



Trade Policy Review Body

TRADE POLICY REVIEW
REPORT BY THE SECRETARIAT

ARMENIA

This report, prepared for the second Trade Policy Review of Armenia, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Armenia on its trade policies and practices.

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SUMMARY

1. Since the last Trade Policy Review of Armenia in 2010 the economy has grown by an average of 4% each year although growth has varied considerably: from 0.2% in 2013 to over 7% in 2017. To some extent, the growth can be attributed to sound macroeconomic management and sectoral reforms, while the fluctuations in growth are due mainly to changing commodity prices and external factors. With a narrow export base in both goods and services and a high level of remittances from Armenians working abroad, the country is exposed to external shocks particularly as most exports go to the EU and the Russian Federation and most remittances come from the Russian Federation.

2. Trade is very important to the economy with trade in goods and services equivalent to about 87% of GDP, and with expatriate remittances equal to 13% of GDP. In the period 2010 to 2017, exports of goods more than doubled in value to over US\$2 billion. Although the principal exports are still mining products, particularly copper ores and concentrates, exports of non-monetary gold and agricultural products increased even more quickly. The increase in agricultural exports was mainly due to exports of cigarettes which rose from less than 1% of total exports of goods to over 11% over this period. Imports of goods increased as well but in a more erratic manner and in 2017 were valued at US\$3.9 billion, only slightly higher than in 2010. In terms of trading partners, the Russian Federation has replaced the EU as the biggest source of imports and it is also the second biggest destination for exports, after the EU.

3. Armenia acceded to the Eurasian Economic Union (EAEU) in 2015 and the Eurasian Economic Commission (EEC) is responsible for external trade policy and regulation for the member States of the EAEU, including in tariffs, transit trade, contingency measures, technical regulations, and SPS measures. Accession to the EAEU required Armenia to harmonize tariffs with the common external tariff, although there are temporary exemptions for nearly 1,000 tariff lines with harmonization to be completed in 2022. Under the Treaty of Accession of Armenia to the EAEU, these goods may be imported into Armenia but cannot be re-exported to other member States without paying the difference between the Armenian tariff and the CET of the EAEU.

4. Accession to the EAEU has resulted in increases in tariffs on many tariff lines, and Armenia is currently engaged with other WTO Members in negotiations under Article XXIV and XXVIII of the GATT with over 6,500 tariff lines to be renegotiated. Compared to 2009, the applied average tariff has increased from 2.7% to 7.5%, and the percentage of non-*ad valorem* tariffs has increased from 0.5% to 13%. The average tariff on agricultural products, at 12%, is double the average on non-agricultural products while within agriculture animals and products thereof (26%), and sugars and confectionary (15%) are particularly highly protected.

5. Through the EAEU, Armenia is a party to a free trade agreement with Viet Nam, which came into force in October 2016. The EAEU has also concluded negotiations with China on a framework agreement for trade-economic cooperation, and with Iran on a temporary agreement leading to an FTA. Both agreements were signed in Kazakhstan on 17 May 2018, with entry into force foreseen by the end of the year. The EAEU is negotiating FTAs with several other countries. In addition, Armenia has eight bilateral FTAs in force with some other countries of the former Soviet Union and is signatory to the treaty on trade with other members of the Commonwealth of Independent States and, in November 2017, signed a Comprehensive and Enhanced Economic Partnership Agreement with the European Union.

6. The Customs Code of Armenia was replaced by the Customs Code of the Customs Union in 2015 and then by the EAEU Customs Code in 2018. Under the EAEU Customs Code, practically all customs declarations and clearance procedures are to be done electronically using a single window system, with provisions for prior-to-arrival submission of customs declaration and automatic release of goods, normally within four hours of registration. The electronic declaration system is to be completed by 2020 with a pilot project in operation since April 2018.

7. In addition to tariffs, importers must also pay fees for customs formalities and other charges, although the Customs Code of the EAEU states that customs fees should not exceed the estimated cost to the customs authorities. With few exceptions, all imports are subject to VAT, and alcoholic beverages, tobacco products and fuels are also subject to excise duties. According to estimates for 2016, the latest year available, VAT collected represented 33% of total tax revenue,

or the equivalent of 6.7% of GDP, with VAT collected from imports representing about 60% of total VAT collection.

8. While most imports are free of prohibitions, quotas or licensing requirements, there are restrictions for health, security or environmental reasons. These restrictions include requiring authorization for imports of some products such as pharmaceutical products and medicines, phyto-protection chemicals, weapons, and components used in the production of weapons.

9. The principal legal basis for trade defence instruments (anti-dumping, countervailing, and safeguards) is Annex 8 of the EAEU Treaty and the EEC is responsible for trade defence investigations with final decisions made by the Board of the EEC which consists of ministers representing member States. Since 2012, the EEC has completed 27 trade defence investigations, 19 of which were anti-dumping investigations. The countries most affected are China (nine investigations) and Ukraine (eight).

10. All goods exported from Armenia outside the EAEU are subject to customs declarations. Since there is no border with the other EAEU member States, land and sea transportation between Armenia and other EAEU member States is carried out through customs transit procedures. Goods can be declared at the customs offices where the goods are located.

11. The EAEU member States have concluded separate accords concerning export duties, according to which each member State of the EAEU establishes its own list of goods to which export duties may apply. For Armenia, the applied rate of exports duties for all goods was zero during the review period. Exported goods and ancillary services are zero-rated for VAT purposes. Exported goods are also exempt from excise tax. According to the authorities, Armenia does not provide subsidies contingent on export performance.

12. In June 2011, Armenia adopted the Law on Free Economic Zones (FEZs) and, by the end of that year, had developed several regulations to attract foreign investment into FEZs through various incentives (e.g. tax-free profit for legal entities; no income tax for sole proprietors who are residents of FEZs; no property tax on public and industrial buildings and structures owned or leased by residents within FEZs; no customs charges or non-tariff measures applied on goods released under the "Free Customs Zone" procedure). Three FEZs are currently operational.

13. The legal framework for standards, technical regulations, and conformity assessment is the EAEU Treaty and national legislation. To date, about 46 technical regulations have been adopted in the EAEU. To meet the requirements of technical regulations, interstate standards are used, which are developed and adopted by the Eurasian Standards Committee; also used are national standards of the member countries of the EAEU. There are about 5,000 standards currently listed by the EEC as supporting the technical regulations in force in the EAEU. According to the authorities, about 60% of them are harmonized with international standards. Up to end-May 2018, Armenia had made 92 notifications to the WTO on TBT measures. No specific trade concerns have been raised by other WTO Members about TBT measures taken by Armenia.

14. The EAEU Treaty established a coordinated SPS policy for EAEU member States, which also retain their right to introduce temporary SPS measures, e.g. in cases of justified risk of specific imported goods. After Armenia joined the EAEU, SPS standardization requirements appear to have become more stringent in order to match EAEU requirements. At end-May 2018, Armenia had made 27 notifications to the WTO on SPS measures.

15. Several reforms have been introduced in competition policy over the review period. The Law on Protection of Economic Competition (2000) was amended in 2011, 2013, 2017 and 2018. The amendments from March 2018 modernized the Law in line with the requirements of the new Constitution of the Republic of Armenia, and international standards, including the rules and principles of the EAEU and the CEPA with the EU.

16. According to the competition authority, most product markets in Armenia have been liberalized. Remaining natural monopolies exist in the gas, electricity, and water sectors, and in some cases where special rights have been transferred by the State in the form of concessions. At the same time, even in markets where big companies operated in a dominant position, dozens of

small and medium-sized companies also participated in these markets, thus contributing to enhancing competition.

17. The privatization process was more active in the 1996 to 2005 period due to Armenia's transition to a market economy and the fact that, at that time, there were far more SOEs active in many sectors of the economy. The current law on privatization (the fifth) is the Law on the 2017-2020 Program for State Property Privatization, which lists 47 entities for privatization, of which 24 are new additions and 23 were in earlier laws but were not privatized. As of 1 January 2018, there were 156 commercial entities with more than 50% state ownership (not including those on the list for privatization), of which 92 were healthcare companies. According to the authorities, there are no tax privileges for SOEs, and tax legislation applies to them as it does to all enterprises regardless of their status.

18. Government procurement constitutes about 4-7% of GDP and around 30% of government spending in recent years. Armenia became a Member of the WTO Plurilateral Agreement on Government Procurement (GPA) in September 2011. Subsequent to the renegotiation of the GPA, Armenia submitted its instrument of acceptance of the Protocol Amending the Agreement on Government Procurement in May 2015, and the revised Agreement entered into force in Armenia that year. Armenia has integrated both the GPA and the EAEU Treaty, and its legislation seeks to satisfy the requirements of both treaties and other relevant international standards, such as those established by the CEPA with the EU.

19. Although it has been reported that Armenia has a strong framework for the protection of intellectual property rights (IPR), the concept of IPR remains unrecognized by parts of the local population, and the onus for IPR complaints remains with the offended party. The majority of cases appear to be settled through out-of-court proceedings. While the Government has made some progress on IPR issues, strengthening enforcement mechanisms remains necessary. According to the legislation, customs authorities only suspend the importation of counterfeit goods, but do not seize them. While EAEU member States are allowed to maintain their domestic legislation on IPRs, the EAEU Treaty aims to create a common system for protecting IPRs, including preventing breaches of IPRs in the Union and to provide for cooperation towards their harmonization.

20. Agriculture continues to play an important role in supporting economic growth, accounting for a large portion of employment and rural incomes, and as a source for the expansion of exports. However, climate, topography, and the small size of many farms create significant challenges. Although exports of agricultural products (WTO definition) have increased considerably, this is mainly due to increased exports of cigarettes. Agriculture policy is set out in several documents including the Armenia Development Strategy 2014-2025 and the Rural and Agricultural Sustainable Development Strategy 2010-2020 which emphasise the importance and potential of agriculture. While there are several Government programmes to support agriculture, the value of support is quite low relative to the value of production at 1% for Green Box support and 0.5% for Amber Box support.

21. Although mining and quarrying represented only 3.5% of GDP, the sector is very important to the economy as it provided 47% of exports in 2017 (including exports of non-monetary gold). A new Mining Code was introduced in 2012 and several other legislative acts or amendments were also introduced during the review period and a development strategy is to be adopted by the end of 2019. Companies mining metal ores and producers of metal ore concentrates and smelting products are required to pay royalties and make payments into the nature and environment preservation fund. For ore concentrates, the royalty base is total revenue calculated as total production quantity and price in the purchase agreement. For smelting products, the royalty is based on production quantity and prices on the London Metal Exchange.

22. Armenia depends on imports for most of its primary energy needs, most of which are in the form of natural gas from the Russian Federation under a government-to-government agreement. Gas is also imported from Iran under a gas-for-electricity exchange agreement. Gasprom Armenia owns and operates the gas transmission and distribution network. Energy from biofuels and waste has increased considerably, from minimal levels in 2012 to nearly 5% of total primary energy supply in 2016. At present, Armenia has a single buyer model with electricity generation from a mix of private and publicly-owned power plants, a privately-owned single operator of the distribution and retail systems, a state-owned single transmission system, and other state-owned

companies responsible for systems operations. The Public Services Regulatory Commission (PSRC) is the regulator with wide-ranging responsibilities including setting tariffs, issuing licences, setting standards, etc. Under ongoing reforms, including amendments to the Law on Energy, Armenia will move from the single-buyer model to a more liberal system with independent suppliers, traders, and large users of electricity having better opportunities to access the electricity market.

23. Banking dominates the financial services sector. It underwent some consolidation since 2010, as the Central Bank of Armenia (CBA) increased minimum capital requirements from AMD 5 billion to AMD 30 billion at the beginning of 2017. As a result, the sector's capital adequacy ratio increased to 18.6% by the end of that year. In addition, non-performing loans decreased from nearly 10% of gross loans at end-2016 to about 5.5% at the end of 2017, where loans are classed as non-performing one day after becoming overdue. However, the banking system still faces several challenges including high levels of dollarization, with 63% of deposits and 64% of loans denominated in U.S. dollars. The CBA is responsible for the regulation and supervision of the financial sector. In October 2017, the National Assembly amended the law on Banks and Banking giving the CBA greater authority in regulating systemically important banks, and in December 2017, the CBA adopted a risk-based supervision manual. There are no restrictions on foreign participation, investment or ownership of banks.

24. As a landlocked country, most exports of goods must be transported overland to foreign markets with over 84% of total cargo by weight being transported by road. The Ministry of Transport, Communications and Information Technologies is responsible for legislation and public policy which is currently focused on improving regional interconnectivity, road safety, and capacity development. Zvartnots Airport is the main air gateway for passengers and freight both of which have increased significantly and, in 2017, nearly 2.5 million passengers and over 22,000 tonnes of freight passed through the Airport. Foreign investment in air transport services is limited to 49%. Following the bankruptcy of Armavia in 2013, Armenia introduced an open sky policy which envisages the complete revision of the institutional, legal and regulatory bases to develop a competitive and sustainable air transportation system. Armenia is a party to 40 bilateral air service agreements, and, in November 2017, initialled the EU-Armenia Common Aviation Agreement which is expected to improve market access for airlines, improve connectivity, and reduce fares for passengers.

25. In 2017, tourism was estimated to have contributed nearly 16% to GDP, accounted for 14% of total employment, and represented 29% of total exports. Tourist arrivals had more than doubled to 1.5 million in that year compared to 2010. A draft Law on Tourism has been submitted to the National Assembly which is intended, *inter alia*, to introduce qualification standards to tourism-related services, protect consumer rights, and ensure the quality of services. There are no restrictions on foreign investment and Armenia has tourism agreements with 18 countries.

26. Since the last Review of Armenia's trade policies in 2010, the economy has grown from US\$9,260 million to US\$ 11,536 million and the goods, services, and current account deficits have declined as exports grew faster than imports. Over the same period, inward FDI was consistently greater than outward FDI suggesting that Armenia is an attractive destination for investment. However, several challenges remain, such as the reliance on a narrow range of exports going to a limited number of destinations, particularly if expatriate remittances are added to exports. In addition, while Armenia's accession to the EAEU has meant it has duty free access to the other member States and stimulated improvements in customs procedures, it has also resulted in an overall increase in tariffs and a more complex tariff structure for other countries.

1 ECONOMIC ENVIRONMENT

1.1. Since the last TPR of Armenia in 2010, economic growth recovered from the severe downturn resulting from the 2009 global financial crises, with GDP increasing to about US\$11,537 million in 2017. Growth has been concentrated in industry and services, with construction activity continuing to decline as a share of GDP. The services sector was the largest contributor to GDP, accounting for 57.2% of value added in 2017, followed by: agriculture, fisheries and forestry (16.7%); manufacturing (11.4%); construction (8.2%); and mining and quarrying (3.5%) (Table 1.2).

1.2. With a per capita GDP of just under US\$3,872 in 2017, a population of about 3 million, and limited natural resources, trade and investment are very important to Armenia with, according to the authorities, a trade (imports and exports of goods and services) to GDP ratio of about 87% (Table 1.3).

1.3. As the economy recovers, the Government's goal is to create favourable conditions for a sustainable pattern of economic growth and poverty reduction. According to the IMF, Armenia's near-term growth outlook is broadly favourable.¹

1.1 Recent Economic Developments

1.4. Since its last Review, Armenia has made significant strides in enhancing macroeconomic stability. During 2010-17, growth has remained positive and averaged 4.0%, inflation has remained under control, and foreign exchange reserves have increased.² In 2010, GDP grew by 2.2% and accelerated to 7.2% in 2012 (Table 1.1), led by services, agriculture, agro-processing, and mining. Construction, a pre-crisis growth driver, also stabilized. Credit continued to expand, and the financial sector remained well capitalized. However, private investment remained weak.

1.5. GDP growth slowed to 3.3% in 2013, reflecting the decline in the price of copper (Armenia's main export), and a softening in the construction, agriculture, and services sectors. The decrease in growth in these sectors offset positive developments in manufacturing, which has proved to be a stable sector, accounting for about 11% of GDP in each year in the 2010-17 period, aided by an expansion in processed food and beverages, tobacco, and base metals.

1.6. In 2016, GDP growth declined further to 0.2%, as domestic consumption and investment decreased. In addition, the agriculture sector contracted to 16.4% of GDP in 2016 from 17% in 2010. Inflows of remittances also decreased to 13.1% of GDP from 18.0% in 2013. Data for 2017 shows signs of a strong recovery, with GDP growth of 7.5% attributed to an increase in remittances, which led to an increase in domestic consumption, and to expansionary monetary policy. Exports increased, supported by higher global copper prices and economic improvements among major trading partners. In addition, the construction sector expanded by 2.5% in 2017, after declining for the previous four years. Tourism also increased in 2017, with 18.7% growth in the number of tourists compared to the previous year. According to the World Travel and Tourism Council, travel and tourism contributed 15.7% to GDP in 2017.³

1.7. Despite positive developments, Armenia continues to face significant challenges. Although the share of remittances in GDP has followed a declining trend since 2013, fluctuations during the review period left the economy vulnerable to external shocks, particularly as Armenia is one of the three leading countries in Europe and Central Asia in terms of remittances sent home by labour migrants.⁴ In 2017, remittances contributed 13.3% to GDP (about US\$1.5 billion) (Table 1.1), mainly in US dollars from the Russian Federation.

¹IMF (2017), *Republic of Armenia – 2017 Article IV consultation and Fifth and Final Review Under the Extended Arrangement*, IMF Country Report No. 17/226.

² IMF (2017), *Republic of Armenia – 2017 Article IV consultation and Fifth and Final Review Under the Extended Arrangement*, IMF Country Report No. 17/226.

³ World Travel and Tourism Council (2018), *Travel and Tourism Economic Impact Armenia, 2018*, March. Viewed at: <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/armenia2018.pdf>.

⁴ World Bank (2017), *Armenia Country Update Fall/Winter 2017-18*, Washington. Viewed at: <https://elibrary.worldbank.org/doi/pdf/10.1596/29268>.

Table 1.1 Selected macroeconomic indicators, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
National accounts (% change)								
Real GDP	2.2	4.7	7.2	3.3	3.6	3.2	0.2	7.5
Consumption	3.9	2.6	7.7	1.6	0.7	-6.2	-1.2	9.5
Private consumption ^a	3.8	2.4	9.1	0.9	1.0	-7.8	-1.1	9.0
Public consumption	3.9	1.9	-1.4	7.6	-1.2	4.7	-2.4	13.1
Gross capital formation	0.5	-5.2	0.5	-9.1	-3.0	-1.2	-8.7	13.9
Gross fixed capital formation	-2.9	-11.7	-1.9	-7.0	-2.2	2.5	-11.4	7.7
Inflation and interest rates (%)								
Inflation (CPI)	8.2	7.7	2.6	5.8	3.0	3.7	-1.4	1.0
Deposit rate	8.95	9.25	9.55	10.16	10.43	14.15	11.62	9.01
Lending rate	19.20	17.76	17.23	15.99	16.41	17.59	17.36	14.41
Exchange rate								
AMD/US\$ (annual average)	373.66	372.50	401.76	409.63	415.92	477.92	480.49	482.72
Real effective exchange rate (% change) [IMF]	2.2	0.1	-3.2	1.2	3.9	3.1	-1.2	-1.7
General Government (% of GDP)								
Fiscal balance	-5.0	-2.8	-1.4	-1.5	-1.9	-4.8	-5.5	-4.8
Revenue including grants	23.2	24.0	22.9	24.2	24.4	23.8	23.8	22.9
Tax revenue	20.8	21.1	21.1	22.4	22.5	21.6	21.8	..
Expenditure	28.2	26.8	24.3	25.7	26.3	28.6	29.3	27.7
General government debt	34.1	35.9	35.7	36.3	39.4	44.1	51.9	53.7
General government's external debt	27.0	28.3	29.7	30.2	32.9	36.8	41.1	42.5
Saving and investment (% of GDP)								
Gross national savings	14.7	16.0	14.8	14.5	13.4	18.4	..	..
Gross domestic investments	32.9	27.3	25.3	22.3	20.9	20.7	18.0	19.0
Saving-investment gap	-18.2	-11.3	-10.5	-7.8	-7.5	-2.3	..	..
External sector (% of GDP, unless otherwise indicated)								
Current account balance	-13.6	-10.4	-10.0	-7.3	-7.6	-2.6	-2.3	-3.5
Remittances received	18.0	17.7	18.0	19.7	17.9	14.1	13.1	13.3
Capital account	1.1	0.9	1.0	0.8	0.6	0.6	0.3	0.4
Financial account	-14.2	-9.9	-7.1	-9.2	-7.3	-3.4	-4.1	-4.0
Direct investment	-5.6	-4.3	-4.5	-2.9	-3.3	-1.5	-2.5	-1.9
International reserves (US\$ million)	1,865.8	1,932.4	1,799.3	2,251.6	1,489.4	1,775.3	2,204.1	2,313.9
in months of imports of goods and services	4.9	4.7	4.2	4.9	3.3	4.8	5.9	4.8
External debt	68.1	73.1	72.3	78.5	73.6	84.5	94.1	91.1
External debt (US\$ million)	6,306.6	7,417.7	7,673.9	8,732.8	8,540.5	8,918.8	9,953.1	10,528.7
Memorandum:								
Current GDP at market price (AMD billion)	3,460.2	3,777.9	4,266.5	4,555.6	4,828.6	5,043.6	5,067.3	5,568.9
Current GDP at market price (US\$ million)	9,260.3	10,142.1	10,619.3	11,121.5	11,609.5	10,553.3	10,546.1	11,536.5
GDP per capita (US\$)	3,041.3	3,349.6	3,511.6	3,680.2	3,852.1	3,512.4	3,524.4	3,872.1
Unemployment rate (%)	19.0	18.4	17.3	16.2	17.6	18.5	18.0	17.8

a Not including consumption of non-profit institutions serving households.

.. Not available.

Source: Statistical Committee of the Republic of Armenia; Central Bank of Armenia (CBA); World Bank and IMF.

Table 1.2 GDP by economic activity and employment, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
GDP by economic activity, share in value added (%)								
Agriculture, hunting, forestry and fishing	19.2	22.8	20.1	20.7	20.4	19.3	18.2	16.7
Mining and quarrying	2.9	3.1	3.0	2.5	2.4	2.4	2.9	3.5
Manufacturing	10.9	11.9	10.6	10.9	10.9	10.3	11.4	11.4
Electricity, gas, steam and air conditioning supply	3.2	3.9	4.1	4.5	4.4	5.1	5.0	4.5
Construction	19.5	14.6	13.2	11.8	10.5	10.5	8.6	8.2
Services	45.9	46.2	51.2	51.5	53.5	53.9	55.5	57.2
<i>of which</i>								
Wholesale and retail trade; repair of motor vehicles, motorcycles	14.5	14.2	13.5	13.5	13.3	12.2	10.9	12.0
Information and communication	4.3	4.0	3.8	3.7	3.8	3.8	3.9	3.8
Financial and insurance activities	4.1	4.5	4.5	4.5	4.8	4.4	4.9	5.4
Real estate activities	2.4	3.0	9.2	9.2	9.4	9.7	9.5	9.3
Professional, scientific and technical activities	1.5	1.3	1.1	1.1	1.3	1.3	1.3	1.3
Public administration	4.2	4.2	4.2	4.5	4.9	5.4	5.5	5.4
Education	3.9	3.6	3.3	3.2	3.2	3.3	3.4	2.9
Human health and social work activities	3.6	4.1	3.9	4.3	4.3	4.4	4.5	4.6
Arts, entertainment and recreation	1.0	1.1	1.5	1.5	2.1	3.6	5.1	5.9
Employment by sector (%)^a								
Agriculture, forestry and fishing	38.6	38.9	37.3	36.3	34.8	35.3	33.6	31.3
Industry	10.2	11.0	11.8	11.3	11.6	11.3	12.1	13.1
Construction	7.2	5.7	5.9	5.7	5.2	4.7	3.7	3.7
Services	44.0	44.4	45.0	46.7	48.4	48.8	50.6	51.9
Trade, repair accommodation and food service activities	10.8	10.5	11.1	11.6	12.7	12.6	13.8	13.4
Transportation and storage, information and communication	6.0	5.6	6.3	6.2	5.8	5.5	5.2	5.8
Financial, real estate, professional, scientific, technical, administrative and support activities	3.7	3.5	2.9	3.8	3.8	3.6	3.4	3.9
Public administration, education, health and social work	19.8	20.7	20.3	20.4	21.7	23.3	24.1	24.3
Other services	3.7	4.1	4.4	4.6	4.5	3.7	4.1	4.5

a Employment data for 2017 are preliminary.

Source: Statistical Committee of the Republic of Armenia online information.

1.2 Main Macroeconomic Policy Developments

1.2.1 Monetary and exchange rate policies

1.8. The 2015 amendments to the Constitution added financial stability to price stability as the main objective of the Central Bank of Armenia (CBA) while maintaining the Bank's independence in performing its functions (Article 200).

1.9. Inflation, as measured by the consumer price index (CPI), peaked to 8.2% in 2010 and declined to 3.0% in 2014 after a tightening of monetary policy to ensure that inflation remained

under control (Table 1.1). In 2016, inflation turned negative, and the CBA eased monetary policy with lower interest rates which supported a recovery in private sector credit. The CBA remained focused on returning inflation to the 4% target and, in 2017, consumer prices started to increase with inflation at 1%, mainly driven by increases in food prices. A statement from the CBA suggests that there is a need to neutralize loose monetary conditions in the mid-term, as they assess the recovery of domestic demand will continue.⁵

1.10. Since 1996, the CBA has been following a freely floating exchange rate regime, which is consistent with the principles of liberalized capital account operations and the implementation of an independent monetary policy. According to the authorities, the CBA's interventions in the foreign exchange market are carried out only to smooth fluctuations or to offset transitory pressure during periods of excessive volatility, while it also views exchange rate flexibility as a means to maintain competitiveness.⁶

1.11. Following the monetary policy tightening in 2014, which helped contain inflation and anchor inflation expectations, the foreign exchange market has been more stable and the CBA has reduced foreign exchange interventions.

1.2.2 Fiscal policy

1.12. The Ministry of Finance implements the policies of the Government in the areas of fiscal revenue collection and public finance administration.⁷ After pursuing fiscal expansion during the crisis, the Government focused on consolidating its fiscal accounts through expenditure compression of 4.0% of GDP during 2010-12, by reducing spending on capital; priority social spending was largely protected.⁸ (Table A1.5). However, the decline in remittances, the price of copper, receipts from the EAEU customs pool, and deflation in 2016 adversely affected the fiscal position. The budget deficit was gradually increased to 5.5% of GDP in 2016 due to expansionary fiscal policy aimed at increasing demand in the economy (Table 1.1). The budget deficit declined to 4.8% of GDP in 2017. However, according to the authorities, the budget deficits in 2016 and 2017 included a "military loan", which accounted for 0.5 and 1.5 percentage points of GDP in 2016 and 2017, respectively. Therefore, the underlying deficit declined from 5% of GDP in 2016 to 3.2% of GDP in 2017.

1.13. As a result of the countercyclical fiscal policy, public debt increased. Against this background, the authorities consider debt sustainability a top priority, and are strengthening revenue mobilization through a new tax code and improvements in tax administration. These reforms have permitted some relief in capital expenditure. Supported by strengthened tax administration efforts, stronger economic activity, and an increase in collections from the EAEU's customs pool, tax revenues performed better in 2017 while expenditures remained in line with the budget.⁹

1.3 Main Structural Policy Developments and Challenges

1.14. The Government's programme aims to attract investment and improve the business climate, with the goal of raising economic growth and making it more inclusive.¹⁰ A large and diverse set of initiatives are underway in the business environment; public administration; financial sector; and energy sector.

⁵ CBA press release 13 February 2018. Viewed at: <https://www.cba.am/EN/pmessagesannouncements/press%20release%20February%202018.pdf>.

⁶ IMF (2017), *Republic of Armenia – 2017 Article IV Consultation and Fifth and Final Review under the Extended Arrangement*, Country Report No 17/226, July. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2017/07/19/Republic-of-Armenia-2017-Article-IV-Consultation-and-Fifth-and-Final-Review-Under-the-45107>.

⁷ Government online information. Viewed at: <http://www.gov.am/en/structure/12/>.

⁸ World Bank (2013), *Country Partnership Strategy for the Republic of Armenia, FY 2014-FY2017*, Report Number 81647-AM, pg. 4. Viewed at: <http://documents.worldbank.org/curated/en/386701468206966299/pdf/816470CASOAM0C00Box379845B00PUBLIC0.pdf>.

⁹ World Bank (2017), *Armenia Country Update Fall/Winter 2017-18*, Washington. Viewed at: <https://elibrary.worldbank.org/doi/pdf/10.1596/29268>.

¹⁰ World Bank (2017), *Armenia Country Update Fall/Winter 2017-18*, Washington. Viewed at: <https://elibrary.worldbank.org/doi/pdf/10.1596/29268>.

1.3.1 Business environment

1.15. Several initiatives have been launched to improve the business environment, with the aim of channelling domestic and foreign private funds to promote, *inter alia*, energy, tourism, infrastructure, mining, and the food and light industries. These initiatives include:

- The review of the Law on Foreign Investments;
- The review of the Law on Free Economic Zones;
- The review of the public private partnership (PPP) regime and policy; the drafting of a new law on PPPs is underway;
- The introduction of the Centre for Strategic Initiatives in 2017 and the structural reorganization of the Development Foundation of Armenia to Business Armenia, to support reforms in PPPs, and attract FDI; and
- The establishment of new investment funds and the Armenia Investors Club, supported by the diaspora.

1.16. According to the Eurasian Economic Commission (EEC), Armenia's accession to the Eurasian Economic Union (EAEU) has enhanced opportunities for trade-based growth and investment flows.¹¹ It has also been stated that Armenia could capitalize on its status as the only EAEU member State bordering Iran¹², and on the implementation of the temporary free trade agreement (FTA) between the EAEU and Iran (Section 2.4.2.1). Trade and investments between the two countries are also expected to increase following the construction of a new power transmission line connecting the two countries (Section 4.2.2). The US\$120m facility, scheduled for completion in 2018, will allow an increase in exports to Iran of Armenian electricity generated with Iranian natural gas. The investment should give a further boost to bilateral investments.¹³

1.17. In addition, the European Union and Armenia signed a Comprehensive and Enhanced Partnership Agreement (CEPA) in 2017, which broadens the scope of economic and sectoral cooperation, creating a framework for new opportunities in trade and investment, as well as bringing Armenian economic laws and regulations closer to those of the European Union. Harmonization of regulations will cover the business environment, agriculture, transport, environment, consumer protection and the energy sector.¹⁴ In 2017, the authorities signed the Open Sky Agreement with the European Union to upgrade transportation infrastructure, and improve connectivity and international integration to improve the business environment. Negotiations on the EU-Armenia Common Aviation Area Agreement and the Single Support Framework for Armenia 2017-20 are ongoing.

1.18. According to the World Bank's Ease of Doing Business report, Armenia ranked 47th out of 190 economies in the ease of doing business in 2018.¹⁵ In the reporting period, Armenia improved its business environment, improving its rank for starting a business and property registration (15th and 13th, respectively). It also ranked 73rd in 2017 (up from 79th in 2016) in the Global Competitiveness Report of the World Economic Forum.¹⁶ The improvements in ranking were due to the regulatory reforms adopted in 2016 and 2017. There has also been progress on the investment policy, and revisions have been made to the Law on Domestic Competition which impose higher penalties for anti-competitive behaviour, puts in place the possibility of penalties for public and private sector officials, and clarifies definitions of the law such as abuse of dominance and unfair competition. In addition, proposed changes to the Law on Foreign Investments, which aims to protect investors and investment incentives, are with the National Assembly for consideration. The

¹¹ EEC (2018), *Republic of Armenia Two Years in the Eurasian Economic Union, first results*, Moscow. Viewed at:

http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_razv_integr/Pages/%D0%9D%D0%BE%D0%B2%D1%8B%D0%B5%20%D1%81%D1%82%D1%80%D0%B0%D0%BD%D0%B8%D1%86%D1%8B/%D0%94%D0%BE%D0%BA%D0%BB%D0%B0%D0%B4%20%D0%A0%D0%90%2014.05.2018.pdf (Russian).

¹² Economist Intelligence Unit (2016), *Country Report – Armenia*, London.

¹³ Economist Intelligence Unit (2016), *Country Report – Armenia*, London.

¹⁴ World Bank (2017), *Armenia Country Update Fall/Winter 2017-18*, Washington. Viewed at: <https://elibrary.worldbank.org/doi/pdf/10.1596/29268>.

¹⁵ World Bank, Ease of Doing Business, Armenia online information. Viewed at: <http://www.doingbusiness.org/data/exploreeconomies/armenia>.

¹⁶ World Economic Forum (2017), *The Global Competitiveness Report 2017-2018*, Geneva.

Government is also in the process of drafting a new PPP law to facilitate private sector involvement in public investment.

1.3.2 Tax reform

1.19. With a view to ensuring debt sustainability, an amended tax code was approved in 2018. The principal goals of the legislation are to address structural limitations in the current tax system by decreasing exemptions, increasing coverage, and generating additional revenue in the medium term. The regulation intends to shift the balance from direct to indirect taxation by increasing excise tax rates on alcohol, tobacco, and fuel, and to improve equity by broadening the base, including taxation of dividends received by individuals and revising the rate schedule for personal income tax.

1.20. Through these reforms, the authorities also intend to increase the transparency of the tax system by closing loopholes, and to improve tax administration to increase the tax-to-GDP ratio. At the same time, the Government intends to improve revenue administration by developing better compliance by speeding up the payment of VAT refunds, clarifying rules for tax audits, and reducing the size of the informal economy. The Government estimates the new tax code will increase the tax-to-GDP ratio by 2 percentage points by 2021.¹⁷

1.3.3 Financial sector reform

1.21. According to the authorities, improving resilience to shocks remains at the core of financial sector policies. Therefore, the CBA implemented measures to consolidate and strengthen the banking sector's resilience and efficiency. In 2017, a new minimum capital requirement (AMD 30 billion) became effective in order to increase capital buffers and enhance banking services through greater economies of scale. Most banks achieved this requirement by increasing their capital levels or through mergers, and are well capitalized and financial soundness indicators are improving (Section 4.3.2).¹⁸

1.3.4 Energy sector reform

1.22. The authorities are focused on improving the electricity distribution system, thereby improving supply reliability and increasing the affordability of energy provision by reducing costs. Specifically, they have strengthened the electricity sector by encouraging private sector participation and modernizing the nuclear power plant, and are exploring options for building new renewable and thermal power plants.¹⁹

1.23. According to the authorities, the implementation of the four main pillars of the Energy Sector Development Strategy continues. These pillars are: the development of nuclear energy; the realization of an economically viable renewable energy potential; the diversification by types and source of primary energy supplies; and regional integration. The objectives are: the improvement of energy efficiency and energy savings in all sectors of the economy; the safe operation of the nuclear power plant; and the construction of new nuclear capacities (Section 4.2.2).

1.4 Balance of Payments

1.24. During the period under review, Armenia's current account deficit decreased substantially from US\$1,261.4 million in 2010 to US\$238.1 million in 2016, before rising again to US\$399.9

¹⁷ IMF (2017), *Republic of Armenia – 2017 Article IV Consultation and Fifth and Final Review under the Extended Arrangement*, Country Report No 17/226, July. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2017/07/19/Republic-of-Armenia-2017-Article-IV-Consultation-and-Fifth-and-Final-Review-Under-the-45107>.

¹⁸ IMF (2017), *Republic of Armenia – 2017 Article IV Consultation and Fifth and Final Review under the Extended Arrangement*, Country Report No 17/226, July. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2017/07/19/Republic-of-Armenia-2017-Article-IV-Consultation-and-Fifth-and-Final-Review-Under-the-45107>.

¹⁹ IMF (2017), *Republic of Armenia – 2017 Article IV Consultation and Fifth and Final Review under the Extended Arrangement*, Country Report No 17/226, July. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2017/07/19/Republic-of-Armenia-2017-Article-IV-Consultation-and-Fifth-and-Final-Review-Under-the-45107>.

million in 2017. The reduction was driven by fiscal consolidation between 2009 and 2011, then by rising remittances in 2013, and then by an increase in exports, largely due to the opening of a new copper mine in 2015. In addition, broader industrial development and export diversification policies led to faster growth in exports. Furthermore, growth in exports was supported by a more flexible dram, a rebound in the Russian Federation market, greater air connectivity, and infrastructure improvements. Armenia's recent entry into the EAEU may also represent an important structural change that may have had some impact on trade. The increase in the current account deficit in 2017 was largely due to an increase in imports of goods and services (Table 1.3).

Table 1.3 Balance of Payments, 2010-17

US\$ million

	2010	2011	2012	2013	2014	2015	2016	2017
Current account	-1,261.4	-1,058.9	-1,057.9	-813.0	-882.9	-272.4	-238.1	-399.9
Goods and services balance	-2,326.5	-2,175.6	-2,214.0	-2,321.1	-2,168.9	-1,281.8	-1,015.8	-1,544.7
Goods balance	-2,065.7	-2,109.8	-2,111.9	-2,196.2	-2,055.4	-1,186.4	-944.4	-1,482.1
Exports	1,197.5	1,431.6	1,515.7	1,635.9	1,698.1	1,623.9	1,890.7	2,378.3
Imports	3,263.2	3,541.4	3,627.6	3,832.0	3,753.6	2,810.3	2,835.1	3,860.4
Services balance	-260.8	-65.8	-102.1	-125.0	-113.5	-95.4	-71.4	-62.5
Exports	1,013.2	1,310.6	1,401.7	1,519.4	1,620.2	1,512.4	1,609.7	1,895.0
Imports	1,274.0	1,376.4	1,503.8	1,644.4	1,733.7	1,607.9	1,681.1	1,957.6
Income	458.3	360.1	423.0	682.5	541.1	442.9	224.2	497.7
Credit	1,049.1	1,065.5	1,115.2	1,259.1	1,212.9	885.9	851.0	1,063.8
Compensation of employees	1,008.2	1,008.6	1,071.2	1,228.3	1,168.9	842.4	773.7	858.1
Investment income	40.9	57.0	44.0	30.8	44.0	43.6	77.3	205.6
Debit	590.8	705.5	692.2	576.6	671.8	443.0	626.8	566.1
Compensation of employees ^a	98.9	152.7	156.1	177.3	193.5	180.6	176.4	175.4
Investment income	491.9	552.8	536.0	399.3	478.2	262.4	450.3	390.7
Current transfers	606.8	756.7	733.1	825.6	744.9	566.5	553.4	647.1
Credit	813.5	997.9	990.8	1,118.9	1,057.2	904.1	882.9	1,017.8
Personal transfers ^b	661.1	790.0	843.8	963.9	909.7	649.1	608.7	680.9
Debit	206.7	241.2	257.7	293.4	312.3	337.6	329.5	370.7
Personal transfers	128.5	147.7	158.6	178.0	197.1	183.2	181.6	192.2
Capital account	98.9	94.6	108.4	84.4	70.4	65.3	34.9	46.3
Financial account	-1,318.5	-1,001.0	-759.0	-1,027.8	-848.9	-356.5	-435.4	-465.6
Direct investment	-521.4	-437.3	-480.8	-319.5	-387.9	-161.5	-271.9	-223.5
Armenia's direct investment abroad	7.9	215.9	15.8	26.6	16.0	16.8	66.2	22.3
Direct investment into Armenia	529.3	653.2	496.6	346.1	403.9	178.3	338.1	245.7
Portfolio investment	-18.3	8.4	-0.8	-689.4	38.4	-235.0	-33.9	86.8
Assets	0.9	0.0	1.1	5.4	6.0	19.9	23.1	30.0
Liabilities	19.2	-8.4	2.0	694.8	-32.3	254.8	56.9	-56.8
Financial derivatives (other than reserves) and employee stock options	0.0	0.0	0.0	-0.6	1.2	-1.7	1.3	-1.0
Other investment	-650.0	-704.9	-229.0	-488.9	158.9	-291.2	-581.7	-424.7
Assets	133.2	120.8	151.9	-73.5	407.9	78.0	239.7	-209.4
Currency and deposits	38.5	104.1	190.9	-88.8	179.0	13.0	-249.0	-25.2
Loans	72.3	-16.2	-48.0	20.0	153.5	82.0	454.8	-168.3
Trade credits and advances	12.7	17.0	1.2	-0.3	58.0	-17.8	37.8	-26.9
Other assets	9.7	15.9	7.8	-4.4	17.4	0.9	-3.8	11.0
Liabilities	783.2	825.7	380.9	415.4	249.0	369.2	821.4	215.3
Currency and deposits	54.4	213.9	-14.8	440.7	-256.9	53.4	285.6	-218.8
Loans	689.7	563.9	299.1	-41.8	492.4	303.4	518.7	418.8
Trade credits and advances	14.1	27.2	62.0	8.6	7.6	20.8	23.7	10.0
Other liabilities	25.1	20.9	34.5	7.8	5.9	-8.4	-6.7	5.2
Reserve assets	-128.7	132.9	-48.3	470.6	-659.6	332.9	450.8	96.8
Net errors and omissions	-155.9	-36.8	190.5	-299.2	-36.5	-149.3	-232.1	-112.0

- a Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident, and of residents employed by non-resident entities.
- b Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households.

Source: CBA online information.

1.5 Developments in Trade and Investment

1.25. During the 2010-17 period, exports of goods more than doubled to US\$2,145 million. Imports, on the other hand, fell by 15% to 2016 before increasing in 2017 to US\$3,893.5 million (Chart 1.1) and Tables A1.1 and A1.2. In addition, both imports and exports of services increased during the same period.

1.5.1 Trends and patterns in merchandise trade

1.26. Armenia's exports continue to be concentrated in the mining sector; however, its concentration decreased from 47.8% of total merchandise exports in 2010 to 40.2% in 2017. This was largely due to a decline in the share of exports of non-ferrous metals as exports of copper ore and concentrates increased (Chart 1.1.).

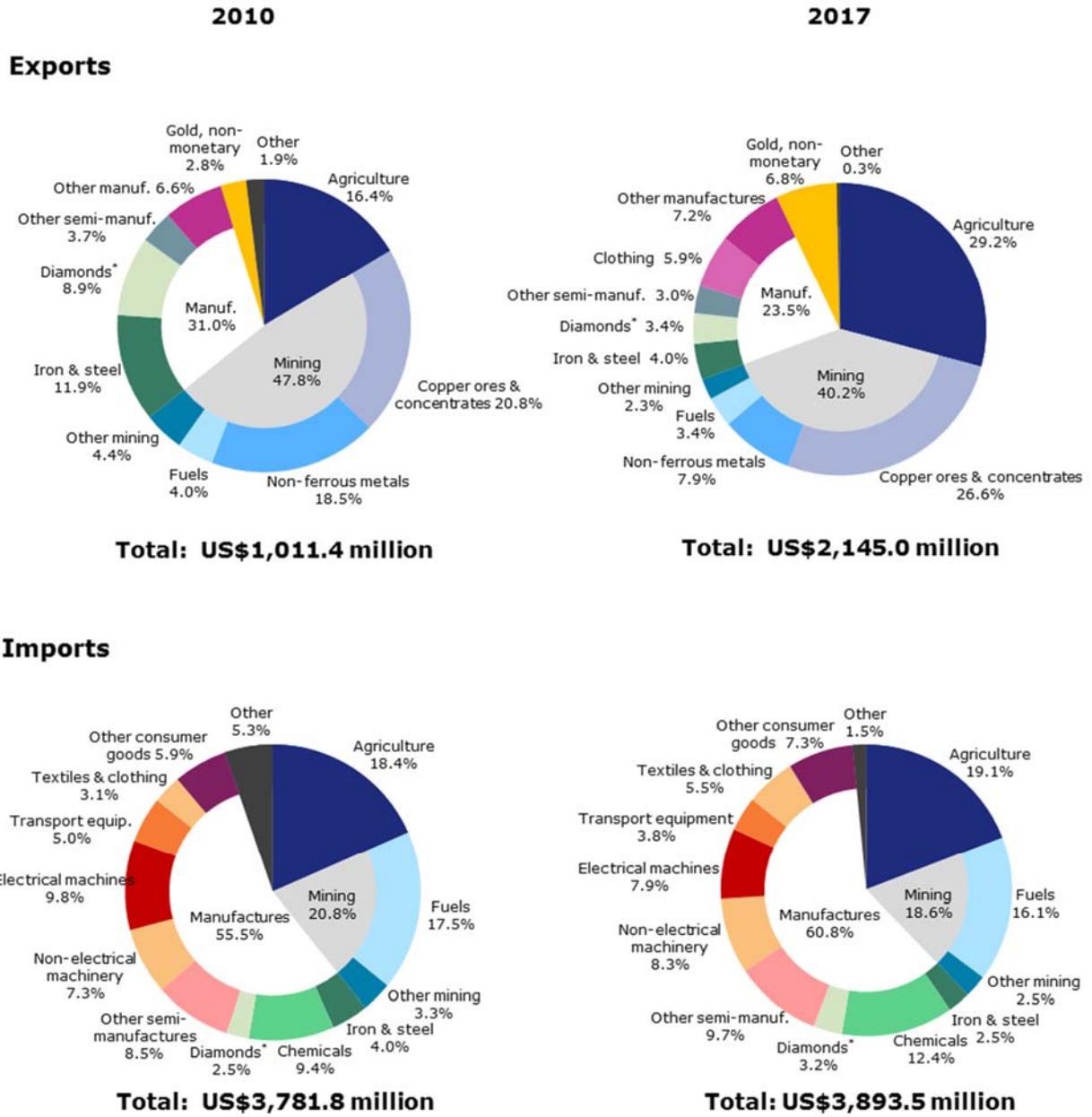
1.27. In 2010, the manufacturing sector was the second largest contributor to merchandise trade exports. However, in 2017, the sector was overtaken by agriculture. This was a result of a decrease in exports of diamonds, and iron and steel. However, exports of gold increased from 2.8% in 2010 to 6.8% in 2017. This was a result of an increase in gold mining projects.

1.28. The large increase in exports of agricultural goods was driven by exports of cigarettes containing tobacco (11.1% of total exports), followed by spirits and liqueurs (9.7%) (Section 4.1.3.4).

1.29. There was no major change in the structure of merchandise imports. The largest single category continued to be manufactures, within which chemicals, semi-manufactured goods, and non-electrical and electrical machines were the largest sub-categories.

1.30. Although the European Union remains the main destination for exports of goods, its share of declined from nearly 50% in 2010 to just over 28% in 2017, ahead of the Russian Federation (25%). On the import side, the Russian Federation is now the main source of imports, accounting for nearly 30%, while the European Union's share decreased from nearly 26% to 21% (Chart 1.2).

