

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.