



## Doing Business in Armenia: 2011 Country

### Commercial Guide for U.S. Companies

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### Chapter 1: Doing Business In Armenia

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#### Market Overview

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Over the past two years, Armenia has experienced a significant drop in investment, exports, and in real incomes primarily caused by the global financial crisis. The Government of Armenia's (GOAM) anti-crisis measures, additional loans and budgetary support from international donors helped to avoid further economic decline in 2010. However, economic indicators, while on the rebound, still fall short of the pre-crisis growth trend for the two decades following independence. Gradual recovery of remittance flows in comparison to 2009 also contributed to the slight upturn. Nevertheless, poverty and prices remain high, the sustainability of growth remains a concern, and the economic reform agenda remains unfinished.

Armenia's gross domestic product (GDP) grew 2.6 percent in 2010, after a 14.4 percent decline in 2009 as a result of the global financial crisis. This was preceded by steady annual real GDP growth from 2002-2008 - including annual double-digit growth from 2002-2007. The actual growth in 2010 failed to reach the Armenian Government and International Monetary Fund (IMF) projections of four percent. Industry became the main driver of GDP

growth in 2010, while agriculture and construction, previous strong performers, declined 14.5 and 4 percent, respectively. Foreign trade turnover for 2010 increased by 8.9% after the dramatic 27 percent contraction in 2009, with imports growing 14% and exports by 42%.

Armenia's main trade partners in 2010 were the Russian Federation (20% of total trade turnover), China (9.1%), Germany (7.2%), Bulgaria (5.6), Iran (5.6%), and the USA (4.1%). According to the National Statistical Service of Armenia, trade volume between the USA and Armenia for January – December 2010 was \$196.4 million, up 4.6% over 2009. This was primarily due to a dramatic increase in the value of aluminum exports from Armenia to the U.S. as world metals prices recovered. Armenia's main imports from the USA were machinery and equipment, means of transportation, chemical products, and textiles. Armenia's primary export items to the USA included precious stones and metals, textiles, and prepared food products.

According to the latest survey co-funded by the Millennium Challenge Corporation (MCC)/Millennium Challenge Account (MCA)-Armenia and the World Bank and conducted by the National Statistical Service, the percentage of the population living in poverty notably increased in 2009 to 34.1% compared to 27.6% in 2008. The share of the very poor in 2009 totaled 20.1% as opposed to 12.6% recorded in 2008.

Armenia's accession to the WTO in 2003 and progress in privatization have had a positive impact on the business climate. With United States Agency for International Development (USAID) and World Bank assistance, the government has been implementing a program of reforms aimed at restructuring the banking and financial services sector, liberalizing trade, attracting foreign investment through improved tax and customs regimes, establishing a Western accounting system, and implementing a private property regime. However, many reforms remain incomplete, and the government will have to show strong political will to make necessary changes, especially in the tax and customs services.

Corruption, nepotism and interference by state authorities, uneven and unpredictable application of laws (particularly those relating to enforcement of contracts, bankruptcy and registration of property rights) and a weak banking sector remain serious constraints on business.

Due to Armenia's closed borders with neighboring Turkey and Azerbaijan, nearly all goods traded with Armenia must transit Georgia, where high transport tariffs are imposed, impeding growth in Armenia's export sector. Long-term economic prospects depend significantly on whether Armenia will be successful in resolving the Nagorno-Karabakh conflict, and in establishing normal diplomatic and trade relations with Turkey and Azerbaijan.

From January – September 2010, the total inflow of Foreign Direct Investment (FDI) to Armenia was \$348.7 million. Russia was the largest investor in the country, followed by France. Total American FDI in Armenia for January-September 2010 was approximately \$4.3 million, down 9.3 percent compared to the same period of 2009. The sectors which have attracted the largest foreign investments in Armenia in recent years are telecommunications, power and utilities, air transportation, and mining.

Armenia is one of the largest per-capita recipients of U.S. government aid. Direct foreign assistance like that from the U.S. Agency for International Development and other programs through the U.S. Department of State to Armenia was \$45.6 million in fiscal year 2010, and totals approximately \$2 billion since 1992. The United States Government also provides annual assistance to Armenia through the Department of Defense. In addition, the IMF, the World Bank, the European Bank for Reconstruction and Development (EBRD), and the

Asian Development Bank (ADB), as well as other financial institutions and foreign governments, have extended grants and loans to Armenia exceeding \$3 billion since 1993.

Millennium Challenge Corporation (MCC): The MCA-Armenia Compact is in its final year of implementation. As a result of the June 2009 meeting of MCC's Board of Directors, MCC will not resume funding for any further road construction and rehabilitation under the Compact. This hold on funding is a result of actions by the Government of Armenia that are inconsistent with commitments it made under the Compact to advance democratic governance. However, the MCC continues its extensive investment in the country's agricultural sector through major refurbishments of irrigation infrastructure and through technical assistance to farmers in rural Armenia. The U.S. has to-date disbursed over \$95 million under the MCA-Armenia program, and by the time the Compact is over, the U.S. will have invested nearly \$180 million to help reduce rural poverty in Armenia - 75 percent of the expenditures initially planned under the MCC Compact.

## Market Challenges

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While the Armenian government publicly acknowledges the need to create a more inviting business environment, many challenges remain. Perhaps the most critical challenge the government faces is the need to improve competition in the Armenian economy by breaking up the near monopolies held by a small group of well-connected businessmen on the import and sale of a range of critical products. This poses significant barriers to entry for both domestic and foreign business persons, harms competition and consumer welfare.

Despite many public statements in favor of reform, the tax and customs administrations – merged into a single agency in 2008 - remain dysfunctional and mired in corruption. The tax service still lacks the institutional capacity to collect all revenues owed, and the Customs service must still overcome a long legacy of corrupt practices, with many staff who benefited from the old system resistant to change. The government also on occasion still deploys both agencies against political opponents. This poses a major obstacle to firms trying to do business in Armenia

The Armenian government has ongoing programs to strengthen the financial intermediation role of the banking sector, improve governance in the administration of public services, and minimize corruption and interference by state authorities. The government's Poverty Reduction Strategy Paper and Anti-Corruption Strategy Paper (2004-2007) outlined plans for reform in broad terms, but failed to address structural reforms and deregulation. The original Action Plan of the Anti-Corruption Strategy Paper expired at the end of 2006. After holding lengthy discussions throughout 2007-2009, the government adopted a new anti-corruption strategy paper and action plan for 2009-2012 that technically entered into force on December 3, 2009, but which will require sustained political commitment and follow-up on action items. Despite public assurances that the government is intensifying the fight against corruption, Armenia has slipped further down in the annual Corruption Perception Index released by Transparency International.