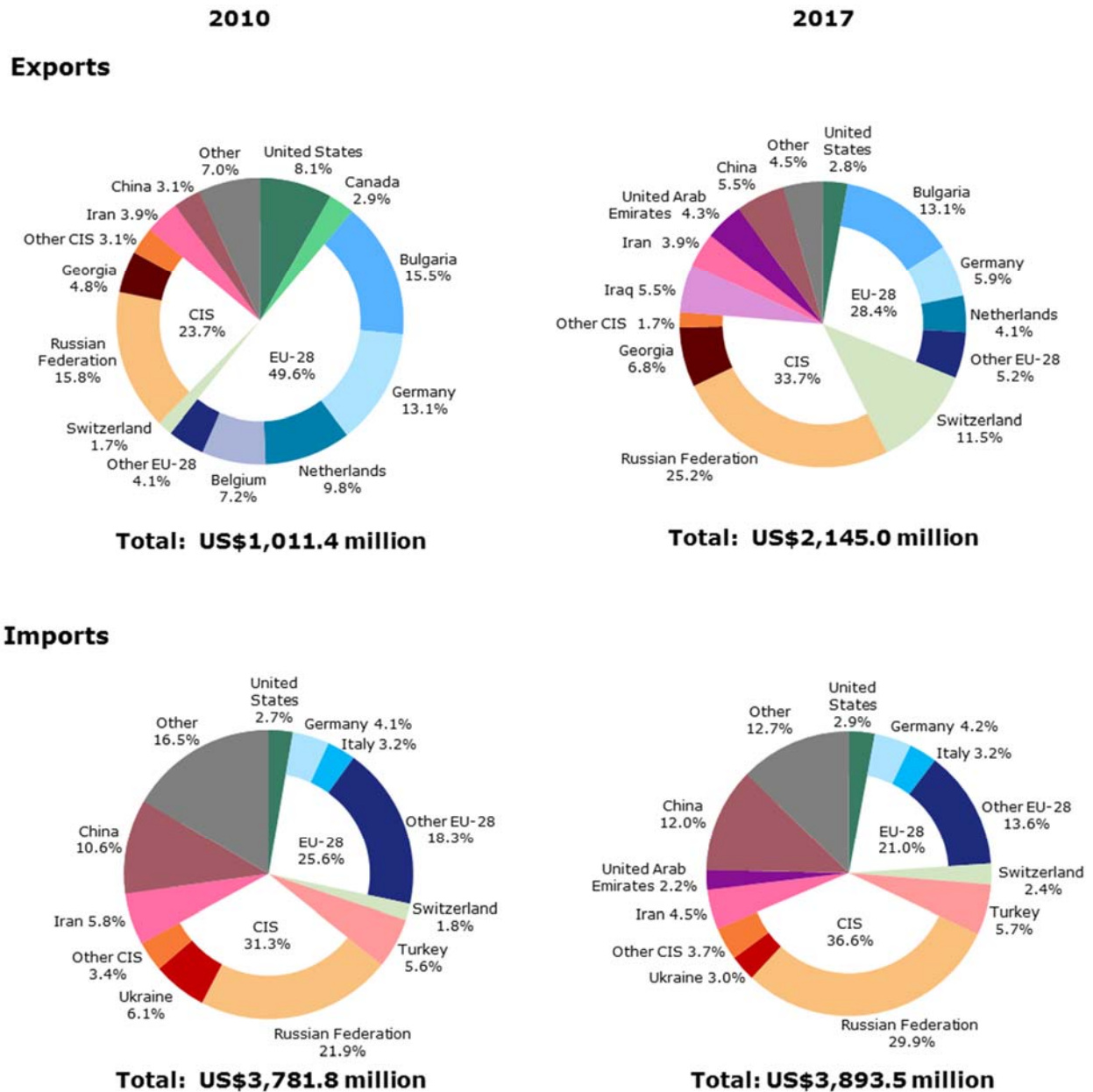
Chart 1.1 Product composition of merchandise trade, 2010-17



* Diamonds (other than sorted industrial diamonds), whether or not worked, but not mounted or set.

Source: WTO calculations, based on UNSD Comtrade database (SITC Rev.3).

Chart 1.2 Direction of merchandise trade, 2010-17



Note: Georgia is not a member of the CIS, but is included in this group for reasons of geography.

Source: WTO calculations, based on UNSD Comtrade database (SITC Rev.3).

1.5.2 Services trade

1.31. Trade in services increased considerably over the 2010-17 period, driven primarily by increasing personal travel on the debit side, which rose to over half of the total debit. On the credit side, personal transport remained dominant throughout the period representing about half of all credit. Tourism-related services for travel and passenger transport was well over half for both credits and debits (Table 1.4).

Table 1.4 Composition of trade in services, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
Total credit (US\$ million)	1,013	1,311	1,402	1,519	1,620	1,512	1,610	1,895
	(% of total credit)							
Manufacturing services	1.4	0.7	0.3	0.4	0.3	0.2	0.4	0.5
Maintenance and repair services	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Transport	15.3	13.5	12.4	11.3	11.2	10.8	11.7	12.2
Passenger	4.8	3.1	2.6	1.7	1.7	1.3	1.2	1.0
Freight	9.0	9.1	8.7	8.5	8.4	8.4	9.5	10.1
Travel	63.7	55.1	58.3	57.9	59.6	61.9	60.1	59.1
Business	11.9	9.7	9.6	8.2	8.3	8.1	7.4	6.7
Personal	51.8	45.5	48.7	49.8	51.4	53.8	52.8	52.4
Postal and courier services	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.8	14.3	14.1	14.6	13.0	10.8	9.3	9.6
Insurance and pensions	1.3	1.4	1.3	1.2	1.2	1.2	1.3	1.4
Finance	0.7	0.6	0.3	0.6	0.6	0.4	0.4	0.3
Telecommunications, computer and information	12.6	7.8	7.0	7.3	8.0	8.6	10.8	11.1
Other business services	0.9	3.0	3.0	3.5	3.1	2.8	2.8	2.5
Personal, cultural and recreational	1.9	1.5	1.4	1.2	1.2	1.2	1.2	1.0
Government	1.2	1.9	1.9	1.8	1.6	1.9	2.0	2.2
Total debit (US\$ million)	1,274	1,376	1,504	1,644	1,734	1,608	1,681	1,958
	(% of total debit)							
Maintenance and repair services	0.2	0.2	0.7	0.4	0.2	0.2	0.2	0.2
Transport	35.0	33.5	31.5	29.1	26.9	22.5	21.9	22.5
Passenger	4.9	5.0	4.7	4.7	4.5	3.8	3.1	2.8
Freight	25.9	25.1	24.0	23.2	21.2	17.6	17.8	18.6
Travel	45.4	49.9	53.4	56.5	59.1	61.9	63.5	64.9
Business	16.0	17.1	17.0	16.9	16.1	14.5	13.5	13.0
Personal	29.5	32.8	36.4	39.6	43.0	47.4	50.0	51.9
Postal and courier services	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction	1.1	0.8	1.1	0.5	0.8	1.5	1.2	0.1
Insurance and pensions	4.3	4.0	3.7	3.5	3.0	2.8	2.6	2.8
Finance	0.9	0.8	0.7	0.6	0.8	0.8	1.0	0.8
Telecommunications, computer and information	2.0	1.4	1.7	2.6	2.6	2.1	1.4	1.4
Other business services	8.5	6.8	5.1	4.5	4.6	5.9	5.8	5.4
Personal, cultural and recreational	0.9	0.8	0.6	0.6	0.6	0.6	0.5	0.5
Government	1.7	1.8	1.7	1.6	1.6	1.7	1.9	1.5
<i>Memorandum:</i>								
Tourism-related services in travel and passenger transport								
%age of total credit	67.2	57.0	59.7	58.8	60.1	61.9	60.2	59.2
%age of total debit	41.7	45.4	48.8	51.5	54.8	58.9	60.6	62.0

Source: CBA online information.

1.5.3 Trends and patterns in foreign investment

1.32. Despite a decrease in FDI during the review period (US\$529.3 million in 2010 to US\$338.1 million in 2016), within the period, there has been a substantial increase since 2015 when FDI had fallen to US\$178.3 million. To some extent, this may be attributed to the steps taken to improve the investment climate by amending the Law on Foreign Investments to improve investor protection in line with international best practices. FDI inflows have been concentrated in the mining, communications, financial services, and software and IT services sectors. In addition, Armenian multinational enterprises (MNEs) invested heavily abroad in 2016, causing FDI outflows to grow from US\$7.9 million in 2010 to US\$66.2 million in 2016 (Table 1.3).

1.33. As of 2017, The Russian Federation (46.5%), France (12.0%), Germany (5.1%) and Argentina (4.2%) were the largest sources of FDI in Armenia. The energy sector (37%) is the largest recipient of FDI, and other sectors included telecommunications, mining, transportation and manufacturing.²⁰ Significant investments are also made by the members of the Armenian diaspora. The Centre for Strategic Initiatives, introduced in 2017, and the structural reorganization of the Development Foundation of Armenia to Business Armenia aim to support reforms in PPPs, attract FDI in tradable sectors, and promote exports. In addition, it is hoped that Armenia will attract FDI from investors seeking markets in the EAEU, due to its attractive investment climate.

²⁰ Statistical Committee of Republic of Armenia, 2017, Viewed at: http://www.armstat.am/file/article/sv_02_18r_420.pdf.

2 TRADE AND INVESTMENT REGIMES

2.1 Background

2.1. On 21 September 1991, Armenia declared its independence from the Soviet Union. The first President of the new Republic of Armenia was elected on 16 October 1991. Like other states of the former Soviet Union, Armenia faced difficult and contracted economic conditions right after its independence. At that time, the country had still not recovered from the 1988 earthquake that hit the cities of Gyumri and Vanadzor, the second and the third cities in Armenia respectively. This resulted in industrial decline in these areas, and in the country as a whole. The Nagorno-Karabakh conflict and the closure of the borders with Turkey and Azerbaijan (currently still in place) contributed to the worsening of economic conditions, and created economic difficulties for Armenia in its transition to a market-based economy.

2.2. With the help of the World Bank (WB) and the International Monetary Fund (IMF), Armenia's path toward economic stability started in 1994. The country also started to implement serious reform programmes to boost economic growth. This included its application to accede to the GATT in 1993 and to the WTO in 1995. Moreover, following the collapse of the rouble due to rampant hyperinflation, the November 1993 introduction of the new currency – the dram – marked the start of a return to economic stability.

2.3. Armenia signed several cooperation agreements and assistance programmes with the European Union, including the Partnership and Cooperation Agreement between Armenia and the European Union (signed in 1996), the European Neighbourhood Action Plan (adopted in November 2006), the Country Strategy Paper 2007-2013 and the National Indicative Programme. In this respect, Armenia has undertaken a comprehensive reform of much of its legislation, institutions and policy implementation, to bring them into line with those of the European Union. The objective of much of the reform has been to improve trade and economic ties with the European Union. On 24 November 2017, the Comprehensive and Enhanced Partnership Agreement (CEPA) between the Republic of Armenia and the European Union was signed.

2.4. On 10 April 2013, Armenia signed a memorandum of mutual cooperation with the Eurasian Economic Commission (EEC) to review issues of mutual interest. On 3 September 2013, Armenia issued a declaration of intention to join the Customs Union (CU) and then to participate in the formation of the Eurasian Economic Union (EAEU). The Treaty on the Accession of Armenia to the EAEU was signed on 10 October 2014 and came into force on 2 January 2015.

2.2 General Framework

2.5. The Constitution of the independent Republic of Armenia was adopted on 5 July 1995, since then it has been amended twice: once on 27 November 2005; and on 6 December 2015. The 2015 amendments, except for several provisions in Article 209 of the Constitution, entered into force on 22 December of the same year¹ and resulted in the transition from a semi-presidential form of governance to a parliamentary model.

2.6. According to the last constitutional amendments, the President of Armenia is the head of State, and is elected by the National Assembly for a term of seven years. The same person may be elected as President only once. The last Presidential election was held in accordance with the new Constitution on 2 March 2018. The President may not hold other positions or perform other paid work, and may not hold membership in any political party.

2.7. In the area of foreign policy, the powers of the President include:

- To conclude international treaties, upon recommendation of the Government;
- To appoint diplomatic representatives and send them to foreign states and international organizations, upon the recommendation of the Prime Minister;

¹ Amendments to the Constitution of the Republic of Armenia; Armenian Legal Information System (ARLIS), online information. Viewed at: <http://www.arlis.am/DocumentView.aspx?docid=108723>.

- To receive letters of credence and letters of recall of diplomatic representatives to foreign states and international organizations;
- Upon recommendation of the Government, in the cases and under the procedure prescribed by law, approve, suspend or revoke international treaties not requiring ratification; and
- Upon recommendation of the Prime Minister, in the cases and under the procedure prescribed by law, confer the highest diplomatic ranks.

2.8. In the area of the armed forces, the powers of the President include appointing and dismissing the supreme command of the armed forces and of other troops, and conferring the highest military ranks upon recommendation of the Prime Minister and in the cases and under the procedure prescribed by law.²

2.9. The National Assembly is the representative body of the people, and implements the legislative power. It consists of at least 101 deputies who are elected for a term of five years through a proportional electoral system. The last election was held on 2 April 2017. The Assembly is required to establish standing committees for the preliminary discussion of draft laws and other issues falling under its competence, and for submission of opinions thereon to the National Assembly, as well as for the exercise of parliamentary supervision. It exercises supervision over the executive power and adopts the state budget. It elects the President and the judges of the Constitutional Court. It ratifies, suspends and revokes international treaties (Article 116).³

2.10. The court system in Armenia is based on the Judicial Code. A new Constitutional Law on Judicial Code was adopted on 7 February 2018 and entered into force on 9 April 2018. Courts operating in Armenia are the Constitutional Court, the Court of Cassation, courts of appeal, courts of first instance of general jurisdiction, and the Administrative Court (Article 163 of the Constitution). Other specialized courts may be established in the cases provided for by law⁴ and the new Judicial Code envisages the establishment of a bankruptcy court.⁵ In accordance with Article 169.20 of the Judicial Code, the Court of Bankruptcy is to come into operation on 1 January 2019, and its judges, including the Chairperson of the Court of Bankruptcy, who are to be appointed prior to that, shall be deemed to have assumed office from that date.

2.11. The courts of first instance of general jurisdiction are responsible for settling all cases, except those under the jurisdiction of specialized courts. The specialized courts are the Administrative Court, which has jurisdiction to examine the cases provided for by the Administrative Procedure Code, and the Court of Bankruptcy, which will examine all the cases envisaged by the laws regulating bankruptcy-related relations. The courts of appeal will, within the scope of their powers, review the final (conclusive) judicial acts of the courts of first instance of general jurisdiction. There are three types of courts of appeal: Civil; Administrative; and Criminal. They review judicial acts, according to their specialization. The Court of Cassation is the highest judicial body in Armenia, except for constitutional justice issues. It reviews the judicial acts of the courts of appeal, in cases prescribed by the law.⁶

2.12. The Law on Constitutional Court was adopted on 17 January 2018 and entered into force on 9 April 2018. The Constitutional Court administers constitutional justice and ensures the supremacy of the Constitution, including determining the constitutionality of domestic legislation and the conformity of international treaties with the Constitution before they are sent to the National Assembly for ratification.

2.13. The Constitution envisages the establishment of the Supreme Judicial Council, which will be an independent state body that guarantees the independence of the courts and the judges. The

² Amendments to the Constitution of the Republic of Armenia, 6 December 2015, Chapter (5), on President of the Republic.

³ Amendments to the Constitution of the Republic of Armenia, 6 December 2015, Chapter (4), on National Assembly.

⁴ Amendments to the Constitution of the Republic of Armenia, 6 December 2015, Chapter (7), on Courts and the Supreme Judicial Council.

⁵ Judicial Code, 7 February 2018, Article 2.

⁶ Judicial Code, 7 February 2018, Chapter 3-6.

Supreme Judicial Council is to be composed of 10 members: 5 to be elected by the General Assembly of Judges; and 5 by the National Assembly. In March 2018, the Council was formed under the procedure established by the Constitution and the Law on Judicial Code, and commenced operation on 9 April 2018. The powers of the Supreme Judicial Council include drawing up and approving the lists of candidates for the posts of judge, including candidates subject to promotion; proposing to the President candidates for the post of judge subject to the President's appointment; giving consent for the initiation of a criminal prosecution against a judge or for depriving him/her of liberty with respect to the exercise of his/her powers; subjecting a judge to disciplinary liability; and terminating the powers of a judge.

2.14. The Government is the supreme executive body. Its responsibilities include the development and implementation of domestic and foreign policies. It is composed of the Prime Minister, deputy prime ministers, and ministers. The number of deputy prime ministers may not exceed three, and the number of ministers may not exceed 18.

2.15. The Prime Minister is appointed by the President of the Republic following nomination by a majority of the National Assembly. Within five days of nomination, the Prime Minister is required to propose candidates for the posts as deputy prime ministers and ministers. The President may then appoint these candidates to their posts or apply to the Constitutional Court to examine the applications and make a decision on their appointments.⁷ In accordance with Article 212 of the Constitution, the Government must submit its resignation to the newly-elected President on the day the President assumes office, as happened on 9 April 2018. The President is then required to accept the Government's resignation and, within seven days, after resignation, a parliamentary majority must nominate a candidate for Prime Minister to be discussed by the National Assembly the day after nomination, as happened on 17 April 2018. The Government must then be formed within 15 days following appointment of the Prime Minister.

2.16. In line with the above constitutional procedures, a Prime Minister assumed office on 9 April 2018. However, on 23 April, following a non-violent revolution, he resigned and new elections, held on 1 May were inconclusive as nominees for the post failed to get a majority of the National Assembly, but, following a session of the National Assembly held on 8 May, a new Prime Minister was elected and a new Government formed on 7 June 2018, following the approval of the National Assembly.

2.17. The Constitutional Court determines the compliance of commitments in an international treaty with the Constitution before the treaty may be ratified by the National Assembly, after which the international treaty may enter into force.⁸ Laws must comply with constitutional laws, whereas secondary regulatory legal acts must comply with constitutional laws and other laws. In cases where a conflict exists between norms in an international treaty already ratified by Armenia and in any law, the norms of the international treaty shall apply.⁹

2.18. According to the WB Ease of Doing Business Index, Armenia ranks 47th out of 190 countries (October 2017). Armenia's performance varied from one category to another: e.g., it ranked 15th for starting a business and 97th for resolving insolvency.¹⁰ On the distance to frontier (DTF) metric – which assesses a country's absolute level of regulatory performance on a scale from 0 to 100 where 0 represents the lowest performance and 100 represents the best – Armenia's score went from 71.92 in 2017 to 72.51 in 2018.

2.19. Armenia ranked 107th out of 180 countries in Transparency International's 2017 Corruption Perceptions Index. According to the Index, businesses face a high risk of corruption, mostly in the judicial system and the police sector.¹¹ According to the GAN Business Anti-Corruption Portal,

⁷ Amendments to the Constitution of the Republic of Armenia, 6/12/2015, Chapter (6) on Government.

⁸ Amendments to the Constitution of the Republic of Armenia, 6 December 2015, Chapter (4), Article 116, on National Assembly; and Chapter (7), Article 168/3, on Courts and the Supreme Judicial Council.

⁹ Amendments to the Constitution of the Republic of Armenia, 6 December 2015, Chapter (1), Article 5, on Fundamentals on the Constitutional Orders.

¹⁰ World Bank, Ease of Doing Business, Armenia online information. Viewed at: <http://www.doingbusiness.org/data/exploreeconomies/armenia>.

¹¹ Transparency International (2013), *Overview of Corruption and Anti-Corruption in Armenia*, 23 August. Viewed at: <https://transparency.am/storage/overview-of-corruption-in-armenia-en.pdf>.

businesses also face risks of corruption in the tax and customs administrations.¹² The Government adopted a number of anti-corruption reforms and strategies, such as the Anti-corruption Strategy and its action plan for 2015-2018, a law on criminalizing illicit enrichment, and a law on whistleblower protection. A legislative package on the establishment of a new independent anti-corruption body has followed many of the recommendations set by the OECD's Istanbul Anti-Corruption Action Plan and of the Group of States against Corruption (GRECO).

2.3 Policy Objectives

2.20. On 29 September 2016, the Ministry of Economy became the Ministry of Economic Development and Investments. Its responsibilities include: overseeing, designing and implementing Armenia's economic, investment and industrial policies; promoting tourism; regulating trade and commerce; and administrating work relating to Armenia's membership in the EAEU and the WTO, and economic relations with the European Union.

2.21. Armenia's Development Strategy 2014-2025 (ADS) is based on the following four priorities: growth of employment; development of human capital; improving the social protection system; and institutional modernization of public administration and governance. In this regard, the main objective for the first five years of the Strategy is to increase employment through the creation of quality and well-paid jobs, as well as sustaining economic growth and enhancing competitiveness.¹³ These objectives are to be achieved through, *inter alia*:

- Improving the business and investment environment, and promoting investment and competitiveness;
- Increasing the country's international competitiveness;
- Appropriate monetary policy and deeper financial intermediation; and
- Better public revenue policy through expanding the tax base (including higher taxes on visible wealth and the introduction of a capital gains tax), and better tax collection.

2.22. In addition to general economic and social policies, the Strategy also includes direct policies aimed at various sectors and areas:

- Industry and export promotion to encourage a transition from resource-intensive industries to knowledge-based industries, focussing initially on diamond-cutting, gold smiths, the production of watches, light industry, brandy and wine production, pharmaceuticals and biotechnologies, the production of canned foodstuffs, the production of mineral waters and juices, engineering/precision engineering, and the processing of non-ferrous minerals;
- Tourism development to encourage more visitors through better infrastructure and the reduction of the cost of getting to Armenia through, *inter alia*, the implementation of an "open-skies" approach, and better transport systems within Armenia;
- Information technology sector growth through: the continued establishment of techno parks, incubators, and better infrastructure; support to universities; a favourable tax policy; support for SMEs and start-ups through training and information; and direct support to IT companies offering innovative products or services;
- Agriculture and rural development through a variety of programmes to increase production and improve productivity in agriculture while creating off-farm opportunities in rural areas. The programmes include support for cultivation in disadvantaged areas, irrigation, seeds, and a system of guaranteed prices for some key agricultural products; and

¹² GAN business anti-corruption portal, a compliance management platform for business, Armenia Corruption Report. Viewed at: <http://www.business-anti-corruption.com/country-profiles/armenia>.

¹³ Government Decree No 442-N of 27 March 2014 (Annex), *Armenia Development Strategy for 2014-2025*, Section II.

- Small and medium-sized enterprises (SMEs), which are to be assisted through several programmes including: the continuation and expansion of the system of state guarantees for loans for SMEs with the potential to export, substitute for imports, or create knowledge; direct support to start-up SMEs; and access to state procurement for SMEs.

2.23. To achieve these goals, improvement of both the business environment and the investment climate will remain the main key areas of the state framework policy, coupled with a significant reduction in state intervention.¹⁴ These elements are also emphasized in the amended Constitution.¹⁵

2.4 Trade Agreements and Arrangements

2.4.1 WTO

2.24. Armenia became the 145th member of the WTO on 5 February 2003.

2.25. Before its accession to the EAEU, Armenia had a relatively straightforward tariff structure: nearly all tariffs were applied at rates of 0% or 10%. With 100% binding coverage, all tariff lines were bound in *ad valorem* rates.

2.26. Armenia ratified the Trade Facilitation Agreement (TFA) and deposited its instrument of acceptance of the Protocol on 20 March 2017. In accordance with Articles 15 and 16 of the TFA, Armenia notified provisions for implementation under categories A, B, and C. It requested further technical assistance and capacity-building activities relating to three provisions under category C: use of international standards under Article 10.3; a single window under Article 10.4; and freedom of transit under Articles 11.5 to 11.10. It set indicative dates of 31 December 2020 for the implementation of provisions under category C, and 31 December 2018 for the implementation of Category B measures.¹⁶

2.27. Armenia became a party to the Government Procurement Agreement 1994 (GPA 1994) on 15 September 2011. In June 2015, it acceded to the Revised Government Procurement Agreement (Revised GPA). According to the authorities, Armenia's intention in joining the GPA was to increase transparency, and to promote integrity and competition in the government procurement market. Armenia is not a party to the Information Technology Agreement (ITA) and has yet to accept the Protocol Amending the TRIPS Agreement.

2.28. Armenia's notifications to the WTO since the last TPR are listed in Table 2.1.

Table 2.1 Notifications to the WTO, 2013-17

WTO agreement	Description of requirement	Most recent notification	Date
Agreement on Agriculture			
Article 18.2	Table ES:1, Export Subsidies	G/AG/N/ARM/28	18/05/2018
Article 18.2		G/AG/N/ARM/23	13/04/2015
Article 18.3	Table DS:1, Domestic Support Table DS:2, Domestic Support	G/AG/N/ARM/24	13/04/2015
General Agreement on Trade in Services			
Article V:7	Regional trade agreement	S/C/N/790	05/02/2015
Article V:7	Regional trade agreement	S/C/N/889	05/05/2017
Agreement on the Implementation of Article VI of the GATT 1994 (Anti-Dumping Agreement)			
Article 16.4	Semi-annual report	G/ADP/N/308/ARM	26/03/2018
Article 18.5	Laws and regulations	G/ADP/N/1/ARM/3	02/11/2016
GATT 1994			
Article XVII:4(a)	State trading	G/STR/N/13/ARM	12/02/2013

¹⁴ ADS, Section IV: Economic Development Strategy.

¹⁵ Amendments to the Constitution of the Republic of Armenia, 6 December 2015, Chapter (3), Article 86, on the Main Objectives of State Policy.

¹⁶ WTO document G/TFA/N/ARM/1, 17 August 2017.

WTO agreement	Description of requirement	Most recent notification	Date
Article XXIV:7(a) Article XXIV:7(a) Article XXVIII:5	enterprises Customs Union Free Trade Areas Market Access, Schedule CLV	G/STR/N/14/ARM WT/REG363/N/1 WT/REG385/N/1 G/MA/298	05/02/2015 05/05/2017 30/09/2014
Government Procurement Agreement 2012 Article XVI:4	Statistics for 2015	GPA/137	06/05/2016
Agreement on Rules of Origin Annex II, paragraph 4	Notification	G/RO/N/162	21/07/2017
Agreement on Subsidies and Countervailing Measures Article 25.1–Article XVI:1 Article 25.11 Article 32.6	New and full notification Semi-annual report Laws and regulations	G/SCM/N/284/ARM G/SCM/N/305/ARM G/SCM/N/1/ARM/3	14/04/2015 21/10/2016 02/11/2016
Agreement on Safeguards Article 12.1(a)	Initiation of investigation	G/SG/N/6/ARM/1 G/SG/N/8/ARM/1 G/SG/N/10/ARM/1 G/SG/N/11/ARM/1 G/SG/N/1/ARM/3	16/01/2015 02/11/2016
Agreement on Technical Barriers to Trade Article 2.9	Notification	G/TBT/N/ARM/86 G/TBT/N/ARM/85 G/TBT/N/ARM/84 G/TBT/N/ARM/83 G/TBT/N/ARM/82 G/TBT/N/ARM/81 G/TBT/N/ARM/80 G/TBT/N/ARM/79 G/TBT/N/ARM/78 G/TBT/N/ARM/77 G/TBT/N/ARM/76 G/TBT/N/ARM/75 G/TBT/N/ARM/74	16/07/2018 16/07/2018 30/05/2018 06/11/2017 11/09/2017 11/09/2017 10/05/2017 18/01/2017 27/10/2016 24/10/2016 09/06/2016 09/06/2016 14/01/2016
Agreement on Sanitary and Phytosanitary Measures Article 7		G/SPS/N/ARM/28 G/SPS/N/ARM/27 G/SPS/N/ARM/26 G/SPS/N/ARM/25 G/SPS/N/ARM/24	16/07/2018 29/05/2018 12/03/2018 12/03/2018 03/12/2008
Agreement on Trade Facilitation (TFA) Articles 15 & 16	Notification of category commitments	G/TFA/N/ARM/1	17/08/2017

Source: WTO Secretariat.

2.29. Armenia has directly participated in one WTO dispute settlement case. It was a respondent to a complaint brought by Ukraine relating to measures affecting the importation and internal sale of cigarettes and alcoholic beverages (Table 2.2).

Table 2.2 WTO dispute settlement cases

Subject	Respondent/ Complainant	Request for consultation received	Status (as at 31/07/2018)	WTO document series
Armenia/Measures Affecting the Importation and Internal Sale of Cigarettes and Alcoholic Beverages	Armenia/Ukraine	20/07/2010	Complainant requests consultation with respondent, no panel established and no withdrawal or mutually agreed solution notified	WT/DS411

Source: WTO Secretariat.

2.30. Armenia has not made any tariff rate quota commitments or reserved the right to use the special agricultural safeguard (SSG) for any agricultural products in its schedule of concessions. Moreover, it has no agricultural export subsidy commitments. Armenia made a commitment in its Working Party Report to not seek recourse to the investment, input, and diversification of agricultural subsidies provided for under Article 6.2 of the Agreement on Agriculture for developing

countries. Armenia accepted a *de minimis* limit of 5% of the value of agricultural production for calculating its Current Total Aggregate Measurement of Support.

2.31. Armenia's schedule of specific commitments under the GATS covers all sectors, except postal and maritime services (as it is a landlocked country). There are limitations on foreign natural persons owning land. All businesses in Armenia are required to register with the State Register of Legal Entities. They can register electronically through the electronic register in Armenia's portal.¹⁷

2.32. Armenia is a landlocked country and two of its four borders are closed, i.e. Azerbaijan and Turkey. Transport policy is the responsibility of the Ministry of Transport, Communication, and Information Technologies. The Ministry plays an important role in ensuring transport routes through the northern border with Georgia and the southern border with Iran.

2.33. Since the last Review, the Permanent Mission of Armenia to the WTO remains limited to one official, the Permanent Representative (PR). The PR is responsible for trade and economic issues, including: WTO matters; economic and trade matters in other international organizations based in Geneva (for example, UNCTAD, WIPO and UPOV); and bilateral trade between Armenia and Switzerland.

2.4.2 Regional trade agreements

2.4.2.1 Eurasian Economic Union (EAEU)

2.34. In December 2013 the road map for Armenia to join Belarus, Kazakhstan and the Russian Federation and accede to the EAEU. The aim was to harmonize Armenia's legislation with the legal framework of the EAEU. The majority of the measures envisaged in the road map were implemented and, based on the Treaty of Accession, Armenia became the fourth member State of the EAEU on 2 January 2015. The Kyrgyz Republic acceded to the EAEU later in the same year, on 12 August 2015.

2.35. In accordance with the Treaty on Accession to the EAEU, exemptions with regard to the payment of import duties, provided for under international treaties concluded with Armenia before 1 January 2015 (including in the implementation of programmes under such international treaties after 1 January 2015), will continue to apply in accordance with those international treaties. Under Article 114 of the EAEU Treaty, bilateral international treaties between the member states envisaging deeper integration than the provisions of the EAEU Treaty or international treaties within the Union, or stipulating any additional benefits for their natural and/or juridical persons, shall be applied between the contracting states.

2.36. The Eurasian Economic Commission (EEC) is the supranational regulatory body responsible for the implementation of external trade policy and its regulation for the member States of the EAEU. The EAEU is more comprehensive than its predecessor agreement, the Eurasia Economic Community (EAEC), in both size and substantive scope. The EAEU provides for the free movement of goods, services, capital and labour, and for coordinated and agreed common policies in a number of areas. To a certain extent, the EAEU guides the trade policy reform agenda of Armenia.

2.37. The EAEU Treaty expands the competence of the EEC into a number of new policy areas, including financial services and agricultural policy. Beyond these areas, the EAEU Treaty commits the parties to harmonizing national policies over time in the areas of financial regulation, monetary policy, macroeconomic policy, competition, transportation and rail policy, labour migration policy, and policies regulating their markets for oil and gas. It also aims to promote the harmonization of the electricity markets within the EAEU.

2.38. When Armenia joined the EAEU, authority over many aspects of its foreign trade regime was transferred to the EEC. Some of these issues include import tariff rates, trade in transit, non-tariff measures (e.g. tariff-rate quotas, import licensing, and trade remedy procedures), customs policies (customs valuation, customs fees, and country of origin determinations), border

¹⁷ Government of the Republic of Armenia online information. Viewed at: <https://www.e-register.am/en/>.

enforcement of intellectual property rights (IPRs), the establishment and administration of special economic and industrial zones, and the development of technical regulations and SPS measures.

2.39. One of the EAEU's main functioning principles is the formation of the unified trade regime with third countries. Negotiations on issues falling under EAEU competence, notably trade in goods, are held by a single delegation comprised of representatives of all EAEU member States and the EEC. Negotiations on issues that do not fall within the competence of the EAEU, such as trade in services and investment, are held by the EAEU members exclusively. The decision to launch negotiations on trade in goods with other countries is made by consensus by the Supreme Eurasian Economic Council (SEEC) on the basis of conclusions presented in the final report by the relevant joint feasibility study group.

2.40. According to information provided by the authorities, Armenia and its EAEU partners are negotiating free trade agreements (FTAs) with Egypt, India, Israel, Serbia and Singapore. The FTA between the EAEU and Viet Nam entered into force in October 2016. Negotiations were also concluded with China on a framework agreement for trade-economic cooperation, and with Iran on a temporary agreement leading to an FTA. Both agreements were signed in Kazakhstan on 17 May 2018, with entry into force foreseen by the end of the year.

2.41. As a result of accession to the EAEU, Armenia is currently engaged under Article XXIV:6 of the GATT (Section 3.1.4), in negotiations with other WTO Members on a compensation and adjustment package.

2.4.2.2 Bilateral agreements

2.42. Armenia has eight bilateral RTAs (FTAs) in force, with Georgia, the Republic of Tajikistan, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, Turkmenistan, and Ukraine. All have been notified to the WTO except for the agreements with Belarus and Tajikistan. Bilateral agreements can continue to exist provided that they do not contradict the EAEU.

2.4.2.3 Commonwealth of Independent States (CIS)

2.43. Armenia is a signatory to a treaty on a free trade area on goods between members of the CIS, which also includes: Belarus; Kazakhstan; the Kyrgyz Republic; Moldova; the Russian Federation; Tajikistan; Ukraine; and Uzbekistan (since 2014). This treaty was signed on 18 October 2011, and entered into force on 20 September 2012 (for Armenia, on 17 October 2012).¹⁸ It substantially eliminated all duties on goods traded between member states of the FTA, and it abolished quantitative restrictions on imports from members. It contains provisions on rules of origin, government procurement, freedom of transit, safeguard measures, anti-dumping and countervailing measures, granting of subsidies, technical barriers to trade, sanitary and phytosanitary measures, balance of payments, and dispute settlement.¹⁹

2.4.3 Other arrangements

2.4.3.1 European Union

2.44. In addition to being eligible for the European Union's GSP+ arrangement, Armenia has a number of agreements with the European Union covering a broad range of political, social, cultural and economic issues.

2.45. On 24 November 2017, Armenia and the European Union signed the Comprehensive and Enhanced Partnership Agreement (CEPA) which both parties have ratified and which has been provisionally applied since 1 June 2018. The aim of the Agreement is to strengthen the comprehensive political and economic partnership and cooperation between the sides, based on common values and close ties, raising Armenia's participation in EU policies, programmes, and the

¹⁸ RTA Database, Armenia, the Treaty on a Free Trade Area between members of the Commonwealth of Independent States (CIS). Viewed at: <http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=762>.

¹⁹ Treaty on a Free Trade Area (St. Petersburg, 18 October, 2011), the Treaty on a Free Trade Area between members of the CIS.

works of agencies. In CEPA, the parties reaffirmed their commitment to free market economy principles, sustainable development, regional cooperation, and effective multilateralism.

2.4.3.2 Generalised System of Preferences (GSP)

2.46. Armenia has GSP arrangements with Canada, Japan, Norway, Switzerland, and the United States.²⁰ Since 1 January 2009, it has had GSP+ status with the European Union.

2.5 Investment Regime

2.47. The Ministry of Economic Development and Investments is the main government body responsible for the development of the investment policy in Armenia. Since the last Review, the Law on Foreign Investment of 1994 remains the main legal act regulating investment. It provides general provisions and the legal regulation of foreign investment. Chapter II of the Law regulates the state guarantee concerning the protection of foreign investments. A new law is currently being considered by the National Assembly. If adopted, it will replace the existing Law. The text of the new law is available in English on the Ministry's website.

2.48. Armenia follows the "open door" principle with respect to its investment policies. Elements in the policy include: the liberalization of investment activities; the protection of investors; and granting of national treatment and most favoured nation treatment to foreign investors and investments. The overall objectives are: to improve the investment environment; to improve the legal framework; and to promote investment, including foreign direct investment (FDI). The ultimate goal is to create favourable investment and a business-friendly environment; to increase regulatory transparency; to promote Armenia's competitive advantages; to develop market infrastructure; to create high quality and high paid jobs; to develop human capital; and to provide sustainable economic growth.²¹

2.49. To achieve these goals, Armenia adopted, on 8 October 2015, the Investment Policy Concept, and a timetable of activities. This Concept was designed to: describe the investment environment in the country; define the main goals; and set the principles and directions for their implementation. It also recommends solutions to solve problems and meet defined goals with regard to the investment environment in Armenia.²²

2.50. The Development Foundation of Armenia (DFA) was established in 2015 as a result of a merger between the Armenian Development Agency (ADA), the Industrial Development Foundation (IDF), and the National Competitiveness Foundation of Armenia (NCFA). The DFA is the national authority for the promotion of investment and export. The highest management body of the DFA is the Board of Trustees; the Prime Minister is the *ex officio* president and a member of the board. The Head of the Financial-Economical Department of the Government Staff of Armenia is also an *ex officio* member of the Board. The DFA works on two main pillars: (i) attracting foreign investment; and (ii) increasing exports. It is described as a one-stop shop for investors; it works to attract investors, and provides post-investment services to them. It provides information on Armenia's business climate, investment opportunities and relevant legislation. It also helps investors with project implementation and government coordination. As for the second pillar, the DFA assists exporters in promoting their products, and in finding appropriate global markets for their exports. It also assists them in increasing their export volume. It diversifies export markets through promoting Armenian products in international trade fairs. It also provides limited financial assistance to businesses through special government programmes.

2.51. A new platform for investment projects was launched to attract investors to Armenia, and to present existing projects in Armenia to potential investors. It was launched in April 2018 by the

²⁰ UNCTAD (2015) lists Canada, the European Union, Japan, Switzerland, and the United States as having GSP arrangements with Armenia. The Norwegian and EU Customs include Armenia as eligible for GSP and GSP+. UNCTA (2015), *Generalized System of Preferences – List of Beneficiaries*, Geneva, February. Viewed at: http://unctad.org/en/PublicationsLibrary/itcdtsbmisc62rev6_en.pdf.

²¹ Ministry of Economic Development and Investments, Investment policy, online information. Viewed at: <http://mineconomy.am/en/96>.

²² Appendix of the Protocol Decree of the Government No. 45, 8 October 2015; The Concept Paper of the Investment Policy of the Republic of Armenia. Viewed at: <http://mineconomy.am/media/2017/05/1962.pdf>.

Ministry of Economic Development and Investments, in collaboration with Business Armenia and the UNDP. Investors can view implemented investment projects, as well as projects under implementation. They can submit their own investment projects, by filling out an application form in the website.²³

2.52. Companies registered by a foreigner in Armenia have the right to buy land. Although foreign citizens are not allowed to own land, they may take out long-term leases. Armenia also does not require prior screening or specific authorization for investment. Imported machinery equipment and raw materials of industrial significance are exempt from VAT at the border. There are a number of incentives available for investment projects. Armenia has no restrictions on the repatriation of profits or staff recruitment; and it has no foreign exchange controls.

2.53. Armenia adopted the Law on Free Economic Zones on 25 May 2011. This Law aims to regulate the establishment, organization, and operation of free economic zones (FEZs) in Armenia. FEZs may be established by government decisions, which include, *inter alia*, the objectives of the establishment of the FEZ; the operational type and types of activities; qualifying standards; and the investment programme for establishment.²⁴ There are currently three FEZs in Armenia. The Alliance FEZ was launched in 2013, and is oriented towards the production and export of high and innovative technologies. The Meridian FEZ was launched in March 2015, and was designed as an infrastructure for jewellery, diamond-cutting and watch-making manufacturing companies.²⁵ In December 2017, the Meghry FEZ was established in the south of the country on the border with Iran. Tax breaks and other incentives are regulated at the national level by EAEU member States. Companies operating in FEZs are fully relieved from corporate income tax, property tax, profit tax, and custom duties, as well as VAT for services delivered to the organizer and operator and products in the territory of the FEZ. In determining the taxable income of a taxpayer who has been an FEZ operator for a full year, aggregate income is reduced by the amount of income received from activities conducted in the FEZ.

2.54. Article (6) of the Law on the Establishment of a Unified Financial Regulation and Supervision Framework, which was adopted on 22 December 2005 and came into force on 1 January 2006, terminated the Securities Commission and the authorities that were in charge of regulating the securities market. The Law entitled the Board of the Central Bank of Armenia to take over the authorities and functions of the Securities Commission.

2.55. According to the official website of the Ministry of Economic Development and Investments, Armenia has signed bilateral treaties on the reciprocal promotion and protection of investment with 42 countries. Armenia is also a signatory of the International Convention on Investment Disputes. In addition, it has investment treaties and double taxation treaties with a number of countries (Table 2.3 and Table 2.4). Armenia also signed two new double taxation treaties with Egypt and a revised agreement with India that are not yet effective and initialled treaties with Oman, Seychelles, Uzbekistan, Malta, Israel, Kyrgyz Republic and Denmark. The authorities also indicated that they are currently negotiating a number of new treaties with several countries. The benefits of the double tax treaties are easy to access by providing supporting documentation of residency from foreign tax authorities.

²³ Invest in Armenia <http://investmentprojects.am/>.

²⁴ Law on Free Economic Zones, adopted on 25 May 2011. Viewed at: <http://mineconomy.am/media/2017/03/994.pdf>.

²⁵ The Ministry of Economic Development and Investments, Investment Policy Department, Armenia Free Economic Zones. Viewed at: <http://www.mineconomy.am/hy/360>.

Table 2.3 Countries having bilateral investment treaties for the promotion and protection of foreign investments with Armenia

No.	Country	Signed	Validated	Entered into force
1	Argentina	16.04.1993	27.09.1993	10.10.1994
2	Austria	17.10.2001	09.10.2002	01.02.2003
3	United States	23.09.1992	26.09.1995	29.03.1996
4	Bulgaria	10.04.1995	29.08.1995	27.03.1996
5	Belgium-Luxembourg	07.06.2001	20.02.2002	19.12.2003
6	Germany	21.12.1995	23.06.1997	04.08.2000
7	Iran	06.05.1995	14.11.1995	26.02.1997
8	Lebanon	01.05.1995	29.08.1995	01.10.1998
9	Canada	08.05.1997	17.03.1999	29.03.1999
10	Cyprus	18.01.1995	12.06.1996	03.08.1998
11	India	23.05.2003	27.04.2004	30.05.2006
12	Greece	25.05.1993	13.10.1993	28.04.1995
13	Kyrgyzstan	04.07.1994	29.08.1995	26.11.1995
14	United Kingdom	27.05.1993	13.10.1993	11.07.1996
15	China	04.07.1992	06.10.1992	17.03.1993
16	Romania	20.09.1994	11.10.1995	24.12.1995
17	Viet Nam	01.02.1993	28.04.1993	
18	Georgia	04.06.1996	18.02.1997	18.01.1999
19	Ukraine	07.10.1994	16.01.1996	07.03.1996
20	France	04.11.1995	05.08.1996	21.06.1997
21	Italy	23.07.1998	11.10.2000	12.12.2000
22	Switzerland	19.11.1998	09.10.2002	04.11.2002
23	Israel	19.01.2000	21.03.2001	25.06.2003
24	Qatar	22.04.2002	23.10.2002	08.10.2007
25	Tajikistan	03.04.2002	04.11.2002	18.11.2002
26	Russian Federation	15.09.2001	02.12.2005	08.02.2006
27	Belarus	26.05.2001	21.11.2001	10.02.2002
28	United Arab Emirates	20.04.2002	04.11.2002	Has been replaced by the treaty of 2016
29	Uruguay	06.05.2002	25.03.2003	15.12.2013
30	Finland	05.10.2004	27.02.2007	20.04.2007
31	Turkmenistan	19.03.1996	-	
32	Egypt	09.06.1996	08.12.2005	21.02.2006
33	Netherlands	10.06.2005	02.12.2005	01.08.2006
34	Latvia	07.10.2005	27.02.2007	21.04.2007
35	Sweden	08.02.2006	25.02.2008	01.05.2008
36	Kazakhstan	06.11.2006	25.02.2008	01.08.2010
37	Syria	17.06.2009	16.11.2009	26.04.2010
38	Kuwait	25.06.2010	18.03.2018	04.09.2013
39	Trade and Investment Framework Agreement between the Government of the Republic of Armenia and the Government of the United States of America	07.05.2015	04.11.2015	13.11.2015
40	Lithuania	25.04.2006	27.02.2007	16.07.2016
41	Iraq	07.11.2012	17.06.2016	16.07.2016
42	Jordan	29.10.2014	23.10.2017	22.11.2017
43	United Arab Emirates	22.07.2016	19.10.2017	21.11.2017 (the treaty has replaced the agreement of 2002)
44	Japan	14.02.2018		

Source: Ministry of Economic Development and Investments: Viewed at: <http://www.mineconomy.am/media/2018/01/2802.pdf>.

