25. Law of Armenia *On Income Tax.*
26. Law of Armenia *On Privatization and Denationalization of State Enterprises and Uncompleted Constructions.*
27. Law of Armenia *On Competition and Monopolistic Activity (draft).*
28. Law of Armenia of 14 March 1992 *On Enterprises and Entrepreneurial Activities.*
29. Law of Armenia *On Bankruptcy of the Enterprise (draft).*
30. Law of Armenia of 2 September 1993. *On Currency Regulations and Exchange Controls.*
31. Law of Armenia of 27 April 1993. *On Banks and Banking Activities.*
32. Law of Armenia of 27 April 1993. *On the Bank of the Republic of Armenia.*
33. Republic of Armenia: *Principles of Legislation About Environmental Protection.*
34. Resolution of the Government of the Republic of Armenia No. 606 of 29 December 1994 *On Rates of the Excise Tax.*
35. Rules of the Arrangement and Placement of the Government Order of 1995.

VII. STATISTICS AND PUBLICATIONS

7.1 *Government statistics and publications*

Prior to independence, statistical information relevant to Armenia was maintained and processed in Moscow by the State Committee on Statistics of the Soviet Union. Since then, government efforts have focused on establishing an independent capability to generate statistical information on a timely and systematic basis. Support for these endeavours has been received from the International Monetary Fund and the World Bank.

The following statistical publications are currently available in Armenia:

- Monthly and quarterly statistical reports containing basic economic indicators and information on industry, agriculture, trade, public services, construction, and finance. (language: Armenian)
- Bulletin on the Economy of the Republic of Armenia (1994) (language: Armenian)
- Statistical bulletin on the Process of Construction and Rehabilitation in the Cities and Regions Affected by the Earthquake (1994) (language: Armenian)
- Manual on the Economy of the Republic of Armenia (annual) (languages: Armenian, Russian)
- Manual on Armenia in Figures (annual) (language: Armenian)
- Macroeconomic Prospects (annual) (languages: Armenian, English, Russian)

Official Government notices, legislation and regulations are reproduced in the following publications:

- The Bulletin of Decrees of the Government of the Republic of Armenia (monthly) (language: Armenian)
- Manual of the Supreme Council of the Republic of Armenia (monthly) (language: Armenian)

ANNEX 1

List of trade agreements with third countries

State	Agreements on Trade and Economic Cooperation	Free Trade Agreements	Agreements on Investment	Agreements on Customs Relations
Russia	Annual agreement	Signed 30/9/92		
Ukraine	Annual agreement	Signed 7/10/94	Signed 7/10/94 10-year duration	Signed 7/10/94 5-year duration
Belarus	Indefinite (since 1992)			
Moldova		Signed 24.12.93		
Kazakhstan	Annual agreement			
Kyrgyzstan	Four-year duration to 31/12/98	Signed 4/7/94	Signed 4/7/94 15-year duration	
Uzbekistan	Annual agreement			
Tajikistan	Annual agreement	Signed 2/3/94		Signed 2/3/94
Turkmenistan	Five-year duration to 31/12/97			Signed 24/8/94
Georgia	Five-year duration to 31/12/97			
Latvia	Signed in 1992			
Lithuania	Signed in 1992			
Estonia	Signed in 1992			
Vietnam	Signed 13/12/92		Signed 13/12/92	
China	Signed 8/1/92		Signed 2/7/92	
Iran	Signed 7/5/92			Signed 6/5/92
Romania	Signed 4/10/91			
Bulgaria	Signed 25/3/94			
United States	Signed 2/4/92		Signed 2/4/92	
Argentina	Signed 3/5/94		Signed 3/5/94	
Greece	Signed 20/1/92		Signed 20/1/92	
Austria	Signed 26/4/94			
United Kingdom			Signed 5/5/93	
Syria	Signed 30/3/92			
India	Signed 5/4/93			
Poland	Signed 10/3/92			
Hungary	Signed 15/4/92			

ANNEX 2

Statistical data

Main economic indicators

Economic indicators	1991	1992	1993	1994
Real GDP Index (1991 = 100)	100.0	47.1	40.1	40.1
Exchange rate (Period average dram/\$)		1	9	285
Consumer Price Index (Jan. 1994 = 100)	4.4	0.2	8.5	435.1
Wage index (state sector-Jan.1994= 100)		841	489	115