The business climate will likely remain difficult, as vested interests continue to be the main impediment to good governance. Maintaining economic growth and progress will depend on positive political developments as well. The trade embargo imposed by two of Armenia's four neighbors - Turkey and Azerbaijan - is a major impediment to development. Transport costs through Georgia are expensive, due to extra travel distance and a lack of alternative routes. Trade with Iran is small, restricted by poor transportation links (bad roads, no railroad) and

by the fact that the portion of Iran adjacent to Armenia is a remote and underdeveloped region. U.S. involvement in trade with Iran is also limited by the Iran Sanctions Act (formerly Iran-Libya Sanctions Act, ILSA), and the risk of new sanctions which might be imposed by the United Nations, in connection with Iran's illicit nuclear programs.

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Due to Armenia's small domestic market and high transport costs, there are still relatively few -- but growing -- opportunities for traditional direct export of American products. While many American goods do make it to Armenia, many are resold from dealers in neighboring countries, at times without authorization from the original producer. The best opportunities for export probably lie in the services that require direct investment in Armenia, such as travel and tourism, or in franchising or distributorship opportunities. While American brand names are often highly regarded in Armenia, few major franchises or distributorships currently exist in consumer-oriented sectors. There is greater opportunity in Armenia for foreign direct investment. Foreign investors can benefit from largely unexploited assets, a favorable trade regime both with the CIS and with the West, and Armenia's relatively skilled workforce and low wages. However, occasional, opaque, transaction-driven economic policy decisions have called into question the government's commitment to welcoming foreign investment.

## **Market Entry Strategy**

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In the past, doing business in Armenia in almost all cases required having someone on the ground. However, some foreign businesses now report success at establishing trade relationships in Armenia without a preexisting local network. All business representatives underscore the need to have a strong understanding of local legislation, particularly tax and customs legislation, in order to avoid paying unnecessary fees. Communications networks have noticeably improved in the past few years, and additional telecommunications investments continue, though service quality and availability still lag behind the European norm. The importance of person-to-person contact in the Armenian business culture cannot be overemphasized. While some Western-style legal consultancies exist to help find partners or perform due diligence, their capacity to act as responsible agents is limited, largely due to the lack of transparency in the business culture as a whole. Most successful foreign investors have Armenian partners who are familiar with the local business environment.

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## Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

[Armenia 2010](#)

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## Chapter 3: Selling U.S. Products and Services

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### Using an Agent or Distributor

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Armenian companies are usually willing to become agents or distributors for American products. In recent years, local companies have agreed to become distributors for the following firms: Procter & Gamble, Mars, Johnson & Johnson, Kodak, Philip Morris, FedEx, UPS, Dell Computers, Intel, IBM, Reebok, Nike, and others. American companies seeking local distribution partners may contact an [Armenian legal consulting firm](#) for assistance in finding a partner.

### Establishing an Office

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Foreigners may choose from a wide range of available organizational forms to conduct business in Armenia. The Civil Code of Armenia defines the following legal forms of entities: Entrepreneur/Sole Proprietor, Business Partnership (Full Partnership and Trust Partnership), Limited Liability Company, Supplementary Liability Company, Closed and Open Joint Stock Companies, Cooperative and Representative office and/or branch. Setting up a business in Armenia is a complicated, multi-step process, and prospective entrepreneurs should seek guidance from the resources listed below or from an [Armenian legal consulting firm](#). The box presented below illustrates the basic administrative steps for opening a business in Armenia, as set out by Armenian law.

Office space is widely available in Yerevan. The recent boom in the real estate market continues to drive up commercial prices. Prices for commercial space range from \$700-1200 per square meter in the center and \$450-700 in the suburbs. The monthly rent of commercial space ranges from \$10-35 per square meter. For step-by step information on how to establish an office in Armenia please see below. Despite a drastic decline of sales of real estate since August 2008, prices have not diminished to reflect this decrease, though sale/purchase transactions stalled and are only now starting to rebound.

Business Registration Procedures (official time and cost indicated where applicable):

Step 1

Translate and notarize founders' documents, prepare and sign incorporation documents

Step 2

Open bank account and deposit charter capital, request written statement from bank

Step 3

Obtain written statement of deposited charter capital (1 day)

Step 4

Obtain and complete registration application from State Register

Step 5

Pay stamp duty for registration (1 day)

Step 6

Submit documents to State Register

Step 7

Obtain registration certificate (7 days: 5 for State Register + 2 for Patent)

Step 8

Submit documents to local tax department

Step 9

Receive tax registration certificate (2 days)

Step 10

Submit documents to the Social Security Fund

Step 11

Receive social registration certificate (2 days)

Step 12

Submit documents to Police for seal permission

Step 13

Receive seal permission from the Division of Permits and licensing of Police (1 day)

Step 14

Order seal at state "Seal" company

Step 15

Receive seal (2-30 days)

Step 16

Submit documents to National Statistical Office

Step 17

Receive statistical registration certificate (7 days)

Step 18

**START OPERATIONS** (after minimum of 24 days and ~ USD 85 in official costs)

For more information or the pamphlet "Entrepreneur's Roadmap: How to Register Your Business", click on the following link [Entrepreneur's Roadmap](#), or contact the Small & Medium Entrepreneurship Development National Center (SME DNC).

SME DNC

5 Mher Mkrtchyan Street,  
Yerevan 375010

Tel: 54 16 48

Fax: 54 16 42

Email: [info@smednc.am](mailto:info@smednc.am)

Website: <http://www.smednc.am>

Business Organization Laws:

Law on Firm Names

[Law on Joint-Stock Companies](#)

[Law on Registration of Legal Entities](#)

## Franchising

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The growing number of European franchises in Armenia and the prevalence of copycat shops and restaurants – together with a general premium on name recognition - suggest that U.S. franchises could be successful, especially in Yerevan. Despite the generally low incomes of the population, many entrepreneurs have enough capital to provide startup funds for franchising. Trademark owners will have to contend with a local business culture that is still casual in its respect for intellectual property rights (IPR). U.S. businesses will generally find it easier to protect their brands from infringement in the Armenian market if they have a legitimately authorized presence in Armenia, either directly or through an authorized agent or distributor. Armenian law and state agencies tend to give greater standing to an IPR complainant doing actual business in Armenia than to a foreign firm with no local operation. In the latter case, where there is no duly authorized competitor being directly harmed by a counterfeit operation, state agencies often tend to see the infringement as a forgivable and victimless offense.