Table 2.4 List of countries having double taxation treaties with Armenia, signed, and in force

Treaty partner from Tax Service website	Signed	In force
Austria	27.02.2002	01.04.2004
Belarus	20.07.2000	19.11.2001
Belgium	07.06.2001	23.09.2003
Bulgaria	10.04.1995	01.12.1995
Canada	26.06.2004	29.12.2005
China	05.05.1996	30.11.1996
Croatia	22.05.2009	18.02.2010
Cyprus	17.01.2011	19.09.2011
Czech Republic	06.07.2008	15.07.2009
Estonia	13.04.2001	23.01.2003
Finland	16.10.2016	30.12.2007
France	09.12.1997	01.05.2001
Georgia	18.11.1997	03.07.2000
Greece	12.05.1999	18.07.2002
Hungary	10.11.2010	26.10.2010
India	27.02.2002	01.04.2004
Iran	06.05.1995	10.07.1997
Italy	14.06.2002	05.05.2008
Kazakhstan	06.11.2006	19.01.2011
Latvia	15.03.2000	26.02.2001
Lebanon	16.09.1998	13.12.2000
Lithuania	13.03.2000	26.02.2001
Luxembourg	23.06.2009	09.04.2010
Moldova	16.10.2002	01.01.2005
Netherlands	31.10.2001	22.11.2002
Poland	14.07.1999	28.02.2005
Qatar	22.04.2002	06.11.2007
Romania	25.03.1996	25.08.1997
Russian Federation	28.12.1996	17.03.1998
Switzerland	12.06.2006	07.11.2007
Syria	29.06.2005	11.12.2006
Thailand	07.11.2001	12.11.2002
Turkmenistan	05.06.1997	30.12.1999
Ukraine	14.05.1996	25.11.1996
United Arab Emirates	20.04.2002	19.12.2004
Indonesia	12.10.2005	12.04.2016
Slovenia	11.10.2010	23.04.2013
Tajikistan	30.06.2005	02.07.2016
Kuwait	30.11.2009	12.04.2013
Spain	16.12.2010	21.03.2012
United Kingdom	13.07.2011	21.02.2012
Ireland	14.07.2011	19.12.2012
Serbia	10.03.2014	03.11.2016
Slovak Republic	15.05.2015	01.02.2017
Sweden	09.02.2016	29.01.2017
Germany	29.06.2016	01.01.2017

Source: Armenia authorities and Tax Service of the Republic of Armenia online information. Viewed at: <http://www.petekamutner.am/Content.aspx?itn=tsTLDoubleTaxationAvoidance>

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Measures Directly Affecting Imports

3.1. During the current review period, the major change to the implementation of Armenia's trade policy was its accession to the Eurasian Economic Union (EAEU).¹ The Accession Treaty was signed on 10 October 2014; and, following the completion of ratification procedures, it entered into force on 2 January 2015 when Armenia became a member of the EAEU. Among members² of the EAEU, a customs union with a single internal market for goods, common customs regulations and a common external trade regime are in operation. All Armenian foreign trade regulations, including customs legislation, are thus primarily based on rules established at the supranational level of the EAEU. National competence in the many areas of trade policy was effectively transferred to the Customs Union (CU) level in May 2012 and then the EAEU level in 2015.

3.1.1 Customs procedures under the new EAEU Customs Code

3.2. Armenia's Customs Code (2001) was replaced by the Customs Code of the CU in 2015. Pending the adoption on entry into force of the EAEU Customs Code, the Customs Code of the CU applied during the period 1 January 2015 to 31 December 2017. The EAEU Customs Code entered into force on 1 January 2018 along with numerous decisions of a supranational nature.³ The Code is composed of nine sections, which cover: general provisions; customs payments and contingency measures; customs formalities; customs procedures; movement of certain types of goods across the Union's customs border; customs control; customs authorities; authorized economic operators (AEOs); and transition provisions. A notable feature of the new system is its digital nature, replacing paper copies. Customs regulations are also provided by domestic legislation and remain in force to the extent that they do not conflict with the EAEU Customs Code.

3.3. According to the authorities, the EAEU Customs Code is based on generally accepted international rules including the Revised Kyoto Convention. The Code is the principal legal document governing EAEU customs administration and procedures, including the rights and obligations of national customs authorities, importers and exporters. It contains detailed provisions related to customs control, operations, payments and various types of customs procedures (e.g. release for domestic use, export, re-importation and re-exportation, inward and outward processing, temporary imports or exports, and use of customs warehouses). It also includes WTO-related rules and disciplines on customs valuation, rules of origin, customs fees, special economic zones (SEZs), trade in transit, the protection of intellectual property rights (IPRs) at the border, and the right of appeal against customs decisions.

3.4. The Union uses a fixed customs revenue sharing mechanism, irrespective of the entry point, with the following ratio: Armenia 1.22%, the Republic of Belarus 4.56%, Kazakhstan 7.055%, Kyrgyz Republic, 1.9%, and the Russian Federation 85.265%. The revenue is to be distributed on the next business day following the payment of the import duties.

3.5. The State Revenue Committee (SRC) continues to be responsible for tax revenue collection and customs administration.

3.6. The EAEU Customs Code is intended to ensure uniform rules and customs operations for all EAEU member States; it also provides additional facilities for foreign declarants as compared to the Code previously in force. Its main innovations are as follows:

- Customs declarations and clearance procedures should be performed electronically from 2020. Hard copies of documents will be allowed only in certain cases, such as imports for personal use, goods under transit arrangements, and doubt following the risk assessment system (Article 104 of the Customs Code);

¹ Armenia and the Russian Federation notified the "Treaty on Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union as of 29 May, 2014" under both Article XXIV of the GATT 1994 and Article V of the GATS (WT/REG363/N/1 and S/C/N/790).

² From 2015, the EAEU comprised the territories of Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia.

³ These will replace the previously applied 2009 Customs Code of the CU and some international agreements covering customs regulation, used during the earlier stages of economic integration.

- The creation of a single window for all customs operations by economic operators;
- Automatic release of goods (without direct participation of the customs authorities) within four hours from the registration of the customs declaration (in exceptional cases, this can be up to one working day);
- Customs declarations may be submitted prior to the arrival of the good at the delivery point set by the customs authority – previously, prior declarations were required before importation into the EAEU's customs territory. Reasons for denying the release of goods subject to a preliminary customs declaration include any changes applicable to the tariff, taxes or procedures for granting privileges for their payment, and internal market protection;
- The preliminary determination of the customs value of goods is now made before customs clearance;
- Operators may defer payment of customs duties and taxes during customs clearance of goods;
- A customs declaration must be registered by the SRC no later than one working hour from submission of the declaration. Registration may be denied in a number of cases, including failure to comply with the customs declaration form, or its inappropriate compilation. The reasons for such a denial and appropriate corrective measures must be specified;
- Common, supranational customs procedures replace previous nationally-regulated procedures as regards special free-zones and free warehouse customs procedures;
- The status of declarants for foreign legal entities is regulated. Representative offices and branches of foreign legal entities are authorized to declare goods only as part of the procedure of the release of goods for their own consumption; and
- Any legal entity incorporated under the legislation of an EAEU member State involved in international trade can apply for AEO status, recognized throughout the Union on the basis of a self-assessment questionnaire. Such status is granted upon the recognition by the national customs authority of compliance with international safety standards; a registry of AEOs was also established.

3.7. According to the authorities, the EAEU Customs Code was designed to simplify customs clearance procedures for importers and exporters, and meet the requirements of the EAEU business community. In the EAEU Customs Code, the preliminary information system has been improved, AEOs were categorized, the priority of electronic declarations was introduced, etc. In addition, amendments at national legislation level were made to introduce an electronic declaration system and, from April 2018, a pilot project was introduced to this affect. Before the EAEU Customs Code entered into force, the authorities organized training on the legislative changes, both for customs officials and the business community, to enhance their understanding of the changes. Also, the SRC set up a call centre to provide information to the private sector regarding clarifications on customs legislation and procedures. Moreover, the Customs Service is in the process of adapting its existing infrastructure for future changes through flexible internal regulations.

3.1.2 Customs valuation

3.8. The SRC is responsible for applying the regulations on customs valuation. Since Armenia's accession to the EAEU, issues regarding the customs value of imported goods are determined according to Chapter 5 of the EAEU Customs Code.

3.9. The dutiable value of goods is the c.i.f. value of imports, and the six methods for determining customs value are the same as those in the WTO Customs Valuation Agreement. The fundamental basis for determining the customs value of the goods is the transaction value. The alternative methods are the value of identical goods, the value of similar goods, the deductive value, the

computed value and, finally, 'reasonable means consistent with the principles and general provisions of the Agreement'. Whichever method is used, the objective is to determine the customs value based on the real c.i.f. price level. In other words, the customs value should include all commissions paid to middlemen, either by the buyer or the seller, the packing costs, costs of transportation to the EAEU border, etc.

3.10. According to the authorities, in 2016, the proportion of consignments using transaction value was 64.85%, and the proportion using other methods was 35.15%. In 2017, the proportions were 66.13% and 33.87%, respectively.

3.11. During the transition period, an importer may opt to pay customs duties at the EAEU level instead – this allows the resale of the imported exempted products to other EAEU member States.⁴ Customs duties are stated at EAEU level, with exceptions for about 966 tariff lines for which a transitional period applies during which Armenia applies lower tariff rates. If a product is released at one of these lower tariff rates, according to Armenia's membership agreement with the EAEU, the product is considered as conditionally released and it is not treated as an EAEU product. In order to be an EAEU product, the difference between tariff rates applied by the EAEU and Armenia must be charged, and the product may then be resold in other EAEU member States.

3.12. In cases of dispute between the importer and the SRC, there is a provision in the Law on Customs Service, according to which decisions made by Customs can be appealed in the Appeal Commission of the SRC or in Court. In 2017, there were seven appeals related to transaction value rejection, two of which were satisfied, two were satisfied partially and three were rejected.

3.1.3 Rules of origin

3.13. The country of origin is used to determine the application of tariff and non-tariff measures and trade statistics. The legal basis for determining the country of origin is specified in Chapter 4 of the EAEU Customs Code. For goods that are not wholly obtained, originating status is granted on the basis of: (a) a change in tariff classification at the HS four-digit level; (b) a value-added requirement, set at a maximum of 50% of non-originating inputs; or (c) a specific technical requirement. Basic operations (such as mixing, the slaughter of animals, preparation for sale, and the packaging of goods) do not qualify as substantial transformation.

3.14. As regards trade with third parties, three types of rules of origin may apply: those for most-favoured nation (MFN) trade, Unified System of Tariff Preferences (USTP) trade, or for trade under regional trade agreements (RTAs).

3.15. Trade with RTA partners is carried out in accordance with the preferential rules of origin of the relevant RTA, such as the Free Trade Agreement (FTA) between the EAEU and Viet Nam⁵; if these do not exist or have not yet been adopted, the non-preferential rules of origin shall apply until such time as RTA-specific rules of origin are adopted.

3.16. MFN rules of origin are used in the application of the common external tariff (CET), non-tariff measures, trade defence measures, labelling, government procurement, and for statistical purposes.

3.17. Under the USTP, the rules of origin limit non-originating materials to 50% of the exported product. Valuation of imported materials is on the basis of the customs value, while for exported products it is on the basis of the ex-factory price. Until future EAEU rules on USTP are adopted, the Protocol on the USTP of the CU of 12 December 2008 will continue to apply with regard to USTP country eligibility criteria and procedures for inclusion into the above lists.

3.18. Article 37:6 of the EAEU Treaty authorizes the EAEU Commission to act upon false declarations of origin. In cases of repeated false declarations of origin by a third party, the Commission is authorized to monitor the assessment by customs authorities of member States of the correctness of the declaration of origin of goods imported from a particular country. In case of

⁴ This refers to those goods which are included in Annex 4 to the Treaty on Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union.

⁵ EAEU Commission online information. Viewed at: <http://www.eurasiancommission.org/en/nae/news/Pages/19-08-2016.aspx>.

systematic false declarations of origin, the Commission is authorized to suspend the acceptance of the member State's document certifying the correctness of the declaration of origin. Despite the role given to the Commission, member States remain, however, free to check the origin of the imported goods, and to adopt any measure aimed at addressing the results of the assessment.

3.19. To qualify for preferential access under the EAEU USTP scheme, imports of eligible products require the Certificate of Origin Form A from the competent authorities of the exporting country. Importers must request preferential treatment at the time of declaration of the goods, and present supporting documentation. Under the Agreement on Rules of Origin of Goods from Developing and Least-developed Countries, customs authorities of the importing country may lodge a request with the authorities in the country that issued the certificate of origin to provide additional documentary proofs. If the certificate or other proof of origin is not accepted, MFN treatment should be applied until the origin of the goods is established. The importer can recover the difference in the duties paid for a period of one year from the date of over-payment upon the submission of a request to the customs office to which duties had been paid.

3.20. In the Law on Customs Service, there is a provision on the appeals process, according to which decisions made by Customs can be appealed in the Appeal Commission of the SRC or in Court. In 2017, there were no appeals related to origin matters.

3.1.4 Tariffs

3.21. Armenia's accession to the EAEU in 2015 has resulted in increased tariffs for the majority of imports. Armenia was required to harmonize its customs tariffs with those of the EAEU, with temporary exemptions for up to five years for 966 tariff lines, including foodstuffs.⁶ The CET⁷ of the EAEU is based on the applied rates of the Russian Federation and its WTO accession commitments. The Eurasian Economic Commission (EEC) is the multilateral entity established by EAEU members to handle, *inter alia*, the harmonization of tariffs, tariff rate quotas, and licensing and certification.

3.22. As of 29 May 2014, the Treaty on the Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union contains a provision that Armenia shall ensure that goods imported into Armenia at lower tariffs than the unified EAEU tariff, will be used only in the territory of Armenia and will not be re-exported to other EAEU member States without payment of the difference between the respective import tariff rates. Moreover, the Treaty also contains a provision that Belarus, Kazakhstan and the Russian Federation have the right to establish a procedure for handling the arrival of such goods into their territory. Armenia must ensure that imports of products facing lower tariffs are for domestic consumption, and adopt measures to prevent trade deflection.

3.23. On 10 December 2014, the EEC issued EEC Council Decision No. 113⁸, which approves a list of transitional import tariff rates for Armenia until 2022.

3.24. As shown in Tables 3.1 and A3.1, the list includes: agricultural items, such as beef, pork, poultry, and dairy products; grains, including wheat and rice; chemicals; plastic and rubber products; textiles; base metals; machinery; vehicles; and precision instruments. By 2022, nearly all of the listed items, with the exception of some products, will see import tariff increases.

⁶ The full list of the goods for which Armenia negotiated temporary customs tariff exemptions and their timing is available in Annex 4 of the Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union

<http://www.eurasiancommission.org/ru/act/trade/catr/ttr/Documents/%D0%98%D0%97%D0%AA%D0%AF%D0%A2%D0%98%D0%AF%20%D0%A0%D0%90%20%D0%BD%D0%B0%2010.12.2017.pdf>.

⁷ Article 42 regulates the EAEU's CET, by specifying that EAEU member States have a CET and a Common Commodity Nomenclature of Foreign Economic Activity. The CET has *ad valorem*, specific and combined duties. Countries acceding to the EAEU are allowed CET derogations in accordance with the list of goods and rates in the country's accession agreement to the EAEU (Article 42:4). Such imported goods are to remain in the country, which shall adopt measures to ensure that these are not re-exported to other EAEU member States without the payment of the tariff differentials due.

⁸ EEC Council Decision No. 113 "On Approval of the List of Goods and Rates that shall be subject to a Transition Period during which the Republic of Armenia shall Apply the Rate of Import Customs Duties Differing from the Rates of the Unified Customs Tariff of the Eurasian Economic Union" (original in Russian).

Table 3.1 Transitional import tariffs for Armenia in the EAEU

(Number of tariff lines by year and HS chapters to be aligned with the EAEU common tariff)

	2018	2019	2020	2021	2022	Total
01 - Live animals and animal products			18		41	59
02 - Vegetable products		22	13		22	57
03 - Animal or vegetable fats and oils			3		2	5
04 - Prepared foodstuffs, beverages and tobacco	2	2	14		3	21
05 - Mineral products			22			22
06 - Chemicals	4	10	187			201
07 - Plastic and rubber, articles thereof	2		12	34		48
08 - Raw hides and skins, leather			4			4
09 - Wood and articles of wood			11	3		14
10 - Paper and paperboard			4	5		9
11 - Textiles and textile articles			59	46		105
13 - Ceramic products, glass and glassware			7	3	1	11
14 - Precious stones, articles thereof				1	10	11
15 - Base metals and articles thereof	1		48	5		54
16 - Machinery and electrical machines		2	30	12	3	47
17 - Vehicles			276			276
18 - Precision instruments, clocks and watches		9	11			20
20 - Miscellaneous manufactured articles		1		1		2
Total	9	46	719	110	82	966

Note: The number of tariff lines is based on the 2018 tariff schedule in the HS17 nomenclature.

Source: Annex 4 to the Treaty on the Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union.

3.25. Within the EAEU legal framework, the Treaty on the Multilateral System authorizes temporary exceptions to the CET (Article 1:4). However, it also states that "the Parties concerned shall consult each other and enter into negotiations with interested WTO Members expeditiously with a view to harmonize import tariffs. The Parties shall coordinate their positions and express the intention to follow the respective provisions of the WTO Agreement that are applied in case of tariff harmonization by the CU".

3.26. A fully harmonized CET is the ultimate aim; renegotiations in case of a breach of bindings under GATT Article XXIV:6 are to be carried out by the Party concerned in a coordinated manner with other EAEU member States. Under G/SECRET/37 of 4 November 2014, Armenia has initiated procedures under GATT Articles XXIV:6 and XXVIII, to take account of its accession to the EAEU. There are 6,536 tariff lines to be renegotiated.

3.1.4.1 MFN applied tariff

3.27. Armenia continues to apply MFN tariffs to all WTO Members. As shown in Table 3.2, the structure of the tariff schedule changed significantly between 2009 and 2018. The structure of the 2009 applied tariff was simple: no tariff quotas; 72.6% of all lines were duty-free and almost all the rest were subject to a 10% tariff rate; non-*ad valorem* tariffs were applied to 0.5% of tariff lines; and the simple average tariff rate was 2.7%, one of the lowest among WTO Members.

Table 3.2 Structure of the MFN tariff schedule 2009 and 2018

	2009	2018
Simple average rate (%)	2.7	7.5
HS 01-24	7.8	12.1
HS 25-97	2.0	5.9
WTO agricultural products	6.6	12.8
WTO non-agricultural products	2.2	6.0
Duty-free tariff lines (% of all tariff lines)	72.6	19.6
Simple average of dutiable lines only	9.8	9.4
Tariff quotas (% of all tariff lines)	0.0	0.0
Non- <i>ad valorem</i> tariffs (% of all tariff lines)	0.5	13.0
Non- <i>ad valorem</i> tariffs with no <i>ad valorem</i> equivalents (AVEs) (% of all tariff lines)	0.5	4.8
Domestic tariff "peaks" (% of all tariff lines) ^a	26.7	2.5
International tariff "peaks" (% of all tariff lines) ^b	0.0	4.9
Nuisance applied rates (% of all tariff lines) ^c	0.0	1.3
Coefficient of variation	1.6	1.2
Total number of tariff lines	5,864	12,178
<i>Ad valorem</i> rates	5,835	10,599
of which: duty-free rates	4,256	2,383
Specific rates	29	567
Compound rates	0	13
Alternate rates	0	999

- a Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.
- b International tariff peaks are defined as those exceeding 15%.
- c Nuisance rates are those greater than zero, but less than or equal to 2%.

Note: Including AVEs for non-*ad valorem* rates, as available. Specific rates, for which no AVEs are available, are excluded from the calculations. Import value and quantities to calculate AVEs are taken from the UN Comtrade database.

Out of 1,579 non-*ad valorem* rates, 992 AVEs were calculated by the Secretariat. AVEs were calculated: for 416 out of 567 specific rates; for 13 out of 13 compound rates; for 563 out of 999 alternate rates (for the remaining 151 alternate tariff lines, the *ad valorem* part is used for the calculation).

The 2009 tariff is based on the HS07 nomenclature, and the 2017 tariff is based on the HS17 nomenclature, respectively at 8- and 10-digit levels.

Source: WTO Secretariat calculations, based on data provided by the authorities.

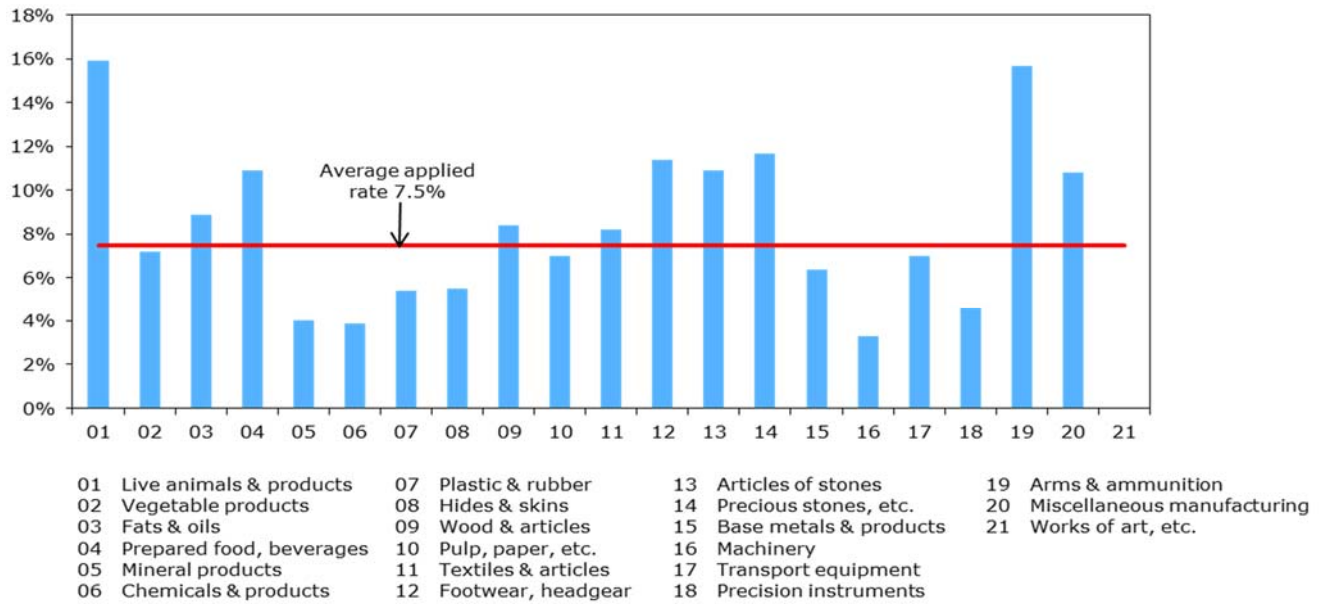
3.28. In 2018, non-*ad valorem* import tariffs apply to 1,579 tariff lines, or 13% of all tariff lines, compared to 0.5% in 2009. Since EAEU accession, Armenia's applied tariffs have increased to a simple average of 7.5%⁹, as it harmonizes its tariffs with the CET. Import duties on agricultural products are higher than on non-agricultural products. Within agriculture, animals and animal products, fats and oils, and prepared food and beverages are the categories subject to the highest import duties (Chart 3.1).

3.29. Armenia does not administer tariff quotas.

3.30. Armenia's 2018 applied tariff reveals a noticeable, although not large, "v-shaped" escalation. (Table 3.3.) There is negative escalation between unprocessed and semi-processed products, mainly due to relatively high protection of agricultural raw materials. On the other hand, there is positive escalation between semi-processed and fully processed products.

⁹ Tariff analysis is based on 98.8% of all tariff lines, excluding 151 tariff lines subject to specific duties for which no AVEs are available.

Chart 3.1 Average applied MFN tariff rates by HS section



Source: WTO Secretariat calculations, based on data provided by the authorities.

Table 3.3 Summary analysis of Armenia's MFN tariff, 2018

	Number of lines ^a	Average (%)	Range (%)	Coefficient of variation	Non-ad valorem rates (%)	Duty free (%)
Total	12,178 (151)	7.5	0-281.1	1.2	13.0	19.6
HS 01-24	3,156 (111)	12.1	0-281.1	1.2	31.1	6.1
HS 25-97	9,022 (40)	5.9	0-115.8	0.9	6.6	24.3
By WTO category						
WTO agricultural products	2,703 (111)	12.8	0-281.1	1.2	35.0	8.0
Animals and products thereof	560 (1)	26.5	0-80	1.0	59.3	10.0
Dairy products	163	14.3	5-17.6	0.1	52.8	0.0
Fruit, vegetables, and plants	565	8.8	0-78.3	0.6	15.4	3.0
Coffee and tea	74 (1)	7.5	0-19.3	0.6	44.6	12.2
Cereals and preparations	243 (1)	8.5	0-30	0.6	23.5	14.4
Oils seeds, fats, oils and their products	200	7.4	0-15	0.7	12.5	15.0
Sugars and confectionary	130 (76)	14.6	0.5-77.9	1.2	83.1	0.0
Beverages, spirits and tobacco	458 (32)	11.2	0-281.1	1.3	43.9	6.8
Cotton	6	0.0	0-0	0.0	0.0	100.0
Other agricultural products, n.e.s.	304	4.6	0-13	0.5	5.3	10.2
WTO non-agricultural products	9,475 (40)	6.0	0-115.8	0.9	6.7	22.9
Fish and fishery products	603	7.1	0-44.1	0.5	6.3	0.7
Minerals and metals	1,748 (4)	7.0	0-21.7	0.6	0.6	11.0
Chemicals and photographic supplies	1,443 (1)	4.0	0-11	0.6	0.4	22.3
Wood, pulp, paper and furniture	630 (1)	8.5	0-65.1	0.6	8.9	7.0
Textiles	883 (10)	7.6	0-115.8	1.0	13.1	9.1
Clothing	361 (14)	10.4	0.3-86	0.8	82.8	0.0
Leather, rubber, footwear and travel goods	336 (3)	6.9	0-74.5	1.2	21.4	9.8
Non-electric machinery	1,279	2.7	0-15.1	1.4	0.2	62.1
Electric machinery	601 (1)	4.4	0-69.4	1.2	1.5	46.4
Transport equipment	755 (6)	6.9	0-23	0.8	3.0	28.2
Non-agricultural products, n.e.s.	758	6.9	0-20	0.8	0.1	24.4
Petroleum	78	3.7	0-5	0.6	0.0	26.9
By ISIC sector						
ISIC 1 - Agriculture, hunting and fishing	779	6.2	0-78.3	0.8	7.1	10.7
ISIC 2 - Mining	126	4.0	0-15	0.7	0.0	22.2
ISIC 3 - Manufacturing	11,272 (151)	7.6	0-281.1	1.2	13.5	20.1
Manufacturing excluding food processing	8,785 (40)	6.0	0-115.8	0.9	6.8	24.3
ISIC 4 - Electricity	1	0.0	0-0	0.0	0.0	100.0

	Number of lines ^a	Average (%)	Range (%)	Coefficient of variation	Non- <i>ad valorem</i> rates (%)	Duty free (%)
By stage of processing						
First stage of processing	1,423	5.8	0-78.3	0.7	5.8	11.9
Semi-processed products	3,295 (79)	5.7	0-77.9	0.7	3.5	12.8
Fully processed products	7,460 (72)	8.6	0-281.1	1.3	18.5	24.0
By HS section						
01 Live animals and products	1,258	15.9	0-80	1.2	32.3	4.8
02 Vegetable products	616	7.2	0-78.3	0.7	11.4	10.1
03 Fats and oils	151	8.9	0-25	0.6	16.6	9.9
04 Prepared food, beverages and tobacco	1,131 (111)	10.9	0-281.1	1.0	42.4	4.9
05 Mineral products	281	4.0	0-10	0.5	0.0	17.4
06 Chemicals and products thereof	1,318 (1)	3.9	0-11	0.6	0.4	20.6
07 Plastics, rubber, and articles thereof	361	5.4	0-43.2	0.7	2.2	20.2
08 Raw hides and skins, leather, and its products	218	5.5	0-15	0.7	0.0	14.2
09 Wood and articles of wood	352	8.4	0-15.2	0.4	0.0	4.0
10 Pulp of wood, paper and paperboard	223	7.0	0-15	0.5	0.4	10.8
11 Textiles and textile articles	1,207 (24)	8.2	0-115.8	1.0	34.0	6.4
12 Footwear, headgear, etc.	115 (3)	11.4	0-74.5	1.2	61.7	7.0
13 Articles of stone, plaster, cement	299	10.9	0-16	0.3	0.0	3.0
14 Precious stones and metals, pearls	66	11.7	0-21.7	0.6	4.5	18.2
15 Base metals and articles thereof	1,171 (4)	6.4	0-19.3	0.7	0.7	12.3
16 Machinery, electrical equipment, etc.	1,962 (1)	3.3	0-69.4	1.4	0.6	57.1
17 Transport equipment	774 (6)	7.0	0-23	0.8	3.0	28.0
18 Precision equipment	358	4.6	0-15	0.9	0.0	34.6
19 Arms and ammunition	24	15.7	13.6-16	0.1	0.0	0.0
20 Miscellaneous manufactured articles	286 (1)	10.8	0-65.1	0.6	20.3	3.5
21 Works of art, etc.	7	0.0	0-0	0.0	0.0	100.0

a The figure in brackets refers to the number of specific lines being excluded from the calculations due to the unavailability of AVEs.

Note: Including AVEs for non-*ad valorem* rates, as available. In case of unavailability, the *ad valorem* part of alternate rates is used for alternate rates. Specific rates for which no AVEs are available are excluded from the calculations.

Import value and quantities to calculate AVEs are taken from the UN Comtrade database.

Source: WTO Secretariat calculations, based on data received by the authorities and the UN Comtrade database (for calculations of AVEs).

3.1.4.2 Tariff concessions

3.31. According to the legislation of the EAEU, tariff concessions are stated in the Treaty of the Eurasian Economic Union, in international agreements between the EAEU and third parties, and in the Decisions of the EEC. Some examples of exemptions from customs duties include: imported currency of member States, as well as currency of third countries; goods imported for the purpose of eliminating the effects of natural disasters, accidents and disasters within the framework of humanitarian assistance; and goods imported for charity purposes by third countries, international organizations, or governments in accordance with the legislation of the member States as gratuitous assistance, including technical assistance.

3.1.5 Other charges affecting imports

3.1.5.1 Charges exclusively applied to imports

3.32. Under Article 47 of the EAEU Customs Code, fees and taxes connected with importation and exportation are the competence of the member States individually. The amount of fees may not exceed the estimated costs incurred by the customs authorities for the performance of the acts in respect of which the customs fees are established. The terms and conditions for their payment, as well as any applicable exemptions, are set out in domestic legislation.

3.33. In Armenia, imports are subject to: a customs formalities fee of AMD 3,500 (US\$7.30), a customs inspection and recording fee of AMD 1,000 (US\$2.00) for each cargo weighing less than one tonne, and AMD 300 (US\$0.60) for each additional tonne of cargo. When customs formalities and/or inspections are carried out elsewhere than in places determined by the customs authorities or during non-working days, the customs fees are doubled. Importers and exporters also have to pay AMD 1,000 (US\$2.00) for each document (form) provided by Customs. In addition, importers may incur other customs user fees, depending on the services supplied by Customs, such as the accompaniment of transit shipment and warehousing services or giving preliminary decisions on classifications of goods. In the Customs Code of the EAEU (Article 47), it is stated that the amount of customs fees may not exceed the estimated costs incurred by the customs authorities for the performance of the acts in respect of which customs fees are established.

3.1.5.2 Indirect taxes

3.34. With few exceptions, all imports are subject to VAT, and alcoholic beverages, tobacco products and fuels are also subject to excise duties. According to IMF estimates, for 2016, the latest year available, VAT collected represented 33% of total tax revenue, or the equivalent of 6.7% of GDP, with VAT collected from imports representing about 60% of total VAT collection. The SRC is responsible for administering and collecting all taxes applied to imports.

3.1.5.2.1 VAT

3.35. Armenia's VAT law was based on the principles of the European Union VAT Directive. VAT-registered persons may deduct the VAT paid on their inputs from the VAT charged on their sales, and account for the difference to the tax authorities. Armenia's current VAT law was repealed on 1 January 2018 when the Tax Code of the Republic of Armenia entered into force.

3.36. A 20% VAT is levied on all economic activities, with the exception of those subject to simplified taxation (i.e. companies with a taxable turnover of less than AMD 115 million (US\$292,000) in a tax year). From 1 January 2019, the VAT threshold will be AMD 58.35 million. The taxable base is the customs value of the goods, plus the amount of any import duties and excise taxes levied at the time of importation. VAT must be paid after the registration of the customs declaration before the release of the goods. Exported goods and related services are zero-rated. Since 1 January 2017, imports of goods from non-EAEU member States by taxpayers with AEO status, or by a group of resident tax payers conducting investment projects approved by the Government, are exempt from VAT. In addition, VAT is not applied to imports of goods listed in Law No. HO-195 on Approval of the List of Goods Imported by Organizations and Individual Entrepreneurs not Subject to Excise Tax, the Import of which is Exempt from VAT, dated 29 June 2001, imports of goods and services by individuals for personal use, imports of personal property by individuals taking up permanent residency in Armenia, or imports of cultural items. Payment of VAT related to imports under approved investment programmes may be postponed for a period of up to three years.

3.1.5.2.2 Excise tax

3.37. Excise tax is levied on domestically-produced and imported alcoholic beverages, tobacco products, petrol, and diesel fuels (Table 3.4). The tax rate varies according to the product and, in most cases, is defined as a specific rate.

Table 3.4 Excise tax rates 2018-2021

Goods	Unit of measure	Tax rate			
		After 1 January 2018	After 1 January 2019	After 1 January 2020	After 1 January 2021
Ethyl spirit	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre (by recalculation of 100% spirit)	50%, but not less than AMD 900 per litre			
Alcoholic beverages	Value (excluding VAT and excise tax) or customs value or	73%, but not less than AMD 725 per	84%, but not less than AMD 835 per	96%, but not less than AMD 960 per litre	110%, but not less than AMD 1,100 per litre

Goods	Unit of measure	Tax rate			
		After 1 January 2018	After 1 January 2019	After 1 January 2020	After 1 January 2021
	acquisition value or 1 litre	litre	litre		
Vodka made of fruits and/or berries	1 litre	AMD 800 per litre			
Cognac, brandy and other spirituous liquors	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre (by recalculation of 100% spirit)	50%, but not less than: AMD 3,000 per litre (1- to 3-year-old spirits); AMD 3,500 fper litre (4- to 5-year-old spirits); AMD 6,000 per litre (6- to 10-year-old spirits); AMD 8,500 per litre (11- to 15-year-old spirits); AMD 14,000 per litre (16- to 19-year-old spirits); and AMD 22,000 per litre (more than 20 years old spirits)			
Whisky, rum and other spirituous liquors	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre	66%, but not less than AMD 3,970 per litre	76%, but not less than AMD 4,560 per litre	87%, but not less than AMD 5,250 per litre	100%, but not less than AMD 6,035 per litre
Beer	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre	30%, but not less than AMD 105 per litre			
Grape wine	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre	10%, but not less than AMD 100 per litre			
Vermouth and other grape wines	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre	50%, but not less than AMD 750 per litre			
Other brewed drinks (apple cider, pear cider, honey-drinks)	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre	25%, but not less than AMD 270 per litre			
Grape, fruit and other wines	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 litre	10%, but not less than AMD 100 per litre			
Tobacco products	Maximum retail value stamped (excluding VAT and excise tax) or 1,000 units	15%, but not less than AMD 7,275 per 1,000 units	15%, but not less than AMD 8,370 per 1,000 units	15%, but not less than AMD 9,625 per 1,000 units	15%, but not less than AMD 11,070 per 1,000 units
Cigars	1,000 units	AMD 605,000			
Cigarillos	1,000 units	AMD 16,500			
Tobacco	1 kg	AMD 1,500			

Goods	Unit of measure	Tax rate			
		After 1 January 2018	After 1 January 2019	After 1 January 2020	After 1 January 2021
substitutes					
Motor oil	Value (excluding VAT and excise tax) or customs value or acquisition value or 1 kg	50%, but not less than AMD 400 per kg			
Petrol	1 ton	AMD 40,000			
Diesel fuel	1 ton	AMD 13,000			
Raw oil and oil materials	1 ton	AMD 27,000			
Gases produced from oil and other hydro-carbons	1 ton	AMD 1,000			
Compressed natural gas	1,000 m ³	AMD 25,000			

Note: Taxpayers producing excisable goods in Armenia should submit a quarterly excise tax return by the 20th day of the month following the quarter, and make excise tax payments by the 20th day of each month.

Source: Data provided by the authorities.

3.38. For goods imported into Armenia from outside the EAEU, the excise tax is payable between the time of the registration of the customs declaration and the release of goods.

3.39. The taxable base of the excise tax on goods imported from EAEU member countries is the factory price/customs value and the goods value. In cases of exporting/importing goods taxable by excise tax from/into Armenia to/from EAEU member States, the legal framework is provided by: (i) Annex 18 of the EAEU Treaty, namely the Protocol on the Procedure of Levying Indirect Taxes and the Mechanism of Control over their Payment while Exporting and Importing Goods, Performing Works, Rendering Services; and (ii) the Tax Code of the Republic of Armenia.

3.1.6 Import prohibitions, restrictions, and licensing

3.40. While most imports are free of prohibitions, quotas or licensing requirements, there are restrictions for health, security or environmental reasons. These restrictions include requiring authorization for pharmaceutical products and medicines, phyto-protection chemicals, weapons, components used in the production of weapons, explosives, nuclear materials, poison, drugs, strong psychotropic substances, devices for use in opium smoking, and pornographic materials.

3.1.6.1 Legal framework

3.41. A list of activities subject to licensing is provided in the Law on Licensing, which provides for the type of licences: automatic and non-automatic.

3.42. The EAEU "Common list of goods" on which non-tariff measures (NTMs) are applied, was adopted by EEC Board Decision No. 30/15 and includes: (i) goods banned for importation into or exportation from the customs territory of the EAEU (eight categories of products); (ii) goods covered by a permit-based procedure for importation into or exportation from the customs territory of the EAEU (eight categories of products); (iii) goods subject to bans or restrictions applying only to some of the EAEU member States; (iv) specific import/export/transit requirements applying to certain goods; and (v) information on the institution responsible for administering the measures.

3.43. The Law on Notification of the Implementation of Activities, adopted in 2015, replaces the licensing with notification of 17 types of activities. Operators can engage in activities, subject to notification, for five working days after the notification is submitted.

3.1.6.2 Institutional framework

3.44. The Licensing and Permits Agency¹⁰ provides services in the field of licenses, permits, Kimberly certificates, hotel facility qualifications, and conclusions. It grants licences to trade organizations covering trading areas, the production of measurement units, the control of exports of controlled goods, and the controlled transfer of intangible values and permissions for dual-use goods in transit through Armenia. It also issues findings on the results of processed goods that are imported under the temporary import (export) customs regime.

3.45. The Agency provides the following services for the realization of its goals and objectives:

1. Classification of hotel industry establishments;
2. Implementation of the Kimberley Process Certification;
3. Provision of permits for the export of dual-use items, their transit through the territory of the Republic of Armenia, and the implementation of the transfer of information and controlled intangible values/results of intellectual activity;
4. State Approval of End-user Certificates, and provision of Import Certificates;
5. Approval of activities subject to notification for the trade, import, export or transport of natural processed or raw but unframed and loose diamonds classified under the 710210000, 710221000, 710231000 codes in the Commodity Nomenclature of Foreign Economic Activity;
6. Provision of licenses for the export/import to/from a third country of precious metals, precious stones, raw precious metals, scrap and waste of precious metals, precious metal ores, and concentrates and raw materials containing precious metals;
7. Approval of activities subject to notification for assaying and hallmarking of items made from precious metals;
8. Qualification of refiners, assayers and hallmarkers of precious metals;
9. Approval of lists of imported (exported) precious items and processed products of natural diamonds, and natural raw diamonds for processing purposes;
10. Approval of activities subject to notification for the import of vodka classified under code 2208 in the Commodity Nomenclature of Foreign Economic Activity;
11. Employment of tax, custom and other mandatory fee privileges provided by the Framework Agreement signed between the Republic of Armenia and the Commission of the European Communities;

3.46. During the review period, a series of measures and legislative amendments were taken to facilitate the administrative burden for businesses. Another innovation was the insertion of a new application receiving system on the governmental website (<http://www.e-gov.am>) as a result, business entities can electronically submit applications or notifications and other necessary documents.

3.47. Regarding the import of agricultural chemicals by the Ministry of Agriculture, there are compulsory health, hygiene, and consumer rights standards for a range of foodstuffs, electrical goods, alcoholic and non-alcoholic beverages, tobacco products, and children's clothes, among other imports. According to Government Decree No. 1524-N of 25 December 2014 and Minister of Agriculture Order No. 6-N of 15 January 2015, the Ministry of Agriculture may issue a one-time import license for plant protection products, which are included in the unified product list of external economic activity and are imported from third countries.

¹⁰ The Agency is a detached subdivision of the Ministry of Economic Development and Investments.

3.48. The concerned body regarding import/export licences for medicines is the Ministry of Health. Licences are applicable to the export/import of goods subject to quantitative restrictions (QRs), exclusive rights, permit-based procedures (i.e. automatic licences), tariff quotas (TQs), and import quotas applied as special safeguard measures. General and exclusive licences are issued in cases determined by the Commission. Licences issued by the authorized body of one member State are recognized by all other member States. Detailed rules as regards how licensing shall be carried out are defined in the Appendix to the Protocol on NTMs. According to Government Decree No. 105-N of 8 February 2018, and Government Decree No. 32-N of 18 January 2018, from 15 August 2018, import/export licenses for medicines, and for narcotics and psychotropic substances, respectively, are to be issued by the Ministry of Health. All restrictions concerning the import of medicines are listed in the Law on Medicines.

3.1.7 Anti-dumping, countervailing and safeguard measures

3.49. The principal legal basis for trade defence instruments (anti-dumping (AD), countervailing (CV) and safeguards (SGs)) is Annex 8 of the EAEU Treaty, i.e. the Protocol on the Application of Safeguards, Anti-dumping and Countervailing Measures in Respect of Third Countries. A number of secondary acts of the EEC regulate specific aspects of trade defence instruments, including confidentiality matters, internal decision-making procedures, and materials for domestic producers aiming to facilitate the preparation of complaints.

3.50. The full list of relevant laws and regulations was notified to the WTO¹¹ in 2016, and consists of:

- a) Articles 48, 49 and 50 of the EAEU Treaty of 29 May 2014;
- b) Annex No. 8 to the EAEU Treaty (Protocol on the Application of SG, AD and CV Measures with respect to Third Countries);
- c) Decision of the EEC Board of 7 March 2012 No. 1 "On some issues of SG, AD and CV measures in the common customs territory of the CU";
- d) Provision, dated 7 March 2012, for the use and protection of confidential information and proprietary information with limited distribution in the body responsible for investigating;
- e) Regulation-making and draft decisions of the EEC for SG, AD and CV measures, of 7 March 2012;
- f) Board of EEC Decision No. 44 of 16 May 2012 "On some issues of protection of the domestic market"; and
- g) Section VI to Annex No. 3 to the Treaty on the Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union of 29 May 2014 (Conditions and Transitional Clauses).

3.51. The authority for trade defence investigations in the EAEU is the EEC and its Department for Internal Market Defence, which make recommendations on trade defence measures. Final decisions on measures follow investigations made by the Board of the EEC (by a two-thirds majority); the Board consists of EEC ministers representing all the EAEU member States.

3.52. According to paragraph 186 of the Protocol, an investigation can be initiated by the Commission on its own initiative or on the basis of a complaint lodged by the domestic industry manufacturing like products (relevant for AD and CV investigations) or like or directly competitive products (in the case of SG). In practice, so far, all investigations have been initiated following domestic industry complaints.

3.53. A complaint can be lodged either by individual domestic producers or by a group or association of domestic producers manufacturing a major share of like products (for AD and CV) or like or directly competitive products (for SG). The EAEU applies thresholds for domestic industry

¹¹ See notification document G/ADP/N/1/ARM/3, 26 October 2016.

that are similar to those in other jurisdictions. In particular, the complainant must demonstrate that its complaint is expressly supported by at least 25% of the total EAEU production, and moreover, it must be supported by over 50% of the volume of the like (or directly competitive) products manufactured by those producers who have expressed an opinion on the complaint.

3.54. All definitions of terms, procedural requirements and time-limits that apply pursuant to the Protocol and that are actually applied by the EEC in trade-defence investigations (TDI) aim to follow the respective WTO rules on TDIs.

3.55. Since 2012, according to the authorities, the Department has completed 27 TDIs, consisting of 1 anti-subsidy investigation, 7 SG investigations and 19 AD investigations. The countries most affected are Ukraine (eight investigations) and China (nine). The subject products range from caramel and bulldozers to oil country tubular goods and citric acid.

3.2 Measures Directly Affecting Exports

3.2.1 Customs procedures and requirements

3.56. Almost all provisions on customs procedures are regulated in the EAEU Customs Code, some at EEC level; only minor peculiarities are regulated at the level of national legislation. All goods exported from Armenia outside the EAEU are subject to customs declarations. Since there is no border with the other EAEU member States, land and sea transportation between Armenia and other EAEU member States is carried out through customs transit procedures. Goods can be declared at the customs offices where the goods are located, as set out in Armenian legislation. A declaration form is submitted to the customs official, who is responsible for verifying its completeness as well as the validity of the supporting documentation and, if there is no basis for rejection, the form is then registered. Goods and vehicles with International Road Transport (TIR) carnets exported by legal persons may be declared at any customs house. Goods must be released in four hours after registration of a declaration. In exceptional cases, release can take one working day or more.

3.2.2 Export taxes

3.57. The EAEU member States have concluded a separate accord concerning export duties, according to which each member State of the EAEU establishes its own list of goods to which export duties may apply, which is communicated to the EEC. On that basis, the EEC maintains a consolidated list of products subject to export duties for all member States of the EAEU. Member States retain the power to adopt and amend the export duty rates applied on the export of goods contained in the consolidated list and originating in their territories. Similar rules are reflected in the Customs Code of the EAEU, signed on 11 April 2017, which entered into force on 1 January 2018. Export duty rates are subject to periodic amendments by decisions of the governments of the member States. There is no single official public database at the EAEU level where up-to-date export duty rates may be consulted.

3.58. For Armenia, the applied rate of customs duty for all goods has been zero during the review period. Exported goods and ancillary services are zero-rated for VAT purposes. Exported goods are also exempt from excise tax.

3.2.3 Export prohibitions, restrictions, and licensing

3.59. As is the case for most imports, the vast majority of exported products are free of any prohibitions or quotas. The export restrictions that do exist are imposed for health, security, and environmental reasons. Armenia has no export licensing regime;¹² however, for some products, exporters need to obtain prior state permission for export operations. These are weapons, nuclear materials, pharmaceuticals, rare animals and plants, and rare objects or artefacts considered part of the national patrimony. Armenia applies only those trade embargoes imposed by United Nations Security Council resolutions. Exports of dual-use goods are regulated by the Law on Controlling

¹² This does not apply to the export of nuclear materials, radioactive materials, or devices containing radioactive materials, since the export of these materials are stipulated/regulated by the Law on Licensing and the Law on the Safe Utilization of Atomic Energy for Peaceful Purposes, Government Decree No. 346-N of 24 March 2005 and Government Decree No. 1790 of 9 December 2004, respectively.