Consolidated Government Accounts 1993-94 (Million U.S. dollars)	1993	1994
Total revenue and grants	23.5	37.3
Total revenue	23.5	18.8
Tax revenue	13.4	13.2
Value-added tax	5.0	3.6
Excises	1.2	0.6
Enterprise profits tax	4.5	5.7
Enterprise fixed assets tax	0.1	0.1
Personal income tax	1.6	2.4
Customs duties	1.1	0.4
Other taxes	0.2	0.4
Non-tax revenue	0.9	5.6
Grants	...	18.5
Total expenditure	79.7	61.2
Current expenditure	54.2	51.2
Wages	7.5	3.5
Subsidies (on bread, communal services, books)	11.4	20.3
Domestic interest due	0.4	0.2
External interest due	0.3	2.1
Pension and social safety net	7.0	4.7
Health and education	9.7	4.3
Other	17.9	16.1
Capital expenditure and net lending	25.5	10.0
Overall deficit	-56.1	-23.9

Summary Balance of Payments Current Account (Million U.S. dollars)		1994
<u>Current account</u>		<u>0.0</u>
Current account excluding grants		(-239.4)
<u>Trade balance</u>		<u>-189.8</u>
Exports (fob)		196.8
Clearing		(92.7)
Other		(104.1)
Imports (fob)		-386.6
Clearing		(-94.7)
Other		(-291.9)
<u>Services balance</u>		<u>-85.6</u>
Non-financial services (net)		-79.3
Net transport		(-26.5)
Net interest		-6.4
<u>Official transfers</u>		<u>239.4</u>
Commodity assistance		194.5
Food		(146.7)
Other		(47.8)
Technical assistance		44.9
<u>Private transfers</u>		<u>36.0</u>
Diaspora		36.0

Foreign trade statistics

Balance of Foreign Trade with FSU Countries in 1994
(Million U.S. dollars)

State	Foreign Trade Turnover		Export		Import		Trade Balance	
		<i>Of which clearing</i>		<i>Of which clearing</i>		<i>Of which clearing</i>		<i>Of which clearing</i>
Russia	169	52.2	67	27.1	102	25.2	-35	1.9
Turkmenistan	135.5	135.5	63.8	63.8	71.7	71.7	-7.9	-7.9
Georgia	19	0	2.5	0	16.5	0	-14	0
Ukraine	8.3	0	3.5	0	4.8	0	-1.3	0
Belarus	1.1	0	0.7	0	0.4	0	0.3	0
Lithuania	0.9	0	0.3	0	0.6	0	-0.3	0
TOTAL	333.8	187.7	137.8	90.9	196	96.9	-58.2	-6

Balance of Foreign Trade with non-FSU Countries in 1994
(Million U.S. dollars)

State	Foreign Trade Turnover	Export	Import		Trade Balance
				<i>Of which humanitarian aid</i>	
USA	89.5	0.4	89.1	82	-88.7
Iran	67	14	53	0	-39
Belgium	32.2	30.2	2.2	0	28
Germany	14.2	6	8.2	0.6	-2.2
France	10	0.5	9.5	7.5	-9
Netherlands	8.2	0.7	7.5	5.5	-6.8
Italy	8	0	8	0.3	-8
Switzerland	4.5	2.3	2.2	2.1	0.1
Cyprus	3.2	3	0.2	0	2.8
Poland	2.3	0.3	2	0	-1.7
United Kingdom	2	1.5	0.5	0	1
India	2	0	2	0	-2
China	1.6	0	1.6	0	-1.6
Yugoslavia	1.5	0	1.5	0	-1.5
United Arab Emirates	1.2	0.1	1.1	0	-1
Bulgaria	1.01	0.01	1	0	-0.99
South Korea	1.01	0.01	1	0	-0.99
TOTAL	249.4	59	190.6	98	-131.6

Structure of Export and Import in 1994
(Million U.S. dollars)

Product Category	Export		Of which with FSU countries	Import		
		Of which with non-FSU countries			Of which with non-FSU countries	Of which with FSU countries
Prepared foodstuffs, animal and vegetable products	11.1	0.1	11	162.6	140.3	22.3
Mineral products	16.3	15.2	1.1	156.1	20.5	135.6
Products of the chemical and allied industries	11	0.3	10.7	7.8	4	3.8
Raw hides and skins, leather, furskins and articles thereof	1.2	0.2	1	0.2	0.02	0.2
Wood and articles of wood	0.2	0.1	0.1	1.6	0.3	1.3
Textiles and textile articles	13	0.2	12.8	5.9	4.3	1.6
Footwear, headgear, umbrellas	14	0.002	14	0.3	0.3	0.04
Articles of stone, gypsum, precious and semi-precious stones	71	38	33	33.6	10.2	23.4
Base metals and articles of base metals	10	4.3	5.7	3.6	1.6	2
Machinery and mechanical appliances	33	0.4	32.6	10.9	5.5	5.4
Instruments and apparatus	1	0.1	0.9	1.6	1.4	0.2
Other products	15	0.1	14.9	2.4	2.2	0.2
TOTAL	196.8	59	137.8	386.6	190.6	196