IPR awareness is improving gradually, however, and the government has adopted and introduced amendments to legislation aimed at improving trademark owners' ability to protect their rights.

## Joint Ventures/Licensing

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Joint business ventures are the most popular forms of trade and investment arrangements between Armenian and U.S. companies. Joint ventures are often registered either as limited liability companies or joint stock companies. Many types of businesses are required to have a license. Article 43 of the [Law on Licensing](#) sets out all those enterprises requiring licenses and what sort of license they require. The Ministry of Finance and Economy issues simple licenses within three days of receiving the application. Businesses that need compound licenses must apply to special licensing commissions and various ministries, depending on the license. Generally, service providers requiring professional capability such as physicians, lawyers, bus or truck drivers require compound licenses.



## **Selling to the Government**

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Government purchases are conducted through the State Procurement Agency. The [Procurement Law of the Republic of Armenia](#) (2000) regulates the activities of the Agency and provides for the participation of foreign nationals in public sector procurement. Most of the government's large purchases are connected to programs funded by international financial donors. Ministries purchase foreign goods through public foreign trade companies and international tenders. In December 2010 Armenia was approved for accession to the World Trade Organization's Government Procurement Agreement (GPA). Armenia will be formally accepted to the GPA 30 days after ratifying the agreement and submitting the instrument of accession with the WTO secretariat. Armenia's parliament must also formally adopt a draft Procurement Law prior to formal accession.

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Armenia's domestic distribution channels are adequate for the country's small size, population, and market. The main storage facilities and wholesale companies are based in the capital Yerevan, the hub for domestic distribution. Retail and wholesale operations are often combined. Brand name recognition depends on the type of product and the Armenian public tends to give loyalty easily to established brands. Armenian and foreign freight-forwarding companies have established a reliable system for transporting goods to and from Armenia. While Armenia's two closed borders limit export-import routes and raise the cost of transportation, Armenian producers, importers, and freight forwarders have adopted reliable, but expensive, transport routes through Georgia. Goods from or bound for Europe and beyond enter or exit the Georgian ports of Poti and Batumi on the Black Sea coast. The overland trip between these posts and Yerevan often constitutes the most expensive part of the journey. As of the end of December 2010, the shipment of a 40-ft. container from Yerevan to New York cost approximately \$2,900, and from Yerevan to Los Angeles - \$3,400.

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E-commerce is underdeveloped in Armenia because of limited use of the Internet and credit cards, as well as computer network security issues. Inconsistent and inequitable application of customs duties is yet another impediment to e-commerce development. Use of e-mail for business communication, however, is common in Yerevan and some businesses have recently initiated on-line ordering and other e-commerce techniques.

## **Trade Promotion and Advertising**

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Radio, television and print media are widely available for advertisers, and creative businesses have adopted more modern means, such as painting the sides of public buses. Glass stands with flipping ad posters and billboards have become a common method of advertising. Television holds the majority of the advertising industry's market share. Advertising can be arranged through local advertising agencies, or directly with TV stations, radio stations, and the press.

In 1996, Armenia adopted the [Law On Advertising](#) that sets advertising standards and principles, including a mandate making Armenian the official language for advertising. Armenian text may be accompanied by text in a foreign language, provided the latter appears in smaller script. This provision does not apply to newspapers, special publications,

trademarks, etc., that are issued or printed in foreign languages. An advertisement may be copyrighted under Armenian law.

The Ministry of Health's permission is necessary for advertising pharmaceuticals, medical equipment or treatment methods. The law prohibits advertisements promoting the stimulating or relaxing effects of alcohol and cigarettes. Advertising for weapons (except sports and hunting weaponry) is prohibited. Specific restrictions apply to advertising banks, insurance and other financial institutions. Unfair or inaccurate advertising is prohibited, and the Civil Code provides for a civil action for legal entities or persons whose rights have been violated as a result of unfair or false advertising.

## **Pricing**

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Prices are largely determined by supply and demand. When making pricing decisions, market entrants should consider:

- The population's low purchasing power;
- The high cost of transportation;
- Value-added tax of 20 percent;
- The lack of competition or locally-manufactured products in many categories.

The market in Armenia is considerably price sensitive. The public is likely to recognize small price differences among various brands. High-priced items, such as automobiles, or apartments, traditionally are often priced (and paid for) in dollars, though this tendency has declined as the Armenian Dram has strengthened in the last several years. The sharp appreciation of the Dram against the U.S. dollar between 2005 and 2008 has led some vendors of high-end European goods to price their goods in Euros. As of November 1, 2007, all domestic and foreign airlines denominate airfares in Euros to avoid losses.

The State Commission on Protection of Economic Competition has on a few occasions intervened to prevent what seemed to be overpricing of certain consumer goods.

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In Armenia the concept of customer support for products and services is not well developed. Most stores, including brand name operations, are reluctant to allow returns of purchased items. There are an increasing number of companies, however, that provide explicit warranty services and consulting follow-up on the services rendered. Phone-based sales service or customer support is not common. In most cases, customers need to approach the vendor in person.

## **Protecting Your Intellectual Property**

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### **Protecting Your Intellectual Property in Armenia:**

Several general principles are important for effective management of intellectual property ("IP") rights in Armenia. First, it is important to have an overall strategy to protect your IP. Second, IP is protected differently in Armenia than in the U.S. Third, rights must be registered and enforced in Armenia, under local laws. Your U.S. trademark and patent registrations will not protect you in Armenia. There is no such thing as an "international copyright" that will automatically protect an author's writings throughout the entire world. Protection against unauthorized use in a particular country

depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Armenian market. It is vital that companies understand that intellectual property is primarily a private right and that the US government generally cannot enforce rights for private individuals in Armenia. It is the responsibility of the rights' holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in the Armenian law. The U.S. Commercial Service can provide a list of local lawyers upon request [If this list is available on embassy website, [hyperlink here](#)].