Export of Dual-Use Commodities Items, their Transit through the Territory of the Republic of Armenia as well as the Transfer of Dual-Use Information and Products of Intellectual Activity. The export of controlled items is done via permission granted by the Ministry of Economic Development and Investments.

3.2.4 Export finance, insurance and promotion

3.60. The Export Insurance Agency of Armenia Insurance CJSC (EIA) was founded on 23 October 2013 by the decision of the Government. Its mission is the promotion of Armenian exports, which is implemented within the framework of the Export-Oriented Industrial Policy.

3.61. According to the authorities, currently the EIA offers two insurance products for Armenian exporters: export insurance and pre-export financing insurance (PEF).

3.62. Export insurance gives exporter more confidence when signing contracts with foreign buyers, offering competitive deferred payment terms and insuring them for a number of commercial and political risks of non-payment from their foreign buyers. Export insurance policies also enable exporters to benefit from working capital financing opportunities offered by banks and credit organizations, without collateral.

3.63. PEF insurance allows exporting business entities to receive affordable financing without collateral for the manufacture of goods, which can be used to cover the purchase of raw materials, packaging, transportation costs, etc. It helps to ensure continuity in the production process, and contributes to the expansion of export volumes.

3.64. The Armenian Development Foundation acts as a one-stop-shop for investors, and is also responsible for export promotion and assisting companies in finding markets for their products.

3.65. The authorities stated that Armenia does not provide subsidies contingent on export performance.

3.66. In June 2011, Armenia adopted the Law on Free Economic Zones (FEZs) and developed several regulations at the end of 2011 to attract foreign investment into FEZs. The legislation is administered by the Ministry of Economic Development and Investments. The Ministry elaborated the FEZ policy, coordinates the procedure for the granting of permits to FEZ developers and residents, issues FEZ resident permission certificates, maintains the FEZ residents register, carries out monitoring activities, etc.

3.67. The legislation on FEZs grants the following incentives: no VAT on the delivery of services and the supply of goods in the FEZ territory to FEZ operators and organizers; tax-free profit for legal entities and no income tax for sole proprietors who are residents of FEZs; no property tax on public and industrial buildings and structures owned or leased by residents within FEZs; no customs charges or non-tariff regulation measures applied on goods released under the "Free Customs Zone" procedure; freely convertible currency is permitted as a medium of exchange while trading within FEZs, unlike the rest of Armenia, where trade is allowed only using the national currency. The services rendered by the state bodies in FEZs are implemented on a simplified, one-stop-shop basis.

3.68. Three FEZs are currently operational:

- The Alliance FEZ was opened in August 2013, and currently has 13 businesses using its facilities. Its focus is on high-tech industries, which include information and communication technologies (ICTs), electronics, pharmaceuticals and biotechnology, architecture and engineering, industrial design, and alternative energy. In 2014, the Government expanded operations in the Alliance FEZ to include industrial production as long as there is no similar production already occurring in Armenia;
- In 2015, the Meridian FEZ opened in Yerevan; it focuses on jewellery production, watch-making, and diamond-cutting. Seven companies are currently operating there. The duration of both the Alliance and Meridian FEZs is 10 years; and

- The Meghri FEZ was established in Meghri town in the Syunik province, on the border with Iran, in 2017. Its operating type is defined as industrial and logistic in a large number of sectors. Its planned duration is 50 years.

3.2.5 Duty and tax concessions

3.69. Under current EAEU and Armenian legislation, all exports are zero-rated for VAT and exempt from excise taxes. In addition, there are exemptions from tariff duties for imports of products that enter under one of the following import procedures: for processing in the customs territory; temporary imports (which may be partially or totally exempted from duties and taxes); and re-exports.

3.3 Measures Affecting Production and Trade

3.3.1 Business environment

3.70. According to the Armenian Development Strategy for 2014-2025, Armenia's international competitiveness level is calculated using the benchmarks of the annual Global Competitiveness Report published by the World Economic Forum (WEF).¹³ It cites, among others targets, the following:

- reducing the regulatory burden on businesses by half;
- optimizing inspections;
- strengthening pro-competition policy and institutional capacity; and
- enhancing investment promotion.

3.71. In the WEF Global Competitiveness Report 2013-2014, Armenia was ranked 79th among 148 countries, based on 113 benchmark indicators characterizing 12 "pillars" of the economy - institutions and their quality, infrastructures, macroeconomic environment, healthcare and basic education, higher education and human resources training, goods market efficiency, labour market efficiency, financial markets development, technological readiness level, market size, business sophistication level, and innovation level. The Strategy predicted that policy drafted and enacted in the ensuing years would significantly enhance Armenia's international competitiveness.¹⁴ Compared with 2012, there were significantly higher rankings for goods market efficiency, business sophistication, and innovation in 2016 (Table 3.5).¹⁵

¹³ Annex to Government Decree No. 442-N of 27 March 2014. See <https://collaboration.worldbank.org/docs/DOC-23480>.

¹⁴ WEF (2013), *The Global Competitiveness Report 2013-2014*, Geneva. Viewed at: <https://www.weforum.org/reports>.

¹⁵ WEF (2017), *The Global Competitiveness Report 2017–2018*, Geneva. Viewed at: <https://www.weforum.org/reports>.

Table 3.5 Armenia in the WEF Global Competitiveness Report

	2012		2016	
	Rank (out of 148)	Score (1-7)	Rank (out of 137)	Score (1-7)
Basic requirements	73	4.5	77	4.5
Institutions	65	4.0	55	4.1
Infrastructure	80	3.8	80	3.9
Macroeconomic environment	64	4.9	101	4.1
Health and primary education	85	5.5	55	6.0
Efficiency enhancers	85	3.9	78	4.0
Higher education and training	77	4.2	69	4.4
Goods market efficiency	58	4.3	35	4.7
Labour market efficiency	50	4.5	51	4.4
Financial market development	76	3.9	78	3.9
Technological readiness	72	3.7	77	4.1
Market size	117	2.7	115	2.8
Innovation and sophistication factors	88	3.4	67	3.6
Business sophistication	87	3.8	68	4.0
Innovation	103	3.0	70	3.3
Overall	79	4.1	73	4.2

Source: WEF (2013), *The Global Competitiveness Report 2013-2014*, Geneva; and WEF (2017), *The Global Competitiveness Report 2017-2018*, Geneva.

3.72. The Regulatory Guillotine Program Phase II (1 January 2014 to 31 December 2015) was aimed at reducing administrative costs and the regulatory burden on businesses. During both phases of the Regulatory Guillotine Project (Phase I started in May 2012), out of 2,487 legal acts that affected business procedures, 2,187 were revised, simplified, or abolished. Armenia has continued to focus on improving the business and investment environment. According to the authorities, key objectives include:

- A reduction in the administrative burden of regulations that had a direct impact on businesses and citizens;
- A reduction in the direct contact of businesses and citizens with the State, through the introduction of interagency electronic information exchange systems; and
- As a one-time measure, the reduction and simplification of state regulations (by about 50%) relating to businesses and citizens.

3.73. Since 2014, the Government has launched e-Government services, such as the online customs declaration and a single window system, to reduce bureaucracy. For example, the single window for issuing permits and certificates for the import and export of animal and plant products, food products and items related to food products has been applied since May 2015.

3.3.2 Standards and other technical requirements

3.74. The legal framework for standards, technical regulations, and conformity assessment is the EAEU Treaty and national legislation. According to the EAEU Treaty, "technical regulation of the EAEU members shall be used for the purpose of protecting life and (or) human health, property, the environment, protecting life and (or) health of animals and plants, prevention of actions misleading consumers as well as to ensure energy efficiency and resource conservation within the EAEU. Adoption of technical regulations of the EAEU for other purposes is not allowed".¹⁶

3.75. Furthermore, the Treaty states that international standards are the basis for technical regulations in the EAEU, "except in cases where respective documents are unavailable or non-consistent with the purposes of technical regulations of the Union, including due to climatic and geographical factors or process-related and other specific features". In the absence of an applicable international standard, regional standards or national standards of other countries may

¹⁶ EAEU Treaty, Article 52(1).

be used as a basis for EAEU measures. A product subject to a technical regulation may be put into circulation in the EAEU only if it has passed the necessary conformity assessment procedures.¹⁷

3.76. At the EAEU level, the EEC approves, *inter alia*, the:

- General list of products subject to EAEU technical regulations;
- Procedure for the development and adoption of EAEU technical regulations;
- EAEU technical regulations;
- Procedure for the inclusion of certification bodies and testing laboratories to the EAEU universal registry of compliance assessment bodies, as well as their establishment and maintenance; and
- EAEU uniform compliance certificate and compliance declaration.

3.77. To date, about 46 technical regulations have been adopted in the EAEU. (Standards are not adopted by the EAEU.) In order to meet the requirements of technical regulations, interstate standards are used, which are developed and adopted by the Eurasian Standards Committee (EASC); also used are national standards of the member countries of the EAEU. There are about 5,000 standards currently listed by the EEC as supporting the technical regulations in force in the EAEU. About 60% of them are harmonized with international standards. The procedure within the EEC for the adoption of technical regulations and standards is the same as that in Russia. (<http://www.eurasiancommission.org/>).

3.78. Issues related to standards and technical regulations continue to be the responsibility of different government bodies within the Ministry of Economic Development and Investments and the Government. The National Institute of Standards (SARM) CJSC is the national standardization body. It coordinates the activities of standardization technical committees. The Ministry of Economic Development and Investments also oversees the work of the National Institute of Metrology and the National Accreditation Body, a non-commercial state organization.¹⁸ The WTO Notification Agency, under the Ministry of Economic Development and Investments, is responsible for complying with Armenia's notification obligations under the Agreement on Technical Barriers to Trade (TBT Agreement), and is Armenia's TBT enquiry point.

3.79. At the national level, the authorities:

- Establish procedures for state control (inspection) regarding compliance with EAEU technical regulations in Armenia, and bear responsibility for failure to comply with EAEU technical regulations requirements.
- Establish the accreditation procedure for conformity assessment bodies, and elaborate the state policy for accreditation and conformity assessment; and
- Encourage the accreditation of conformity assessment bodies, as accreditation assures the competence and reliability of these bodies.

3.80. EAEU Treaty provisions and EAEU Decisions on the preparation and application of technical regulations, conformity assessment procedures, and sanitary and phytosanitary measures are based on the following:

- Interaction between member States and supranational bodies, in particular within the Consultative Committee on Technical Regulation and Application of Sanitary, Veterinary and Phytosanitary Measures (the Consultative Committee);
- An appointed "Developer" - a member State or the EEC - to lead the discussion on a particular draft technical regulation within a working group composed of

¹⁷ EAEU Treaty, Annex 9 "Protocol on Technical Regulation within the Eurasian Economic Union", paragraph 3.

¹⁸ Formerly the Accreditation Agency.

representatives from member States with specific technical and administrative expertise;¹⁹

- Public consultations on draft technical regulations;²⁰ and
- The EAEU's technical regulations and the list of standards supporting the implementation of those technical regulations; these are approved by the Commission – either the Board or the Council – depending on the subject matter. The Council has the right to veto the decisions taken by the Board. In general, prior review and approval by the relevant national authorities are also required.

3.81. The Consultative Committee is an advisory body to the Board that develops proposals for technical regulations and sanitary, veterinary and phytosanitary measures on the basis of agreed positions of the EAEU member States' authorized bodies. Sub-committees on Standardization and Uniformity of Measurements are established under the Consultative Committee.

3.82. Armenian companies will have had up to five years to comply with the technical regulations of the EAEU. Before the deadline, companies must comply with the relevant national legislation. For most of the goods manufactured in the EAEU which are subject to safety requirements, the transitional period began on 1 January 2016, and for some products, such as furniture or wheeled vehicles, the new requirements will be mandatory beginning in 2019 and 2022, respectively. The Government recommends that exporters and importers begin using EAEU technical regulations as soon as possible. By the end of the transitional period, all the goods produced, imported and circulating in the territory of the EAEU must meet the Union's mandatory requirements.

3.83. The Market Surveillance Inspection Body is a state inspectorate body that oversees the fields of measurement uniformity, market surveillance, technical regulation, and consumer protection. It provides services regarding safety, and quality of consumer goods; it also defines rules of trade and industry, establishes means of measuring the performance of controls, and oversees the protection of the rights and interests of consumers.

Box 3.1 Standards

SARM is the national standardization body in Armenia. It maintains the national library of standards, which includes international (ISO), CIS (GOST), EU (EN), Armenian (AST), and other standards. Currently, certificates of conformity issued or accepted by SARM are required for most food products, alcoholic drinks, and electro-technical and petroleum products. In recent years there has been a substantial movement toward the adoption of common international wording and usage on product specifications and certification procedures.

- In 2017, SARM adopted and registered 471 national standards, pertaining to the energy, construction and environmental sectors as well as conformity assessment, from which 129 standards are identical to equivalent international and European standards.
- SARM is a member of the International Organization for Standardization (ISO) since 1997. It participates in technical standardization activities of 40 ISO technical committees and 19 subcommittees. It is a partner standardization body (PSB) of the European Committee for Standardization (CEN) since 1 January 2007, affiliate member since 1 January 2008 and is currently a CEN companion standardization body (CSB) since 1 January 2017, participating in standardization activities of several CEN technical committees.
- As a Member of the WTO, Armenia is required under the TBT Agreement to notify to the WTO all proposed technical regulations that could affect trade with other Member countries.
- SARM has been accredited as a certification body for products, services and quality and environmental management systems (ISO 9001 and ISO 14001). It also carries out conformity assessment work in the above-mentioned fields and tests a large number of items. Test certificates from foreign laboratories are accepted if appropriate interstate agreements exist.

Source: Data received from the authorities.

¹⁹ The functions and interactions of working groups and the Consultative Committee are defined by two regulations: "of Working and Expert Groups on SPS and TBT" - Decision of the Minister on Technical Regulation, Member of the EEC Board of 3 October 2013, and "on the Consultative Committee on Technical Regulation, Application of Sanitary, Veterinary and Phytosanitary Measures" - Board Decision No. 161/12.

²⁰ See <http://www.eurasiancommission.org/en/act/txexreg/depsanmer/publ/Pages/default.aspx> for SPS, and <http://www.eurasiancommission.org/en/act/txexreg/deptexreg/tr/Pages/projectsPublic.aspx> for technical regulations.

3.84. Regarding significant developments during the review period, the authorities have highlighted the following:

- The reform agenda of the quality infrastructure in the "2010-2020 Quality Infrastructure Reform Strategy" of 2010 aims to improve the competitiveness of Armenian products in foreign markets and reduce technical barriers;
- Along with the adoption of new legislation (laws on Technical Regulation, on Standardization, on Accreditation, and on Uniformity of measurements), structural adjustments and capacity building activities were launched in the areas of technical regulations, accreditation and conformity assessment, standardization, metrology, and market surveillance;
- Since Armenia's accession to the EAEU in January 2015, 46 national technical regulations have been reviewed. Currently, 17 national regulations are in a transitional period, and 36 EAEU technical regulations have been enforced. The transitional period is to allow Armenian exporters, importers, and producers to adjust to new requirements;
- The National Accreditation Body (ARMNAB) has been an associate member of the European Co-operation for Accreditation (EA) since November 2016. This was the first step towards signing bilateral and multilateral agreements with regional and international organizations, including the EA, the International Laboratory Accreditation Cooperation (ILAC), and the International Accreditation Forum (IAF);
- SARM has developed new harmonized national standards to remove trade barriers and promote the export and import of products;
- SARM considers it beneficial to cooperate with the European Committee for Electrotechnical Standardization (CENELEC) and ETSI. However, to gain membership to CENELEC there is a requirement to be at least a corresponding member of the International Electrotechnical Commission (IEC). Armenia is currently an affiliate country to the IEC. There is currently a lack of awareness and understanding of stakeholders on the benefits of membership of the IEC.
- A national strategy on metrology has also been developed to improve metrology and to improve the international traceability of measurements. The aim of this strategy is to determine the direction for the development of the effective and internationally recognized national metrology system in Armenia. Currently, the National Institute of Metrology is a member of the Euro-Asian Cooperation of National Metrological Institutions. It also plans to become a member of the International Bureau of Weights and Measures and International Organization of Legal Metrology.

3.85. Up to end-May 2018, Armenia had made a total of 92 notifications to the WTO on TBT measures (including revisions, supplements, and addenda). Between 1 January 2010 and end-May 2018, 14 notifications were made, all were technical regulations and regular notifications, mostly with the objective of protecting human health or safety. Eleven of the notifications related to draft EAEU technical regulations, and three were national ones.²¹ No specific trade concerns have been raised by other WTO Members about TBT measures taken by Armenia.

3.3.3 Sanitary and phytosanitary (SPS) requirements

3.86. Armenia is a member of the World Organization for Animal Health (OIE) and Codex Alimentarius, and is a contracting party to the International Plant Protection Convention (IPPC).

3.87. According to the authorities, during the review period, laws and regulations were aligned with international standards in line with the EAEU framework.²² Also, laboratories have been modernized and upgraded with new equipment and systems. Further, the phytosanitary veterinary and food safety legislation has been brought into compliance with the procedures defined by the

²¹ WTO documents G/TBT/N/ARM/71 to /ARM/84.

²² In the scope of SPS measures, the following laws have been approximated:

1. The Law on Food Safety and State Control, LA-143-N of 21 June 2014;
2. The Law on Food Safety, LA-135-N of 21 June 2014;
3. The Law on Veterinary, LA-137-N of 21 June 2014; and
4. The Law on Phytosanitary, LA-140-N of 21 June 2014.

International Standards for Phytosanitary Measures of the IPPC, and the standards and practices of the OIE and Codex Alimentarius. Additionally, Armenia has worked on a food safety risk assessment and a risk management framework to enhance the performance of the food safety system.

3.88. According to Government Decisions N1731-N of 30 December 2010 and N1147-N of 8 October 2015, the authorized regulatory body on food, veterinary, phytosanitary and food safety inspection was the State Service for Food Safety under the Ministry of Agriculture, which is also the national enquiry point. According to Paragraph 11 of Part 3 of Article 9 of the Law on the State Administration System Bodies, the State Service for Food Safety was changed to the Food Safety Inspection Body. According to Part 8 of Article 9 of the same Law, the transition period will elapse on 30 September 2018. At the same time, according to Paragraph 7 of the Annex of the Law on the Structure and Activity of the Government, the Ministry of Agriculture will develop and implement the Government's policy in the field of veterinary, phytosanitary and food safety.

3.89. The legislation regarding food safety consists of:

- The Law on State Control for Food Safety, LA-143-N of 21 June 2014;
- The Law on Food Safety, LA-135-N of 21 June 2014;
- The Law on Veterinary, LA-137-N of 21 June 2014;
- The Law on Phytosanitary, LA-140-N of 21 June 2014; and
- The Law on Feed, HO-141-N of 21 June 2014.

3.90. In addition, SPS-related provisions are found in Section XI and Annex 12 of the EAEU Treaty (Protocol on the Application of Sanitary, Veterinary and Phytosanitary Measures). Decisions of the Commission of the CU or of the EAEU regulate in greater detail the application of these measures.

3.91. The EAEU Treaty established a coordinated SPS policy for EAEU members. However, member States retain their rights to introduce temporary SPS measures, e.g. in cases of justified risk of specific imported goods. The Treaty provides that procedures for implementing these temporary SPS measures are to be developed by the Commission (Article 56.4).

3.92. In line with Article 56.1 of the Treaty, SPS measures must be applied on the basis of scientific principles, and only to the extent necessary for the protection of human, animal or plant life and health. They must be based on international and regional standards, except when their application on a scientific basis results in a higher level of protection. According to CU Commission Decision No. 721/11, in the absence of EAEU or national rules establishing veterinary and SPS requirements, the standards, guidelines and recommendations of the Codex Alimentarius Commission, the OIE, or the IPPC are applied. Those standards prevail over the more restrictive rules applicable in the Union, so long as there is no scientific justification for the application of the latter.

3.93. The EAEU's risk assessment disciplines, as defined in Board Decision No. 17/14, are based on Article 5 of the WTO SPS Agreement.²³ Member States are required to ensure that veterinary or SPS measures are based on an assessment, as appropriate to the circumstances, of the risks to human, animal or plant life or health, taking into account risk assessment techniques developed by the relevant international organizations. In addition, they are also required to take into account relevant economic factors, including the potential damage in terms of loss of production or sales in the event of the entry, establishment or spread of a pest or disease, the cost of control or eradication in the territory of the member States and the relative cost-effectiveness of alternative approaches to limiting risks.

3.94. Each EAEU member State is obliged to recognize veterinary certificates issued by the other member States. Regulated products with high phytosanitary risk based on the principle of scientific analysis imported into the Union's customs territory must be accompanied by a phytosanitary certificate whenever in transit within the area (paragraph 23 of the SPS Protocol).

²³ Decision No. 17/14 amends CU Commission Decision No. 835/11 on Equivalence of Sanitary, Veterinary and Phytosanitary Measures and Conduct of Risk Assessment. These Decisions can be found, in Russian only, at https://docs.eaeunion.org/docs/en-us/0044949/cuc_21102011_835 and https://docs.eaeunion.org/docs/en-us/0044176/clcd_11022014_17.

3.95. The EAEU's disciplines are implemented on the basis of Commission Decisions No. 317/10 (as amended) on the Application of Veterinary and Sanitary Measures in the Customs Union and No. 318/10 on Assurance of Plant Quarantine in the Customs Union, which establish the following:

- a) Common lists of goods subject to veterinary control and to phytosanitary quarantine control;
- b) Common regulations regarding veterinary and phytosanitary control, inspection and approval procedures at the EAEU's external borders and within its customs area, as modified by CU Commission Decision No. 893/11;²⁴
- c) A list of Common Veterinary Requirements - i.e. supporting documentation (veterinary certificate/passport), import permit and registration of third country enterprises - for 110 groups of products subject to veterinary control;
- d) A common veterinary certificate. In addition, common export veterinary certificates are also defined for 46 controlled products when these are imported from third countries into the territory of the EAEU (CU Commission Decision No. 607/11). This Decision has been amended several times to align the veterinary certificates with international standards, recommendations and guidelines.

3.96. In the absence of common veterinary requirements for the EAEU, bilateral certificates may be developed based on a common EAEU position, in accordance with relevant international standards, guidelines and recommendations. When common veterinary requirements exist, exporters may either use the EAEU common veterinary certificate or alternatively a bilateral export certificate that reflects the particular conditions of the exporting country. Bilateral export certificates that differ from the EAEU's common certificate and requirements can be negotiated between EAEU member States' competent authorities and an exporting country (Decision No. 726/11 on Veterinary Measures), provided that: the exporting country had made such a substantiated request prior to 1 January 2013; the certificate ensures the appropriate level of protection, as determined by the EAEU member States; and its terms and requirements are no less favourable than those of an international treaty concluded prior to 1 July 2010 between the relevant EAEU member State and the exporting country.

3.97. Any bilateral veterinary export certificate (as amended), initialled by one of the EAEU member States before 1 July 2010, remains valid for exports to the customs territory of the EAEU until an export certificate is agreed with the EAEU member State based on the agreed positions of the other EAEU member States. If the former was initialled between 1 July and 1 December 2010, it remains valid for import and circulation only in the territory of the EAEU member State that initialled the certificate.

3.98. After Armenia joined the EAEU, SPS standardization requirements have become more stringent in order to match EAEU requirements. One example is the direct application of EAEU technical regulations by all member States. Another example is the provision of the conformity assessment of food products according to EAEU technical regulation 021/2011. Another example is the new labelling requirement, according to EAEU technical regulation 022/2011, which stipulates that food products marketed in the EAEU area should be labelled in Russian and in any other language required by the legislation of each member State. In addition, certain food safety criteria have become more stringent, in particular with regards to the maximum residue limits (MRLs) of certain substances in food products.

3.99. At end-May 2018, Armenia had made a total of 27 notifications to the WTO on SPS measures, of which 3 were made after 1 January 2010. All 3 of these notifications related to EAEU measures, 2 to goods subject to veterinary control and 1 to goods subject to phytosanitary control. No specific trade concerns were addressed to Armenia during this period, nor did Armenia raise any concerns about measures taken by other Members.

²⁴ The common regulation for carrying out joint veterinary control and inspection was repealed by CU Commission Decision No. 834/11.

3.3.4 Competition policy and price controls

3.100. In the area of competition, important reforms have taken place over the review period. The Law on Protection of Economic Competition (the Competition Law), adopted on 6 November 2000²⁵, was amended in 2011, 2013, 2017 and 2018. The amendments from March 2018 modernized the Law in line with the requirements of the new Constitution of the Republic of Armenia, and international standards, including the rules and principles of the EAEU and the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA).

3.101. The State Commission for the Protection of Economic Competition (the Commission), established in 2001, is responsible for the protection of economic competition.²⁶ Its main functions, as stipulated by the Competition Law, are the following:

- Detection/disclosure of abuses of monopolistic or dominant positions;
- Detection/disclosure of anti-competitive agreements;
- Control of mergers and acquisitions;
- Detection/disclosure of unfair competition practices; and
- Control/prohibition of state aid.

3.102. Since 2010, the Commission has carried out advocacy work to increase public awareness of competition issues. The Commission's sessions are open to the public, and any physical or legal person may attend. Furthermore, the Commission attaches significant importance to round-table discussions with the participation of representatives of the business community and non-government organizations (NGOs) representing the interests of consumers. Issues raised during such discussions have been taken up in studies undertaken by the Commission.²⁷

3.103. In the period 2010-17, the Commission conducted research in different product markets to reveal competition problems. The studies, carried out by the Commission with civil society participation, showed that most product markets in Armenia had been liberalized. Remaining natural monopolies exist in the gas, electricity, and water sectors, and where special rights have been transferred by the State in the form of concessions (such as with regard to railways and airports).

3.104. At the same time, according to the studies, even in markets where big companies operated in a dominant position, dozens of small and medium-sized companies also participated in these markets, thus contributing to enhancing competition.

3.105. One of the main goals of the Commission consists of the elimination of barriers to market entry. Therefore, the Commission carried out studies on a wide number of consumer goods to identify trends in the competitive environment in these markets, assigning a high priority to equal opportunity for market entry by all economic entities. The results of the studies, undertaken in the period 2014-16, showed that the number of economic entities importing consumer goods and/or socially important goods (19 commodities were studied including flour, margarine, rice, macaroni, vegetable oil, chicken meat, pork, lentils, green peas, corn, wheat, chocolate products, care accessories, and cleaning products) increased from 940 in 2014 to 1,534 in 2016, which may be seen as an indication that the competitive environment in those product markets was improved overall.²⁸

²⁵ See the Competition Law, adopted on 6 November 2000 and amended on 23 March 2018, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

²⁶ See the Competition Law, Article 17, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

²⁷ See <http://www.competition.am/index.php?menu=153&lng=1>.

²⁸ http://www.competition.am/uploads/resources/Annual_Program_2018.pdf.

3.106. The further development of the institutional capacity and the consistent work carried out by the competition authority throughout the review period has contributed to an overall improvement in the competitive environment in Armenia. For example, the WEF World Competitiveness Report of 2017-2018 ranks Armenia 40th out of 137 countries with regard to the effectiveness of antimonopoly policy, as compared to 138th out of 139 in 2010.²⁹ Similarly, the Report ranked Armenia 28th in 2017 as compared to 133rd in 2010 with regard to the extent of market dominance³⁰, and 66th in 2017 as compared to 136th in 2010 with regard to the intensity of competition in the domestic market.³¹

3.107. The recent amendments to the Competition Law have extended the Commission's powers in order to make it more effective.³² Overall, the Law applies to acts and practices which have as their object, effect, or potential effect the restriction, prevention or prohibition of economic competition, or acts of unfair competition. The Law has been subject to the following changes:

- a) A number of definitions have been inserted, including those regarding "discriminatory conditions", "competition restriction features", "coordination of economic activity", "direct or indirect control", "unjustified high or unjustified low price", and "a group of persons"; in addition, a number of principles have been further clarified based on international practices;
- b) The definitions of anti-competitive agreements, abuse of dominant position and unfair competition have been clarified and amended;
- c) Anti-competitive agreements between officials of economic entities and state bodies have been included as violations of the Law;
- d) Administrative liability for anti-competitive agreements between officials of state bodies and economic entities is now included in the Law;
- e) Criteria have been established for the determination of agreements as not anti-competitive;
- f) Potentially ambiguous provisions leading to different interpretations on merger control have been eliminated, and the criteria for the determination of prohibited concentrations have been clarified;
- g) The methodology for the determination of fines now takes into account the previous year's profit margins of the economic entity, which will enable the Commission to consider the factual circumstances of each case more effectively and promote the effectiveness of the application of principle of proportionality between offence and liability;
- h) New leniency mechanisms for the exemption from liability or the reduction of the amount of penalties imposed have been introduced; and
- i) The Commission has been assigned the status of "autonomous body" in line with constitutional amendments adopted on 6 December 2015. Members of the Commission are now appointed by a majority vote of the members of the National Assembly.

²⁹ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, pg. 83, pillar 6.03;

and

<http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>, pg. 49, pillar 6.03.

³⁰ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, pg. 83, pillar 6.02;

and

<http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>, pg. 49, pillar 6.02.

³¹ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, pg. 83, pillar 6.01;

and

<http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>, pg. 49, pillar 6.01.

³² See the State Commission for the Protection of Economic Competition, *Press Releases Development Perspectives and Rates in the Field of Competition in Our Country: A. Shaboyan Lectured at the University of Economics*, 16 March 2018, available at http://www.competition.am/index.php?page=press_releases&newsID=1511&lng=2.

3.108. Overall, in line with the CEPA principles, the recent amendments to the Competition Law extended the scope of the application to public enterprises and their officials, in addition to private entities.³³ While no particular sectors or entities are exempted from the application of the Law, an exemption applies to the exercise of exclusive rights derived from intellectual activity.³⁴ Furthermore, the Central Bank and the Public Services Regulatory Commission have special responsibilities for the application of competition legislation in the area of financial markets and public services. For example, in sectors regulated and supervised by the Central Bank, the Commission implements its mandate in cooperation with the Central Bank. The Central Bank takes the final decision on issues pertaining to competition in the financial services sector in consultation with the Commission.³⁵ According to the Law on the Central Bank, the Central Bank has the mandate for adopting normative legal acts on competition issues in the financial services sector.³⁶

3.109. The Competition Law stipulates that international treaties prevail over national laws.³⁷ The EAEU Treaty prohibits the abuse of market dominance, anti-competitive agreements and unfair competition on cross-border markets within the EAEU, and confers enforcement powers on the EEC.³⁸ The EAEU Treaty also provides for the harmonization of member States' national legislation in the area of competition policy on the basis of general principles, including: effective control of economic concentrations; regulation of natural monopolies; prohibition of anti-competitive agreements concluded by public authorities; prohibition of abuses of dominant position; prohibition of preferences granted by state or municipal authorities (except in particular cases); and codification and application of penalties.

3.110. In addition to the Competition Law, the legislative framework comprises the Constitution, the Civil Code, the Law on Administrative Offences and other legal acts.³⁹ These legal acts include: the Law on Fundamentals of Administrative Actions and Administrative Procedures; the Law on State Registration of Legal Entities, State Record of Legal Entities' Separate Subdivisions, Institutions and of Individual Entrepreneurs; the Law on Organizing and Conducting Control; the Law on Electronic Communications; the Law on Advertising; the Law on Public Procurement; the Law on Trademark; the Law on Geographical Indications; and the Law on Freedom of Information.⁴⁰

3.111. The Competition Law prohibits agreements preventing, restricting or distorting competition; prohibits abuses of dominant or monopolistic position; and regulates concentrations preventing, restricting or distorting competition.⁴¹ Both horizontal and vertical agreements are

³³ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, pg, 83, pillar 6.03; and

<http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>, pg. 49, pillar 6.03.

³⁴ See Competition Law, Article 2, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, pg, 83, pillar 6.03; and <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>, pg. 49, pillar 6.03. IPRs are regulated under the separate Law on Protection of Economic Competition of 5 December 2000, available at <https://www.aipa.am/en/EconomicCompetitionLaw/>.

³⁵ See Competition Law, Article 2, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

³⁶ See the Law on Central Bank, adopted on 13 December 2017, Article 3.

³⁷ See Competition Law, Article 2, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

³⁸ Decisions by the EEC on antitrust cases can be appealed at the Union's Court.

³⁹ See Competition Law, Article 3, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁴⁰ See the State Commission for the Protection of Economic Competition, *Related RA Legislation*, available at <http://www.competition.am/index.php?menu=148&lng=2>.

⁴¹ See Competition Law, Articles 5, 7 and 8, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

covered by the Law.⁴² Such agreements are prohibited⁴³, unless they are not preventing, restricting or distorting competition. At the same time, vertical anti-competitive agreements may be considered permissible if they contribute, or could contribute, to an improvement in production (realization) or in technical (economic) progress, or in an increase of competitiveness, and support the interests of consumers.⁴⁴

3.112. Similarly, abuses of a monopolistic or dominant position are prohibited, with a presumption of a dominant position of undertakings with a market share of at least one third for a single undertaking, 50% for two undertakings, or two thirds for three undertakings, or if an economic entity has market power in a given commodity market. The economic entity or entities cannot be considered as dominant if, as a seller or purchaser, they capture no more than one tenth of the given market in terms of sale or acquisition volumes.⁴⁵

3.113. Concentrations, including mergers, acquisitions of shares or assets, amalgamations and incorporations are subject to *ex ante* control if the asset-based notification thresholds of Article 9(1) of the Competition Law are met.⁴⁶ Whenever a concentration gives rise to concerns about harm to competition, including the creation of dominant position or strengthening the dominant position, the Commission can prohibit such practice or impose certain remedies (conditional approval).⁴⁷

3.114. The enforcement of the Competition Law lies with the Commission, which is established as an independent authority.⁴⁸ The independent status of the Commission was further reinforced in the recent amendments to the Competition Law.⁴⁹ The Commission is comprised of seven members, including the Chair, and is appointed by the National Assembly upon the recommendation of the Prime Minister.⁵⁰ Its budget is derived from the government budget.⁵¹ The Commission's revenues are returned to the government budget.⁵² (Table 3.6).

⁴² See Competition Law, Article 5(2), available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁴³ See Competition Law, Article 5(6), available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁴⁴ See Competition Law, Article 5.1, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁴⁵ See Competition Law, Articles 6(2) and 7(1), available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁴⁶ See Competition Law, Articles 8, 9 and 10, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>. *Ex-ante* control is required if the joint value of assets/income of the concentration participants, or of at least one of the participants, in the preceding financial year exceeds the threshold set by the Competition Commission; or at least one participant of the concentration has dominant position in any product market.

⁴⁷ See Competition Law, Article 10, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁴⁸ See Decision on the Statute of the Competition Commission, paras. 1 and 2.

⁴⁹ See the State Commission for the Protection of Economic Competition, http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁵⁰ See Competition Law, Article 20.

⁵¹ See Competition Law, Article 29; the Decision on the Statute of the Competition Commission, para. 56.

⁵² See Competition Law, Article 36.

Table 3.6 Revenues of the Competition Commission in 2016 and 2017

Revenues	2016	2017	Changes in %
Budget (from the Government)	AMD 317.8 million ⁵³	AMD 312.5 million ⁵⁴	-2
Returned to the Government	AMD 3.6 million ⁵⁵	AMD 1.9 million	-48

Source: Data from the authorities.

3.115. The Commission is comprised of a total of 77 staff members, including 10 members of the Office of the Chairman, 50 Commission staff members, and 10 maintenance service providers.⁵⁶ The Commission is composed of the following Departments: (i) Methodology and Programs Elaboration; (ii) Supervision; (iii) Analysis and Competition Assessment; (iv) Legal; (v) International Relations; (vi) Maintenance; (vii) General; (viii) Human Resource Management; (ix) Accounting; (x) Monitoring; and (xi) Internal Audit.⁵⁷

3.116. Proceedings before the Commission are governed by the Competition Law, the Decision on the Statute of the Competition Commission, and other legal acts.⁵⁸ The decision making power of the Commission relating to anti-competitive agreements and abuses of dominance is limited to a prohibition of enforcement of the agreement in question, and the ordering of remedial measures, or, in cases of repeated abuse of dominance in the year, disaggregation (division, separation, alienation of shares) of the economic entities.⁵⁹ In the appraisal of concentrations, it decides on the approval, suspension or termination of concentrations, and can impose conditions.⁶⁰ A leniency programme is in place.⁶¹ The provisions on leniency application have been improved in the amended version of the Competition Law; and relevant provisions on the exemption from sanctions and/or decreases of the amount of penalties have been clarified.⁶²

3.117. The Competition Law grants economic entities and public bodies the right to appeal a Commission decision before the courts. In case of non-payment of penalties imposed by decisions of the Commission, they are subject to collection as prescribed by the Law on Compulsory Enforcement of Judicial Acts and the Law on Fundamentals of Administrative Actions and Administrative Procedures. The Competition Law also gives the Commission the right to initiate court proceedings if one of its decisions is not implemented. Furthermore, damages, established by the Commission in accordance with the Law, can be imposed to compensate economic entities or other persons for harm caused by anti-competitive practices.

3.118. Fines for anti-competitive agreements, abuses of dominant position or prohibited concentrations are determined by decision of the Commission, and may be up to 10% of the proceeds of the economic entity participating in the concentration earned in the year preceding the

⁵³ See the State Commission for the Protection of Economic Competition, Annual Report 2016, available in Armenian at http://competition.am/uploads/resources/Annual_report_2016.pdf.

⁵⁴ See the State Commission for the Protection of Economic Competition, Annual Report 2017, available in Armenian at http://competition.am/uploads/resources/Annual_Report_2017.pdf.

⁵⁵ See the State Commission for the Protection of Economic Competition, Annual Report 2017, available in Armenian at http://competition.am/uploads/resources/Annual_Report_2017.pdf.

⁵⁶ See the State Commission for the Protection of Economic Competition, *Personal List*, available at <http://www.competition.am/index.php?menu=357&lng=2>.

⁵⁷ See the State Commission for the Protection of Economic Competition, *Commission Staff*, available at <http://www.competition.am/index.php?menu=246&lng=2>.

⁵⁸ See Decision on the Statute of the Competition Commission, para. 3.

⁵⁹ See Competition Law, Article 19, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁶⁰ See Competition Law, Articles 10 and 19, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁶¹ See Competition Law, Article 36.1, 36.2, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

⁶² See Competition Law, Article 38, available in the Armenian language at http://www.competition.am/uploads/resources/RA_Law_On_the_Protection_of_Economic_Competition_n.pdf. An earlier version of the Law is available in English at <http://www.competition.am/index.php?menu=147&lng=2>.

3.125. Article 60 of the EAEU Treaty guarantees the same legal consumer protection to citizens of all member States in the territories of the other member States, and it states that all citizens "have the right to apply to state and consumer public protection and other organizations, as well as to courts and/or conduct any other proceedings on the same conditions as nationals of the other member States".⁶⁹ Annex 13 to the Treaty sets out the principles for a coordinated policy on consumer rights protection in the EAEU. The EEC is empowered to provide recommendations to the member States on the efficiency of interaction between the authorized bodies in the field of consumer rights protection, and on the implementation of Annex 13 to the EAEU Treaty; and to create consultative bodies for the protection of consumer rights of the member States.⁷⁰

3.126. The CEPA incorporates a consumer protection chapter, which is aimed at ensuring a high level of protection and achieving compatibility between the parties' systems of consumer protection.⁷¹ In addition to cooperation activities, Article 83 of the CEPA obliges Armenia to approximate its consumer legislation with the EU acts and other international instruments.⁷²

3.127. Overall, while a solid legal and institutional framework exists, the wide application of consumer protection policies with regard to different areas of economic activity can result in the fragmentation of applicable legislation. In light of the ambitious consumer policy related commitments in the international agreements discussed above, it is expected that Armenia may undertake further reforms for the modernization of its consumer policy laws and regulations in coming years.

3.3.6 State trading, state-owned enterprises (SOEs), and privatization

3.128. Armenia last notified the WTO in 2013 that it does not maintain any state trading enterprises falling within the meaning of the working definition contained in Paragraph 1 of the Understanding on the Interpretation of Article XVII.⁷³

3.129. Although the privatization process was much more active in the 1996 to 2005 period, this was due to the transition to a market economy and the fact that, at that time, there were far more SOEs active in many sectors of the economy. The current law on privatization (the fifth) is the Law on the 2017-2020 Program for State Property Privatization, which lists 47 entities, for privatization, of which 24 are new additions and 23 were in earlier laws but were not privatized. Under Government Decision No. 474 of 29 April 2010, the Department of State Property Management is responsible for managing the State's share of the entities in the privatization programme, implementing the privatization programme in accordance with the Prime Minister's Decree of 1 February 2018 and the timetable in Decision 133-A. The Department also carries out the financial and economic analysis of SOEs; these are published on its website (<http://spm.am/en/>).

3.130. As of 1 January 2018, there were 156 commercial entities with more than 50% state ownership (not including those on the list for privatization), of which 92 were healthcare companies. Most SOEs are closed joint-stock companies 100% owned by the State. In addition to the Civil Code, the laws regulating SOE activities depend on their sphere of activity, and include the Water Code, the Forest Code, the Law on the Soil, and the Law on Energy. There are no tax privileges for SOEs, and tax legislation applies to them as it does to all enterprises regardless of their status.

[B8%D1%82%D0%B0-%D0%BF%D1%80%D0%B0%D0%B2-%D0%BF%D0%BE%D1%82%D1%80%D0%B5%D0%B1%D0%B8%D1%82%D0%B5%D0%BB%D0%B5%D0%B9.aspx](http://www.wto.org/english/thewto_e/acc_e/kaz_e/WTACCKAZ85_LEG_1.pdf).

⁶⁹ See the EAEU Treaty, Article 60, available at

https://www.wto.org/english/thewto_e/acc_e/kaz_e/WTACCKAZ85_LEG_1.pdf.

⁷⁰ See the EAEU Treaty, Annex 13, para. V.

⁷¹ See the EU-Armenia CEPA, Article 81, available at https://eeas.europa.eu/headquarters/headquarters-homepage/37967/eu-armenia-comprehensive-and-enhanced-partnership-agreement-cepa_en.

⁷² See the EU-Armenia CEPA, Article 81, available at https://eeas.europa.eu/headquarters/headquarters-homepage/37967/eu-armenia-comprehensive-and-enhanced-partnership-agreement-cepa_en.

⁷³ WTO document G/STR/N/13/ARM of 12 February 2013.

3.131. According to the reports by the Department of State Property Management (under the Ministry of Economic Development and Investments), in 2017, out of 142 SOEs assessed, 21 were loss making, including the Armenian Nuclear Power Plant CJSC (AMD 2.8 million in losses) and the Yerevan Thermal Power Plant CJSC (AMD 7.1 million)

3.132. According to one report, Armenian SOEs adhere to the OECD Guidelines on Corporate Governance for SOEs, and most of the enterprises owned by the State provide public services, like geodesy or nuclear power generation, and hence do not impact the competitive environment in the country.⁷⁴

3.3.7 Government procurement

3.133. Public procurement constitutes a significant part of economic activity in Armenia, amounting to around 4-7% of GDP and around 30% of government spending in recent years. (Table 3.8). The procurement spending of public sector buyers has remained stable, amounting to AMD 240,662.6 million in 2016, and AMD 245,639.8 million in 2017.⁷⁵ In 2014, the contracts awarded by state government bodies and state institutions amounted to AMD 231,873.6 million; by urban communities, AMD 37,805.8 million; and by other entities, AMD 75,397.3 million. In 2015, the contracts awarded by state government bodies and state institutions amounted to AMD 264,552.9 million, by urban communities AMD 4,912.9 million; and by other customers AMD 72,808.7 million.

Table 3.8 Total number of contracts and value

Year	Total number of contracts	Total value of procurement (AMD million)	Share of GDP (%) ⁷⁶
2014	25,047	345,076.7	7.15
2015	25,107	342,274.5	6.8
2016	29,500	240,662.6	4.7
2017	25,767	245,639.8	4.5

Source: GPA/130/Add.5 and GPA/137 of 18 May 2016, and the Annual Procurement Report 2016 (in Armenian).

3.134. In an important development, Armenia became a Member of the WTO Agreement on Government Procurement (GPA) on 15 September 2011,⁷⁷ being the first WTO Member of the CEECAC region to join. Subsequent to the re-negotiation of the GPA, Armenia submitted its instrument of acceptance of the Protocol Amending the Agreement on Government Procurement on 7 May 2015, and the revised Agreement entered into force in Armenia on 6 June 2015.⁷⁸

3.135. The market liberalization commitments undertaken by Armenia in the course of its accession to the GPA are wide-ranging, and foresee international tendering for procurements undertaken by listed central government, sub-central government and other procuring entities, for tenders with a value above SDR 130,000 for central government entities, SDR 200,000 for sub-central government entities and SDR 400,000 for other entities respectively for goods and services, and above SDR 5 million for construction services.⁷⁹ Armenia agreed to cover all central government entities and subordinated organizations covered by the Law on Procurement. Similarly, at the sub-central level, local authorities, as defined in the Law on Administrative-Territorial Division, No. HO-18 of 7 November 1995, are covered and specified in a comprehensive positive list. Other covered entities include all legal persons (authorities, establishments and foundations) governed by public law, particularly: (i) state or community non-commercial (non-profit) organizations; (ii) commercial organizations with over 50% of government or community

⁷⁴ U.S. Department of State (2017), *Armenia Country Commercial Guide*. Viewed at: <https://www.export.gov/ccg>.

⁷⁵ See GPA/130/Add.5 and GPA/137 of 18 May 2016; and Annual Procurement Report 2016 (in Armenian).

⁷⁶ See Statistical Committee of the Republic of Armenia, available at <http://www.armstat.am/en/>.

⁷⁷ See GPA/105 of 7 December 2010; GPA/105/Add.1 of 26 May 2011; and GPA/109 of 13 September 2011.

⁷⁸ See WT/Let/1039 of 11 May 2015.

⁷⁹ Subject to exceptions as specified in Armenia's Appendix I Annexes to the GPA. See WT/Let/1252 of 17 May 2017 and WT/Let/1067 of 3 September 2015. See also https://www.wto.org/english/tratop_e/gproc_e/gp_app_agree_e.htm. Armenia has notified threshold values in the national currency pursuant to GPA/1 of 5 March 1996. See GPA/W/336/Add.1 of 10 December 2015.

shareholding; and (iii) public services, including utilities sector companies, whose procurement is covered by the Law on Procurement.

3.136. Due to the de-centralization of government procurement, above-threshold procurements constituted only about AMD 61,281.1 million, or 17.75% of total procurement, in 2014, and AMD 50,470.9 million, or 14.75%, in 2015, with a clear emphasis on procurement of goods at the central level, in particular by the Ministry of Defense.⁸⁰ (Table 3.9). Procurement above the threshold in 2016 amounted to AMD 29,213.0, or 22.8% of competitive procedures. In terms of the number of contracts signed, above-threshold procurement resulted in 96 contracts in 2014, 104 contracts in 2015, and 106 contracts in 2016. Entities governed by public procurement law conducted procurement above the threshold to the amount of AMD 24,536.8 million in 2016. (Table 3.10). Fifteen such contracts have been signed. Data on the value of contracts awarded to foreign suppliers is not available.

Table 3.9 Total number and value of procedures under/above the GPA thresholds

Year	Procurement of	Total number of above-threshold contracts	Total value of above-threshold contracts (AMD million)
2014	Goods	80	42,409.3
	Services	13	7,594.2
	Works	3	11,277.6
2015	Goods	85	42,648.8
	Services	19	7,822.1
	Works	-	-
2016	Goods	96	32,510.8
	Services	11	19,685.8
	Works	-	-
2017	Goods	16	4,756.6
	Services	10	6,335.9
	Works	-	-

Source: GPA/130/Add.5 and GPA/137 of 18 May 2016; and the Annual Procurement Report from 2016.

Table 3.10 Total number and value of procedures above the GPA thresholds by type of procuring entity

Year	Procurement by	Total number of contracts above threshold	Total value of contracts above threshold (AMD million)	Share of total number of contracts by relevant entities (%) ^a	Share of total value of procurement by relevant entities (%) ^a
2014	Central government entities	87	52,249.8	1.4	22.5
	Sub-central government entities	2	1,407.3	0.06	3.7
	Other entities	7	7,624	0.04	10.1
2015	Central government entities	102	49,081.5	1.7	18.5
	Sub-central government entities	-	-	-	-
	Other entities	2	1,389.4	0.02	1.9
2016	Central government entities	102	28,299.6		
	Sub-central government entities	4	913.4		
	Other entities	15	24,563.8		
2017	Central government entities	21	6444.4		
	Sub-central government entities				
	Other entities	5	4648.1		

a Data not available for 2016 and 2017.

Source: GPA/130/Add.5 and GPA/137 of 18 May 2016, and the Annual Procurement Report from 2016.

⁸⁰ See GPA/130/Add.5 and GPA/137 of 18 May 2016.

3.137. The legal framework for government procurement has undergone important reforms in the review period, first to ensure compliance with the GPA, including its revised text, and, more recently, also with the EAEU Treaty. Armenia has also recently signed the EU-Armenia CEPA,⁸¹ whose procurement chapter reaffirms Armenia's obligations and rights under the WTO GPA. The CEPA also enhances the coverage by adding concession contracts, and provides for additional obligations related to review procedures. The legal framework is designed to ensure value-for-money in the procurement process and based on the following principles:

"Administration of the procurement process based on consistent rules and in a competitive, transparent, open, and non-discriminatory manner;

Expansion of the bidders' circle and promotion of competition among them for the purposes of contract signing; and

Equal rights for every person to participate in the procurement process, irrespective of being a foreign individual or entity or a stateless person."⁸²

3.138. During the negotiations leading up to Armenia's accession to the GPA in 2011, a first revised Law on Procurements was adopted on 22 December 2010 and entered into force on 1 January 2011.⁸³ The Law was designed to develop modern legislation in line with the best international practices and to ensure an appropriate implementation capacity.

3.139. A first major area of reform consisted of ensuring an appropriate coverage of public procurement rules for the utilities sector, which was aligned with relevant EU procurement rules. Furthermore, it established first stepping stones for the development of e-procurement by setting rules regarding tools to be used for communication by electronic means and devices for the electronic transmission and receipt of bids. The use of single-source procurement was further restricted. In terms of institutions, the Centre for Procurement Support and the Procurement Complaint Review Board were created to supplement the functions of the procurement authority or "Authorized Body". These institutions played an important role in implementing measures designed to strengthen the domestic review system by creating a board of experts composed of representatives of contracting authorities and private organizations. A standstill period was adopted to ensure the effectiveness of the review process, and the review body was vested with the power to declare the contract ineffective if it was unlawfully awarded (i.e. without prior publication of a contract notice or without complying with the standstill period). The Law also contained good governance measures, such as an exclusion system for persons convicted by final judgment for participation in a criminal organization, for corruption, for fraud, for money laundering, and, by final decision, for anti-competitive behaviour, by designing an independent procedure for the inclusion of such bidders in a black list at the Procurement Complaint Review Board. It maintained provisions stipulating that ratified international treaty rules prevailed over national legislation, and granting any entity, regardless of whether it is a foreign natural person or a legal entity or a stateless person, the equal right to participate in the procurement process.⁸⁴

3.140. On 7 December 2010, Armenia was invited by the Committee on Government Procurement to deposit its instrument of accession to the GPA, subject to the adoption of the draft law prior to its accession.⁸⁵ Subsequently, Armenia submitted its legislation for review by the Committee on 8 February 2011⁸⁶, and its instrument of accession on 16 August 2011.⁸⁷ The Agreement entered into force for Armenia on 15 September 2011.⁸⁸

⁸¹ The Comprehensive and Enhanced Partnership Agreement between the European Union and the European Atomic Energy Community and their Member States, on the one hand, and the Republic of Armenia, on the other hand, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017JC0037>.

⁸² See the Law on Procurement, adopted on 16 December 2010, Article 3. Available in English at: http://www.procurement.am/en/page/laws_international_contracts/.

⁸³ See GPA/ ACC/ARM/12 of 10 February 2011.

⁸⁴ See GPA/ACC/ARM/3 of 20 April 2010 and documents contained/referenced therein.

⁸⁵ See GPA/105 of 7 December 2010.

⁸⁶ See GPA/ACC/ARM/12 of 10 February 2011.

⁸⁷ See WT/Let/821 of 13 September 2011.

⁸⁸ See GPA/109 of 13 September 2011.

3.141. A revised law was adopted on 16 December 2016 and entered into force on 25 April 2017, *inter alia*, in light of the entry into force of the revised GPA in 2014 and Armenia's membership in the EAEU effective 2015. The new Law maintains most of the features introduced in the 2010 reforms, and introduces some new elements and features to address remaining concerns, and to ensure compliance with the revised GPA and the EAEU Treaty. For example, the general coverage of utilities, and enforceable standstill periods, are maintained. Procurement of the Central Bank under operational expenses is excluded.

3.142. Important reforms were undertaken with regard to institutional structures: the Centre for Procurement Support was abolished and its functions were integrated into a strengthened Authorized Body. Centralized procurement is also allowed by the new Law, and is conducted by the Authorized Body or other legal entities. Procedures for centralized procurement for the needs of state, and state and community non-profit organizations are defined in Government Decree No. 526-N of 4 May 2017. Furthermore, a new Procurement Complaints Board, consisting of three members, was created.

3.143. Good governance provisions were also strengthened. For example, the new legislation requires bidders to provide information on beneficial ownership, and strengthens provisions on conflicts of interest of officials involved in tender evaluation and of the members of the Procurement Complaints Board. Minutes of bid opening and evaluation meetings must be published within one day of the bid opening and evaluation. Furthermore, blacklisting provisions are enhanced in order to harmonize blacklisting among EAEU members, and now also include blacklisting of bidders that have shown deficiencies in performance or refused to sign/execute contracts. Blacklisted bidders are now automatically excluded from all procurements for a period of two years.

3.144. The procedures have been revised considerably in order to comply with EAEU requirements. They now comprise (i) electronic auction; (ii) tender; (iii) price inquiry; and (iv) procurement from a single source. Thresholds were established, in order to regulate their use in line with international trade commitments. In particular, e-procurement provisions were enhanced, and timelines were adapted accordingly. Publications in the bulletin are now done electronically via the website www.procurement.am. As compared to the previous Law, the possibility of conducting negotiations is more restricted. Provisions for the protection of state secrecy as sensitive information were introduced.

3.145. Overall, the revised Law provides an important example for legislation aiming to implement both the GPA and the EAEU Treaty in a single piece of legislation. Further amendments to the Law introduced in 2018 mainly concern the review procedures. In light of constitutional changes, the Procurement Review Board was dissolved and replaced with individual "persons to review complaints". While certain general guarantees regarding the independence of the person examining procurement complaints are provided under the Constitution and the Law on Bodies of Public Administration, the Public Procurement Law (PPL) provisions designed to guarantee their independence, such as selection, remuneration, etc., were removed from the Law itself.

3.146. Some further details have also been spelled out in secondary legislation and/or decisions. For example, Decision No. 526-N of 4 May 2017 introduces a requirement for suppliers to provide evidence of having properly performed at least one similar contract "within the year of submission of the bid and three years prior to it".

3.3.7.1 Public procurement rules coverage of state-owned firms over the review period

3.147. The 2017 Law covers the procurement activities of a broad range of contracting authorities, namely: (i) state administration bodies, local self-government bodies, and institutions of the State and communities; (ii) the Central Bank (except for operational expenses); (iii) state or community non-commercial organizations; (iv) organizations in which the share of the State or community exceeds 50%; (v) foundations or associations (unions) created by the State, a community, a state or community non-commercial organization, or organizations in which the share of the State or communities exceeds 50%; (vi) legal entities that have received funds in the form of a public donation or grant with respect to procurements, financed through such donation or grant; (vii) foundations formed as a result of the reorganization of state or community non-

commercial organizations, or of organizations in which the share of the State or community exceeds 50%; and (viii) public undertakings.

3.148. Under the 2017 Law, as under the 2011 Law, the standard and preferred procurement method is open tendering. Procuring entities provide at least 40 calendar days for suppliers to prepare and submit requests for participation and responsive tenders. For procurement conducted by associations, foundations, or legal entities where the share of the State or communities is above 50%, the time-period consists of at least 40 calendar days if the value of the procurement is above AMD 200 million; otherwise, the time-period is at least 15 calendar days. A time-period of 15 calendar days may also apply in cases of emergency.⁸⁹

3.149. If the procurement process contains a state secret, single source, closed tender or quotation request, procedures may be applied. Pursuant to Article 21 of the PPL, closed tender procedures can relate to either specific or recurring procurements in relation to goods, works and services included in a special list approved by the Government. The time-period for tendering constitutes at least 30 calendar days, in addition to a mandatory pre-qualification period. For procurement conducted by associations, foundations, or legal entities with a shareholding of the State or community of above 50%, the time-period may consist of at least 15 calendar days, if the value of the procurement does not exceed AMD 200 million.⁹⁰

3.150. Tender procedures can be conducted in two stages if: (i) a procuring entity is not able to objectively set out the specifications of the procurement tender in accordance with the requirements of the PPL; (ii) a procuring entity allows the bidders to present alternative proposals on the potential specifications of the procurement; (iii) negotiations with bidders are necessary to clarify certain specifications of the procurement; or (iv) procurements involve public-private partnerships (PPPs), including asset management or concession transactions.⁹¹

3.151. Price quotation applies to goods, works and services of a value below the GPA thresholds.⁹² In these cases, procuring entities must provide at least seven calendar days from the date of publication of the contract notice for submission of bids.⁹³ In accordance with part 3, Article 22 of the Law on Procurement, the time-limit envisaged for the submission of bids should be at least four working days. On the basis of Clause 6, part 1, Article 5 of the Law, the Government approves the procedure for the application of procurement procedures provided for by this Law and the peculiarities thereof. In the framework of the provision, the Government stipulated another time-limit in Decision No. 526-N, dated 4 May 2017, which is not less than the time-limit set by the Law (no less than seven calendar days).

3.152. Single source procurement is limited to the following situations: (i) the goods, works, or services can only be obtained from one source, due to copyrights or related exclusive rights; (ii) in cases of emergency; (iii) additional procurements which were not foreseen at the time of an initial bid⁹⁴; (iv) procurements of a value below the Procurement Base Unit⁹⁵; or (v) procurements made outside the territory of the Republic of Armenia.⁹⁶

3.153. Electronic auction applies to goods, services and works included in a list approved by the Government. Pursuant to Decision No. 534-N of 18 May 2017, a list of 316 goods, services and works, ranging from foodstuffs to the printing of passports, has been approved for procurement through electronic auction. Procuring entities must provide at least 15 calendar days for suppliers

⁸⁹ See Article 20 of the PPL.

⁹⁰ See Article 21 of the PPL.

⁹¹ See Article 18 of the PPL.

⁹² Pursuant to Article 22 of the PPL, procurement may be carried out in the form of a price quotation if its value is below AMD 70 million.

⁹³ See Article 22 of the PPL.

⁹⁴ Such conditions include: (a) the contract on additional goods cannot be technically or economically separated from the initial contract; or (b) the price shall not exceed 10% of the total price of the initial contract. Furthermore, additional procurement from the same entity may be conducted only once, and the price of additional goods may not be set higher than in the contract.

⁹⁵ The Procurement Base Units reflect the GPA thresholds. The Procurement Base Unit in Armenia is AMD 1 million.

⁹⁶ See Article 23 of the PPL.

to prepare and submit responsive tenders during the electronic auction procedure, if the value of the procurement is above AMD 70 million. Otherwise, the time-period is at least 7 calendar days.⁹⁷

3.154. Procuring entities are required to conduct pre-qualification procedures in the case of the procurement of consulting services, during a two-stage tender procedure, or a restricted specific tender procedure. The deadline for the submission of pre-qualification applications is at least 15 calendar days, unless the value of procurement is below AMD 70 million; or procurement is conducted by associations, foundations, or legal entities with the share of the State or community above 50%; or in cases of emergency when compliance with the deadline is not possible. In these cases, the deadline for the submission of pre-qualification applications is at least 5 calendar days.⁹⁸

3.155. As regards statistical data on the use of procurement methods, these are mostly available for the years up to 2017, in which the 2011 Law was applied. That Law foresaw the following procurement procedures: (i) open procedure; (ii) competitive dialogue; (iii) restricted procedure; and (iv) negotiations.

3.156. For procurement above the GPA thresholds, most of the procurement in 2015 was conducted through the framework agreements (78%), the open tender procedures (14%), and the negotiation procedures (around 8%).⁹⁹ In 2017, most of the procurement (58%) was conducted through the negotiation procedures without announcement; the framework agreements (24%); and the open tender procedures (17%). (Table 3.11).

Table 3.11 Types of procedures used for procurement above the GPA thresholds

Type of procedure	Year	Number of contracts	%	Contracted value (in million AMD)	%
Open procedure	2015	8	7.7	6,860.5	13.6
	2016 ^a	1	0.9	885.9	1.7
	2017	6	23	1,902.4	17.1
Framework agreements	2015	82	78.8	39,347.7	78
	2016	87	81.3	21,836.3	41.8
	2017	13	50	2,711.4	24.4
Negotiation procedures without announcement	2015	4	3.8	1,193.8	2.4
	2016	9	8.4	5,204.2	9.9
	2017	7	27	6,478.7	58.4
Announcing negotiation procedures	2015	7	6.7	2,245.6	4.4
	2016	3	2.8	467.8	0.9
	2017	-	-	-	-
Competitive dialogue	2015	1	0.9	612.3	1.2
	2016	3	2.8	818.8	1.5
	2017	-	-	-	-

a The data from 2016 does not include the numbers and values of procurement conducted by entities governed by public law.

N.B. In the current table, the contracted value for 2016 (around AMD 29,213 million) differs from the sum of the data on the contracted value in 2016 in Table 3.2 (AMD 52,196.6 million). Therefore, the total % in the fourth and the last columns amounts to less than 100%.

Source: GPA/137 of 18 May 2016, and the Annual Procurement Report from 2016.

3.157. The main institutions responsible for public procurement under the 2017 Law are the Authorized Body and the Procurement Complaints Board. However, a further amendment to the Law, which entered into force on 9 April 2018, resulted in the dissolution of the Procurement Complaints Board, and replaced it with a "person responsible to review complaints".

3.158. Given that Armenia's procurement system has been largely de-centralized, the Authorized Body's main functions are the regulation and coordination of the procurement process by the procuring entities ("requesters"). It does so by (i) coordinating the drafting of legal acts on procurement and adopting them or submitting them to the Government for approval; (ii) providing methodological support to the requesters in the organization of procurement activities; (iii)

⁹⁷ See Chapter 4 of the PPL.

⁹⁸ See Article 24 of the PPL.

⁹⁹ Document GPA/137 of 18 May 2016.

ensuring the granting of qualifications to the procurement coordinators, and the existence of a system for their continuing professional education; (iv) organizing the publication of the Bulletin; (v) coordinating procurement-related collaboration with international organizations, foreign states, and the central government and local self-government bodies; (vi) registering procurement contracts that create liabilities for the State; (vii) publishing the annual report on public procurements, and a list of qualified procurement specialists (persons); (viii) approving the templates of documents used in the procurement process; (ix) approving forms and submission deadlines of documents, including reports submitted to the Authorized Body under this Law; (x) approving the register form and compilation procedure; (xi) carrying out the maintenance and coordination of the electronic procurement system; and (xii) with a view to documenting calls concerning procurements and rapidly responding to issues, securing the existence of a procurement support service (hotline).

3.159. The person reviewing complaints examines complaints against the action (or inaction) and decision of the requester (i.e. procuring entity) and the evaluation commission. The number of persons entitled to carry out the review is decided by the Government decision and is no longer regulated by the Law. Decisions of the person reviewing the complaints are subject to appeal to the courts.

3.160. While the 2017 Law provided for the appointment of the three members of the Procurement Complaints Board by the President upon nomination by the Prime Minister, the appointment of "persons responsible for review" is not regulated by law, and they are appointed to serve for five years. While the Constitution and other legislative acts such as the Law on Public Service provide certain guarantees with regard to the affiliation of persons responsible for review, namely that they are not allowed to not hold another position or perform other paid work, except for scientific, pedagogical, and creative work, during the discharge of their powers,¹⁰⁰ this provision was removed in the recent amendment of the PPL.

3.161. As compared to the 2011 Law, the provisions on conflicts of interest of board members were strengthened in the 2017 Law. A board member may not review a complaint if it turns out that the appeal process involves an organization founded by such member, or an organization in which such member has a share, or by a person who is connected to such member by close family or in-law ties (parents, spouses, children, siblings, or spouse's parents, children, or siblings), or by an organization created by such persons or an organization in which such persons have a share. Board members are required to sign a statement confirming the absence of a conflict of interest, which is published in the Bulletin together with the decision adopted in respect of the complaint.¹⁰¹

3.162. According to the 2017 Law, the launch of a complaint by a written submission to the board has an automatic suspensive effect. Interested persons can file such a complaint within the 10-day standstill period before the procurement contract is signed, or, in cases involving tender and/or qualification requirements, before the bid submission deadline. Any deficiencies in the complaint documents have to be corrected within two days. The procedure ensures that all involved parties may be present at the board sessions and present their opinions. Interested third parties can participate in the proceedings, and must submit their similar complaints before a decision is taken to avoid losing their right to complain. A written decision on the complaint, which shall also contain the justification of the decision, must be adopted and published no later than 20 calendar days from the receipt of the complaint. This deadline can be extended once by up to 10 calendar days. The board's decisions are published within two working days, are legally binding, and can be appealed to the courts.

3.163. The 2017 Law enabled the board to prohibit the performance of certain actions and the adoption of decisions (by the procuring entity); to order procuring entities to adopt appropriate decisions, including a decision to declare the procurement procedure as failed, except for the decree to declare the contract invalid; to include a bidder in the list of bidders that are ineligible to participate in the procurement process; and to record decisions adopted by the board and oversee their execution. The provision regarding the possibility to change decisions adopted by the procuring entity was removed from the recently amended PPL. There is no separate section/provision in the Law dealing explicitly with the power of the board to grant interim

¹⁰⁰ Article 31 (1) of the Law on Public Service.

¹⁰¹ See Article 49 of the 2017 Law.

measures that may, however, fall within the powers as described above. If the complaint is justified, procuring entities are liable for compensating the complainant for the damage caused.

3.164. A main area of reform overseen by the Authorized Body in recent years has been the creation and modernization of an e-procurement system (ARMEPS), which has been fully operational since 2012. The scope of contracting entities required to conduct procurement procedures by electronic means is currently being enhanced. Almost all competitive procedures are organized via e-procurement. Besides an e-tendering module, planning, reporting and contract management modules have been developed, rolled out and are contributing to the creation of a full cycle e-procurement system. The e-auction module has been already tested in the Authorized Body and will be rolled out for wider use within a short period of time. The e-procurement reforms also include the creation of an Open-Contracting-Data-Standard (OCDS)-based GPA reporting tool, and promises to enhance the availability of statistical data.

3.165. Furthermore, a Policy Statement on PPPs was adopted in November 2017, with a view to creating and developing a coherent and systematic approach to PPPs in the future. In that regard, it remains to be seen whether adequate and desirable synergies between PPPs and the overall procurement system can be strengthened through relevant legislation in order to maintain the highest transparency and competition standards.

3.166. Overall, the reforms undertaken have significantly strengthened the procurement function of the country. The de-centralization of the function means that a majority of procurements falls below thresholds contained in international trade agreements such as the GPA. Significant expertise in all procuring entities is required, in order to ensure that procurement is carried out according to legal requirements. Furthermore, the availability of statistical and economic data depends on adequate reporting by procuring entities. In that regard, the success of on-going e-procurement reforms that Armenia has engaged in will be important determinants, and promise to enhance the transparency and efficiency of the procurement function in significant ways.

3.167. Armenia has successfully integrated both the GPA and the EAEU Treaty, and its legislation seeks to satisfy the requirements of both treaties and other relevant international standards, such as those established by the CEPA. In that regard, some issues of interpretation and application may arise, e.g. regarding strict time-limits on what contracts can be used to satisfy prior experience requirements; how blacklisting provisions are applied; and that the time-limits set for bringing challenges before the persons reviewing complaints and the adoption of decisions are appropriate in order to find the right balance between timeliness and effectiveness. It remains to be seen what effects on the independence and effectiveness of the procurement review system the latest amendments to 2017 Law will have.

3.168. Armenia's active engagement in the GPA Committee and other international fora, and its ongoing efforts to put in place a modern e-procurement system, are a very positive signal that the country seeks to continue reforming its procurement system to the extent needed in order to adhere to the highest international standards.

3.3.8 Intellectual property rights

3.169. According to one report, Armenia has a strong intellectual property rights (IPR) framework, and its legislation is in compliance with the TRIPS Agreement.¹⁰² Domestic legislation, including the amended Law on Copyright and Related Rights, provides for the protection of IPRs on literary, scientific and artistic works (including computer programs and databases), patents and utility models, industrial design, know-how, trade secrets, and trademarks.

3.3.8.1 Overview and institutional framework

3.170. The Intellectual Property Agency (IPA) in the Ministry of Economic Development and Investments is responsible for granting patents and overseeing other IPR related matters, as well as providing services relating to the legislation on the protection of IPRs.

¹⁰² U.S. Department of State (2017), *Armenia Country Commercial Guide*. Viewed at: <https://www.export.gov/ccg>.

3.171. Armenia requires no state registration for copyright. The collective management organization, ARMAUTHOR, manages authors' economic rights. Trademarks and patents require state registration by the IPA. There is no special trade secret law in Armenia. Formal registration is easy and transparent, the database of IP registrations is public, and trademark applications are published in the official website of the IPA for two months for oppositions and remarks by third parties.

3.172. At present, the legal field of intellectual property (IP) is regulated by laws and legal acts, as well as the international agreements of Armenia. It is a member of the World Intellectual Property Organization (WIPO) since 1993, and the Eurasian Patent Office (EAPO) since 1995. The IPA cooperates with the European Patent Office (EPO), other international and regional structures, and foreign offices. In 2005, Armenia created an IPR Enforcement Unit in the Organized Crime Department of the Armenian Police, which only acts based on complaints from right holders.

3.173. Despite the existence of relevant legislation (Box 3.2) and executive government structures, the concept of IPR remains unrecognized by a large part of the local population, and the onus for IPR complaints remains with the offended party. The police assert that the majority of cases are settled through out-of-court proceedings. While the Government has made some progress on IPR issues, strengthening enforcement mechanisms remains necessary.

Box 3.2 Main IP and IP-related laws enacted by the legislature

• Law on Copyright and Related Rights, of 15 June 2006 (amended on 30 September 2013)
• Law on Geographical Indications (2010), of 29 April 2010 (amended in 2016)
• Law on Trademarks (2010), of 29 April 2010, (amended in 2011, and in 2016)
• Law on Inventions, Utility Models and Industrial Designs, of 10 June 2008 (amended on 28 September 2016)
• Law on the Legal Protection of Topographies of Integrated Circuits (1998), of 3 February 1998
• Civil Code of the Republic of Armenia of 5 May 1998
• Law on Protection of Economic Competition, of 6 November 2000 (as amended up to 23 March 2018)
• Customs Code of the Republic of Armenia, of 6 July 2000, and its Amending Laws (2014)
• Criminal Code of the Republic of Armenia, of 18 April 2003

Source: WTO Secretariat.

3.174. The Armenian customs authorities track statistics related to the seizure of counterfeit goods, but the reports are not periodically updated. The latest relevant information can be found at: www.aipa.am, the IPA, and the Ministry of Economic Development and Investments. According to legislation, customs authorities only suspend the importation of counterfeit goods, but do not seize them.

3.3.8.2 IP regime

3.175. Patents are registered by the IPA. If the object of the protection is a product, the right holder has an exclusive right to prohibit any third party from manufacturing, using, introducing to the market, offering for sale, or importing or obtaining the product for any of those purposes. Similar prohibitions can be imposed if the object is a method. The infringement of a patent can result in civil and criminal responsibility imposed by a competent court. The length of protection is 20 years from the date of filing of the application.

3.176. Trademarks are registered by the IPA. The right holder of the registered trademark shall have an exclusive right to prevent third parties, without his consent, to use any sign in the course of trade which: is identical to the registered trademark and is used in relation to goods and/or services for which the trademark is registered; is identical or similar to the registered trademark, which is used in relation to the goods and/or services which are identical or similar to the goods and/or services for which the trademark is registered, where the use of such sign creates a likelihood of confusion on the part of public, including association with the registered trademark; is identical or similar to the trademark registered for other goods and/or services, where the latter

has a reputation in the Republic of Armenia and the use of that sign would cause unfair advantage for the trademark or be prejudicial to the distinctive feature or the reputation of the trademark. The infringement of a trademark can result in civil and criminal responsibility imposed by a competent court and administrative responsibility imposed by the State Commission for the Protection of Economic Competition of the Republic of Armenia (SCPEC RA) as a result of unfair competition. The length of protection is 10 years from the date of filing of the application, and it can be renewed indefinitely for 10 years at a time.

3.177. Registered designs are registered by the IPA. A right holder has the right to prohibit any use of the design without their permission. The infringement can result in civil responsibility imposed by a competent court. The length of protection is five years from the moment of the introduction of the application. This can be renewed for five years at a time, but for no more than 25 years in total. Unregistered designs are also protected by the law. No specific remedies are explicitly prescribed by law for unregistered designs. The length of protection is three years from the moment when the design was made public in Armenia. However, there is general protection under unfair competition and other general concepts. The infringement of designs can result in administrative responsibility imposed by SCPEC RA as a result of unfair competition.

3.178. Copyright protects unique results of creative work that are executed by the author alone, or together with other authors, in the fields of literature, science and art, and that are expressed in oral, written or other objective form, regardless of form of creation, its value or the purpose of its creation. Copyright does not require registration. The author has the exclusive right to use their creation as they wish, and to prohibit or authorize its use by a third party. Infringement of copyright can result in civil and criminal responsibility imposed by the competent court. The tangible rights of the author are protected during his/her lifetime and for 70 years after his/her death. The intangible (personal) rights do not have any time-limit for protection.

3.179. A new Law on Copyright has been drafted and circulated within the Government. It includes provisions from new international agreements (the Marrakesh and Beijing Treaties), and provides additional detail on many of the provisions in the current Law. Copyright contract rights are better defined, and examples of contracts between the user and the right holder are included. Phonogram producers' rights are harmonized with copyright holders' rights, and are extended to 70 years. The new legislation also includes specific provisions from the Marrakesh and Beijing Treaties, regulating the rights of disabled artists and orphan works. The IPA and the Ministry of Justice have also proposed changes to the Civil Code and the Criminal Code to improve IPR protection by specifying in more detail what information the court should take into consideration when determining compensation, fair remuneration, and calculating damages. This new legislation is due to be submitted to the Parliament for approval in the third quarter of 2018.

3.180. Inventions can also be protected as utility models or trade secrets, and signs can also be protected as geographical indications or designations of origin.

3.3.8.3 IP framework at the EAEU level

3.181. There are no customs borders between the countries of the EAEU, and goods can circulate freely within the single economic space. This has increased the importance of IP protection across the EAEU, taking into account that every member State has its own IP legislation. EAEU disciplines on IP address all categories under the TRIPS Agreement, and are contained in the Treaty's Section XXIII on "Intellectual Property" (Articles 89-91) and the "Protocol on Protection and Enforcement of Intellectual Property Rights" (Annex 26).

3.182. The Treaty's main goal is to create a common system for protecting IPRs, including preventing breaches of IPRs in the Union. It also makes provisions for coordinating the actions of the authorities in Union member countries to warn about, highlight, prevent and investigate breaches of IPRs, and improve their activities.

3.183. While member States are allowed to maintain their domestic legislation on IPRs, Article 89 provides for cooperation towards their harmonization. Articles 90 and 91 stipulate that member States perform their activity in the protection and enforcement of IPRs in accordance with international treaties. Further enforcement provisions are foreseen with regard to IPRs, including

measures provided in the EAEU Customs Code and international treaties, and acts of the EAEU on customs regulations.

3.3.8.3.1 Trademarks

3.184. The Draft Agreement on Trademarks, Service Marks and Appellations of Origin of the EAEU¹⁰³ was approved at board level, and is expected to enter into force in 2018, following the completion of ratification procedures. The Agreement foresees the introduction of the "EAEU trademark" and "appellation of origin of the EAEU goods", simultaneously protecting goods in all of the EAEU territories. The Agreement introduces a regional trademark and service mark protection system, providing the establishment of a Union Trademark, as well as a regional system for the protection of appellations of origin of goods. The draft Treaty does not envisage the creation of a regional trademark office; rather, it provides for the collaboration of all member States' patent and trademark offices in examining an application for the registration of a Union Trademark that would be valid in all EAEU countries.

3.185. The term of registration of trademarks is 10 years, with unlimited renewal for a maximum period of 10 years each time (Annex 26, Sections III-V). The Draft Agreement on EAEU Trademarks regulates relations in connection with the registration, legal protection and use of trademarks (service marks) and appellation of origin of the EAEU in its member States. In particular, the Agreement provides for the submission of one application for the Union Trademark/appellation of origin in any of the patent offices of the member States; obtaining a single protective title in the territory of the Union; a single window for applicants' needs; a Single Register for the Union's trademarks and one for the Union's appellations of origin, both posted on the official website of the Union; and comprehensive legal protection. The Union's trademarks/appellation of origin will co-exist alongside national ones, and brand owners will have the option of applying for one or the other, or both. Under the Union's regime, a brand owner may file an application in the local national trademarks office (the "Office of Filing") of any one of the member States where it has an accredited place of business. Examination of the application is done by all of the national offices. Examination opinions are being sent to the Office of Filing by national patent offices.

3.186. A favourable decision leads to the registration of a trademark; in cases of a negative opinion of national patent offices, arguments and observations can be filled by the applicant. In the absence of arguments and observations, or if the arguments and observations are rejected, the entire application is rejected by the Office of Filing. The applicant can, therefore, either try to overcome the negative opinion by narrowing the list of goods or, alternatively, move towards applying for trademarks/GIs in individual member States. The Agreement also allows the conversion of a national application into a Union application. A Union Trademark registration can be enforced, or invalidated, in each member country under the local laws of that country. The principle of the exhaustion of exclusive rights applies to trademarks and EAEU trademarks.

3.3.8.3.2 Copyright and related rights

3.187. With respect to works of science, literature and art, the term of protection for the work of an author and of joint authorship, as well as exclusive rights for a posthumous work, are no less than the terms of protection under the Berne Convention (1971) and the TRIPS Agreement (Annex 26, Section II). Member States grant exclusive rights on a mutual basis to performances, names, and other rights under their legislation. The term of protection for the rights of producers of phonograms is no less than that provided by the TRIPS Agreement and the Rome Convention (1961). The legislation of member States may provide for longer terms of protection for these rights.

3.3.8.3.3 Geographical indications

3.188. Geographical indications (GIs) are protected in the territory of a member State if such protection is provided under its legislation or international treaties of which it is a member (Annex 26, Section VI). Provisions on the appellation of origin of goods define the denomination which is recognized as the appellation of origin, legal means for interested parties to prevent the misuse of

¹⁰³ https://docs.eaeunion.org/docs/en-us/0149745/clco_10032016_23.

the denomination, or acts of unfair competition in individual member States (Annex 26, Section VII). Once the Draft Agreement on EAEU Trademarks is in force, the appellation of origin of EAEU goods will be protected in the territory of all member States in accordance with the provisions of that Agreement (Annex 26, Section VIII).

3.3.8.3.4 Patent rights

3.189. Patent terms are the same as in the TRIPS Agreement, at 20 years for inventions, 10 years for utility models, and 25 years for industrial designs (Annex 26, Section IX). The protection of plant varieties and animal species is provided in accordance with the legislation of member States (these are addressed in Annex 26, Section X on "Selection achievements").

3.3.8.3.5 Topographies of integrated circuits

3.190. Topographies are protected in accordance with the legislation of member States (Annex 26, Section XI). Besides, under the EAEU Treaty, authors of topographies of integrated circuits have exclusive rights over them for 10 years (as in the TRIPS Agreement), and a right over their ownership. If so provided by member States legislation, rights holders might also have the right of remuneration for their use.

3.3.8.3.6 Trade secrets

3.191. Trade secrets shall be understood as data of any character (industrial, technical, economic, organizational, etc.), including the results of intellectual activity in the scientific-research sphere, as well as data on methods of professional activity that have valid or potential commercial value (Annex 26, Section XII). Legal protection for trade secrets (know-how) is provided according to the legislation of member States.

3.3.8.3.7 Enforcement

3.192. Section XIII of Annex 26 states that enforcement of IPRs within the EAEU will be carried out in accordance with international treaties concluded within the EAEU, namely the EAEU Agreement on the Procedure for Collective Management of Copyright and Related Rights and the EAEU Agreement on Unified Customs Registry of Intellectual Property Objects of Member States of the Customs Union.

4 TRADE POLICIES BY SECTOR

4.1 Agriculture, Forestry, and Fisheries

4.1.1 Features

4.1. Agriculture continues to play an important, albeit declining, role in supporting economic growth, accounting for a large portion of employment and rural incomes, and as a source for the expansion of exports. Therefore, the expansion of both the agricultural sector and the processing industry are key aims of the Government, focusing on increased productivity, economic efficiency, compliance with agro-technical requirements, and the application of modern technologies and management systems.¹

4.2. The gross value added by the agricultural sector fluctuated considerably over the review period, contracting by 16% in 2010, followed by five years of positive growth before contracting again in 2016 and 2017. As a share of GDP, the agriculture, hunting, forestry and fishing sector's contribution has declined from a high of 23% in 2011 to 17% in 2017. Similarly, the sector's share of employment dropped from 38.6% in 2010 to 31.3% in 2017, due to labour migration to other activities such as industry and services (Table 4.1).

Table 4.1 GDP by economic activity and employment, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
GDP by economic activity, at constant price (%age change)								
Agriculture, hunting, forestry and fishing	-16.0	14.0	9.5	7.6	6.1	13.2	-5.0	-5.3
GDP by economic activity, at current basic price (%)								
Agriculture, hunting, forestry and fishing	19.2	22.8	20.1	20.7	20.4	19.3	18.2	16.7
Employment by sector (%)								
Agriculture, forestry and fishing	38.6	38.9	37.3	36.3	34.8	35.3	33.6	31.3

Source: Statistical Committee of the Republic of Armenia online information.

4.3. According to the authorities, gross output declined in 2016 and 2017 by a total of nearly 7% due to several factors, particularly unfavourable climatic conditions (hail, frost, and drought) which particularly affected crops, which suffered a decline in gross output of nearly 20% over these two years. The livestock sector was not so badly affected and gross output increased by a total of nearly 8%. The value of losses to agricultural output due to unfavourable climatic conditions was AMD 33.6 billion in 2016 and AMD 13.2 billion in 2017.

4.4. According to the FAO, the gross value of agricultural products in 2016 was AMD 1,054 billion, of which about 30% was from livestock and livestock products.² There are about 317,346 farms, practically all of which are owned by smallholders, with an average farm size of 1.8 hectares.³ Fertile volcanic soil allows for the cultivation of wheat and barley as well as grazing for animals. Irrigated crops include apricots, peaches, plums, apples, cherries, walnuts, quince, figs, pomegranates other fruits and grapes, many of which are used in the agricultural processing industry.⁴ The sector is highly climate sensitive, with potential adverse changes in temperature, precipitation, and frequency of extreme events such as droughts, heat waves and floods.⁵ Furthermore, most of the land is at an altitude of over 1,000 metres, and over two thirds is on a slope of 6 degrees, which exacerbate climate and infrastructure problems.

4.5. During the review period, there has been a steady growth in the amount of land under cultivation and, since 2011, production of almost all crops has increased. According to the FAO, cropland occupied about 339,850 hectares in 2016.⁶ The continued support from the Government, measures to promote access to subsidized credit, the development of value chains, and the enhancement of the productivity and efficiency of farming, such as establishing cooperatives, have

¹ ICARE (2017), *Promoting Investments into Agricultural Sector of Armenia*, Yerevan.

² FAOStat online database. Viewed at: <http://www.fao.org/faostat/en/#data>.

³ ICARE (2017), *Promoting Investments into Agricultural Sector of Armenia*, Yerevan.

⁴ FAO (2012), *Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership Countries, Republic of Armenia*, Budapest.

⁵ U. S. Department of Commerce (2017), *Armenia Country Commercial Guide*, 2017. Viewed at: https://www.export.gov/article?series=a0pt0000000PatBAAW&type=Country_Commercial_kav.

⁶ FAOStat online database. Viewed at: <http://www.fao.org/faostat/en/#data>.

assisted in the increase of production. In addition, private sector investments in agriculture using greenhouses have increased and, since 2010, more than 300 hectares of greenhouses were added. In 2015, it was estimated that US\$50 million in investments were directed to greenhouses.⁷ Furthermore, there has been a considerable amount of investment in the country's irrigation and water rights systems, which has improved the agricultural sector. According to the World Bank, instead of growing wheat or barley, many small farmers have been cultivating crops that need more water but are of higher value added, such as vineyards and new orchards.⁸

4.6. The total value of agricultural production at farm gate prices has been relatively stable since 2011, at about AMD 1,100 billion, although there has been considerable variation from one year to the next for some products. These changes in the value of production are due to both changes in yield (particularly for fruits, often due to the weather) and changes in prices. For livestock, which accounted for about one third of the value of production (AMD 303 billion) in 2016, there was a clear upward trend in production until 2014 (AMD 346 billion); then, lower prices resulted in a lower total value of production in 2015 and 2016 (Table 4.2).

Table 4.2 Production selected crops 2000-2016

		2008	2009	2010	2011	2012	2013	2014	2015	2016
Value of production	AMD bn	844	751	634	1,036	1,131	1,136	1,063	1,012	1,054
Crops	AMD bn	636	549	393	734	831	814	717	674	751
Fruit, stone n.e.s.	AMD bn	327	303	82	334	438	366	257	254	376
	'000 ha	148	161	39	117	174	176	114	112	156
	'000 tonnes	16	16	16	16	17	18	18	16	20
Potatoes	AMD bn	65	42	63	103	72	79	111	85	57
	'000 ha	649	594	482	557	647	661	696	608	606
	'000 tonnes	34	32	28	29	31	31	30	28	29
Wheat	AMD bn	27	19	22	31	38	50	48	43	39
	'000 ha	226	198	183	224	243	312	338	363	350
	'000 tonnes	93	89	87	78	93	100	105	108	108
Grapes	AMD bn	31	27	46	43	44	42	48	48	34
	'000 ha	186	209	223	230	241	241	261	309	179
	'000 tonnes	14	14	15	14	16	16	16	16	16
Apricots	AMD bn	12	9	20	21	19	11	5	26	31
	'000 ha	83	81	30	49	76	89	42	116	62
	'000 tonnes	8	8	8	8	8	9	9	9	10
Vegetables, n.e.s.	AMD bn	28	24	20	31	35	49	42	30	31
	'000 ha	32	35	38	35	36	34	35	36	24
	'000 tonnes	8	8	7	8	9	9	9	10	10
Livestock	AMD bn	207	202	241	303	300	321	346	338	303
Meat, cattle	AMD bn	62	64	87	105	105	115	121	127	134
	'000 tonnes	49	50	48	48	48	54	59	64	68
Milk, whole fresh cow	AMD bn	71	60	63	91	82	88	103	97	94
	'000 tonnes	14	14	15	14	16	16	16	16	16
Eggs, hen, in shell	AMD bn	31	33	36	38	38	40	45	46	28
	'000 tonnes	8	8	7	8	9	9	9	10	10

Source: FAOStat online database. Viewed at: <http://www.fao.org/faostat/en/#data>.

4.7. Investments by both the private sector and international organizations have improved the situation in the agro-processing industry, although the industry is still adapting to a market economy and efforts are focused on improving efficiency, competitiveness, and diversification.

⁷ Ministry of Agriculture (2015), *Agro Investment Guide: Armenia*, Yerevan.

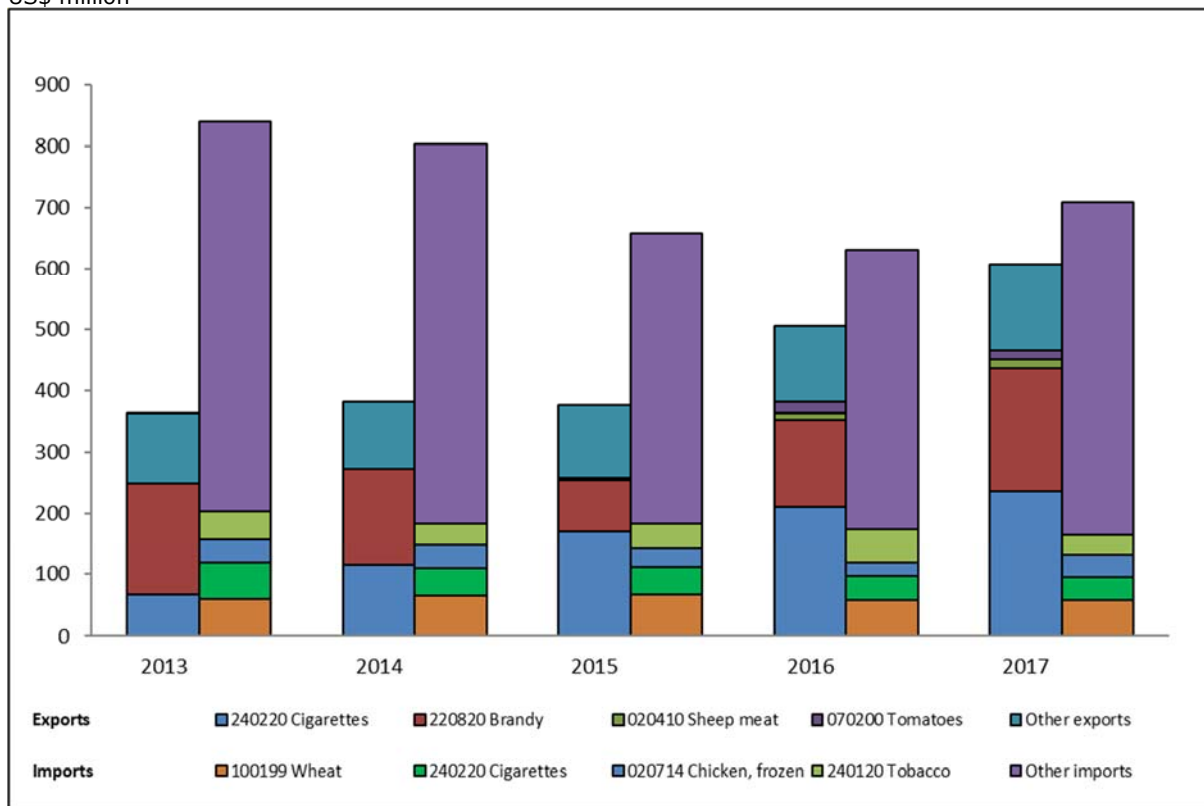
⁸ World Bank (2012), *The New Landscape of Armenia's Agriculture*, 7 March. Viewed at: <http://www.worldbank.org/en/news/feature/2012/03/07/new-landscape-of-armenia-agriculture>.

Some local companies are competing in both the domestic and the international markets, and are making investments to scale-up production. Increased demand for agricultural products for export has provided local farmers with an incentive to improve the efficiency of their operations and increase production.⁹

4.8. During the 2013-17 period, exports of agricultural products (WTO definition)¹⁰ increased from US\$364 million to US\$607 million, about 28% of the total exports of goods. Over the same period, imports declined from US\$840 million in 2013 to US\$631 million in 2016 before increasing to US\$709 million in 2017. The main exports are cigarettes (HS 240220) and brandy (HS 220820), which represent nearly three quarters of agricultural exports, or 20% of total exports. Imports are much less concentrated than exports, with the top 10 imports in 2017 representing less than half of the total imports of agricultural products. In 2017, the main imports were wheat (HS 100199) and cigarettes (HS 240220), followed by frozen chicken meat (HS 020714) and tobacco (HS 240120), the latter being used in the manufacture of cigarettes (Chart 4.1).

Chart 4.1 Exports and imports of agricultural products, 2013-17

US\$ million



Source: WTO calculations, based on UNSD Comtrade database (HS 2012).

4.9. The principal destination for exports varies depending on the product: for cigarettes, the main destination is Iraq followed by the United Arab Emirates and Syria which, combined, are the destinations for nearly all exports of cigarettes; for brandy, 87% of exports are to the Russian Federation; and for sheep meat, the main destination is Iran. Similarly, for imports, the source depends on the product: for wheat, most imports come from the Russian Federation; for cigarettes, it is Ukraine and the Russian Federation; and for frozen chicken meat, it is the United States, Brazil, and the Russian Federation.

⁹ Ministry of Agriculture online information. Viewed at: <http://minagro.am/en/agriculture-in-armenia/agro-processing/>.

¹⁰ For the purposes of this Section of the Trade Policy Report, the definition of agriculture products used is that set out in Annex 1 of the Agreement on Agriculture, where fish and fish products are taken to include tariff lines under HS2012 Headings 020840, 03, 050800, 050900, 051191, 1504, 1603, 1604, 1605, and 230120.