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Armenia require constant attention. Work with legal counsel familiar with Armenian laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Armenia or U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

Domestic legislation, including the 2006 Law on Copyright and Related Rights, provides for the protection of IP rights on literary, scientific and artistic works (including computer programs and databases), patents and other rights of invention, industrial design, know-how, trade secrets, trademarks, and service marks. Armenia's legislation is in compliance with the Trade Related Aspects of Intellectual Properties (TRIPS) Agreement. In January 2005, the government created an IP Enforcement Unit in the Organized Crime Department of the Armenian Police.

Despite the existence of relevant legislation and executive government structures, the IPR concept remains unrecognized by a large part of the local population. While pirated audio and video production is largely available at major entertainment retail shops in Yerevan, some anecdotal evidence suggests tightened measures for computer software piracy. The onus for IP complaints remains with the offended party. Although exact statistics are unavailable, the police assert the number of court cases involving IP violations have increased in 2010 compared to the previous years; about 70 percent of all the cases are settled through out-of-court proceedings. There is also an Intellectual Property Agency in the Armenian Ministry of Trade and Economic Development responsible for granting patents and for overseeing other IP related matters. While Armenia has made some progress on IP issues, enforcement mechanisms are inadequate.

### **IP Resources**

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at [www.StopFakes.gov](http://www.StopFakes.gov).
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the US Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the US, contact the US Copyright Office at: **1-202-707-5959**.
- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at [www.stopfakes.gov](http://www.stopfakes.gov).
- For US small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and . For details and to register, visit: [http://www.abanet.org/intlaw/intlproj/ipprogram\\_consultation.html](http://www.abanet.org/intlaw/intlproj/ipprogram_consultation.html)
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: [www.StopFakes.gov](http://www.StopFakes.gov) This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well

as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.

- The U.S. Commerce Department has positioned IP attachés in key markets around the world. You can get contact information for the IP attaché who covers Armenia at: <http://www.uspto.gov/ip/global/attache/index.jsp>

The Intellectual Property Agency of the Republic of Armenia is responsible for IPR enforcement as well as for registration of intellectual property.

## Web Resources

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Laws on Copyrights, Trademarks, Patents:

[Law on Copyright & Related Rights](#)

[Law on Trademark, Service Marks and Appellations of Origin](#)

[Law on Patents](#)

U.S. Embassy Yerevan Consular Section list of [Armenian legal consulting firms](#)

[American Chamber of Commerce in Armenia](#)

[Ministry of Economy of the Republic of Armenia](#)

[Armenian Intellectual Property Agency](#)

[Armenian Development Agency](#)

[Spyur Business Directory](#)

[Armenia Yellow Pages Directory](#)

[Armenia Development Gateway](#)

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# Chapter 4: Leading Sectors for U.S. Export and Investment

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## Information Technology

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Armenia's information technology (IT) sector consists of approximately 200 firms - of which more than 36 have American partners - specializing in embedded system and semiconductor design, custom software development, multimedia and Internet applications, as well as IT consulting. Nearly all IT firms in Armenia are cost-centers, lacking back-office (payments processing) and front office (call-center) services. Based on knowledge export, Armenia's IT sector receives significant attention as a possible growth industry in a landlocked country. Almost all companies are concentrated in Yerevan, although recently the government has compiled an industry development strategy aimed at expanding IT activities and infrastructure to Armenia's regions.

According to the latest available data, the IT sector currently employs around 5,000 people and annually generates approximately \$150 million in revenue in Armenia. While the sector was affected severely by the global economic crisis and several firms closed, the sector is rebounding.

Room for growth in the IT sector is determined by the availability of qualified workers. Improvements in higher education in IT are needed to turn out the caliber of workers that the sector requires and that the earliest firms in the sector were able to find. Most companies conduct their own on-the-job training. Armenia's two-year mandatory military service requirement may place unique disadvantages on the fast-changing IT sector, as trained technicians' skills may be obsolete by the time they return from military duty.

A major impediment to growth in the IT sector has long been the unreliability of the country's aging fixed-line telecommunications infrastructure, due largely to the monopoly position of the country's legacy carrier, Armentel. However, there are now three companies providing internet bandwidth via fiber-optic cable and the price has fallen significantly, though it remains considerably higher than in the U.S. or western Europe, due in part to high interconnection charges in Georgia and Iran. There is no fiber-optic connection yet to Turkey. There are now three mobile telecommunications providers operating in Armenia -

two Russian-owned and one French-owned - as well as a large number of internet service providers (ISPs).

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American IT firms report that productivity in Armenia is high and wages (around \$400 monthly for a first-year programmer) are still below those in other markets. In addition, some American firms have successfully acquired small Armenian firms with marketable products and helped them to develop international sales channels.

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The Armenian government has actively supported Armenia's growing IT industry. With the support of the World Bank, the Ministry of Trade and Economic Development established the [Enterprise Incubator Foundation](#) (EIF) to improve the competitiveness of Armenian IT firms in the global marketplace and to assist Armenian firms in attracting investors. EIF has published the following two guides to Armenia's IT industry:

[Guide to Armenian Information Technology Companies](#)  
[Armenian Information Technology Sector: Software and Services](#)

### [Enterprise Incubator Foundation](#)

123 Hovsep Emin street  
Yerevan 0051, Armenia  
Tel: +374 10 219 797  
Fax: +374 10 219 777  
Email: [info@eif.am](mailto:info@eif.am)  
<http://www.eif-it.com>

## Tourism

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While admittedly a niche tourism market, Armenia has not realized the full potential of its tourism industry. Most international visitors are either Diaspora Armenians or business travelers. That said, the number of visitors to Armenia increases every year. Services for tourists and travelers are reasonably good in Yerevan and developing in the rest of the country. During 2010, 683,979 people entered Armenia on tourist visas, an increase of 19% over 2009. According to the methodology used by the National Statistical Service, this number includes any person entering the country for business, pleasure, medical or religious purposes, and not purely tourists.

Armenia has more than 700 possible tourist attractions - mostly ancient churches and monasteries - but the majority of them are underdeveloped and difficult to reach. Stunning natural vistas are a potential attraction throughout Armenia, but the lack of international-standard hotels, restaurants and other services in the regions and poor access deter many tourists. Limited, inconveniently-scheduled, and high-cost international flight connections also impede development of the tourism industry, but the Armenian government is working to attract new carriers and improve flight arrival and departure times.