4.10. According to the authorities, the level of self-sufficiency in terms of most relevant food products is around 60%, which includes potatoes, fruit, vegetables, milk, sheep meat and eggs. On the other hand, domestic production of wheat, legumes, sugar, oil, and other types of meat is relatively low. Armenia relies heavily on grain imports, especially cereals.¹¹

4.1.2 Policy and institutional developments

4.11. The institutional framework for agricultural policy did not change during the review period. Agriculture policy is the responsibility of the Ministry of Agriculture, which includes the central administration and provincial-level inspection staff. In addition, each province has an agricultural department that is separate from the Ministry. There are a number of strategic documents designed by the Ministry of Agriculture aiming at developing the sector, such as the Rural and Agricultural Sustainable Development Strategy (RASDS) 2010-2020, the Plans of Action for the Implementation of the RASDS¹², and the Armenia Development Strategy for 2014-2025.¹³

4.12. Under the RASDS, agriculture is recognized as a national priority for the development of rural areas, and it includes programmes for, *inter alia*; infrastructure development; development of rural markets; vocational and business training for enterprises; land consolidation and improvements in efficiency, including the development of agricultural cooperatives; and the introduction of agricultural insurance.¹⁴ In addition, the Armenia Development Strategy (ADS) for 2014-2025 also recognizes agriculture as a priority sector, due to its role in providing inputs to the food industry, which is a sector with strong export potential, and its role in off-farm rural development. Among the challenges noted in the ADS are the poor use of arable lands, low levels of irrigation, and a very high number of worn out agricultural machines. Several strategies are included in the ADS to make agriculture, forestry and fisheries more productive and sustainable, including:

- Improved use of the resource potential of farms, particularly full use of arable lands, increase of crop and animal productivity, and intensified production;
- Public assistance projects for primary seed production, renewal of plants varieties and provision of seed; and
- Development and implementation of projects for disease control of agricultural animals, activities aimed at prevention of diseases, and revision of related strategic measures, taking into account international experience and efficiency of application in local conditions.

4.13. In 2011, Armenia adopted a strategy and action plan to bring its food safety system into line with EU standards. Food legislation includes Laws on: Food Safety; Phytosanitary Measures; Trade and Services; Ensuring Uniformity of Measurements; Protection of Consumer Rights; Standardization; and Conformity Assessment.

4.1.2.1 Border measures

4.14. During the review period, tariff protection for agriculture increased from 6.6% in 2009 to 12.8% in 2018, and remains higher than the overall applied MFN average (7.5%, 2018) and the average for manufacturing (Table 3.3). Import duties on agricultural products are higher than on non-agricultural products. Animals and animal products, fats and oils, and prepared food and beverages are the categories subject to the highest import duties (Chart 3.1 and Section 3.1.4.1).

4.15. Following Armenia's accession to the EAEU, Armenia has negotiated temporary customs tariff exemptions for a number of key agricultural items. According to the authorities, the objective is to minimize inflation risks for the next five years. These items include some meat and poultry items, dairy products, fruit and vegetables, tea, grains, starches, vegetable oils, tobacco, and

¹¹ FAO online information. Viewed at: <http://www.fao.org/armenia/fao-in-armenia/armenia-at-a-glance/en/>.

¹² Appendix 1 and Appendix 2 to Government Resolution No. 1476-N of 4 November 2010.

¹³ Annex to Government Decree No. 442-N of 27 March 2014.

¹⁴ Urutyanyan, V., Yeritsyan, A., and Mnatsakanyan, H. (2015), *Country Report: Armenia*, ICARE, March. Viewed at: http://www.agricistrade.eu/wp-content/uploads/2015/05/Agricistrade_Armenia.pdf.

gelatine. By 2022, most agricultural items, with the exception of some fresh and dried fruit, will face import tariff increases, with meat and poultry having the largest change. Standardization, quality certification, sanitary and phytosanitary requirements, product safety processes and import procedures are also based on new EAEU requirements.¹⁵

4.16. In acceding to the WTO, Armenia did not reserve the right to use the special agricultural safeguard for any product, bound other duties and charges at zero, and did not reserve the right to use export subsidies. According to Armenia's notifications to the WTO, no export subsidies have been used to support exports of agricultural goods (at end-May 2018, the most recent notification was for 2016).¹⁶

4.1.2.2 Domestic support measures

4.17. At end-August 2018, the most recent notification to the WTO on the level of domestic support for agriculture was for 2012 and 2013. However, for the purposes of this Review, the authorities provided provisional data on domestic support for 2014-16 (Chart 4.2). According to these data and the notifications, most support for agriculture is provided through the Green Box, although the total amount varied from one year to the next. Since 2014, most support in the Green Box was for a community agricultural resource management and competitiveness project, with nearly AMD 5 billion provided in 2016. The project is supported by the World Bank, and aims to improve the productivity and sustainability of pasture and livestock systems, and to increase the marketed production of selected livestock and high value agri-food value chains.¹⁷

4.18. Several other Green Box measures were also implemented with assistance from international organizations or national aid agencies, including the International Fund for Agricultural Development which supported a programme for marketing opportunities for farmers.

4.19. From the notifications and data from the authorities, Amber Box support during 2008-16 has tended to fluctuate considerably, from a total of AMD 52 million in 2010 up to AMD 4,919 million in 2015, or from 0.01% of the gross value of agricultural production in 2010 to 0.52% in 2013 (Chart 4.2). Most support since 2012 has been in the form of credit or input subsidies:

- Under the programme for state support to land users for fertilizer at affordable prices, eligible farmers can purchase phosphorous and potassium fertilizer at AMD 140 per kg for up to 400 kg per ha for phosphorous fertilizer, and 150 kg per ha for potassium fertilizer. In 2016, AMD 2,048 million was spent on the programme;
- The agricultural credit interest subsidization programme provides subsidies of 4 to 6 percentage points of the interest rate for credit available to farmers at a total rate of 14%. The total value of support under the programme was AMD 1,163 million in 2016;
- Under the cattle breeding development programme, pedigree heifers are imported, new cattle-breeding farms established, and pedigree calves are sold to farmers and cattle breeding farms. Total support under the programme was AMD 488 million in 2016.
- Grain seed price subsidization was valued at AMD 234 million in 2016, for providing subsidized spring barley, alfalfa and clover seeds;
- Diesel fuel prices were subsidized by a total of AMD 275 million in 2016.¹⁸

¹⁵ USDA FAS (2015), *Transitional Import Tariffs for Armenia in EAEU until 2022*, GAIN Report Number AM1501, 3 April. Viewed at: https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Transitional%20Import%20Tariffs%20for%20Armenia%20in%20EAEU%20until%202022_Moscow_Armenia%20-%20Republic%20of_4-3-2015.pdf.

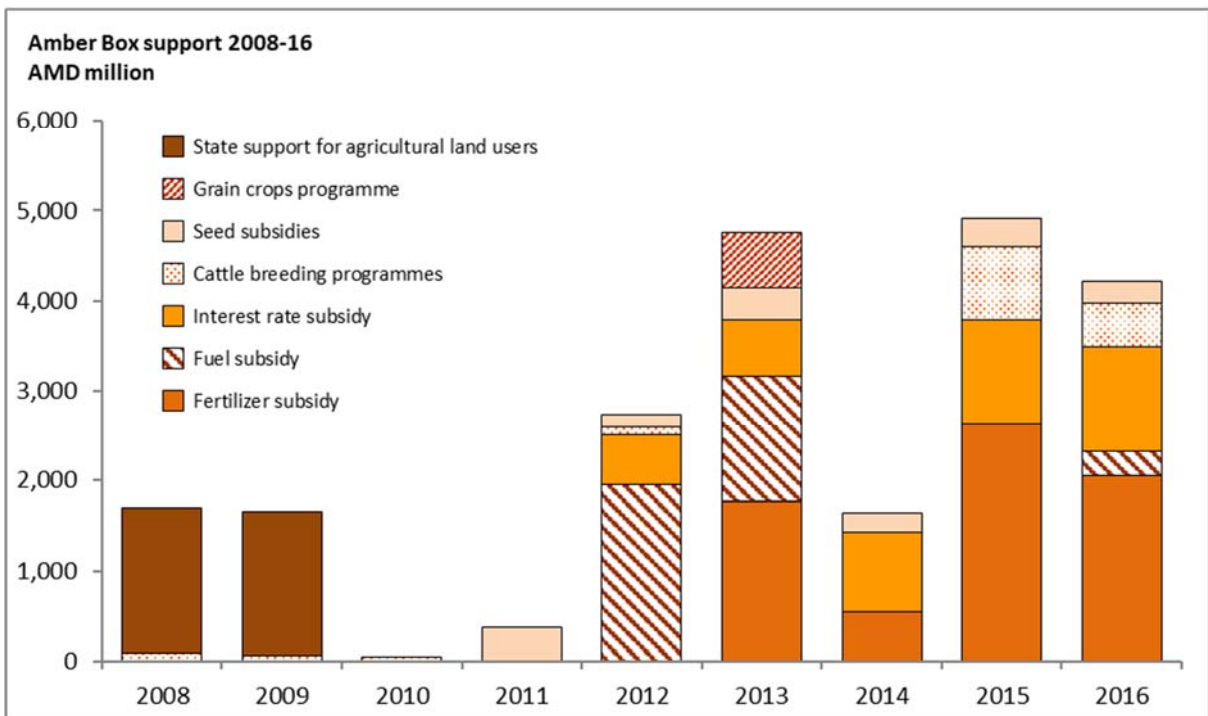
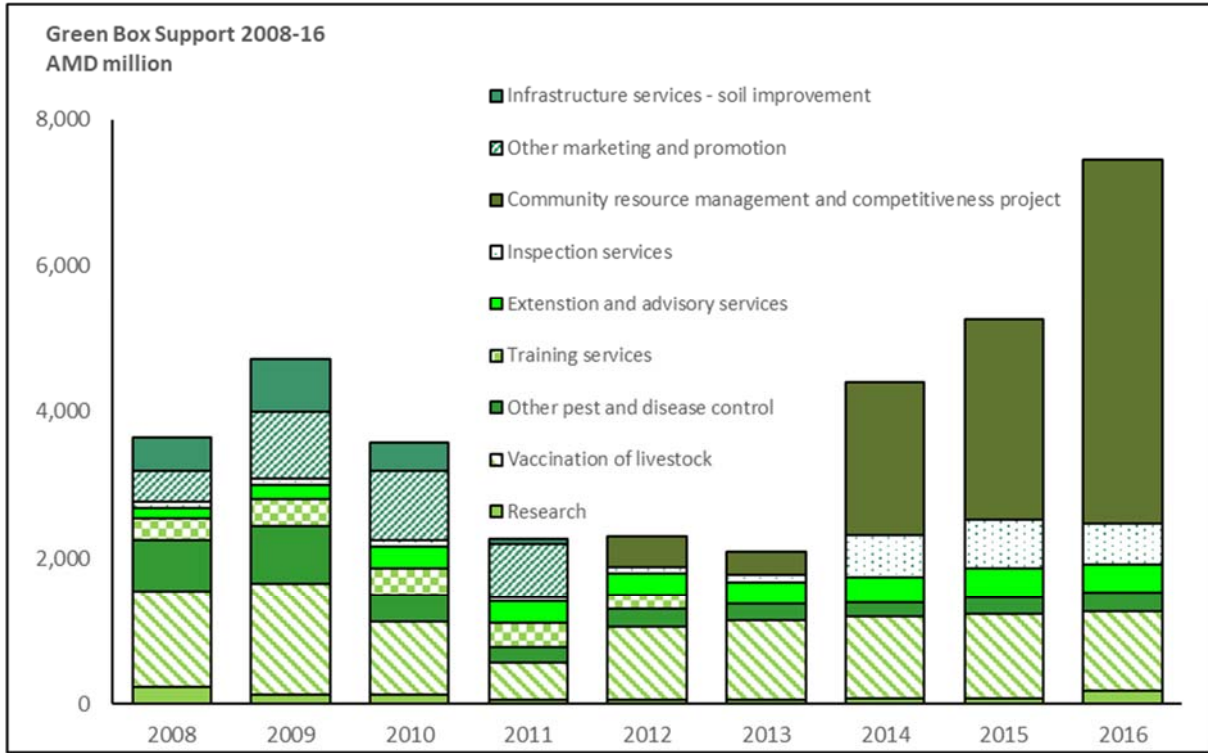
¹⁶ WTO documents: G/AG/N/ARM/28, 18 May 2018; G/AG/N/ARM/26 and G/AG/N/ARM/26, 25 April 2018; G/AG/N/ARM/1, 13 February 2004; ARM/4, 11 July 2005; ARM/7, 15 June 2006; ARM/10, 20 February 2007; ARM/13, 27 February 2008; ARM/17, 1 September 2010; ARM/18, 12 October 2010; ARM/19, 19 May 2011; ARM/21, 22 October 2012; ARM/25, 13 April 2015; ARM/26, 25 April 2018; ARM/27, 25 April 2018; and ARM/28, 18 May 2018.

¹⁷ WTO document G/AG/N/ARM/24, 13 April 2015, and World Bank online information: Viewed at: <http://projects.worldbank.org/P133705/second-second-community-agriculture-resource-management-competitiveness-project?lang=en>.

¹⁸ Information provided by the authorities, and Ministry of Agriculture online information. Viewed at: <http://minagro.am/>.

4.20. In addition to these programmes, a financial leasing programme was launched in 2017 and, in 2018, interest rate subsidy programmes were introduced for anti-hail nets, drip irrigation systems, establishment of intensive orchards, and purchases by agro-processing businesses. Furthermore, a new programme of subsidized interest rates for the agricultural sector was introduced in September 2017 for loans of AMD 3 to 5 million with repayment periods of up to five years, which is intended to encourage the introduction of new technologies and intensive production.

Chart 4.2 Green and Amber Box support, 2008-16



Source: WTO Secretariat based on notifications, and information provided by the authorities.

4.1.3 Selected agriculture and livestock

4.1.3.1 Livestock breeding

4.21. Livestock breeding is one of the leading branches of the agricultural sector. Similar to other agricultural products, small households play a key role in animal husbandry, and the production of whole milk and meat. In 2016, about one third of the gross value of agricultural production was from animals and animal products.¹⁹ It has also been estimated that 92-94% of the value of animal husbandry was generated by households, and 6-8% (mainly poultry) by commercial farms.²⁰ The Government has supported the sector with improvements in legislation, the upgrading of laboratories, the development of infrastructure to ensure traceability, and the facilitation of the export of fresh and processed meat. Due to the promotion of high-value livestock and technologically advanced breeding programmes, sheep exports to Iran, Georgia, Qatar, Kuwait and Lebanon have increased in recent years. According to the Ministry of Agriculture, Armenia has the capacity to export 180-200,000 head of sheep annually.²¹

4.22. Poultry breeding has traditionally been among the most intensively developed sectors, and is one of the most automated segments of animal husbandry using modern technologies. At present, there are more than 10 medium-sized and large poultry enterprises in the country, producing eggs and poultry meat.²² Around 650-700 million eggs and 7-8 tons of poultry meat are produced annually, and exports are gradually increasing.²³

4.23. Despite the advances made in livestock breeding, the sector faces several challenges, such as unsustainable pasture management and underutilization, persistent livestock diseases, processing and marketing constraints, and reduced productivity. Additionally, there are seasonal fluctuations in the supply of dairy products, with most milk produced in the summer months. The dairy and meat sectors are competitive in the domestic market; however, there is scope for strengthening their competitive position by addressing productivity and supply constraints. To mitigate these issues and increase exports, the Government continues to assist in the implementation of modern technologies, and is promoting high-value livestock and technologically advanced breeding programmes.

4.24. In 2018, the simple average MFN tariff for animal products was 26.5%, and 14.3% for dairy products. Although domestic production is increasing, the challenges listed above limit Armenia's capacity to exploit export opportunities, and imported meat accounts for half of meat consumption.²⁴

4.1.3.2 Food processing

4.25. Armenia has a fast-growing food processing sector, with export potential based on ecologically friendly green agro-products. As one of the country's most developed sectors, and the second in terms of export volumes, food processing plays an important role in the economy. The most important products are alcoholic beverages, especially brandy and wine made from locally grown grapes. Exports of alcoholic beverages (SITC 112) have increased from US\$100 million in 2010 to US\$227 million in 2017; they have been consistent through the review period, increasing slightly from 9.5% of total exports in 2010 to 10.2% in 2017, about 90% of which was brandy. The main exporting markets for spirits are the Russian Federation, Ukraine, and Belarus.²⁵

4.26. The simple average MFN tariff for beverages and spirits was 11.2% in 2018 (Table 3.3). The excise tax, an indirect tax levied on domestically-produced and imported alcoholic beverages, varies according to the product's maturity. Rates enforced are compound duties of 50%, but with a

¹⁹ FAOStat online database. Viewed at: <http://www.fao.org/faostat/en/#home>.

²⁰ Ministry of Agriculture (2015), *Agro Investment Guide: Armenia*, Yerevan.

²¹ U.S. Department of Commerce (2017), *Armenia Country Commercial Guide*, 2017. Viewed at: https://www.export.gov/article?series=a0pt0000000PAtBAAW&type=Country_Commercial_kav.

²² Ministry of Agriculture (2015), *Agro Investment Guide: Armenia*, Yerevan.

²³ U.S. Department of Commerce (2017), *Armenia Country Commercial Guide*, 2017. Viewed at: https://www.export.gov/article?series=a0pt0000000PAtBAAW&type=Country_Commercial_kav.

²⁴ Ministry of Agriculture (2010), *National Strategy for Sustainable Use and Development of Farm Animal Genetic Resources*, Yerevan. Viewed at: http://www.fao.org/ag/againfo/home/en/news_archive/doc/book_national_strategy_eng.pdf.

²⁵ UNSD Comtrade online database. Viewed at: <https://comtrade.un.org/data/>.

minimum that varies with the age of the distilled spirit, from AMD 3,000 for 1 litre of one- to three-year-old spirits up to AMD 22,000 for 1 litre for spirits of more than 20 years old.

4.27. During the review period, the Government established the Association of Armenian Brandy Producers in order to maintain the quality of spirits. The Association has developed quality control laboratories for its members' products, and has awarded quality certificates since 2013.²⁶

4.1.3.3 Fresh fruit and vegetables

4.28. In terms of fresh fruit and vegetables, apricots, grapes, cherries, peaches, plums, potatoes and tomatoes are the main exports. The largest shares, in export value terms, are held by tomatoes (0.2% of total exports in 2010, and 0.9% in 2017) and grapes (0% 2010, and 0.8% in 2017). The main export markets for fruit and vegetables are the Russian Federation, Georgia, Iraq, Kazakhstan, Ukraine, and Belarus.

4.29. The current average MFN applied tariff on fruit, vegetables, and plants is 8.8% (Table 3.3). Seasonal import tariffs are applied to certain potatoes, fresh or chilled tomatoes, fresh or chilled cucumbers, sweet peppers, fresh apples, certain pears, beet sugar, and certain kinds of white sugar. Different tariff rates, depending on the average monthly price at the New York Mercantile Exchange, are applied to cane sugar and sugar containing added flavouring or colouring matter (Section 3.1.4.1). In the period 2015-25, it is permitted to import raw cane sugar (included in EAEU EEA PL 1701 13 and 1701 14) exempted from import custom duties for industrial processing in the territory of Armenia.

4.1.3.4 Cigarettes

4.30. The manufacture of cigarettes and other tobacco products is becoming an increasing source of revenue for Armenia. In 2016, US\$281 million of cigarettes were manufactured, up 23.5% from the previous year. Cigarettes are the largest export in the agriculture sector, and exports of them increased during the review period from 0.8% of total exports in 2010 to 11.9% in 2017. The main importers of Armenian cigarettes are Iraq, Syria, United Arab Emirates and the Russian Federation. Imports decreased during the review period, from 1.7% of total imports in 2010 to 1% in 2017. Armenia imports tobacco goods mainly from EU member States and the Russian Federation. The current average MFN applied tariff on cigarettes is €2 per 1000 pieces.

4.31. The tobacco sector is also a major taxpayer and, in 2016, the largest producer, the Grand Tobacco Armenian-Canadian Joint Venture, was the second largest taxpayer in Armenia (AMD 22.6 billion in taxes in 2016). This amounted to a 65% increase from the previous year.²⁷

4.1.4 Fisheries

4.32. Fish farming is an attractive industry in Armenia, due to favourable climatic conditions for year-round commercial farming. An increase in private investment has established a number of large and profitable fish farms. Some of these have moved towards vertical integration, and started feed production and fish processing plants. In addition, the establishment of cooperatives in the fish industry is notable, where several fish farms jointly purchase fish fry and concentrated feed, and market fish products.²⁸ According to the Ministry of Agriculture, 13-14 tons of commercial fish are raised annually in 300 fish farms, 80% of which are located in the Ararat valley. In order to increase productivity, commercial fisheries introduced the semi-closed cycle of water management.²⁹

²⁶ FAO (2012), *Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, Republic of Armenia*, Budapest.

²⁷ Hergnyan, S. (2017), *Armenia's Increasing Tobacco Exports: Who's Buying*, hetq investigative journalists, 6 April. Viewed at: <http://hetq.am/eng/news/77578/armenias-increasing-tobacco-exports-whos-buying.html>.

²⁸ FAO (2012), *Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, Republic of Armenia*, Budapest.

²⁹ Ministry of Agriculture (2015), *Agro Investment Guide: Armenia*, Yerevan.

4.33. Fish varieties such as carp, trout, sturgeon and crayfish are regarded as being of high quality, with exports to Belgium, France, the Russian Federation, Ukraine, Georgia, and the United Arab Emirates. In 2017, the total value of exports of fish and fish products was US\$22 million.³⁰

4.34. The simple average MFN tariff for fish and fishery products stood at 7.1% in 2018 (Table 3.3). Customs authorities calculated and collected VAT (20% at the point of entry). For imports from other EAEU members, VAT is paid on the 20th of the month following date of importation. In order to export fish and fishery products to EAEU countries, it is necessary to be registered in "Registry of entities and persons of third countries engaged in production, processing and/or storage of products subject to control to be imported in EAEU economic area" of the State Service for Food Safety of the Ministry of Agriculture.

4.1.5 Crops

4.35. In terms of crop production, volumes of wheat are the highest among all cereal categories. According to 2016 data, the self-sufficiency level for wheat was at 53.2%, and it is produced by smallholders.³¹ In addition, limited land resources are increasingly being used for higher value-added crops such as grapes and fruit. Since the last Review, there has also been an increase in the production of barley (except in 2017), which is used as animal feed and in beer production. Cereal production in 2017 comprised 302,500 tonnes.

4.36. The current average MFN applied tariff on cereals is 8.5% (Table 3.3). Wheat imports account for the majority of total cereal purchases. Armenia, a net food importer of wheat, negotiated temporary customs tariff exemptions on wheat during its EAEU accession, to minimize inflation risks. The Russian Federation continues to be the main wheat and flour supplier. In 2017, the number of entities engaged in flour imports increased from 23 to 133, with the largest growth being registered after Armenia's accession to the EAEU.

4.2 Mining and Energy

4.2.1 Mining

4.2.1.1 Features

4.37. Armenia has an abundance of mineral resources such as molybdenum, copper, gold, lead, silver, and zinc. There are also commercial deposits of industrial minerals, including basalt, diatomite, granite, gypsum, limestone, and perlite. In addition to extracting minerals, Armenia produces aluminium foil and has a diamond-processing industry, both based on imported raw materials. The mining sector is one of the largest contributors to export and tax revenues and foreign investments.

4.38. During the review period, the mining sector's share in gross value added increased from 2.9% in 2010 to 3.5% in 2017 (Table 4.3). Despite a decrease in its share of merchandise trade, from 47.8% in 2010 to 43.8% in 2017, mining exports (SITC Rev.3) outperformed other industrial products. In 2017, mining sector exports were valued at about US\$885 million. Armenia's main export partners for mining products were the Russian Federation and China. Mining of copper ores dominated, accounting for around 98% of the production value, and 20.8% of total merchandise exports in 2010 and 26.6% in 2017 (Chart 1.1.)

Table 4.3 GDP by economic activity and employment, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
GDP by economic activity, at constant price (%age change)								
Mining and quarrying	22.8	13.9	15.7	5.9	-6.4	56.8	5.9	18.2
Gross value added by economic activity, at current basic price (%)								
Mining and quarrying	2.9	3.1	3.0	2.5	2.4	2.4	2.9	3.5

Source: Statistical Committee of the Republic of Armenia online information.

³⁰ UNSD Comtrade online database, where fish and fish products include tariff lines under HS2012 Headings 020840, 03, 050800, 050900, 051191, 1504, 1603, 1604, 1605, and 230120.

³¹ ICARE (2015), *Country Report: Armenia*, March. Viewed at: http://www.agricistrade.eu/wp-content/uploads/2016/07/Agricistrade_Armenia_rev.pdf.

4.39. The sector also contributes to employment, especially in rural areas, offering comparatively high paid jobs outside of Yerevan. In 2018, an estimated 9,200 people were employed in the sector, accounting for 9% of those employed in industry. According to one report, in addition, the relatively high wages in the sector has generated a positive environment for local small and medium-sized enterprises (SMEs) operating in the trade and services sectors. Large mining projects, such as those located in Teghut (copper and molybdenum) and Amulsar (gold), were implemented with local community stakeholders and multinationals assisting in the development of infrastructure such as healthcare, education, and more advanced agricultural technologies. This has created spill-overs that have boosted local SMEs.³² Since 2016, work began to prepare the Amulsar mine. As at April 2018, 1,460 people were employed by the company and its contractors, of which 464 are from surrounding communities. Production is scheduled to start in the second quarter of 2018. Mineral extraction in the Teghut mine was carried out during 2014-17 but not in 2018.

4.40. In addition, despite its relatively small contribution to GDP, tax contributions are comparatively high: for the period 2012-14, the sector provided an average of 4.8% of overall taxes and 8.2% of direct taxes.³³ For example, according to one report, the Amulsar Gold Project is projected to be among the top five corporate taxpayers in Armenia, generating annually on average approximately US\$50 million in taxes.³⁴

4.41. The mining sector is mainly comprised of small to medium-sized mines and a few large ones. A total of 850 mines of solid minerals, including 42 metal ones, are currently registered in the state inventory of mineral resources. Among these, about 450 have licences to operate, including 28 metal mines. Among metal minerals, there are 7 copper-molybdenum mines, 4 copper mines, 24 gold and gold-polymetallic mines, 2 polymetallic mines, 2 iron ore mines, 1 aluminium mine and 1 chromite mine.³⁵ The leading producers of copper and molybdenum concentrates are the Zangezur Copper-Molybdenum Complex (ZCMC); Vallex Group and the Agarak Copper-Molybdenum Mining and Processing Complex (ACMC).³⁶ The ZCMC mine, located in Kajaran, produces 22 million tonnes annually, representing roughly 60% of the turnover of the mining sector.

4.42. The sector has attracted a considerable amount of FDI, most notably during the last review period when Cronimet GmbH invested in the acquisition and modernization of ZCMC and, in this review period, in 2012, when investments were made by Vallex to start the Teghut mine. In addition, Lydian International has invested US\$420 million in the development of the Amulsar gold deposit.³⁷

4.43. The sector is developing further facilities for processing copper, gold, and molybdenum, and several gold and iron ore mining projects are underway. However, a number of problems confront the sector. In particular, in terms of production, mining is dominated by a small number of large operators, making the sector vulnerable to external shocks which, in turn, may threaten long-term sustainability. In addition, poor mineral recovery rates and concerns about the potential environmental effects of mining projects continue to affect the sector. According to the authorities, the Ministry of Energy Infrastructures and Natural Resources encourages discussion with interested investors about the possibility of introducing new, efficient, environmentally-friendly technologies in the mining sector. Furthermore, the authorities have taken steps, such as the introduction of

³² World Bank (2016), *Strategic Mineral Sector Sustainability Assessment*, Swedish Geological AB in association with SLR Consultants Ltd., AVAG Solutions Ltd., the AUA Center for Responsible Mining, and the AUA Turpanjian Center for Policy Analysis, April.

³³ World Bank (2016), *Strategic Mineral Sector Sustainability Assessment*, Swedish Geological AB in association with SLR Consultants Ltd., AVAG Solutions Ltd., the AUA Center for Responsible Mining, and the AUA Turpanjian Center for Policy Analysis. April, p. 54.

³⁴ AVAG Solutions (2015), *Social-economic contribution of the Amulsar Gold Project*, prepared for Lydian International, March. Viewed at: http://www.lydianinternational.co.uk/images/General_PDFS/Social-economic-Contribution-Report-March-2015.pdf.

³⁵ Ministry of Energy Infrastructures and Natural Resources online information. Viewed at: <http://www.minenergy.am/en/page/472>.

³⁶ U.S. Department of Commerce (2017), *Country Commercial Guide, 2017*, online information. Viewed at: https://www.export.gov/article?series=a0pt0000000PatBAAW&type=Country_Commercial_kav.

³⁷ AVAG Solutions (2015), *Social-economic contribution of the Amulsar Gold Project*, prepared for Lydian International, March. Viewed at: http://www.lydianinternational.co.uk/images/General_PDFS/Social-economic-Contribution-Report-March-2015.pdf.

the Law on Environmental Impact Assessment and the Law on Waste Management, to set standards for responsible mining, to better align the industry with global environmental practices.

4.2.1.2 Trade

4.44. The main mineral exports are copper ores and concentrates and unwrought gold; exports of both nearly doubled in both value and quantity during 2013-17. Export performance of other minerals and mineral products varied (Table 4.4).

Table 4.4 Exports of selected minerals and mineral products

US\$ million

HS	Description	2013	2014	2015	2016	2017
2603	Copper ores and concentrates	279.9	235.9	316.6	370.0	571.5
7108	Gold - unwrought	73.6	81.9	98.9	140.9	145.0
7607	Aluminium foil	80.4	88.5	82.9	77.1	96.4
7202	Ferro-alloys	102.4	109.7	55.5	66.0	84.4
7402	Copper; unrefined, copper anodes for electrolytic refining	90.2	71.8	65.5	62.8	70.7
7102	Diamonds, not mounted or set	88.1	118.0	77.3	106.3	72.8
2608	Zinc ores and concentrates	17.0	13.8	12.0	10.5	16.6
7113	Jewellery - of precious metal or of metal clad with precious metal	21.3	21.5	18.1	19.1	26.9
2613	Molybdenum ores and concentrates	6.7	8.7	6.2	0.9	8.6
7112	Waste and scrap of precious metal	0.3	3.8	5.5	2.5	8.0
8102	Molybdenum, articles thereof	17.5	19.0	11.1	5.0	0.1

Source: UNSD Comtrade.

4.2.1.3 Policy and institutional developments

4.45. The Mining Agency within the Ministry of Energy Infrastructures and Natural Resources is responsible for administering the sector and issuing licenses. Key departments and tasks in the mining sector include:

- Mining Granting Agency, managing and administrating mineral permit applications; reviewing and approving mineral reserves estimations, required for mining permit applications; policy and legal development; and
- Republican Geological Fund, repository for geological data and information, company reports, exploration and mining contracts, and reserves data.

4.46. The sector's reform process began in the last review period, with the revision of the regulatory framework, the liberalization of contractual mechanisms, and the restructuring, through privatization, of the major mining companies.³⁸ During the current review period, the mining legislation was updated to bring it into compliance with international standards. Currently, the mining sector is regulated by the following legal acts: the Mining Code of 2012; the Law on Environmental Supervision; the Law on Promoting of State Regulation of Technical Security; the Law on Environmental Impact Assessment and Environmental Expertise; the Civil Code; the Water Code; the Land Code; the Code on Administrative Offences; the Criminal Code; and the Tax Code.

4.47. The new Mining Code sets out the regulatory framework governing mining and concessions. Exploration rights are awarded on a first-come-first-served basis, while the security of tenure and entitlement of mining rights is less clear. The Code states that, essentially, any legal person can apply for a mineral right, although the financial and technical capacity of the applicant needs to be approved. Licence holders must submit work programmes to the Ministry for approval, and licences can be withdrawn if minimum work requirements are not met. According to the authorities, there are no restrictions on foreign enterprises obtaining licences for exploration or mining. A total of 452 licences were effective in 2017, compared to 499 in 2015. However, the number of licences for metal ores remained constant, at 28 for 2015-17 (Table 4.5).

³⁸ WT/TPR/S/228/Rev.1, 22 April 2010, Section VI(2).

Table 4.5 Mineral extraction licences issued, 2015-17

	2015	2016	2017
Total licences issued	499	463	452
<i>of which</i>			
Operation of metal ore deposits	28	28	28
Non-metal ore deposits	442	402	393
Mineral water	29	31	30

Source: Data received from the authorities.

4.48. The Mining Sector Development Concept was adopted on 24 August 2017, and the Government's mining sector development strategy is to be adopted by the end of 2019.

4.49. In addition to profits tax at 20%, under the Mining Code, companies mining metal ores and producers of metal ore concentrates and smelting products are required to pay royalties and make payments into the nature and environment preservation fund. For ore concentrates, the royalty base is total revenue calculated as total production quantity and price in the purchase agreement. For smelting products, the royalty base is calculated as production quantity and price based on London Metal Exchange prices. The rate is a fixed rate of 4% plus a variable rate based on a formula, as follows:

$$R\% = 4 + [P / (\text{Revenue} \times 8)] \times 100$$

where P = earnings before interest and tax (EBIT), and Revenue = gross revenue from sales.

4.50. Also under the Mining Code, mining companies may benefit from a three-year stabilization period after being granted the right to mine. During this time, taxes, royalties and other fees may not be changed from those applicable at the time of the right being granted.³⁹

4.51. The Government has also adopted legislation needed for the implementation of the Mining Code, which is intended to attract private investment, streamline the management of environmental and social impact assessments, and enhance public disclosure. Furthermore, the Law on Environmental Impact Assessment and the Amendment to Mining Code (2016) are intended to help set standards for responsible mining, to better align the industry with global environmental practices.⁴⁰ Furthermore, in 2017, Armenia became the 52nd country to join the Extractive Industries Transparency Initiative (EITI), which promotes the open and accountable management of oil, gas, and mineral resources. The Ministry of Energy Infrastructures and Natural Resources has adopted new secondary legislation to meet the requirements of the EEC on the provision of information on underground resources subject to restriction for foreign trade, and issuing licenses for exporting mineral resources.

4.2.1.4 Border and domestic support measures

4.52. During the review period, tariff protection for mining increased from 1.2% in 2009 to 4% in 2018, but remains lower than the overall applied MFN average (7.5%, 2018) and the average for manufacturing. (Tables 3.2 and 3.3). Apart from a limited number of import duty exemptions related to machinery and equipment, the tax rules and regulations for mining companies are the same as those applied to other industries. Since 2012, the Law on Environmental and Natural Resources Payments has defined royalties as an environmental payment for the sale of extracted metal minerals and products obtained from their processing in the field of metal extraction. The royalty rate is calculated in accordance with the Law for each reporting year (taking into account profitability), which will not be less than 4% of the sales turnover. Previously, the utilization fee was calculated for all types of mineral extraction based on extraction volumes. The Tax Code, which entered into force in 2018, also sets the same rules for the calculation of royalties for extractors of metal minerals and for extractors of non-metallic minerals; the calculation of the cost of environmental benefit based on extracted volumes has been maintained.

³⁹ Genasci, M. (2015), *Analysis of Armenia's mining fiscal regime*, Mining Legislation Reform Initiative, AUA Center for Responsible Mining, American University of Armenia (Yerevan). Viewed at: <http://mlri.crm.aua.am>.

⁴⁰ U.S. Department of Commerce (2017), *Country Commercial Guide, 2017*, online information. Viewed at: https://www.export.gov/article?series=a0pt0000000PATBAAW&type=Country_Commercial_kav.

4.53. Following Armenia's accession to the EAEU, Armenia has negotiated temporary customs tariff exemptions for a number of key items, such as base metals and precious stones. However, by 2022, these items will face import tariff increases.

4.2.2 Energy

4.54. Apart from electricity produced from hydro sources and other forms of renewable energy, Armenia depends on imports for all its primary energy needs. After natural gas, nuclear power from the Armenian Nuclear Power Plant (ANPP), using fuel imported from the Russian Federation, is the second largest source of energy, and provides nearly one third of total electricity.

Table 4.6 Primary energy supply and final consumption, 2012-16

'000 tonnes oil equivalent (ktoe)

	2012	2013	2014	2015	2016
Primary energy supply	2,971	2,900	2,959	3,187	3,122
<i>of which</i>					
Oil products	369	325	325	315	301
Natural gas	1,927	1,864	1,881	1,956	1,833
Nuclear	602	615	642	727	714
Hydro	200	187	171	190	202
Biofuels and waste	8	9	34	107	148
Imports (+)/exports (-)	-137	-100	-95	-107	-82
Final consumption	2,137	2,101	2,001	2,088	2,089
<i>of which</i>					
Industry	385	384	365	328	320
Transport	531	522	555	608	918
Residential	665	662	720	656	785
Commercial/public services	121	122	255	458	324
Agriculture/forestry	12	13	15	39	43

Source: International Energy Agency online information. Viewed at: <https://www.iea.org/statistics/statisticssearch/>, and Statistical Committee of the Republic of Armenia. Viewed at: <http://www.armstat.am/en/?module=news&mid=3&id=581>.

4.55. During 2013-17, the value of imports of oil and gas declined, due to lower prices, while import quantities were relatively stable (Table 4.6). With no oil refinery, Armenia imports oil products mainly from the Russian Federation, and the European Union.

4.56. Most natural gas is imported from the Russian Federation via a 1020 mm pipeline through Georgia, with the rest from Iran through a 720 mm pipeline. Gazprom Armenia, wholly owned by Gazprom of the Russian Federation, owns and operates the gas transmission and distribution networks in Armenia, including the Armenian part of the connections with Iran.⁴¹ According to the amendments to an agreement between the governments of Armenia and the Russian Federation of December 2013, the purchase price for natural gas is US\$150 per 1,000 m³ for the period from 1 April 2016 to 31 December 2018. Retail prices for gas are set by the Public Services Regulatory Commission (PSRC), following public consultations, and published on its website.⁴² The gas from Iran is under a gas-for-electricity exchange arrangement (Armenia is a net exporter of electricity – mostly to Iran) (Table 4.6).

⁴¹ International Energy Charter (2017), *In-Depth Review of the Energy Efficiency Policy of Armenia*, Brussels.

⁴² PSRC online information. Viewed at: <http://psrc.am/am/sectors/gas/tariffs>.

Table 4.7 Imports of petroleum products, and trade in electricity, 2013-17

HS2012	Description	Units	2013	2014	2015	2016	2017
Imports							
2710	Petroleum oils and oils from bituminous minerals, not crude	US\$ million	341.6	321.2	217.4	198.3	242.6
		'000 tonnes	327.4	322.8	270.6	316.4	344.9
2711	Petroleum gases and other gaseous hydrocarbons	US\$ million	575.6	467.3	432.9	348.0	358.3
		'000 tonnes	1,725.6	1,785.4	1,651.6	1,613.6	1,779.7
2716	Electrical energy	US\$ million	4.3	9.5	7.7	12.6	14.3
		GWh	147.7	205.8	173.6	255.2	319.5
Exports							
2716	Electrical energy	US\$ million	78.0	81.3	77.5	57.1	71.0
		GWh	1,312.9	1,313.6	1,405.5	1,141.1	1,439.6

Source: UNSD Comtrade.

4.57. The EAEU-applied MFN tariff on hydrocarbons (HS headings 2710 to 2715) is 5% for most tariff lines, although some are zero or 3%. The EAEU-applied tariff on fuel elements for nuclear reactors (HS 8401 30 000 0) is 15%. However, with most hydrocarbon fuel and all nuclear fuel coming from the EAEU, the effective rate is zero. Imports of electricity (HS 2716) are duty free.

4.58. The Ministry of Energy Infrastructures and Natural Resources is responsible for energy policy. The legal and regulatory framework has been relatively stable since 2010, and the principal laws remain: the Law on Energy of 2001; the Law on Energy Saving and Renewable Energy of 2004; and the Law on Safe Utilization of Atomic Energy for Peaceful Purposes of 1999. However, several amendments have been adopted over the past eight years, including those relating to renewable energy and energy efficiency (such as an amendment to the Law on Energy Saving and Renewable Energy to encourage the use of solar power). In addition, a transmission network (grid) code was adopted on 17 May 2017, and transitional rules for the wholesale power market were adopted on 9 August 2017⁴³, as Armenia began the transition away from a single-buyer model for the wholesale market.

4.59. The Law on Energy created the legal basis for regulating the energy sector, including the production, transmission, and distribution of electricity, heating, and natural gas, and the licensing of, and relations among, the enterprises involved.

4.60. The energy section of the ADS for 2014-25 states that the main policy directions are:

- Maximum use of domestic energy sources, specially renewable sources of energy;
- Further development of nuclear energy, in particular the construction of a new energy block and improvements in the security of the Armenian Nuclear Power Station's 2nd energy block and the extension of its utilization period;
- Replacement of run-down power plants with those employing new technologies;
- Diversification of energy supplies and regional integration;
- Promotion of energy efficiency in all sectors using energy resources; and
- Increasing the safety and reliability of the electricity system.

4.61. The Strategy also states that public investment in the energy system, excluding large projects, should be 0.3% of GDP. However, large projects include a new nuclear power plant of 1,000 MW capacity, at a cost of US\$4 to 5 billion.⁴⁴

4.62. Under the "Concept of the Energy Security of the Republic of Armenia" (adopted in 2013), the "Program-schedule of the events to be held in 2014-2020", (adopted in 2014) and the "Energy Sector Long-term (up to 2036) Development Concept", (adopted in 2015), energy policy is focused on: the development of nuclear energy; regional integration; the development of renewable

⁴³ PSRC Resolutions No. 344-N, 9 August 2017, and No. 161-N, 17 May 2017.

⁴⁴ Government Decree No. 442-N of 27 March 2014, Annex, pp. 72-74.

energy, energy efficiency and energy saving programmes; and the diversification of primary energy sources and supply routes.⁴⁵

4.2.2.1 Electricity

4.63. Armenia has about 3.4 GW of installed capacity and 2.5 GW of available capacity, compared to peak demand of about 1.3 GW during November to February and annual demand of 6,500 GWh. However, it has been reported that about half of the generation facilities are over 40 years old, and may need to be closed and/or replaced in the near future. Demand has been growing by an average of 2% per year.

4.64. Electricity generation comes from a mix of publicly and privately-owned power plants. In addition to the main generators which generate the most electricity (Table 4.8), as at 1 January 2018, there were about 184 small hydroelectric power plants, with a total installed capacity of about 357.7 MW, which, in 2017, generated about 862 GWh.⁴⁶ In addition, there are two wind farms in operation (total capacity 2.85 MW), four solar photovoltaic plants (total capacity of 2.48 MW with an additional 7.52 MW for which licenses have been issued and constructed expected), and one biogas plant.⁴⁷

Table 4.8 Electricity generation, 2018

Name	Type	Year commissioned	Installed capacity MW	Operational capacity MW	Production 2017 GWh	Owner/operator
Armenian Nuclear Power Plant	Nuclear	1980	440	385	2,600	Haykakan Atomayin Electrakayan (HAEK) CJSC (state-owned)
Hrazdan TPP	Thermal	1966-1974	810	710	300	RazTES CJSC (private)
Hrazdan Unit 5	Thermal	2011	480	440	950	Gasprom Armenia CJSC (Russian Federation)
Yerevan CCGT	Thermal	2010	272	220	1,500	Yerevan TPC CJSC (state-owned)
Vorotan Cascade	Hydro	1970-1989	404	404	446	ContourGlobal Hydro Cascade CJSC (private)
Sevan-Hrazdan Cascade	Hydro	1940-1962	559	559	951	International Energy Corporation CJSC (private)

Source: Energy Sector Long-term (up to 2036) Development Concept; and U.S. Agency for International Development (2016), *Armenia Gap Analysis – With List of Market Challenges and Legal Barriers*, Contract Number AID-OAA-M-15-00005, Washington, June, pp. 7-8.

4.65. The state-owned High Voltage Electric Networks (HVEN) CJSC owns and operates the transmission system, and the privately-owned Electric Networks of Armenia (ENA) CJSC operates the distribution and retail systems, including retail metering, and billing. Other state-owned companies are responsible for systems operations, including dispatching (Electro Power Systems Operator CJSC), and settlement (the Settlement Center). The Settlement Center is also responsible for metering and billing services to wholesale power market entities. The Armenia

⁴⁵ Ministry of Energy and Natural Resources (2015), *Development of Energy Sector – The Republic of Armenia*, presentation to the EaP Platform 3 Energy Security, Brussels.

⁴⁶ Ministry of Energy and Natural Resources online information. Viewed at: <http://www.minenergy.am/en/page/448>.

⁴⁷ Information received from the authorities. U.S. Agency for International Development (2016), *Armenia Gap Analysis – With List of Market Challenges and Legal Barriers*, Contract Number AID-OAA-M-15-00005, Washington, June, pg. 7. Viewed at: http://www.minenergy.am/storage/files/pages/pq_7791595395722_3.2_Gap_Analysis_Armenia_Final_Eng.pdf International Energy Charter (2017), *In-Depth Review of the Energy Efficiency Policy of Armenia*, Brussels, pg. 43.

Renewable Resources and Energy Efficiency (R2E2) Fund, an autonomous entity established by Government Decision No. 799-N of 28 April 2005, promotes the use of renewable energy.⁴⁸

4.66. Under the Law on Energy (Article 17), the PSRC is the regulator, with wide-ranging responsibilities which include:

- Setting tariffs for electricity generation, transmission, and distribution, as well as tariffs for system operators, electricity market operator services, and other system services in the energy sector;
- Setting tariffs for natural gas, thermal energy and electricity supplied to consumers by the universal supplier, and tariffs for services to consumers provided by licensees;
- Licensing, in accordance with the procedure established by the Commission, and requesting from licensees and licence applicants all information and data necessary for the Commission to issue a licence, control its conditions, set tariffs, and settle disputes or other issues;
- Establishing rules of supply and use of thermal energy and natural gas, and approving market rules with the consent of the body authorized by the Government;
- Establishing mandatory provisions or model forms for energy and natural gas supply, and service contracts to be signed between energy sector licensees, and registering contracts between licensees in the energy sector, as well as import and export contracts pursuant to the procedure established by the Commission;
- Establishing model electricity, thermal energy and natural gas supply and service provision contracts, or mandatory provisions thereof, between licensees and consumers, and ensuring their implementation;
- Conducting discussions regarding disputes between licensees, inquiries and complaints by consumers regarding the supply of electricity, thermal energy and natural gas, and making decisions and/or clarifications;
- Setting minimum quality requirements for services provided to consumers by licensees;
- Giving consent to licensees' investment programmes, in order to decide whether or not the investments may be included in future tariffs;
- Cooperating with the authorized government body to enhance electrical energy capacity, cross-border trade and to expand cross-border cooperation in the energy sector; and
- Approving indicators for the safety and reliability of the power system developed by the electricity system operator with the consent of the body authorized by the Government (according to the amendments to the Law on Energy which entered into force on 1 July 2018).