In June 2000, the government established the [Armenian Tourism Development Agency \(ATDA\)](#) to implement its tourism policy and promote tourism in Armenia. Until recently, ATDA received technical assistance from a number of international donors, including USAID through the International Executive Service Corps (IESC) and the U.S.-based Hovnanian International. Tourism is also one of the key sectors targeted for assistance from the USAID/CAPS project. In 2010, funding from a private donor financed an ambitious construction project of an aerial cable car lift across a mountain gorge in the Syunik Province. The lift connects the lower area to the Tatev Monastery, one of Armenia's most picturesque tourist attractions. Similar infrastructure projects aim at enhancing the country's reputation as an international tourism destination.

### **Note: On Restaurants and Franchising**

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Although the only well-known Western fast food chain open in Armenia is KFC, this type of business is relatively developed in Armenia. New pizzerias, restaurants, and sandwich bars have been appearing every month while the market demand for these services has been showing signs of growth. High-priced restaurants serving foreign cuisine are finding success in niche markets. The restaurant business is an attractive investment and partnership opportunity for U.S. firms. Franchise offers from well-known American chains might attract substantial interest, both from customers and from local investors.

### **Opportunities**

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Armenia still has several picturesque regions with quality tourist destinations that lack modern accommodations, restaurants and services. Of special interest may be the scenic but underdeveloped (for tourism and travel) southern region of Syunik, boasting the Tatev monastery, and the Vayots Dzor region, just south of Yerevan.

### **Web Resources**

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The [Armenian Tourism Development Agency \(ATDA\)](#) has resources for the public and for travel services providers.

#### [Armenian Tourism Development Agency \(ATDA\)](#)

(hosted within the National Competitiveness Foundation of Armenia)

5 Mher Mkrtchyan Street

Tel: (374-10) 54 23 03/54 23 06

E-mails [help@armeniainfo.am](mailto:help@armeniainfo.am), [info@armeniainfo.am](mailto:info@armeniainfo.am)

#### [American Chamber of Commerce in Armenia](#)

[Spyur Business Directory](#)

[Armenia Yellow Pages Directory](#)

### **Mining and Metallurgy**

### **Overview**

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Armenia possesses 480 known major deposits of mineral resources. The Ministry of Trade and Economic Development estimates reserves of a few hundred million tons of iron ore deposits, a few million tons of copper, lead, and zinc reserves, a few hundred thousand tons of molybdenum, and a few thousand tons of gold and silver deposits. There has been recent exploration for uranium deposits. The largest copper reserves are concentrated in copper and molybdenum (Kajaran, Agarak, Lichk and Teghut) and in copper-pyrite (Kapan, Alaverdi, Shamlough) and in gold-polymetallic (Shahumyan, Armanis) deposits. There are considerable gold resources in gold root (Sotk, Megradzor, Lichkvaz-Tey) and complex gold-polymetallic (Shahumyan, Armanis, Azatek, Gladzor, Marjan) deposits. There are valuable reserves of rare metals in gold-polymetallic, copper-molybdenum and copper pyrite deposits. Extraction operations currently proceed at 11 ore deposits, while remaining deposits are registered by the Armenian government as reserve proven territories. Armenia's Mining Legislation establishes the regulatory framework governing mining and concessions. The Department of Mineral Resources within the [Ministry of Energy and Natural Resources](#) is responsible for administering the sector and licensing and monitoring exploration, as well as production operations. Separate licenses cover the exploration and production phases of a project, with an automatic right of conversion to a production license following successful exploration. License holders must submit work programs to the Ministry for approval, and licenses can be withdrawn if minimum work requirements are not met.

## Opportunities

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A number of international mining companies have reported problems working in this sector related to ambiguous tax and customs legislation and non-transparent implementation. However, businesses interested in further exploration of Armenia's mineral resources should contact the Department of Mineral Resources within the [Ministry of Energy and Natural Resources](#) and the Ministry of Economy. We also recommend the Ministry of Trade and Economic Development's flyer Positive Outlook for Mineral Sector Growth.

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[Armenian Development Agency, mining website](#)  
[Ministry of Energy and Natural Resources](#)

## Light Industry

### Overview

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Cheap labor, existing factories and a positive trade regime (including free access to CIS markets) create favorable conditions for investment in light industries, such as textiles, carpets, footwear and apparel. The sector depends almost entirely on imported raw materials and fabrics, creating export opportunities for American firms. Due to the industries' high value-added to volumes ratio, transportation costs are not prohibitive. Armenia currently has about 50 light industry firms employing 2,300 people. The clothing sector shows strong prospects for development. Armenia has several large cut-and-sew shops operating at only a fraction of their capacity. Those that are operating export nearly all of their production.

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[Armenian Development Agency Textile Page](#)

## Financial Services

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The leading industry in Armenia's financial sector is banking. Capital markets, insurance, mutual and trust funds, venture capital and other forms of financial intermediation are underdeveloped. The Central Bank of Armenia (CBA) is responsible for financial system regulation and supervision in Armenia, and is broadly respected for its competence and professionalism.

During 2003, the liquidation of weak banks and rising statutory capital requirements resulted in the healthy consolidation of the banking sector. As of November 2010 there were 21 commercial banks with 393 branches operating in Armenia. There were 31 credit organizations in Armenia with 60 branch offices. As of January 1, 2009, total capital requirement for existing and newly established banks has increased to 5 billion drams.

In 2010, total bank capital grew by 18%, and as of November 2010, was equal to 312 billion Drams (\$865 million). The banking sector generated a profit of 26 billion Drams over the same period. The global economic crisis, which resulted in a significant slowdown in almost all aspects of economic activity in Armenia, has begun to ease here. This is due to a number of factors, including the government anti-crisis strategy and increased international borrowing, both through donors and commercially. Increased lending risk during the global financial crisis caused the suspension of the majority of loan programs by most of the commercial banks in 2009. Banks in Armenia began to conserve liquidity, inter alia, to enable them to set aside larger loan loss provisions and to better prepare for the repayment of external obligations. This, coupled with the reduced availability of external financing, affected the Armenian banks' liquidity, profitability, and ability to extend new credits, especially towards SME borrowers. This resulted in the accumulation of excess liquidity and increased competition among the banks. International donors have attempted to address this issue by supplying assistance funding reserved for SME lending through commercial banks. In addition, with the support of the government, a number of SME lending facilities have been initiated recently to boost lending to the private sector. Through these facilities the government has made available much-needed resources in local currency for lending to the private sector. Despite this, commercial lending rates remain high, and virtually all banks require collateral located in Armenia for commercial loans.