4.67. As the single-buyer, the ENA purchases electricity from generators under power-purchase agreements (PPAs) at prices regulated by the PSRC. Under the Law on Energy, regulated prices should be based on estimates of the revenue required for power sector companies. The calculation includes several factors, including operation and maintenance costs, costs related to environmental standards, loan service costs, and reasonable profit. Following a request from the PSRC or the licensed power producer, the regulated prices may be reviewed every six months, although the PSRC has the right to set tariffs for a longer period if considered necessary for investment security. Tariffs for transmission, distribution, and settlement and systems operations are also based on the revenue requirement.⁴⁹ The actual purchase price varies from one generating plant to another, for example the price (excluding VAT) since 1 August 2016 varied from AMD 5.647 per kWh for ANPP to AMD 31 per kWh for Hrazdan TPP.⁵⁰

⁴⁸ Ministry of Energy Infrastructures and Natural Resources online information. Viewed at: <http://www.minenergy.am/en/page/410>. ENA online information. Viewed at: <http://www.ena.am/AboutUs.aspx?hid=38&lang=2>.

⁴⁹ Kochnakyan, A., Balabanyan, A., Antmann, P., Ruggeri Kaderchi, C., Olivier, A., Pierce, L., and Hankinson, D. (2013), *Republic of Armenia: Power Sector Tariff Study*, World Bank Report No. ACS4845.

⁵⁰ ENA (2017), *Report – 2017 first half-year*, pg. 14. Viewed at: <http://www.ena.am/AboutUs.aspx?id=13&lang=2>.

4.68. For renewable energy, since 2007, the PSRC has set tariffs to encourage investment. Under the PPAs for new generators, the ENA purchases electricity at feed-in tariffs at guaranteed prices for 15 or 20 years; the prices are adjusted each year for inflation and changes in the exchange rate. For the period 1 July 2018 to 1 July 2019, the feed-in tariffs will vary from AMD 10.605 per kWh for small hydroplants on drinking water pipelines, to AMD 42.845 per kWh for wind power stations (Table 4.9). The generation of electricity from renewable sources has increased considerably over the past few years, with more investments planned, including in geothermal as well as solar, wind and hydropower. The policy objective is to have at least 220 MW from non-hydro renewable sources by 2036.

Table 4.9 Feed-in tariffs for electricity from renewable sources

AMD per kWh

	2012	2013	2014	1 Jan 2015 1 Jul 2015	1 Jul 2015 1 Jul 2016	1 Jul 2016 1 Jul 2017	1 Jul 2017 1 Jul 2018	1 Jul 2018 1 Jul 2019
Small hydroelectric								
Natural water flows	19.551	20.287	21.061	21.168	23.631	23.753	23.805	23.864
Irrigation systems	13.033	13.523	14.039	14.110	15.751	15.832	15.867	15.906
Natural water pipelines	8.690	9.017	9.361	9.408	10.502	10.556	10.579	10.605
Wind	34.957	35.339	37.007	45.600	42.426	42.645	42.739	42.845
Biomass	37.447	38.856	38.856	40.542	42.426	42.645	42.739	42.485
Solar	n.a.	n.a.	n.a.	n.a.	n.a.	42.845	42.739	42.645

Note: Tariffs for electricity from renewable energy sources are set by the PSRC for the year ending 30 June, and are reviewed at least annually.

n.a. Not applicable.

Source: R2E2 Fund online information. Viewed at: <http://r2e2.am/en/tariffs/>.

4.69. Retail tariffs are set by the PSRC and, after several years of increases, have been reduced since August 2015 (Table 4.10). Low-income households qualify for the lower prices of AMD 40 and AMD 30 per kWh for peak (day) and off-peak (night) electricity, respectively.

Table 4.10 Retail tariffs for electricity

AMD per kWh (including VAT)

	1 Aug 2014	1 Aug 2015	1 Aug 2016	1 Feb 2017
110 kV				
Day	32.85	37.28	34.70	33.48
Night	28.85	33.28	30.70	29.48
35 kV				
Day	32.85	39.78	37.20	35.98
Night	28.85	35.78	33.20	31.98
6 (10) kV				
Day	38.85	45.78	43.20	41.89
Night	28.85	35.78	33.20	31.98
0.38 kV and residential				
Day	41.85	48.78	46.20	44.89
Night	31.81	38.78	36.20	34.98
Socially vulnerable households				
Day	n.a.	n.a.	n.a.	40.00
Night	n.a.	n.a.	n.a.	30.00

n.a. Not applicable.

Source: PSRC online information. Viewed at: <http://www.psrc.am/am/sectors/electric/tariffs>.
International Energy Charter (2017), *In-Depth Review of the Energy Efficiency Policy of Armenia*, Brussels, pg. 51. Energy Charter Secretariat (2015), *In-depth review of the investment climate and market structure in the energy sector of the Republic of Armenia*, Brussels, pg. 57.

4.70. Under the 2017 Action Plan, approved by the Government, and the Law on Making Amendments to the Law on Energy of 2018 (which entered into force on 1 July), Armenia will pass from the single-buyer model to a more liberal model with independent suppliers, traders and large users of electricity having opportunities to access the electricity market

4.3 Services

4.3.1 Telecommunications and Information Technology

4.3.1.1 Sector features

4.71. Since the mid-2000s, the Armenian mobile and Internet service provider (ISP) market has become increasingly diverse, with users able to choose from three mobile service operators and many ISPs, half of which are foreign-owned. During the review period, Internet coverage and mobile phone subscriptions continued to increase, with the number of Internet subscribers exceeding 2.6 million, and the number of mobile phone subscriptions at nearly 3.5 million. At the same time, tariffs have continued to decrease (Table 4.11). At the end of 2017, public electronic communications networks and Internet access were available in one form or another for all population centres (settlements/localities). All three current mobile operators offer 2G, 3G+, and 4G+ networks, with 4G/LTE services available in 90% of settlements/localities.

Table 4.11 Basic data on telecommunications and information technology (2010-17)

	2010	2011	2012	2013	2014	2015	2016	2017
Number of telecom service subscriptions '000								
Fixed telephony service	609	601	599	592	582	562	532	501
Mobile telephony service	3,865	3,211	3,323	3,346	3,459	3,465	3,435	3,489
Internet access service	1,920	1,819	1,914	2,036	2,084	2,200	2,412	2,624
Wholesale Internet traffic and tariffs								
Wholesale Internet traffic imported to the country (Mbps)	10,547	26,050	46,942	76,000	87,897	161,524	331,000	379,000
Average tariff wholesale Internet traffic in the country (AMD per Mbps)	66,000	24,000	9,000	7,600	5,200	4,066	3,000	1,400
Termination rates for interconnection services between fixed and mobile networks AMD/minute								
Rate	16.9	13	11.4	11.4	11.4	10.4	9.4	9.4

Source: Data received from the authorities.

4.72. According to the Public Services Regulatory Commission (PSRC), there are 163 ISPs in Armenia, which include companies that operate on public electronic communication network licences, as well as companies that operate on simple notifications for Internet access service provision.⁵¹ Among them, 105 actually provide Internet access services on the market, and the four leading operators, including three integrated fixed and mobile network operators, account for 98% of the market for fixed and mobile Internet access in terms of their shares in subscribers, and 96% of the total revenue from Internet services. The regulatory authorities primarily focus on companies with significant market power, one of which is Armenian, while the other three are foreign-owned.

4.73. The information and communication technology (ICT) sector focuses on software development, industrial computing, electronics, and the production of semi-conductors. The sector is important due to its share in GDP, the continued growth in the number of companies, employment and total turnover. According to the authorities, the information technology (IT) sector (which includes computer programming, consultancy and related activities, data processing, hosting and related activities, and web portals) grew by 39% in 2016, with turnover valued at US\$36.2 million in 2016. Another report stated that total revenue from the information and

⁵¹ The four operators are Ucom, Armental (Beeline), Vivacell-MTS, and Rostelecom.

telecommunications technologies sector, which consists of the software and services sector and the ISP sector, reached US\$765.1 million in 2017, a 37% increase since 2015.⁵²

4.3.1.2 Telecoms market structure

4.74. The telecommunications market is represented by 170 companies providing services such as wired telecommunication services, wireless telecommunication services, and web hosting services, providing mobile and fixed telephony, cable and wireless Internet, and IT infrastructure (web hosting).

4.75. Significant fixed-line operators include VEON Armenia, Ucom, and GNC-ALFA (Rostelecom). In the mobile communications market, Armenia has three main operators, with MTS Armenia being the largest.

4.76. The largest fixed-line company is the incumbent telecommunication operator, VEON. Since 2007, it has been wholly owned by VEON Ltd., a global provider of connectivity and Internet services headquartered in Amsterdam. VEON Armenia, using the trade name Beeline, provides mobile and fixed telephone and Internet services throughout Armenia. In Q4 2017, it had 134,000 fixed-line Internet subscribers.

4.77. While VEON Armenia held a monopoly position for years, it began to lose market share in 2005 when MTS Armenia entered the market and began to offer mobile phone and Internet services under the brand name VivaCell-MTS. MTS Armenia is owned by Mobile TeleSystems (MTS), one of the largest mobile operators active in Russia and the CIS. It is now the largest mobile Internet provider in Armenia. In Q4 2017, around 1.4 million people were using the company's Internet services via mobile phones. VEON Armenia is now the second largest mobile Internet provider.

4.78. The third largest mobile Internet provider is the local company, Ucom, which originally started its activities in 2009 as an alternative fixed-line telecommunication operator. In 2013, it was issued a radiofrequency usage authorization in the 800 Mhz band, allowing its entry into the mobile communications market. In 2015, Ucom acquired Orange Armenia from France Telecom, and started to provide mobile communication services. It has been offering triple-play and quad-play convergent package services, providing customers with access to a full range of Internet Protocol Television (IPTV), and fixed and mobile voice and Internet services.

4.3.1.3 Regulatory framework

4.79. The Ministry of Transport, Communication and Information Technologies is responsible for developing policy and preparing draft legislation. The main legal basis for electronic communications regulation is the Law on Electronic Communication of 2005. This Law sets out the functions of the Ministry of Transport, Communication and Information Technologies and of the regulator, the PSRC, which is a multi-sector regulator (for energy, water supply and telecom services) established by the Law on Public Services Regulation of 2003. This Law defines the PSRC's authority, mechanisms of commissioners' appointments and budgeting principles (Section 4.2).

4.80. The PSRC is responsible for licensing, market monitoring, and surveillance of the companies involved. It is an autonomous body funded by fees from the regulated entities. In addition, the State Commission for the Protection of Economic Competition is responsible for competition issues; the authorities have indicated that there have been no competition cases recently.

4.81. The telecom sector is regulated through:

- Law No. HO-176-N, 2005 on Electronic Communication;
- Law No. HO-18-N, 2003 on Public Services Regulatory Body; and

⁵² Enterprise Incubator Foundation (2017), *State of the Industry Report: Information and Telecommunication Technologies Sector in Armenia*, December. Viewed at: <http://www.eif.am/arm/researches/report-on-the-state-of-the-industry/>.

- Law No. HO-193, 2001 on Licensing.

4.82. In addition, secondary legislation includes numerous orders and decrees, for example:

- Order No. 71-N of 28 February 2008 of the Minister of Transport, Communication and Information Technologies on Approval of the Frequency Spectrum Chart of the Republic of Armenia (last amended 24 August 2017);
- PSRC Decision No. 187-N on the Regulation of Traffic Exchange Between Public Electronic Communication Networks Operators Establishing for Data Transmission and Internet Efficiency Services;
- PSRC Decision No. 169-N on Radiofrequency Usage Authorizations;
- PSRC Decision No. 272-N on Licensing Regulations; and
- PSRC Decision 235-N on Number and Code Usage Authorizations.

4.83. As noted in the previous Report, Armenia's GATS Schedule of Commitments covers virtually all basic and value-added services, for which it has agreed, with a few exceptions (i.e. reservations of monopoly rights), to impose no limitations to market access or national treatment for the first three modes of supply.⁵³ The GATS Schedule incorporates, under additional commitments, the telecommunications Reference Paper negotiated in the context of the extended negotiations.⁵⁴ According to the authorities, Armenia has implemented the provisions of the WTO Basic Telecommunications Reference Paper by incorporating them into the Law on Electronic Communication, and by gradually implementing these provisions.

4.84. Under Article 10 of the Law on Electronic Communication, the PSRC cannot refuse a licence to an applicant that meets all the requirements. Most of the players on the market have foreign participation, and some are wholly foreign owned, including two mobile and one major broadband operator (see above).

4.85. As noted in the previous Report, all providers of public telecommunication networks and services are required to obtain a licence from the PSRC before starting activities.⁵⁵ The allocation of the radio-electric spectrum is carried out via authorizations issued by the PSRC. It must act upon applications within six weeks of receipt, but it may, with notice to the applicant, extend this period for an additional three months. A licence is granted for 10 years, and may be renewed provided the licensee has operated within all the conditions of the original licence.⁵⁶ Although licences may not be transferred or sold to a third party, the control over the company possessing a licence may be transferred to a third party upon approval from the PSRC.

4.86. Decisions of the regulator may be appealed to the courts for judicial review in accordance with the Law on Public Services Regulatory Body and the Law on Electronic Communication. Any court reviewing decisions of the regulator is required to verify whether these decisions were adopted through proper procedures. However, the court may not substitute its judgment for the regulator's decision, and must defer to any interpretation of the law by the regulator, provided the regulator's decision is consistent with prior judgments on similar cases and contains no inconsistencies. The court may hold unlawful and set aside regulator's actions, decisions, and conclusions only in certain situations, such as when the courts find they are: arbitrary or discriminatory; contrary to constitutional rights, powers, privileges or immunity; etc. There have been no appeals to the courts regarding the decisions of the regulator.

4.87. The provision of telecom networks and services, as regulated by the Law, and licence conditions provided by the PSRC, include:

- Licensing of activity;
- Regulation of healthy competition;

⁵³ WT/TPR/S/228/Rev.1, 22 April 2010, Section VI(4)(iii)(b).

⁵⁴ WT/ACC/ARM/23/Add.2, 6 December 2002.

⁵⁵ WT/TPR/S/228/Rev.1, 22 April 2010, Section VI(4)(iii)(b).

⁵⁶ Chapter 3 of the Law on Electronic Communication of 8 July 2005.

- Organization of uses of radio frequencies; and
- Other regulatory requirements as set out in the legislation.

4.88. In accordance with the Law on Electronic Communication (Article 33), one of the duties of an operator is to provide for interconnections with other operators. This is regulated by interconnection contracts negotiated between the parties, although the Law provides minimum requirements for these contracts, and charges for interconnection and/or network access are regulated by Article 37. Fees for interconnection are based on a reasonable allocation of the service, taking into account: costs incurred to ensure equal interconnection; expenses arising from the performance of the interconnection requirements; reasonable capital expenditure; and a reasonable allocation of expenses in the future. Disputes related to interconnection and access matters are settled by the PSRC.

4.89. Provision of retail fixed telephony services by the fixed-line incumbent operator, VEON Armenia, is subject to regulatory price control by the PSRC. In particular, the PSRC has set and oversees price caps for certain types of retail fixed telephony services because VEON Armenia has a dominant position in the fixed telephony services market.

4.90. According to the authorities, no universal service obligation is imposed on any telecommunication operator, due to broad technological diversity, ubiquitous access and the affordability of communication services in the country. In addition, there is full geographical coverage of both fixed and mobile communication services, which the authorities consider to be both accessible and affordable for the general population.

4.91. In 2013, the PSRC adopted a decision that introduced a mobile number portability (MNP) service, whereby consumers may change their mobile operator without changing the number or code they currently use. The MNP service is fully operational among three mobile communication operators, and is used by consumers without limitations.

4.3.1.4 IT trends

4.92. Under the Law on State Support for Information Technology Sphere, newly established IT companies may be eligible for exemption from profit tax and for a 10% income tax rate. These incentives are offered to new companies with fewer than 30 employees for a period of five years or less. A seven-member certifying commission determines eligibility for these privileges. At end-2017, it was reported that 429 start-ups and new companies were eligible.⁵⁷ In addition, under 2016 tax legislation, and effective beginning in 2018, research and development (R&D) activities corresponding to criteria to be defined by the Government will be considered a VAT-exempt transaction.

4.93. In addition, the authorities have actively supported the growing IT industry and, with the support of the World Bank, the Ministry of Economy established the Enterprise Incubator Foundation (EIF) in 2002 to improve the competitiveness of Armenian companies. The EIF administers several projects, often in cooperation with private, national and international agencies, to support technology business incubators and IT development.⁵⁸

4.94. Employment in the ICT sector has also increased during the review period. The sector is considered to have a comparative advantage, as it provides a productive low-cost labour force which has attracted foreign investors. The number of workers employed in the sector was 15,350 in 2017, an increase of 21% since 2015.⁵⁹

4.95. During the review period, the number of local start-ups and foreign company branches increased, with 90% of companies in the sector having been registered between 2000 and 2017.⁶⁰ The number of companies peaked in 2017 due to the enforcement of the legal package related to

⁵⁷ EIF (2017), *State of the Industry Report: Information and Telecommunication Technologies Sector in Armenia*, December. Viewed at: <http://www.eif.am/arm/researches/report-on-the-state-of-the-industry/>.

⁵⁸ EIF online information. Viewed at: <http://www.eif.am/eng/>.

⁵⁹ EIF (2017), *State of the Industry Report: Information and Telecommunication Technologies Sector in Armenia*, December, p.29. Viewed at: <http://www.eif.am/arm/researches/report-on-the-state-of-the-industry/>.

⁶⁰ U.S. Department of Commerce (2017), *Country Commercial Guide, 2017*, online information. Viewed at: https://www.export.gov/article?series=a0pt0000000PATBAAW&type=Country_Commercial_kav.

state support for the ICT sector, which defined tax incentives for start-up companies. An estimated 429 ICT companies operate in Armenia, growing at an average annual rate of 10%, with the majority based in Yerevan.

4.96. Armenian ICT companies specialize in software development and semiconductor design, customized software and outsourcing, financial software, multimedia, web design, information systems, and system integration. It has made significant advances in semiconductor design, which is registered as intellectual property. However, most companies in the ICT sector specialize in software development and, in 2017, the total turnover of the software and services industry amounted to around US\$612.7 million, with an average annual growth of 20%. During the review period, the average annual growth in the industry amounted to 29.8%.⁶¹

4.3.2 Financial Services

4.3.2.1 Features

4.97. During the review period, the financial and insurance services' contribution to gross value added increased from 4.1% in 2010 to 5.4% in 2017 (Table 4.12). According to the Central Bank of Armenia (CBA), as of the end of 2017, asset distribution within the financial sector included: banks, 85.5%; credit organizations, 9.3%; insurance companies, 1.0%; investment companies, 1.3%; pension funds, 2.1%; and other financial institutions, 0.9%.

Table 4.12 GDP by economic activity and employment, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
GDP by economic activity, at constant price (%age change)								
Financial and insurance activities	10.6	23.5	19.9	7.8	13.7	-3.9	8.9	17.7
Gross value added by economic activity, at current basic price (%)								
Financial and insurance activities	4.1	4.5	4.5	4.5	4.8	4.4	4.9	5.4
Employment by sector (%)								
Financial, real estate, professional, scientific, technical, administrative and support activities	3.7	3.5	2.9	3.8	3.8	3.6	3.4	3.9

Source: Statistical Committee of the Republic of Armenia online information.

4.98. In 2017, the financial market comprised:

- 17 banks with 525 branch offices;
- 35 credit organizations with 205 branch offices;
- 7 insurance companies and 3 insurance brokers;
- Securities market participants, which included 9 investment companies, 3 investment fund managers, the Central Depository of Armenia, the NASDAQ OMX Armenia, 17 commercial banks, 35 credit organizations and 21 reporting issuers;
- 132 pawnshops;
- 183 exchange offices;
- 6 money transfer companies;

⁶¹ EIF (2017), *State of the Industry Report: Information and Telecommunication Technologies Sector in Armenia*, December, p.13. Viewed at: <http://www.eif.am/arm/researches/report-on-the-state-of-the-industry/>.

- 5 companies dealing with the processing and clearing of payment instruments and payment documents; and
- 21 reporting issuers.⁶²

4.3.2.2 Banking sector

4.99. The banking sector dominates the financial system, and remains well capitalized and liquid. Bank capitalization remains high, in part due to efforts by banks to comply with the CBA's increase in minimum capital requirements. In 2015, the CBA initiated policies to encourage consolidation in the banking system and, as of 1 January 2017, the minimum capital requirements for banks was increased from AMD 5 billion (US\$10.4 million) to AMD 30 billion (US\$62.5 million). As a result, the sector's capital adequacy ratio increased to 18.6% in December 2017 from 16.7% in December 2013 (Table 4.13), well above the minimum requirement of 12%.

4.100. The increase in the minimum capital requirement had the greatest effect on small and mid-sized banks, triggering mergers and acquisitions. In 2016, three banks were merged or acquired and new capital was injected, mostly by the Armenian diaspora and other foreign investors. The consolidation assisted in the provision of financing, and increased efficiency. As at end-2017, the top three banks by assets were Ameriabank (AMD 677.8 billion (US\$1.4 billion)), Ardshinbank (AMD 568.3 billion (US\$1.2 billion)), and Armbusiness (AMD 574.9 billion (US\$1.2 billion)). Fitch Ratings rated these three banks at B+/Stable.⁶³ The ratings reflect the banks' solid domestic franchises and adequate financial profiles, but also the high dollarization rates on both sides of their balance sheets, and their exposure to the operating environment. Banking services have expanded, notably in the increase of ATMs, bank branches, and loan and deposit accounts.

4.101. During the review period, banking sector dollarization remained high, leaving it exposed to currency-induced credit risks. As at end-2017, 63% of deposits and 64% of loans were denominated in U.S. dollars, while borrowers' incomes are mostly in the local currency. In addition to deposits, banks obtain some local currency funding through loans from international financial institutions channelled via the CBA, as the CBA borrows in foreign currency and on-lends to banks in local currency. By doing so, the CBA aims to support the de-dollarization of the economy and reduce risk.⁶⁴ However, foreign-currency lending was still high, at 62% of total lending in 2017.

4.102. In addition, funding constraints vary across banks. Banks generally have good access to foreign currency funding, both from domestic and external sources. However, some factors limit the supply of credit, *inter alia*: high market interest rates; low profitability; lack of local currency funding; and lack of long-term funding.

4.103. The profitability of the banking sector fluctuated during the review period but, at end-2017, the sector's profits were AMD 40 billion. In 2016, three banks and, in 2017, two banks incurred losses.

4.104. In 2017, the banking sector's liquid assets made up 32.2% of total assets, well above the regulatory threshold of 15% (Table 4.13). In addition, since 2008, the sector's loan-to-deposit ratio has remained consistently above 100%, reflecting a high level of funding from stable sources such as foreign banks, international organizations, the Government, and the CBA. Interbank lending is not a significant source of liquidity and the volume of operations is small. The CBA can provide short-term liquidity support via its main instruments, provided there is collateral availability. It imposes strict regulatory requirements on minimum liquidity levels.⁶⁵

4.105. The ratio of non-performing loans (NPLs) decreased to AMD 146.7 million (5.5% of gross loans) at end-2017 from AMD 162.2 million (9.7% of gross loans) at end-2016, reflecting the rapid lending growth in 2016 and balance sheet clean-ups prior to merger and acquisition deals due to

⁶² CBA online information on Financial Systems and Control. Viewed at: <https://www.cba.am/en/SitePages/fscintroduction.aspx>.

⁶³ Fitch Ratings (2017), *Armenian Banking Sector: Successfully Recapitalised, Challenges Ahead*. Viewed at: <https://www.fitchratings.com/site/search?content=research&request=armenia>.

⁶⁴ IMF (2013), *Republic of Armenia: Financial System Stability Assessment*, IMF Country Report No. 13/10, January. Viewed at: <http://www.imf.org/external/>.

⁶⁵ CBA online information on Financial Systems and Control. Viewed at: <https://www.cba.am/en/SitePages/finstabilityintroduction.aspx>.

the new capital requirements initiated by the CBA (Table 4.13). Furthermore, according to the CBA methodology, a loan is classified as non-performing one day after it became overdue, which is stricter than the IMF definition.⁶⁶

Table 4.13 Financial soundness indicators for the banking sector, 2013–17

	2013	2014	2015	2016	2017			
	Dec	Dec	Dec	Dec	Mar	June	Sep	Dec
Capital adequacy (%)								
Total regulatory capital to risk-weighted assets	16.7	14.5	16.2	20.0	20.0	19.5	19.1	18.6
Capital (net worth) to assets	15.3	13.6	14.7	16.2	16.3	16.1	16.1	15.7
Asset composition (AMD billion)								
Sectoral distribution of loans								
Industry (excluding energy sector)	222.7	266.3	225.9	227.1	229.6	230.8	244.9	256.4
Energy sector	95.4	112.4	111.2	162.2	194.7	210.8	203.0	191.4
Agriculture	118.2	150.2	148.9	140.1	143.9	152.4	144.3	144.2
Construction	109.4	124.2	106.6	102.8	108.3	118.7	125.6	143.8
Transport and communication	54.0	52.0	77.1	79.7	68.9	70.0	75.8	73.8
Trade/commerce	352.3	386.3	345.5	335.8	343.9	355.6	390.4	419.6
Consumer credits	365.6	451.5	423.1	434.2	451.2	466.6	472.6	511.4
Mortgage loans	143.2	172.4	179.0	183.7	182.4	186.2	191.3	209.0
Foreign exchange loans to total loans (% total)	63.8	67.5	66.7	64.6	64.1	64.4	64.6	63.5
Asset quality (AMD billion)								
NPLs	79.7	149.9	166.0	162.2	166.0	155.6	184.7	146.7
Earnings and profitability (%)								
ROA (profits to period average assets)	1.9	1.0	-0.5	1.1	1.1	1.3	1.2	1.4
ROE (profits to period average equity)	12.0	6.4	-3.5	7.0	6.4	7.9	7.6	7.7
Liquidity (%)								
Liquid assets to total assets	29.1	25.1	28.0	32.5	32.0	32.2	32.2	32.2
Foreign exchange liabilities to total liabilities	64.1	65.4	65.7	62.6	61.3	61.1	61.2	60.0
Sensitivity to market risk (%)								
Gross open positions in foreign exchange to capital	3.7	14.6	6.5	6.9	4.9	4.2	3.8	4.0

Source: CBA.

4.3.2.2.1 Policy, institutions and regulatory framework

4.106. Since 1 January 2006, the CBA has been responsible for the regulation and supervision of the financial sector. The primary motivation for creating a single supervisory authority was to oversee general risks in the financial market. The authority and responsibilities of the CBA are established under the Law on Central Bank of Armenia which was last amended in 2018. The main tasks of the CBA are to:

- Maintain the stability and normal activity of the financial system, including creating the conditions necessary for the stability, liquidity, solvency and functionality of the banking system;
- Create and develop an effective payment and settlement system;
- Issue the national currency and organize and regulate the money circulation;
- Organize and regulate a framework for combating money laundering and terrorism financing;
- Provide essential conditions for the protection of investors in securities, for the formation and retention of equitable quotation in the securities market, for the regulation of normal, fair, transparent, trustworthy activities of the securities market and its development; and
- Provide conditions for consumer rights protection.⁶⁷

⁶⁶ Fitch Ratings (2017), *Armenian Banking Sector: Successfully Recapitalised, Challenges Ahead*. Viewed at: <https://www.fitchratings.com/site/search?content=research&request=armenia>.

4.107. In addition to the Law on Central Bank of Armenia, the main legislation regulating the banking sector is the Law on Banks and Banking, as well as other laws (such as the Law on Bankruptcy of Banks, Credit Organizations, Investment Companies, Investment Fund Managers and Insurance companies; the Law on Bank Secrecy; the Law on Guaranteeing Compensation of Bank Deposits; the Law on Consumer Credits; the Law on Attraction of Bank Deposits; the Law on Financial System Mediator; the Law on Funded Pensions; the Law on Covered Mortgage Bonds; the Law on Mortgage Credit; the Civil Code; and the Law on Asset Securitization and Asset Backed Securities). These are supported by regulations issued by the CBA which have statutory basis.

4.108. Within the CBA there are several departments responsible for methodological and development aspects of the financial sector, including:

- The Financial Supervision Department, which is responsible for carrying out banking supervision;
- The Financial System Stability and Development Department;
- The Financial System Regulation Department; and
- The Law Department.⁶⁸

4.109. In addition, the Licensing and Supervision Committee, which includes the CBA Chairman, Deputy Chairmen and other senior officials, is a consulting body which regularly discusses issues related to financial sector regulation and supervision, and makes recommendations to the CBA Board and Chairman. The Committee is not defined by any laws, is not a structural body of the CBA, and does not have any decision-making authority.

4.110. Banking supervision is carried out through on-site inspections and daily off-site supervision. On-site inspections are scheduled according to annual plans which are prepared on a regular basis. In December 2017, the CBA adopted a risk-based supervision manual, giving supervisors the authority to conduct risk-based supervision of banks. The manual covers both on-site supervision and off-site analysis issues. The analysis includes a wide-ranging toolkit, such as the risk matrix, where significant activities of each bank are assessed for their inherent risk, and the quality of risk management, as well as capital, earnings and liquidity are assessed as risk cushions. As a result, for each bank, an overall (composite) risk rating is provided. As the new supervisory manual enters into force, the inspections in banks are being planned on a risk-based principle, taking into account the risk profile and systemic relevance of the banks, as well as system-level risks.⁶⁹

4.111. Progress has also been made in implementing the recommendations of the 2014 Safeguards Assessment by the IMF. The CBA has adopted a charter for its board members that clarifies their roles and responsibilities, and has also strengthened its oversight and control of entities engaged in financial sector development and infrastructure in which the CBA holds equity investments. In addition, in 2016, the CBA included in its annual report the objectives, risks, and risk mitigation efforts associated with these investments.⁷⁰

4.112. The increase in the minimum capital requirements to AMD 30 billion was intended to allow the banks to issue bigger loans at lower interest rates, and to strengthen the banking system. According to the CBA, greater equity should result in larger banks, while the consolidation of banks should result in lower service fees, facilitate reductions in interest rates, and improve the quality of services provided. According to the authorities, the change is also intended to contribute to

⁶⁷ CBA (2014), *Strategy 2015-2017*, CBA Board Resolution No. 313-A, 18 November. Viewed at: https://www.cba.am/EN/analyticalmaterialsresearches/Razm_15_17_eng.pdf.

⁶⁸ CBA online information on Financial Systems and Control. Viewed at: <https://www.cba.am/en/SitePages/fscintroduction.aspx>.

⁶⁹ CBA online information on Financial Systems and Control. Viewed at: <https://www.cba.am/en/SitePages/fscintroduction.aspx>.

⁷⁰ IMF (2017), *Republic of Armenia – 2017 Article IV consultation and Fifth and Final Review Under the Extended Arrangement*, IMF Country Report No. 17/226.

innovation in the banking system, and a broader spectrum of services, as there would be more opportunities for investment.⁷¹

4.113. To align existing regulations with the amendments to the Constitution, changes and supplements were made to the Law on Central Bank of Armenia, in particular, the procedures and conditions for the appointment of CBA management bodies (the CBA Chairman and the CBA Board), and the principles of cooperation with state bodies in the field of competition and statistics. In addition, the goal of financial stability was added to the functions of the CBA, on an equal footing with the existing goal of price stability. The internal audit regulations of the CBA were also improved, in line with best practices of international audit principles. Furthermore, the laws were amended to simplify the procedure of information exchange among supervisory authorities, to exchange information in the absence of international treaties while protecting the confidentiality of information.

4.114. In addition, in October 2017, the National Assembly passed amendments to the Law on Banks and Banking, giving the CBA powers to define stricter prudential standards for systemically important banking institutions, to establish permissible thresholds (buffers) above (or below) the ratio limits of the key prudential standards, and to use a wide range of macroprudential tools (loan-to-value (LTV) ratio, debt-to-income (DTI) ratio, leverage ratio, etc). These standards will be phased in, to avoid imposing an excessive burden on banks that are already adjusting to comply with the new minimum capital requirement. To better monitor and assess vulnerabilities in the banking sector, the CBA continues to enhance stress-testing practices.

4.115. Further changes and supplements have also been made to the following laws: the Law on Legal Acts; the Law on Budget System; the Law on Housing Mortgage Credit; the Law on Consumer Crediting; the Law on Currency Regulation and Currency Control; the Law on Bankruptcy of Credit Organizations, Investment Companies, Investment Fund Managers and Insurance Companies; and the Law on Insurance and Insurance Activities; as well as the Civil Procedure Code.⁷²

4.116. According to the authorities, in order to improve the competition and regulatory framework, in March 2018, the National Assembly passed amendments to the Law on Protection of Economic Competition.

4.117. The shareholder structure of the banks varies, with non-resident shareholders present in all of them. Non-resident participants, both legal entities and individuals, are mainly from the Russian Federation, Switzerland, Iran, Lebanon, Liechtenstein, France, the United Kingdom, the United States, and Kazakhstan. Several international organizations (e.g. the International Finance Corporation (IFC), the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), and the European Bank for Reconstruction and Development (EBRD)) have shares in several Armenian banks. Non-residents accounted for 62% of aggregate equity in 2016, down from 75% in 2011. The banking sector shows relatively low concentration. The top five banks hold 53% of total banking sector assets.

4.118. In terms of market access, there are no restrictions on ownership, participation of foreign banks, or of other foreign investors in Armenia's banking sector. According to legislation, foreign banks may establish a subsidiary, a branch or a representative office, and subsidiaries of foreign banks are allowed to provide the same types of services as domestically owned banks. Beyond Armenia's GATS commitments, branches of foreign banks may accept deposits from Armenian nationals. In practice, there are no restrictions on the provision of cross-border banking services. Domestically established banks and corporations, as well as retail consumers, are allowed to borrow from, and deposit with, foreign banks located abroad. The only practical requirement is that foreign banks obtain a licence with the CBA to provide cross-border services that involve the establishment of a bank branch or subsidiary in Armenia.

4.119. In terms of foreign exchange, residents and foreign nationals can hold foreign currency accounts, and import, export and exchange foreign currency relatively freely in accordance with

⁷¹ CBA online information on Armenia's financial system development. Viewed at: <https://www.cba.am/en/SitePages/achfinancialbankingsystem.aspx>.

⁷² CBA online information on Armenia's financial system development. Viewed at: <https://www.cba.am/en/SitePages/achfinancialbankingsystem.aspx>.

the Law on Currency Regulation and Currency Control. There are no limitations on the conversion and transfer of money, or the repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management or technical service fees. Most banks can transfer funds internationally within two to four days. Armenia maintains the Armenian dram as a freely convertible currency under a floating exchange rate regime, which is also reflected in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions of 2016.⁷³ At the end of 2014, the CBA increased the reserve requirement for banks, in line with the implementation of conventional monetary policy instruments, to prevent market panic and stabilize inflation expectations.

4.120. Armenia has also made substantial market access and national treatment commitments on financial services under the GATS. The three most important restrictions concern: (i) the cross-border supply of insurance services (excluding those applied to marine and aviation transport), which was left unbound; (ii) the prohibition on branches of non-resident banks to accept deposits from Armenian nationals - according to Armenian legislation, this restriction was liberalized and currently there is no such limitation; and (iii) the reservation of settlement and clearing services for securities to Armenia's state-owned central depository.

4.3.2.3 Insurance

4.121. Insurance companies represent 1.1% of the total assets of the financial sector. In 2017, insurance companies held total assets amounting to AMD 49.5 billion; total liabilities amounting to AMD 30.3 billion; and total capital amounting to AMD 19.2 billion.⁷⁴ More than a third of insurance companies' assets are held as deposits in banks. Receivables on direct insurance (12.5%) and securities sold under repo agreements (5.4%) are two large items on the balance sheets.

4.3.2.3.1 Policy, institutions and regulatory framework

4.122. The legal framework governing the insurance sector is largely based on the 2007 Law on Insurance and Insurance Activities (amended in 2017) and prudential regulations issued by the CBA. The Law regulates the conduct of private insurance and insurance intermediation activities including licensing, ongoing supervision, and auxiliary insurance services. Armenia has a sound and clearly defined financial sector policy framework that facilitates insurance supervision. Ongoing offsite surveillance and on-site inspections are comprehensive and thorough, facilitated by well-documented internal policies and manuals to promote consistency in supervisory decisions. The CBA regularly updates the regulatory framework to reflect emerging international best practices, for example, the solvency regime for insurers was strengthened in 2010 to adopt a more risk-based and calibrated approach.⁷⁵

4.123. In addition, in 2010, the National Assembly passed the Law on Compulsory Insurance against Civil Liability in Respect of the Use of Motor Vehicles. The primary objective of the Law is to make sure there are effective procedures in place that protect the rights of parties injured as a result of traffic accidents, and to call for payment of insurance indemnities.⁷⁶ There are also other types of mandatory insurance, for example, professional liability insurance for insurance intermediaries and notaries. Meanwhile, according to Government Decision No. 375 of 27 March 2014, since 1 October 2017, medical assistance within the social package is provided through insurance. Beneficiaries of the package are civil and public servants, persons holding public positions, persons holding administrative and professional positions in state organizations in the sectors of education, culture and social protection and their immediate family members.

4.124. In 2017, amendments and supplements were made to Law on Bankruptcy of Credit Organizations, Investment Companies, Investment Fund Managers and Insurance Companies, the Law on Insurance and Insurance Activities, and the Civil Procedure Code. These amendments were

⁷³ IMF (2016), *Annual Report on Exchange Arrangements and Exchange Restrictions 2016*, Washington, October.

⁷⁴ CBA online information on Armenia's financial system development. Viewed at: <https://www.cba.am/en/SitePages/achfinancialbankingsystem.aspx>.

⁷⁵ IMF (2013), *Republic of Armenia: Financial System Stability Assessment*, IMF Country Report No. 13/10, January. Viewed at: <http://www.imf.org/external/>.

⁷⁶ CBA online information on Armenia's financial system development. Viewed at: <https://www.cba.am/en/SitePages/achfinancialbankingsystem.aspx>.

adopted to align existing regulations with the constitutional amendments and with international criteria for the insurance regulation and supervision framework criteria.⁷⁷ The Law on Insurance and Insurance Activities and Law on Bankruptcy provide for the orderly exit of insurers on both voluntary and insolvency grounds. Policyholders (including ceding insurers) and legitimate beneficiaries have priority rights to the assets covering insurers' technical provisions in the event of insolvency.⁷⁸ The amendments to the Law on Insurance and Insurance Activities include:

- The definition of the concept of "systemically important insurance companies", and the ability of defining stricter prudential standards for them;
- The definition of the internal audit function was changed to be consistent with the internationally defined internal audit definition;
- Internal audit, external audit and responsible actuary protection mechanisms were put in place;
- The introduction of a procedure for presenting objections of policyholders in the case of life insurance portfolio transfer;
- The definition of insurance brokerage activities was changed to allow brokers to conduct insurance brokerage activity with foreign insurers and reinsurers in the case of reinsurance; and
- The inclusion of risk manager and compliance officers in the management staff of insurance companies, and the clearer definition of their functions.

4.125. In terms of market access, there are no foreign ownership restrictions in the provision of insurance services. Foreign insurance companies may establish subsidiaries, branches or representative offices in Armenia. There are no restrictions specific to foreign insurance companies, except those applied to representative offices, i.e. foreign insurance companies (and only those from WTO Member countries) may only provide cross-border supply of insurance services that cover maritime shipping, civil aviation, spaceship launching (including satellites), international freight carriage, and reinsurance risks.

4.126. Under the Law on Insurance and Insurance Activities, the CBA is the sole licensing authority, with powers to set and impose registration and licensing procedures. In addition, insurance intermediaries require a licence/permission, and may only engage in insurance intermediation with licensed insurance companies. Only legal entities may apply for a licence to provide insurance brokerage services, while both legal entities or sole entrepreneurs may apply for permission and registration as insurance agents. Professional qualification requirements apply to both national and foreign applicants, but there are no nationality restrictions for the provision of insurance intermediation activities.

4.127. The documents required by the CBA for registration and licensing are different for foreign and domestic insurance companies. However, the objectives of the licensing process seem to be the same. To a large extent, the CBA relies on information provided by the supervisory authority in the foreign company's home country. All applications must be reviewed by the CBA within 30 days of submission.

4.128. Insurance licences may be issued for one or several classes of insurance activity defined in Article 7 of the Law. However, the same insurance company cannot provide life and non-life insurance simultaneously. Nonetheless, the same investor may obtain two separate licences for two separate insurance companies to provide life and non-life insurance. A reinsurance company may be simultaneously engaged in the reinsurance of life and non-life insurance.

4.129. In 2017, the Law on Making Amendments and Supplements to the Law on Insurance and Insurance Activities envisages the following regulations:

⁷⁷ CBA online information on Armenia's financial system development. Viewed at: <https://www.cba.am/en/SitePages/achfinancialbankingsystem.aspx>.

⁷⁸ IMF (2013), *Republic of Armenia: Financial System Stability Assessment*, IMF Country Report No. 13/10, January. Viewed at: <http://www.imf.org/external/>.

- The concept of insurance companies having systemic significance has been defined. A company is considered to have systemic significance if the deterioration of the financial position, insolvency, bankruptcy or liquidation of that company may have a material adverse effect on the financial system and/or other sector(s) of the economy;
- Mechanisms for the protection of internal audit, external audit and responsible actuary have been introduced; and
- Policyholders' objection has been introduced in case of the transfer of a life insurance portfolio. Particularly, within two months after announcement of the intended transfer of the insurance portfolio, the policyholders, with whom the insurance contracts are envisaged to transfer to another company, may submit to the CBA their written objections on the transfer of the insurance portfolio.

4.3.2.4 Securities

4.130. Since the last Review, there have been several developments in the capital markets, and operators in the securities markets have increased. In 2017, operators included: 17 commercial banks as investment service providers; 9 investment companies; 7 insurance companies; 35 credit organizations; 21 reporting issuers; and 3 investment fund managers, from which 2 investment fund managers are licensed to carry out the management of mandatory pension funds. Each of the investment fund managers has control over three mandatory funds. In 2017, the six mandatory pension funds' net asset value amounted to AMD 105.6 billion, equivalent to about 1.9% of GDP.⁷⁹ At end-2017, investment companies had total assets amounting to AMD 64.3 billion; total liabilities amounting to AMD 54.5 billion; and total capital amounting to AMD 9.8 billion.⁸⁰ The share of foreign participation in domestic government bond markets has increased from 0.2% in 2015 to 2% in March 2017.⁸¹

4.131. During the review period, efforts were made to further develop capital markets, including by modernizing the settlement and depository system.

4.132. The securities market also incorporates the Central Depository of Armenia and the NASDAQ OMX Armenia, an organizer of foreign currency trade and securities trade auctions. At end-2017: the securities of 21 reporting issuers had been admitted for trading on a regulated market (NASDAQ OMX Armenia); and the total amount of bonds issued was AMD 92.2 billion and the total amount of shares was AMD 57.7 billion.⁸²

4.3.2.4.1 Policy, institutions and regulatory framework

4.133. The securities market is regulated by: the Constitution; international treaties; the Civil Code; the Law on Protection of Economic Competition; the Law on Administration and Administrative Procedures; the Law on Securities Market; the Law on Investment Funds; and the Law on Funded Pensions, as well as regulations and normative acts adopted pursuant to these laws. Ongoing developments in the financial sector called for further adjustments to the regulatory framework and, in 2010, the CBA introduced amendments and enhancements to the following financial sector laws: Funded Pensions; Investment Funds; Securities Market; the Civil Code; State Registration of Rights to the Property; Profit Tax; Record Keeping of Income Tax and Mandatory Funded Contributions; State Fees; Value Added Tax; Income Tax; and Limited Liability Companies, and, in 2012, the CBA introduced amendments to the laws on Banks and Banking; and Guaranteeing Compensation of Bank Deposits.

4.134. In 2016, the parliament passed a package of laws regulating the local financial markets and amendments to the Law on Securities Market. The new laws provided for the enforceability of

⁷⁹ CBA online information on Statistics of Financial Organizations. Viewed at: <https://www.cba.am/en/SitePages/statfinorg.aspx>.

⁸⁰ CBA online information on Armenia's financial system development. Viewed at: <https://www.cba.am/en/SitePages/fscsecurityintroduction.aspx>.

⁸¹ IMF (2017), *Republic of Armenia – 2017 Article IV consultation and Fifth and Final Review Under the Extended Arrangement*, IMF Country Report No. 17/226.

⁸² CBA online information on Armenia's financial system development. Viewed at: <https://www.cba.am/en/SitePages/fscsecurityintroduction.aspx>.

derivatives transactions, including netting, close-out netting and financial collaterals, and amendments to over 17 laws. It also introduced more than 15 new regulations to the financial legislation. The main objectives of securities regulation and supervision are to: protect investor rights and legitimate interests; maintain transparency and the sustainable and efficient development of the securities market; make sure a reliable and fair security pricing mechanism is in place; and reduce systemic risks in the securities market.

4.135. The CBA is also further developing domestic capital markets, and has proposed necessary legal, regulatory, and infrastructure reforms for ensuring the full enforceability/implementation of the International Swaps and Derivatives Association (ISDA) Master Agreements (including ISDA credit support documentation) in Armenia. The required laws were accepted in 2016.

4.4 Transport

4.4.1 Features

4.136. Transport, along with warehousing, contributed about 3% to GDP in 2017 and, along with storage, information and communication, about 5.6% (2017) to employment. Being a landlocked country, the economy depends on transport and cross-border access. However, exports can only be transported by air, or overland through Georgia or Iran, as the borders with Azerbaijan and Turkey are closed. On both routes through Georgia and Iran, the mountainous terrain poses additional challenges, and roads are often impassable in winter.

4.137. There is only one open international border for rail services, at Bagratashen. Beyond Georgia, rail freight must be transhipped at Poti or Batumi on the Black Sea. These issues result in high transport costs, particularly for traded goods, and expensive infrastructure development and maintenance. Therefore, the Government has given priority to the development of road and rail transportation. With regard to air transport, traffic has increased, and the Government has introduced and amended several policies during the review period.