The government has also outlined a program to increase financial intermediation by establishing deposit insurance, thereby building the public's trust and confidence in the system and resulting in the attraction of more savings deposits. The deposit insurance law was adopted in December 2004 and entered in to force in January 2005. It was amended in 2009 by increasing the insurance amount twofold in an attempt to encourage deposits in local currency. At present, the insurance amount for dram deposits is Armenian dram four million, and for USD deposits – Armenian dram two million.

The international community renders significant assistance to the banking sector. USAID helped to establish the electronic transfer and data exchange inter-bank system (CBANet), significantly improved the CBA's supervisory capacity and assisted in reorganization of the latter into a mega regulator. Currently, the CBA is largely in compliance with international standards such as Basel Core Principles. USAID, the World Bank, EBRD and other organizations support local lending programs administered by certain local banks, and

donors are funding projects to expand the mortgage market and enhance services within the financial sector. The banking sector in Armenia is regulated by the following laws:

- [On the Central Bank of Armenia](#)
- [On Banks and Banking](#)
- [On Bankruptcy of Banks and Credit Institutions](#)
- [On Banking Secrecy](#)
- [On Credit Organizations](#)
- [On Currency Regulation and Currency Control](#)

## Opportunities

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There are significant opportunities for foreign investment in the commercial banking, insurance, mortgage lending and pension management sectors.

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[Central Bank of Republic of Armenia](#)

## Construction

### Overview

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Construction, which was the leading sector of the economy from 2001-2008, constituting 27% of the country's GDP in 2008, declined by 34.6% in 2009. In January-December 2010, the sector continued to shrink with a decrease of three percent compared to the same period in 2009. The slowdown in construction started with a very tense political situation connected to the presidential election campaign following post-election civil unrest, and exacerbated by hostilities in neighboring Georgia in August of 2008. Market saturation and global economic crisis-related demand drops have also contributed to the construction slowdown. While all of these factors have inhibited real estate sales and have consequently resulted in the freezing of numerous construction projects, prices for apartments and/or commercial space have not decreased and vary from \$428 to \$2,800 per square meter, depending on the neighborhood.

## Opportunities

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American companies providing fixtures, furnishings and security equipment may well find strong opportunities within the Armenian market.

## Agriculture

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More than 40% of Armenia's population works in the agricultural sector, accounting for almost one-fifth of GDP. Even modest growth can have implications for the entire economy. The Armenian agricultural sector contracted by 14 percent from January-December 2010, due mostly to unfavorable weather and related crop damage. Both the [U.S. Department of Agriculture](#) and [USAID](#) are implementing projects with small and medium-sized agribusinesses, helping to bring Armenian products to market domestically and abroad. Agricultural products include grain crops, vegetables and fruits including grapes, figs,

pomegranates, apricots, peaches, potatoes, sugar beets, tobacco, cotton, specific oils (such as geranium), peppermint, and special teas. Export costs are high, including transportation, taxes and promotion payments. Export sales are made primarily to the Armenian specialty product market within the Diaspora community and CIS, but are also expanding to other areas such as the Gulf states and the USA. Firms that emphasize high quality, specialty food products and Armenian specialties are finding success despite the high cost of transportation and the lack of developed distribution channels. The nominal appreciation of the Dram against the U.S. dollar and fears of inflation are causing concern among many of the country's exporters about the potential loss of competitiveness of Armenian products in foreign markets.

## **Opportunities**

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Though not large in terms of population and buying power, Armenia can be an interesting market for American agricultural product exporters in specific fields. Some producers are experimenting with organic crops, although there is no national certification program. Armenia is a net food importer, and domestic agriculture cannot satisfy demand for a range of items such as meat and poultry products, sugar, flour, soft drinks, wine, rice, vegetable oils and high-value grocery products. Import tariffs are generally low (up to 10%) and product safety and quality certification processes and import procedures are based on international standards, or are being upgraded as a result of Armenia's accession to the WTO.

## **Web Resources**

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[USDA Caucasus Agribusiness Development Initiative in Armenia](#)  
Republic of Armenia [Ministry of Agriculture](#) (Armenian site)

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## Chapter 5: Trade Regulations, Customs and Standards

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- [Labeling and Marking Requirements](#)
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### Import Tariffs

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Armenia has one of the world's most open tariff regimes. Armenia imposes import tariffs on goods classified pursuant to the international Harmonized Commodity Description and Coding System (HS). Tariffs are 0 or 10 percent in ad valorem terms and levied on C.I.F. values. Though the existing Customs Code is in full compliance with WTO rules, the application of market value ("reference pricing"), rather than transaction value, in the valuation of goods is a common practice, creating an unpredictable and intimidating environment for international traders as well as for domestic firms. At the same time, customs officials complain that importers systematically under-report the transaction value of goods to avoid tariffs, VAT and excise taxes. To have an invoice calculated by transaction value method, the importer should submit a valid invoice for goods procurement in the exporting country together with a customs declaration. The invoice should include the following information:

- Submission date,
- Sequential number,
- Information about buyer and seller,
- Detailed description of goods,
- Information on commission and broker charges for transporting, loading, unloading, transshipment and insurance,
- Payment information provided by buyer to seller.

There are no duties on temporary imports, or imports made on credits to the government or pursuant to other international assistance. Armenia has no export tax. Customs authorities calculate and collect Value Added Tax (VAT) (20%), road tax and environmental payments at the point of entry. In addition, there are excise taxes on crude oil and derivative products, alcohol and tobacco. For more information on payments see the Armenian Customs website: <http://www.customs.am> (under construction).

### Trade Barriers

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The Armenian Customs Code is in compliance with WTO requirements. Nevertheless, improper implementation of the Customs Code remains a barrier to trade. According to the Doing Business 2010 study by the World Bank, Armenia ranks 102 on the scale of 183 in the

"trading across borders" indicator. The study found that, on average, the time for import took 20 days, and average cost per container is USD 2,000. (Note: for importing goods, the procedures measured range from the vessel's arrival at the port of entry to the shipment's delivery at the importer's warehouse; cost reflects the fees levied on a 20-foot container, including costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include tariffs or duties.) Both local and foreign businessmen indicate that cumbersome and ambiguous laws and procedures as well as their poor and inconsistent administration are major obstacles in dealing with the customs authorities, which frequently results in extortion or unofficial payments. However a majority agree that a sound knowledge of the laws and procedures helps to avoid corrupt practices.

While the Customs Code facilitates export transactions with much less documentation than for customs clearance of imports, most exporters report minor hassles in the customs houses. One of these is the informal requirement to submit a special permit issued by the head of the customs house to the customs officer. To get such a permit, exporters must petition the head of the appropriate customs house in writing. Although there are no reported cases of rejection, this practice is not in line with the existing legal framework.

Certification of origin is a complicated and costly procedure for exporters. Exporters must present a certificate of origin from the Armenian Chamber of Commerce and Industry (ACCI), after ArmExpertiza LLC has examined the exports. The ACCI applies a complicated and expensive mechanism for issuing certificates; ArmExpertiza – a specially created subdivision of the ACCI must specifically study samples of goods to be exported. Exporters, especially those that export goods in relatively modest quantities, are confused and discouraged by the procedures and complicated fees. The process was supposedly simplified after the government handed them over to a quasi-governmental institution designed to help promote exports. In 2002, the government also abolished the state fee for obtaining the certification in an attempt to simplify the procedure and lower the cost to business. However, ArmExpertiza has since raised its fees considerably, justifying the higher cost by arguing that they use more expensive experts.

## **Import Requirements and Documentation**

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Customs requires importers to present a customs declaration form with a commercial invoice indicating the specifications, quantity, and value of goods being imported. In addition, to ensure that imports will be valued by the transaction method of valuation, documentation must meet the requirements enumerated in the section [Import Tariffs](#) above. The State Customs Committee is gradually implementing an on-line declaration process (Direct Trader Input or "DTI") which reduces personal contact between customs officials and importers.

Armenia maintains a national inquiry point on standards and conformity assessment matters in the Department for Standardization, Certification, and Metrology of the Ministry of Trade and Economic Development ([SARM](#)). SARM is responsible for provision of all relevant information on standards and technical regulations. For more information see the [Standards](#) section below.

## **U.S. Export Controls**

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A relatively small percentage of total U.S. exports and re-exports are controlled or require a license from BIS. License requirements are dependent upon an item's technical characteristics, the destination, the end-user, and the end-use. You must determine whether

your export requires a license. For more information please visit the [Department of Commerce \(DOC\) Export Controls website](#), maintained by the DOC's Bureau of Industry and Security.

## Temporary Entry

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No customs tariffs are levied on goods imported temporarily under customs control and under an appropriate customs regime. Foreigners who temporarily enter Armenia can bring one vehicle with its trailer duty free on the condition that it is taken with them when they leave. If the foreigner does not re-export the car, all proper duties must be paid.

## Labeling and Marking Requirements

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Imported food products' labels must have the manufacturer's name, contents, weight, and "best before" data. Armenia has recently adopted language requirements for imports of some (mainly food) products. The complete list may be obtained from [SARM](#). Companies wishing to obtain bar codes for their products should apply to SARM. Armenia is a member of the ISO and aims to harmonize its systems of standards in compliance with ISO requirements within the next few years.

## Prohibited and Restricted Imports

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The Government of Armenia prohibits, except in specially-licensed cases, the import of:

- Weapons, explosives, army equipment, components for their production, and army uniforms;
- Narcotics, psychotropic substances and devices intended for their use;
- Pornography.

In addition to the above, the Government of Armenia prohibits the transit through Armenian territory of any nuclear material or substances emitting ionizing radiation.

## Customs Regulations and Contact Information

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STATE REVENUE COMMITTEE  
3 Khorenatsi Street, Yerevan 375015  
Mr. Gagik Khachatryan, Chairman  
Tel: (374-10) 53-60-51  
Fax: (374-10) 53-80-35  
<http://www.petekamutner.am>

## Standards

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## Overview

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The National Institute of Standards and Quality is a Closed Joint Stock Company operating under the Ministry of Trade and Economic Development. The National Institute of Standards and Quality maintains a national fund of standards of the Republic of Armenia which contains International (ISO), Interstate (GOST), Regional (EN), Armenian (AST) and other standards. Currently, certificates of quality/safety issued or accepted by The National Institute of Standards and Quality under the Ministry of Trade and Economic Development (SARM) are required for tobacco products, alcoholic drinks, and petroleum products. Imported vitamins and other pharmaceutical products are subject to certification by the Ministry of Health. Most food products should be certified for quality/safety by SARM. In 1997, USDA and SARM exchanged letters in which SARM agreed to recognize USDA safety certificates for meat and poultry products. For a complete list of products (except pharmaceuticals) subject to certification and certification procedures, please see the [Armenian Customs](#) website (site under construction) or contact the Department for Standardization, Certification, and Metrology of the Ministry of Economy of Armenia.

Department of Standardization, Certification, and Metrology  
Ministry of Trade and Economic Development of the Republic of Armenia  
M. Mkrtchyan 5  
Yerevan, 375010  
Tel: (374 -10) 56 69 25  
Fax: (374-10) 52 65 77  
Email: [mailto: sarm@sarm.am](mailto:sarm@sarm.am)  
<http://www.sarm.am/en>

## Standards Organizations

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### **NIST Notify U.S. Service**

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. Notify U.S. is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

## Conformity Assessment

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As of February 2005, SARM had published conformity assessment procedures in Armenian on their website. Russian and English versions are forthcoming.

## Accreditation

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SARM has been accredited as a products, services and quality management systems (ISO 9000) certification body, as well as a products certification body within the system of the Russian Federation. It also carries out conformity assessment works in the above-mentioned fields and testing of a large number of items.

## Publication of Technical Regulations

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SARM publishes new technical regulations in Armenian, Russian and English at the following website: <http://www.sarm.am/en>

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Department for Standardization, Certification, and Metrology of the Ministry of Trade and Economic Development ([SARM](#)).