4.138. According to the authorities, 28 million tonnes of freight were transported in 2017, an increase from 12 million tonnes in 2012. During the review period, road and air freight increased significantly, while rail freight decreased (Table 4.14).

4.139. While most freight is carried by road, the railway line to Georgia carries resource-based exports such as stones and mining products, and air transport is used for a limited set of items with a high value-to-weight ratio, such as fresh fruit, diamonds and jewellery.

Table 4.14 Overland transport, 2012-17

	2012	2013	2014	2015	2016	2017
Total freight ('000 tonnes)	12,094	12,316	10,158	11,053	20,484	27,640
<i>of which:</i>						
Rail	3,460	3,275	3,058	2,532	2,611	2,400
Road	6,840	7,320	5,384	6,865	16,249	23,597
Air	12.3	10.4	10.4	10.2	18.3	22.3
Freight revenue (AMD million)	54,136	60,895	60,433	48,297	66,287	..
<i>of which:</i>						
Rail	16,594	16,260	15,885	14,263	14,174	..
Road	33,837	42,190	42,673	34,034	52,112	..
Air	3,704	2,445	1,875	0.0	2.0	33.5
Total passengers (million)	249	241	226	209	206	200
<i>of which:</i>						
Rail	0.6	0.4	0.4	0.4	0.4	0.4
Motor vehicles	225.5	217.8	201.9	185.3	182.6	176.0
Air	1.8	1.8	2.1	1.9	2.1	2.5

.. Not available

Source: Data provided by Armenian authorities and Statistical Committee of the Republic of Armenia, *Statistical Yearbook of Armenia 2017*. Viewed at: <http://www.armstat.am/file/doc/99506088.pdf>.

4.140. The Ministry of Transport, Communication and Information Technologies (MOTCIT) is responsible for developing policies in the transport, communication, and information technologies sectors. The Law on State Budget defines the annual expenditures of the state budget, including

those allocated for investing in infrastructure. The Government's transport sector strategy is set forth in several documents, including the ADS 2025.

4.4.2 Roads

4.141. The main mode of transport is the road network, with a total of 7,570 km excluding urban roads. The network is divided into interstate roads, republican roads, and local roads. During the review period, road traffic increased not only in absolute terms, but also relative to total traffic. Cross-border cargo traffic expanded and, in 2017, over 84% of total cargo by weight was transported by road, compared to 57% in 2012 (Table 4.14).

4.142. Armenia's integrated budgeting system includes the ADS, annual medium-term expenditure framework submissions by the MOTCIT, and the annual state budget. The ADS calls for an increase in, and more efficient use of, public resources allocated to the maintenance and rehabilitation of roads. The priorities identified in the ADS for the transport sector include:

- Reconstruction of the north–south road, and of at least one road connecting each settlement with the rest of the country;
- Strengthening of road subsector management;
- Improvement of public transport services; and
- Development of eco-friendly transport.

4.143. The MOTCIT administers all interstate and republican roads, and delegates its road administration functions (including the collection of road and traffic data and the maintenance of roads) to the Armenian Road Directorate (ARD), a state-owned non-commercial organization, through annual contracts. Regional administrations (*marzes*) manage all local roads. Private companies provide road maintenance services under five-year contracts with the ARD and the *marzes*.

4.144. The main legislation for road transport is the Law on Road-Users Toll and the Automotive Roads Law. Under Government Decree No. 1720-N of December 2004, Armenia Roads SCJSC was restructured to form the Armenia Roads Directorate NCSO. The ARD operates under the MOTCIT. Its main functions are to: provide technical assistance to the Ministry on road construction and road use; monitor the condition of roads and traffic intensity; and prepare programmes for the rehabilitation of roads.

4.145. The Road Safety Strategy and the five-year action programme for Armenia and Yerevan city were approved by Decree No. 995-N of 13 August 2009. In February 2018, the MOTCIT submitted a project on Approving the Road Strategy of the Republic of Armenia. The Strategy is aimed at developing the road sector during 2018–2023, to improve regional interconnectivity, road safety measures and capacity development for relevant authorities and stakeholders, with the aim of reaching international road safety standards. The key issues in the Strategy are to address:

- Structural and territorial discrepancies in road infrastructure development;
- Inadequate access to transport services for a large amount of the population;
- Insufficient quality of transportation services and transport safety;
- Availability of sufficient financial resources for the development of roads; and
- Climatic risks and foreign political risks arising from Armenia's geopolitical position.

4.146. The Strategy aims to improve road safety measures on the M6 Vanadzor–Alaverdi–Georgia interstate road, under projects financed by the European Investment Bank (EIB) and the Asian Development Bank. It includes a grant from the EU's Neighbourhood Investment Facility (NIF) for road safety works and infrastructure improvements of accident black spots. In addition, the technical assistance aspect of the project envisages: road safety audits and inspections; technical supervision; road safety auditor training; a review of road design standards to align with EU standards and international best practice of road safety; a road safety campaign; and the identification of future road safety investments. Currently, the NIF grant agreement between Armenia and EIB is being approved.

4.147. The authorities have also initiated the North-South Road Corridor Project, passing through the towns of Bavra, Gyumri, Talin, Yerevan, Sisian, Qajaran and Meghri, to further expand the road network. The Corridor, once completed, will be 489 km long. It will also link with the East-West Highway in Georgia that leads to the ports of Poti and Batumi on the Black Sea, two key shipment points for Armenia. The estimated cost for the entire project is US\$3.1 billion. The first segment of the Corridor, from Artashat to Ashtarak, has been completed, and two sectors, from Ashtarak to Talin and Talin to Gyumri, are underway.

4.148. The Transport Projects Implementation Organization implements the Corridor Project and other road construction and rehabilitation projects, including those financed by international institutions. All maintenance activities (including reconstruction and rehabilitation) accounted for about 0.9% of GDP in 2017, including the ongoing North-South Road Corridor Investment Program. The ADS indicated that about 1.2% of GDP has been spent on road maintenance since 2015.

4.149. Most public bus services in Yerevan and secondary towns, as well as intercity routes, have been franchised to private operators on a route-by-route basis. Therefore, the private sector provides most road transport services (including international and urban transport services), and competition in the market for these services has been described as "robust".⁸³

4.150. Public bus services are provided in Yerevan and throughout Armenia (although frequency is limited). Foreign companies may provide public bus services. Like domestic companies, they must register and apply for one of the competitions held by the Yerevan Municipality for each new bus route. There are no foreign operators operating in the market. The authorities do not regulate public transportation prices. Most cities have taxi services; taxi drivers, irrespective of their nationality, must be licensed by the MOTCIT. Public transport and taxi services are not subsidized. The Government is looking at forming a single route network, aimed at providing a high quality and secure service in accordance with passenger flow requirements. Taxis operate under competition conditions, and there are currently no regulations for taxi prices.

4.4.3 Rail

4.151. Armenia's railways play an important role in transportation, with a completely electrified operational network of 703 km. However, the volume of cargo transported by rail has decreased, from 28.6% in 2012 to less than 9.4% in 2017 (Table 4.14). This is in contrast to road transportation, suggesting that long-distance road haulage has tended to displace rail. In absolute terms, road tonne-km has grown 41% per year, whereas rail has grown 2.7% a year.

4.152. There is only one railway operator, despite open access provisions. Rail services are operated by the South Caucasus Railway CJSC, a subsidiary of Russian Railways, under a 30-year concession awarded in 2008. On 13 February 2008, the authorities signed an agreement to transfer 100% of the state-owned Armenian Railways to Russian Railways. According to the agreement, the concession period is 30 years, with a possible extension for another 10 years by mutual agreement of the parties. In accordance with the terms of the tender, existing railway employees (4,300 people), except those of retirement age, were transferred to the South Caucasus Railway, with salary increases of up to 20%. South Caucasus Railway is among the five largest companies in Armenia.

4.153. The Railways Law expands on the principles for setting infrastructure usage fees, and offers guidelines on the procedures for setting tariffs and fees, mentioning non-discriminatory treatment as a key principle. According to the World Bank, "Limited competition in ground transportation for bulk cargo affects the cost of final products, particularly bread given that inadequately regulated prices for railway services are paid to transport wheat and there is no alternative transport due to its volume".⁸⁴

⁸³ Asian Development Bank (2014), *Armenia: Country Partnership Strategy (2014-2018)*, Section 6, pg. 1. Viewed at: <https://www.adb.org/documents/armenia-country-partnership-strategy-2014-2018>.

⁸⁴ World Bank (2013), *Republic of Armenia – Accumulation, Competition, and Connectivity*, Washington, April, pg. 47.

4.4.4 Air transport

4.154. Armenia has three international airports: Zvartnots in Yerevan, Shirak in Gyumri, and Erebuni in Yerevan. Both Zvartnots and Shirak are operated by Armenia International Airports CJSC, under a 30-year concession signed in 2001. Erebuni is a joint military-civilian aerodrome operated by the military.

4.155. Zvartnots is the main air gateway of Armenia, with flights to several hubs in Europe, the Middle East, and other destinations. During the review period, a new terminal building was built, capable of handling about 3.2 million passengers a year, which, according to the authorities, should accommodate growing demand until 2030. Total passenger traffic into and out of Zvartnots Airport increased by over 50% since 2011, with nearly 2.5 million people arriving and departing in 2017, while freight carried through the airport more than doubled to 22,324 tonnes (Table 4.15).

4.156. Shirak Airport is located in Gyumri, the second largest city of Armenia, in the Shirak region, 120 km from Yerevan. Total passenger traffic into and out of Shirak was about 100,000 in 2017, with 371 aircraft movements (Table 4.15). This Airport was recently exempted from certain taxes and, according to the authorities, may be particularly lucrative for low-cost airlines. Air services at Shirak are given a 50% discount, meteorological services are provided free of charge, and the Airport is exempt from state exit duty tax for departing passengers (about US\$20).

4.157. In the period January-April 2018, aircraft movements at the two international airports increased by 10.4% compared to the same period in 2017. Moscow is the main air hub for transit passengers from Armenia. Seven Russian airlines (Aeroflot, Ural Airlines, S7, Red Wings, Globus, UT Air, Nord Wind) operate regular flights from Yerevan to Moscow. Approximately 30% of weekly flights from Zvartnots Airport depart to Moscow.⁸⁵ According to the authorities, passenger numbers declined in Shirak in 2016, as airlines operating flights to Shirak stopped operations. In December 2016, Pobeda, a low-cost Russian airline, started operations to Shirak and serves three destinations (Moscow, Saint Petersburg, and Rostov). As a result, passenger numbers increased in 2017.

Table 4.15 Air transport numbers, 2011-17

	2011	2012	2013	2014	2015	2016	2017
Zvartnots							
Passenger traffic	1,600,897	1,691,815	1,691,710	2,045,058	1,879,667	2,105,540	2,448,250
Freight (tonnes)	10,014	12,251	10,361	10,345	10,123	18,269	22,324
Landings/take offs	9,858	10,392	8,721	10,409	9,012	9,266	10,621
Shirak							
Passenger traffic	73,578	71,568	66,534	37,857	39,238	12,421	105,664
Freight (tonnes)	20	32	4	0	51	4	2
Landings/take offs	306	252	221	144	152	54	371

Source: General Department of Civil Aviation. Viewed at: <http://www.gdca.am/projects/p/statistics>.

4.158. The legal framework for civil aviation is made up of international agreements signed by Armenia, the Law on Aviation of 2007 (which replaced the Law on Aviation of 2002), as well as sublegal normative acts. The MOTCIT develops and implements aviation policy. The General Department of Civil Aviation (GDCA) is the regulatory body for aviation and non-military state aviation activities, air traffic services, and aviation safety, security and infrastructure. Its responsibilities also include: issuing certificates, permits, and licences for civil aviation activities; aircraft certificates; permits for operating commercial air services; and certificates for flight crew, air traffic control and aircraft maintenance personnel. Armenia is a member of the International Civil Aviation Organization (ICAO), the European Civil Aviation Conference (ECAC), the European Organization for the Safety of Air Navigation (EUROCONTROL), and the Interstate Aviation Committee (IAC).

4.159. The Armenian Air Traffic Service (ARMATS) provides air navigation services, including air traffic control, communication, navigation, and surveillance services and aeronautical information services for Armenia's airspace, in compliance with international civil aviation standards. ARMATS

⁸⁵ General Department of Civil Aviation online information. Viewed at: <http://www.gdca.am/projects/p/statistics>.

is 100% state-owned.⁸⁶ The authorities noted that, to improve flight safety in Armenian airspace, the following modernization projects were implemented: new air traffic monitoring systems in the Yerevan air traffic control centre and the Shirak tower; the modernization of the VHF communication network; the implementation of a wide area multilateration system for en-route and aerodrome traffic; and doppler VHF omnidirectional range/distance measuring equipment navigation systems.

4.160. In terms of participation of foreign investors in air transport services, according to Article 43 of the Law on Aviation, the authorities issue an air operator certificate to legal entities registered in Armenia, with at least 51% of shares (i.e. shares of stock, share contributions) owned by citizens of Armenia and/or legal entities established in Armenia; and to authorized bodies of the Government.

4.161. In 2003, the Government gave the exclusive rights to all domestic and international routes for 10 years to Armavia, a private Armenian airline. However, Armavia filed for bankruptcy in 2013 and suspended operations. In 2013, Armenia introduced an open sky policy for air transport. This policy envisages the complete revision of the institutional, legal and regulatory bases to develop a competitive and sustainable air transportation system. The reforms are directed towards the improvement of air connectivity and the development of the aviation industry.⁸⁷

4.162. Currently, Armenia is a party to 40 bilateral air services agreements. On 24 November 2017, the EU-Armenia Common Aviation Area Agreement was initialled in Brussels. This agreement is intended to improve market access for airlines, providing better connectivity, more choice and lower fares for travellers. According to the authorities, a common regulatory framework, for instance in the fields of aviation safety and security, will be established.

4.163. During the review period, Armenia also enhanced and developed national air services cooperation to facilitate the harmonization process among the different national air services in the Caucasus region. The objective was to meet global and European standards and directives. The harmonization approach is based on the assumption that regional and sub-regional planning, development and management is necessary to establish and maintain the future air traffic management systems at a safe, productive and cost-effective level, which will be accepted by the airspace users. Operational Letters of Agreement have been signed between Yerevan Flight Information Region and all neighbouring flight information regions.

4.164. During the review period, within the framework of cooperation with EUROCONTROL and the ICAO, the General Department of Civil Aviation initiated and developed the following projects in Armenian airspace: regional implementation of Reduced Vertical Separation Minima (RVSM), Performance Based Navigation (PBN), migration to AIXM 5.1 in the European AIS Database (EAD), and the development of the Free Route Airspace (FRA) concept, with the next step of Cross Border Operation in 2019. According to the authorities, as a result of these projects, Armenia has been able to record high performance in a number of internal/external audits and overviews.

4.5 Tourism

4.5.1 Features

4.165. Tourism is estimated to have contributed 15.7% to GDP (US\$1,719.7 million) and 14.1% to total employment (162,000 jobs) in 2017.⁸⁸ During the review period, the sector grew as a result of a more focused government policy toward tourism development, as well as through numerous private sector initiatives. Government policies, such as the liberalization of the civil aviation sector, have attracted new carriers, increasing the number of flights, while reducing prices on more competitive routes (Section 4.4). In 2017, the number of incoming tourist arrivals

⁸⁶ ARMATS online information. Viewed at: <http://www.armats.com/eng/visitcard/company.htm>.

⁸⁷ Annex to Government Decree No. 442-N of 27 March 2014.

⁸⁸ World Travel and Tourism Council (2018), *Travel and Tourism Economic Impact Armenia, 2018*, London. Viewed at: <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/armenia2018.pdf>.

increased to 1,494,779, a growth of 18.7% from the previous year⁸⁹, while tourism represented AMD 529.8 billion in exports (US\$1,092.4 million), 29.2% of total exports (Table 4.16).⁹⁰

Table 4.16 Tourism arrivals and receipts 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
Tourist arrivals ('000)	723	833	963	1,082	1,204	1,192	1,260	1,495
of which (%)								
Russian Federation	..	..	..	..	..	..	21.7	20.3
Iran	..	..	..	..	..	..	17.0	14.2
United States	..	..	..	..	..	..	9.6	13.6
Germany	..	..	..	..	..	..	6.3	4.7
France	..	..	..	..	..	..	5.3	4.1
Receipts from tourism (US\$ million)	694	762	853	905	994	956	988	1,092

.. Not available.

Source: Statistical Committee of the Republic of Armenia, socio-economic situation (various years); and World Bank online database. Viewed at: <https://data.worldbank.org/>.

4.166. In 2017, nearly half of tourist visitors came from the Russian Federation, Iran, and the United States (Table 4.16), while other major sources include Germany and France (the European Union as a whole accounts for 20.3%). According to the 2013 Armenian International Visitor Survey, the main reasons for visiting were: visiting friends and relatives (51%); holiday and leisure (14%); business and/or conferences (12%); and health treatment (9%).⁹¹

4.167. Investment in travel and tourism in 2017 was AMD 52.8 billion, 4.6% of total investment. Armenia has three UNESCO World Heritage sites, as well as many historical monuments and scenic locations. There are over 2,000 hospitality companies, including hotels, hostels, and other types of accommodation, health resorts, catering facilities, transportation companies, tour operators, and travel agencies. During the review period, tourist infrastructure, including transport and accommodation, were improved.

4.168. According to the World Economic Forum's Travel and Tourism Competitiveness Report 2017, Armenia ranked 84th out of 136 countries. The Report noted that the country has a long way to go before it is competitive in the international tourism market. However, on the safety and security indicator, Armenia ranked 34th, and on the business environment, 39th.⁹²

4.5.2 Policy, institutions and regulatory framework

4.169. Under Government Decree No. 1385-N of 22 December 2016, the State Tourism Committee is responsible for the development and implementation of tourism policy. The Committee is a state body under the administration of the Ministry of Economic Development and Investments.⁹³

4.170. The principal legislation related to tourism is the Law on Tourism and Tourist Activity of 2003, which sets out the principles and objectives of the national policy, and the Government's role in policy implementation and the provision of tourism services.

4.171. A draft Law on Tourism, as well as related laws and other legal acts have been prepared and submitted to the National Assembly. According to the authorities, the draft Law is based on

⁸⁹ Statistical Committee of the Republic of Armenia (2018), *Socio-economic Situation of the Republic of Armenia, January-December 2017*, Section 4.1.1. Viewed at: http://armstat.am/file/article/sv_01_18a_421.pdf (Armenian).

⁹⁰ World Travel and Tourism Council (2018), *Travel and Tourism Economic Impact Armenia, 2018*, London. Viewed at: <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/armenia2018.pdf>.

⁹¹ State Tourism Committee of the Republic of Armenia (2017), *Tourism Sector Armenia – Your next business destination*, presentation. Viewed at: <http://www.bacc.be/wp-content/uploads/2017/12/Mekhak-APresyan-Compatibility-Mode.pdf>.

⁹² World Economic Forum (2017), *The Travel & Tourism Competitiveness Report 2017*, Geneva. Viewed at: http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf.

⁹³ Ministry of Economic Development and Investments online information. Viewed at: <http://mineconomy.am/en/73>.

best practices in international tourism legislation, and takes into account development needs and challenges in the sector. It includes provisions related to the following:

- The introduction of an administrative register for the tourism sector and the creation of a registry for tourism-related resources;
- The introduction of qualification standards for services through the licensing of tourist guides, tour operators and travel agents, hotel services, the voluntary qualification of tour buses and public catering facilities;
- The protection of consumer rights and the domestic market;
- Support for ensuring the security of information on Armenia and Armenian cultural heritage;
- Ensuring of the quality of services and the continuous improvement of the image and competitiveness of Armenia and the Armenian tourism product in the world market;
- Facilitating border crossings; and
- Improving the business investment environment.

4.172. Annual tourism development programmes are prepared by the State Tourism Committee and submitted to the Government for approval. These programmes outline the measures to be undertaken in that year. The objectives include:

- Determination of priority target markets (origin of tourists), and implementation of target marketing and promotion;
- Diversification of tourism markets and product,
- Enhancement, development and promotion of the image of Armenia in the world market as a stable, favourable and attractive country for entrepreneurial activity, investment and tourism;
- Improving access to Armenia through better transport, and ease of arrivals/departures (including visa facilitation); and
- Decentralization of tourism in the different regions through infrastructure development and organization of various events.

4.173. The Armenia Tourism Development Foundation was established by Government Decree No. 785-N of 29 June 2017. Its main functions include: promotional campaigns to increase international awareness of Armenia as a tourism destination; assisting Armenia-based tour operators to participate at key international tourism expos; organizing trips to Armenia for international media and tour operators; and developing new and diversified tour products.

4.174. The Tatev Revival Project, implemented through a PPP between the Government and the Ruben Vardanian and Veronika Zonabend (RVVZ) Foundation, is a development project in the tourism sector. The project includes the restoration and preservation of the 1,000-year-old Tatev monastic complex, and the establishment of infrastructure based on local community needs to enable tourism promotion. In addition, the Government has developed investment plans around strategic touristic areas such as the southern region of Syunik, where the Tatev monastery is located, and the Vayots Dzor region, south of Yerevan. A large-scale revitalization project has been launched in Tatev, and a cable car has been built across the Vorotan River to the Tatev monastery. According to the authorities, this has boosted tourism in the region.

4.175. At present, the activity of tourist guides is not licensed (Government Decree No. 945-N of 10 June 2004 on Tour Guide Licensing was declared invalid according to Government Decree No. 245-N of 18 March 2011). However, the new draft Law on Tourism includes provisions for tour guide licensing. The 3rd World Federation of Tourist Guides Associations International Training

Centre (the first in the region) was established in Armenia in 2014, where international tour guide training courses are organized on a yearly basis.

4.176. Accommodation establishments are certified, on a voluntary basis, by the Ministry of Economic Development and Investments. Certificates are valid for five years, renewable, and are granted upon a site visit by the Classification Commission, which is composed of inspectors from the State and the private sector.

4.177. There are no restrictions on foreign investment in the tourism sector. In addition, there is a visa-free regime for citizens of more than 50 countries, and visas (or E-visas) are available for citizens of more than 140 countries upon arrival in the country. Armenia actively cooperates with the UN World Tourism Organization (membership since 1997), the Organization of the Black Sea Economic Cooperation, the CIS Tourism Council, and other international organizations and partners. It also cooperates with foreign countries within the framework of these organizations and within the framework of bilateral tourism-related agreements. It has tourism agreements with Argentina, Belarus, Bulgaria, China, Cyprus, Egypt, Greece, India, Iran, the Kyrgyz Republic, Lebanon, Moldova, Poland, Romania, the Russian Federation, Syria, Ukraine, and the United Arab Emirates.

5 APPENDIX TABLES

Table A1.1 Merchandise total exports by group of products, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
Total exports (US\$ million)	1,011.4	1,320.4	1,428.1	1,467.8	1,490.2	1,482.7	1,807.8	2,145
	(% of total exports)							
Total primary products	64.2	64.9	65.8	67.5	66.2	68.9	63.5	69.4
Agriculture	16.4	17.0	22.2	26.7	27.8	26.3	28.6	29.2
Food	15.5	16.9	22.0	26.5	27.5	25.6	28.1	28.6
1222 - Cigarettes containing tobacco	0.8	1.2	2.9	4.6	7.8	11.5	11.7	11.1
1124 - Spirits (other than those under heading 512.16); liqueurs and other spirituous beverages, n.e.s.; compound alcoholic preparations of a kind used for the manufacture of beverages	9.5	9.9	11.5	12.7	11.0	6.2	8.3	9.7
0341 - Fish, fresh (live or dead) or chilled (excluding fillets and minced fish)	0.2	0.4	0.9	1.2	1.2	0.7	0.5	0.8
0121 - Meat of sheep or goats, fresh, chilled or frozen	0.0	0.0	0.0	0.0	0.1	0.2	0.5	0.7
0544 - Tomatoes, fresh or chilled	0.1	0.0	0.0	0.0	0.0	0.1	1.1	0.6
Agricultural raw material	1.0	0.0	0.2	0.2	0.3	0.7	0.5	0.5
Mining	47.8	48.0	43.7	40.8	38.5	42.5	34.9	40.2
Ores and other minerals	25.2	23.8	21.7	21.8	20.2	25.4	23.4	28.9
2831 - Copper ores and concentrates	20.8	19.7	15.9	19.1	15.8	21.4	20.5	26.6
2875 - Zinc ores and concentrates	1.4	1.1	1.2	1.2	0.9	0.8	0.6	0.8
Non-ferrous metals	18.5	16.4	14.4	13.0	12.2	10.9	8.1	7.9
6842 - Aluminium and aluminium alloys, worked	7.8	6.6	5.7	5.5	5.9	5.6	4.3	4.6
6821 - Copper, refined and unrefined; copper anodes for electrolytic refining; copper alloys, unwrought	9.2	8.7	7.3	6.1	4.8	4.4	3.5	3.3
Fuels	4.0	7.7	7.5	6.0	6.1	6.2	3.4	3.4
3510 - Electric current	2.6	6.6	6.7	5.3	5.5	5.2	3.2	3.3
Manufactures	31.0	28.9	27.8	27.4	27.9	23.5	27.7	23.5
Iron and steel	11.9	9.3	7.5	7.0	7.4	3.8	3.7	4.0
6715 - Other ferro-alloys (excluding radioactive ferro-alloys)	11.8	9.2	7.5	7.0	7.4	3.7	3.7	3.9
Chemicals	1.2	1.1	1.3	1.7	1.3	1.5	1.4	1.7
5429 - Medicaments, n.e.s.	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.6
Other semi-manufactures	11.3	10.9	8.1	9.3	10.3	6.6	7.3	4.7
6672 - Diamonds (other than sorted industrial diamonds), whether or not worked, but not mounted or set	8.9	8.6	5.5	5.9	7.9	5.2	5.9	3.4
Machinery and transport equipment	3.2	4.3	6.5	3.1	1.7	1.8	2.3	2.4
Power generating machines	0.9	0.3	0.1	0.0	0.0	0.0	0.2	0.2
Other non-electrical machinery	0.8	0.7	0.8	0.7	0.7	0.6	0.5	0.8
Agricultural machinery and tractors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Office machines and telecommunication equipment	0.7	0.7	1.3	0.2	0.3	0.1	0.2	0.3
Other electrical machines	0.5	0.4	0.4	0.5	0.6	0.4	0.6	0.4
Automotive products	0.1	0.1	0.2	0.0	0.1	0.5	0.7	0.6
Other transport equipment	0.2	2.1	3.8	1.6	0.2	0.1	0.0	0.0
Textiles	0.1	0.1	0.0	0.0	0.0	0.9	0.2	0.2
Clothing	0.5	0.5	1.3	2.6	3.3	4.8	5.1	5.9

	2010	2011	2012	2013	2014	2015	2016	2017
8421 - Overcoats, car coats, capes, cloaks, anoraks (including ski jackets), windcheaters, wind jackets and similar articles (other than those of subgroup 845.2)	0.0	0.0	0.1	0.6	1.2	1.3	1.0	1.1
8411 - Overcoats, car coats, capes, cloaks, anoraks (including ski jackets), windcheaters, wind jackets and similar articles (other than those of subgroup 841.2 and heading 841.3)	0.1	0.1	0.4	0.8	1.0	1.2	1.2	1.1
8414 - Trousers, bib and brace overalls, breeches and shorts	0.1	0.1	0.2	0.6	0.7	0.8	0.8	0.9
Other consumer goods	2.7	2.6	3.1	3.7	3.8	4.2	7.7	4.6
8131 - Lamps and lighting fittings (including searchlights and spotlights), n.e.s.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7
8973 - Jewellery of gold, silver or platinum group metals (except watches and watch-cases) and goldsmiths' or silversmiths' wares (including set gems)	1.3	1.0	0.9	1.5	1.5	1.2	1.1	1.3
Other	4.8	6.2	6.3	5.0	5.8	7.6	8.8	7.1
9710 - Gold, non-monetary (excluding gold ores and concentrates)	2.8	5.1	5.4	5.0	5.7	7.0	7.9	6.8

Source: UNSD Comtrade database (SITC Rev.3).

Table A1.2 Merchandise total imports by group of products, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
Total imports (US\$ million)	3,781.8	4,109.3	4,266.9	4,256.2	4,159.5	3,257.0	3,218.5	3,893.5
	(% of total imports)							
Total primary products	39.2	42.1	43.3	44.7	42.4	45.1	41.1	37.7
Agriculture	18.4	19.8	19.9	20.6	20.5	21.6	21.1	19.1
Food	17.5	18.7	18.7	19.5	19.0	19.8	19.2	18.0
0412 - Other wheat (including spelt) and meslin, unmilled	0.4	0.4	0.5	1.4	1.6	2.1	1.8	1.5
1124 - Spirits (other than those under heading 512.16); liqueurs and other spirituous beverages, n.e.s.; compound alcoholic preparations of a kind used for the manufacture of beverages	0.8	0.7	0.9	1.0	0.9	1.0	1.5	1.1
0123 - Meat and edible offal of the poultry of sub-group 001.4, fresh, chilled or frozen	1.1	1.1	1.0	1.1	1.1	1.1	0.8	1.0
1222 - Cigarettes containing tobacco	1.7	1.4	1.2	1.4	1.0	1.3	1.2	1.0
1212 - Tobacco, wholly or partly stemmed/stripped	0.4	0.4	0.5	1.1	0.9	1.3	1.7	0.9
0611 - Sugars, beet or cane, raw, in solid form, not containing added flavouring or colouring matter	0.3	1.2	1.1	0.9	1.0	0.9	0.6	0.8
0739 - Food preparations containing cocoa, n.e.s.	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.6
Agricultural raw material	0.9	1.1	1.2	1.1	1.5	1.9	1.9	1.1
Mining	20.8	22.3	23.4	24.1	21.9	23.4	20.0	18.6
Ores and other minerals	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.3
Non-ferrous metals	2.9	2.2	1.9	1.7	2.0	2.4	2.1	2.2
6841 - Aluminium and aluminium alloys, unwrought	2.4	1.7	1.5	1.3	1.4	1.8	1.5	1.7
Fuels	17.5	19.6	21.2	22.0	19.6	20.7	17.6	16.1
3432 - Natural gas, in the gaseous state	8.9	9.9	12.1	13.4	11.1	13.2	10.8	9.1
334 - Petroleum oils and oils obtained from bituminous minerals, other than crude	8.0	9.0	8.4	8.0	7.7	6.7	6.2	6.2
Manufactures	55.5	52.8	50.6	51.3	53.7	54.2	58.0	60.8
Iron and steel	4.0	3.2	2.9	2.9	3.0	2.6	2.4	2.5
Chemicals	9.4	9.6	9.7	10.6	10.8	11.4	12.0	12.4
5429 - Medicaments, n.e.s.	1.9	2.0	2.0	2.3	2.1	2.5	2.4	3.8
5621 - Mineral or chemical fertilizers, nitrogenous	0.3	0.3	0.5	0.5	0.4	0.7	1.3	0.6
Other semi-manufactures	10.9	11.6	10.7	11.6	13.4	12.0	12.8	12.9
6672 - Diamonds (other than sorted industrial diamonds), whether or not worked, but not mounted or set	2.5	3.1	2.3	2.7	3.6	2.7	3.9	3.2
6911 - Structures (excluding prefabricated buildings of group 811) and parts of structures	0.7	0.4	0.3	0.3	0.5	0.5	0.4	0.7
Machinery and transport equipment	22.2	19.0	18.3	17.4	16.7	18.1	18.2	20.0
Power generating machines	0.4	0.5	0.9	0.9	0.8	0.4	0.8	1.2
Other non-electrical machinery	6.9	5.8	6.2	6.9	6.4	6.4	6.0	7.1
7232 - Mechanical shovels, excavators and shovel-loaders, self-propelled	0.5	0.6	0.7	0.4	0.4	0.4	0.4	1.0
Agricultural machinery and tractors	0.3	0.4	0.4	0.4	0.4	0.3	0.2	0.3

	2010	2011	2012	2013	2014	2015	2016	2017
Office machines and telecommunication equipment	4.7	4.2	3.7	3.0	3.5	3.2	5.0	4.2
7643 - Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus or sound-recording or reproducing apparatus	0.7	0.6	0.5	0.3	0.7	0.7	1.4	2.2
Other electrical machines	5.1	3.3	3.2	3.0	3.2	3.2	2.9	3.7
Automotive products	3.4	3.6	3.8	2.9	2.6	4.6	2.9	3.5
7812 - Motor vehicles for the transport of persons, n.e.s.	1.6	1.9	1.4	1.4	1.5	2.7	1.3	1.3
7821 - Motor vehicles for the transport of goods	0.9	1.0	1.4	0.7	0.6	0.7	0.6	1.2
Other transport equipment	1.6	1.6	0.5	0.6	0.2	0.3	0.5	0.3
Textiles	1.4	1.8	1.5	1.5	1.6	1.6	2.5	2.0
Clothing	1.8	1.9	1.8	1.8	2.0	2.5	3.4	3.5
Other consumer goods	5.9	5.7	5.7	5.5	6.3	5.9	6.7	7.3
8110 - Prefabricated buildings	0.0	0.2	0.2	0.1	0.5	0.2	0.3	0.8
Other	5.3	5.1	6.1	4.0	4.0	0.7	0.9	1.5
9710 - Gold, non-monetary (excluding gold ores and concentrates)	1.6	1.9	1.7	4.0	3.5	0.7	0.7	1.5

Source: UNSD Comtrade database (SITC Rev.3).

Table A1.3 Merchandise total exports by destination, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
Total exports (US\$ million)	1,011.4	1,320.4	1,428.1	1,467.8	1,490.2	1,482.7	1,807.8	2,145
	(% of total exports)							
Americas	12.1	14.0	13.3	12.8	12.6	11.6	9.7	3.1
United States	8.1	7.6	6.1	6.0	5.8	3.6	2.2	2.8
Other America	3.9	6.4	7.2	6.7	6.7	8.0	7.5	0.3
Canada	2.9	5.3	6.0	6.0	6.3	7.6	7.4	0.3
Europe	51.4	48.7	44.3	36.8	31.2	32.6	32.1	39.9
EU(28)	49.6	46.0	39.3	34.7	29.3	29.7	26.8	28.4
Bulgaria	15.5	11.5	9.1	10.4	5.7	5.3	9.0	13.1
Germany	13.1	12.0	10.7	5.8	10.6	9.8	7.5	5.9
Netherlands	9.8	8.9	5.6	4.5	5.0	3.2	3.1	4.1
Belgium	7.2	5.3	8.9	8.9	4.2	3.2	2.3	1.8
Italy	0.5	0.3	0.5	1.6	2.3	3.3	1.7	1.7
Poland	0.2	0.1	0.0	0.1	0.2	1.0	1.0	0.4
EFTA	1.7	2.6	5.0	1.7	0.9	2.8	5.3	11.5
Switzerland	1.7	2.5	5.0	1.7	0.9	2.8	5.3	11.5
Other Europe	0.1	0.1	0.0	0.4	0.9	0.1	0.0	0.1
Commonwealth of Independent States (CIS)	23.7	23.1	27.8	31.4	27.8	25.6	30.5	33.7
Russian Federation	15.8	16.7	19.5	22.6	20.4	15.2	20.6	25.2
Georgia ^a	4.8	4.2	5.5	5.1	4.4	7.7	7.8	6.8
Ukraine	1.2	0.8	1.0	1.0	0.7	0.4	0.5	0.5
Belarus	0.5	0.4	0.5	0.6	0.6	0.4	0.7	0.3
Turkmenistan	0.8	0.3	0.9	1.2	0.9	1.1	0.3	0.3
Kazakhstan	0.3	0.3	0.3	0.5	0.5	0.3	0.3	0.2
Africa	0.1	0.1	0.0	0.1	0.2	0.1	0.1	0.1
Middle East	5.2	8.5	8.6	10.1	13.7	17.2	17.3	16.2
Iraq	0.0	0.4	1.1	3.2	5.4	8.8	7.8	5.5
United Arab Emirates	0.8	0.7	0.6	0.6	0.8	0.7	3.8	4.3
Iran	3.9	7.1	6.6	5.9	5.6	5.3	3.9	3.9
Syrian Arab Republic	0.0	0.0	0.0	0.2	1.2	1.7	1.5	2.3
Asia	4.4	3.2	3.7	7.7	13.4	12.3	9.1	6.3
China	3.1	1.2	2.2	4.7	11.5	11.1	5.5	5.5
Japan	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Other Asia	1.4	1.9	1.5	3.0	1.9	0.9	3.6	0.8
Thailand	0.3	0.3	0.2	0.2	1.5	0.1	0.1	0.4
Other	3.1	2.4	2.2	1.1	1.2	0.6	1.2	0.7
<i>Memorandum:</i>								
Eurasian Customs Union	16.6	17.5	20.2	23.8	21.5	16.0	21.7	25.8
Russian Federation	15.8	16.7	19.5	22.6	20.4	15.2	20.6	25.2
Belarus	0.5	0.4	0.5	0.6	0.6	0.4	0.7	0.3
Kazakhstan	0.3	0.3	0.3	0.5	0.5	0.3	0.3	0.2
Kyrgyz Republic	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1

a Georgia is not a member of the CIS but is included in this group for reasons of geography.

Source: UNSD Comtrade database.

Table A1.4 Merchandise total imports by origin, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
Total imports (US\$ million)	3,781.8	4,109.3	4,266.9	4,256.2	4,159.5	3,257	3,218.5	3,893
	(% of total imports)							
Americas	5.3	6.7	6.5	6.2	6.1	6.6	5.2	6.9
United States	2.7	3.2	3.0	2.8	2.7	3.2	2.5	2.9
Other America	2.7	3.5	3.5	3.5	3.4	3.4	2.8	4.0
Canada	0.5	0.7	0.4	0.5	0.4	0.4	0.4	1.6
Brazil	1.4	2.0	2.2	2.1	2.2	1.9	1.5	1.6
Europe	33.1	33.8	30.9	33.5	33.4	29.2	28.7	29.2
EU(28)	25.6	26.0	23.8	24.4	24.2	23.3	22.1	21.0
Germany	4.1	4.0	4.0	4.1	4.2	5.6	5.0	4.2
Italy	3.2	4.1	3.9	3.8	4.3	4.5	4.0	3.2
France	2.0	2.0	1.6	1.5	1.9	2.0	1.6	1.9
Poland	0.8	0.9	1.0	1.0	1.1	1.0	1.1	1.3
Greece	1.3	1.5	0.7	0.5	0.4	0.5	0.7	1.3
Bulgaria	3.0	2.5	2.0	1.6	0.6	0.8	1.0	1.0
Belgium	1.9	1.6	1.7	1.7	2.1	1.5	1.8	0.9
Spain	0.6	0.9	1.1	1.2	1.2	0.8	0.8	0.9
EFTA	1.9	1.9	2.1	4.1	3.5	1.6	1.2	2.4
Switzerland	1.8	1.9	2.0	4.0	3.5	1.6	1.2	2.4
Other Europe	5.6	5.9	5.1	5.0	5.6	4.3	5.3	5.8
Turkey	5.6	5.8	5.0	4.9	5.6	4.2	5.2	5.7
Commonwealth of Independent States (CIS)	31.3	30.7	32.3	33.9	33.2	37.5	37.8	36.6
Russian Federation	21.9	21.5	24.7	25.9	25.7	30.4	30.8	29.9
Ukraine	6.1	5.6	5.1	5.3	4.9	3.8	3.1	3.0
Georgia ^a	1.3	1.4	1.1	1.5	1.7	2.0	3.0	2.2
Belarus	0.8	0.7	0.8	1.0	0.7	1.0	0.7	1.0
Africa	0.7	0.7	0.5	1.8	0.9	1.1	1.3	1.0
Middle East	7.5	7.9	8.6	8.1	8.4	7.9	7.4	7.0
Iran	5.8	5.3	5.1	4.4	5.0	6.1	5.1	4.5
United Arab Emirates	1.0	1.2	1.1	1.6	1.6	1.3	1.8	2.2
Asia	18.3	16.9	16.7	16.2	17.4	17.2	18.9	18.8
China	10.6	9.8	9.3	9.0	10.0	9.7	11.3	12.0
Japan	1.5	1.0	1.5	1.1	1.1	1.4	1.0	1.1
Other Asia	6.2	6.1	5.9	6.1	6.4	6.1	6.6	5.7
India	1.2	1.7	1.6	1.6	1.5	1.6	2.2	1.2
Viet Nam	0.3	0.2	0.4	0.3	0.5	0.5	0.8	0.9
Other	3.7	3.3	4.4	0.2	0.7	0.5	0.7	0.5
<i>Memorandum:</i>								
Eurasian Customs Union	23.1	22.9	25.7	26.9	26.5	31.5	31.5	31.0
Russian Federation	21.9	21.5	24.7	25.9	25.7	30.4	30.8	29.9
Belarus	0.8	0.7	0.8	1.0	0.7	1.0	0.7	1.0
Kazakhstan	0.3	0.6	0.2	0.0	0.0	0.0	0.0	0.1
Kyrgyz Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

a Georgia is not a member of the CIS but is included in this group for reasons of geography.

Source: UNSD Comtrade database.

Table A1.5 Fiscal account of the general Government, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
Revenues and official transfers	23.2	24.0	22.9	24.2	24.4	23.8	23.7	22.9
Tax revenue	20.8	21.1	21.1	22.4	22.5	21.6	..	..
VAT	8.7	8.7	8.7	8.8	9.1	8.4	..	..
Income tax	2.1	2.1	2.1	5.6	6.0	6.2	..	..
Profit tax	2.2	2.6	2.8	2.7	2.1	2.1	..	..
Custom duty	0.8	1.0	1.0	1.0	1.0	1.2	..	..
Excise tax	1.4	1.0	1.2	1.1	1.0	1.0	..	..
Duties	0.7	0.7	0.6	0.7	0.9	0.7	..	..
Payments for the utilization of natural resources and environment protection	0.3	0.3	0.6	0.8	0.7	0.6	..	..
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	..	..
Turnover tax	0.0	0.0	0.0	0.3	0.3	0.2	..	..
Compulsory social insurance contributions	3.0	3.3	3.0	0.4	0.3	0.2	..	..
Land tax	0.1	0.1	0.1	0.1	0.1	0.1	..	..
Other taxes	1.0	1.0	0.6	0.6	0.6	0.7	..	..
Other income	1.6	1.3	1.4	1.5	1.5	1.6	..	..
Official transfers	0.9	1.6	0.4	0.3	0.4	0.6	..	..
Total expenditures	28.2	26.8	24.3	25.7	26.3	28.6	29.2	27.6
Current expenditures	22.6	22.1	21.0	22.7	23.4	25.3	..	..
Wages of employees of budgetary institutions	2.8	2.7	2.5	2.6	2.9	3.2	..	..
Acquisition of goods and services	5.1	5.0	5.3	5.2	5.4	5.6	..	..
Interest payments	0.9	0.9	1.0	1.0	1.3	1.5	..	..
Subsidies	0.9	0.9	0.9	1.0	1.0	1.1	..	..
Current transfers	1.7	1.6	1.6	1.6	1.8	2.0	..	..
Expenditures of social pensions and allowances	7.1	6.8	6.8	6.5	7.2	7.8	..	..
Other expenditures	4.2	4.1	3.0	4.8	3.7	4.1	..	..
Transaction with non-financial assets	5.6	4.7	3.3	3.0	2.9	3.3	..	..
Total deficit	-5.0	-2.8	-1.4	-1.5	-1.9	-4.8	-5.5	-4.7

.. Not available.

Source: National Statistical Service of the Republic of Armenia online information.

Table A3.1 Transitional import tariffs for Armenia in the EAEU

(Number of tariff lines by year and HS chapters to be aligned with the EAEU common tariff)

	2018	2019	2020	2021	2022	Total
HS02 - Meat and edible meat offal			1		41	42
HS04 - Dairy products			17			17
HS07 - Edible vegetables and certain roots and tubers			1		2	3
HS08 - Edible fruit and nuts		18				18
HS09 - Coffee, tea, maté and spices		4				4
HS10 - Cereals			5		20	25
HS11 - Products of the milling industry			6			6
HS12 - Oil seeds and oleaginous fruit			1			1
HS15 - Animal or vegetable fats and oils			3		2	5
HS16 - Preparations of meat and/or fish	1					1
HS17 - Sugars and confectionery		2				2
HS19 - Preparations of cereals, starch or milk					1	1
HS21 - Miscellaneous edible preparations	1				2	3
HS23 - Residues and waste food industry			9			9
HS24 - Tobacco and manufactured products			5			5
HS25 - Natural sand, chalk, plastering material			5			5
HS27 - Mineral fuels and oils, products thereof			17			17
HS28 - Inorganic chemicals			46			46
HS29 - Organic chemicals		1	35			36
HS30 - Pharmaceutical products	4	9	42			55
HS31 - Fertilizers			21			21
HS32 - Paints and pigments			3			3
HS33 - Shampoos and dentifrices			2			2
HS34 - Soap, washing preparations			16			16
HS35 - Gelatines and glues			4			4
HS38 - Miscellaneous chemical products			18			18
HS39 - Plastic and articles thereof			12	34		46
HS40 - Rubber and articles thereof	2					2
HS41 - Leather			4			4
HS44 - Wood and articles of wood			11	3		14
HS48 - Paper and paperboard			4	5		9
HS51 - Wool				11		11
HS52 - Cotton			10	29		39
HS54 - Man-made filaments			4	6		10
HS55 - Man-made staple fibres			19			19
HS56 - Wadding, felt, and non-wovens			2			2
HS58 - Special woven fabrics			9			9
HS59 - Impregnated, coated textile fabrics			1			1
HS60 - Knitted or crocheted fabrics			12			12
HS63 - Other made up textiles articles			2			2
HS69 - Ceramic products			5			5
HS70 - Glass and glassware			2	3	1	6
HS71 - Precious stones, articles thereof				1	10	11
HS72 - Iron and steel			11			11
HS73 - Articles of iron and steel			18			18
HS74 - Copper and articles thereof			6			6
HS76 - Aluminium and articles thereof			6	5		11
HS78 - Lead and articles thereof	1		2			3
HS81 - Other base metals and articles thereof			2			2
HS83 - Miscellaneous articles of base metals			3			3
HS84 - Machinery and mechanical appliances			28		3	31
HS85 - Electrical machinery and parts thereof		2	2	12		16
HS87 - Vehicles			276			276
HS90 - Precision instruments		3				3
HS91 - Clocks and watches		6	11			17
HS94 - Prefabricated buildings		1				1
HS96 - Miscellaneous manufactured articles				1		1
Total	9	46	719	110	82	966

Note: The number of tariff lines is based on the 2018 tariff schedule in the HS17 nomenclature.

Source: Annex 4 to the Treaty on the Accession of the Republic of Armenia to the EAEU Treaty.