Armenian Customs website <http://www.customs.am/>

[Department of Commerce \(DOC\) Export Portal](#)

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## Chapter 6: Investment Climate

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### Openness to Foreign Investment

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Armenia's investment and trade policy is relatively open, and the GOAM consistently asserts its interest in obtaining foreign investment. Significant obstacles remain, however, particularly with respect to corruption. Armenia ranked 48<sup>th</sup> out of 183 economies in the World Bank's Doing Business 2011 report, down 5 points from 2010. Noticeable improvement was made in trading across borders rating (82<sup>nd</sup>, up from 102<sup>nd</sup> in 2010). In all other ratings Armenia ranked poorly compared to the previous year, including: starting a business (22<sup>nd</sup> compared to 21<sup>st</sup> in 2010); dealing with construction permits (78<sup>th</sup> compared to 72<sup>nd</sup> in 2010; paying taxes (159<sup>th</sup> compared to 153<sup>rd</sup> in 2010); and closing a business (54<sup>th</sup> compared to 49<sup>th</sup> in 2010.) Although Armenia compares favorably to regional averages, that group includes Central Asia.

Foreign companies are entitled by law to the same treatment as Armenian companies (national treatment). Under the Armenian Law on Profit Tax, taxpayers engaged in agricultural production are exempt from tax on that income. This was set to expire in 2010 with an introduction of VAT for agricultural products in line with Armenia's WTO commitments. However, no changes have been made to date.

Basic provisions regulating American investments are set by the Bilateral Investment Treaty (BIT), signed by the United States and Armenia in 1992, and by the 1994 Law on Foreign Investment. In addition to providing for national treatment and most-favored nation treatment, the BIT sets out guidelines for the settlement of disputes involving the governments of either party.

Armenia's 1997 Law on Privatization (amended in 1999) states that foreign companies have the same rights to participate in privatization processes as Armenian firms. Nevertheless, the majority of important privatizations of Armenia's large assets have not been competitive or transparent, and political considerations have in some instances trumped Armenia's international obligations to hold fair tender processes.

Under the Constitution, foreign individuals are prohibited from owning land in Armenia, but this prohibition does not apply to foreign businesses. Armenia does not issue foreign tax credits and has no double taxation treaty with the United States. The Armenian government has expressed interest in negotiating a double taxation treaty with the United States, and a few private companies see the absence of such treaty as potentially harmful and an excessive burden.

Armenia is a member of the following major international organizations: IMF, World Bank/IDA, IFC, WTO, OSCE, Council of Europe, UN/UNCTAD/UNESCO, MIGA, ILO, WHO, WIPO, INTERPOL, European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), IAEA, World Tourism Organization, World Customs Organization, International Telecommunications Union and the Organization of the Black Sea Economic Cooperation (BSEC). Armenia became the 145<sup>th</sup> member of the WTO in February 2003.

The seemingly open legislative framework and the government's visible effort to attract more foreign investment are overshadowed by instances of unfair tender processes and preferential treatment. Such instances, as well as the state's failure to ensure a fair investigation of abuses and judicial review, has undermined the government's assurances of equal treatment and transparency. However, in a December 7 decision the WTO Committee on Government Procurement invited Armenia to join its Government Procurement Agreement (GPA), which will make Armenia the first CIS country to accede once required domestic legislation is passed. This accession, expected in spring 2011, is viewed as a positive move aimed at increasing the openness and transparency of the internal markets.

## **Conversion and Transfer Policies**

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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. The GOAM maintains the AMD as a freely convertible currency under a managed float, although between September 2008 and March 2009 the CBA sought to maintain the AMD through intervention in the foreign exchange market. According to the 2005 law on "Currency Regulation and Currency Control," prices for all goods and services, property and wages must be set in AMD. There are exceptions in the law, however, for transactions between resident and non-resident businesses and for certain transactions involving goods traded at world market prices. The new law requires that interest on foreign currency accounts be calculated in that currency, but be paid in Armenian Drams.

## **Expropriation and Compensation**

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Under Armenian law, foreign investments cannot be nationalized. They also cannot be confiscated or expropriated except in extreme cases of natural or state emergency, upon a decision by the courts and with compensation paid to the owner. While the U.S. government is not aware of any confirmed cases of expropriation, a local subsidiary of a U.S.-based mining company was engaged for several years in a dispute with the GOAM over mining rights, and accused the GOAM of attempting to expropriate company assets. The parties reached a settlement in 2008 after lengthy negotiations at various levels.

## **Dispute Settlement**

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According to the 1994 Foreign Investment Law, all disputes that arise between a foreign investor and the Republic of Armenia must be settled in Armenian courts. In late January 2007, however, then Armenian President Kocharian signed a new law on Commercial Arbitration, which provides investors with a wider range of options for resolving their commercial disputes. The Bilateral Investment Treaty (BIT), signed by the U.S. and Armenia, provides that in case a dispute arises between an American investor and the Republic of Armenia, the investor may choose to submit the dispute for settlement by binding international arbitration. As an international treaty, the BIT supersedes Armenian law, a point which Armenia's constitution acknowledges and which holds in actual practice.

Many Armenian courts suffer from low levels of efficiency, independence and professionalism, and there is a need to strengthen the Armenian judiciary. While there have been a few investment disputes involving U.S. and other foreign investors, there is no evidence of a pattern of discrimination against foreign investors in these cases. In general, the government honors judgments from both arbitration and Armenian national courts.

Disputes to which the GOAM is not a party may be brought before an Armenian or any other competent court, as provided by law or by agreement of the parties. Following the court reform in January 2008, commercial disputes are tried in courts of general jurisdiction. The verdict can be appealed to the Court of Appeal and Court of Cassation, the highest judicial authority in Armenia. The Law on Arbitration Courts and Arbitration Procedures provides rules governing the settlement of disputes by arbitration. According to Constitutional amendments of 2005, the courts of first instance have undergone a major restructuring; as a result, in January 2008, the GOAM abolished the Economic Court and launched a new specialized administrative court and courts of general jurisdiction to hear civil and criminal cases, in the hope of streamlining these proceedings. Armenia is a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Washington Convention) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

## **Performance Requirements and Incentives**

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Armenia currently has incentives for exporters (no export duty, VAT refund on goods and services exported) and foreign investors (income tax holidays, and the ability to carry forward losses indefinitely). The GOAM amended the VAT law in November 2005 to allow companies to delay VAT payments for one to two years on certain imported goods

used in production and manufacturing. Also, in accordance with the Law on Foreign Investment, several ad hoc incentives may be negotiated on a case-by-case basis for investments targeted at certain sectors of the economy and/or of strategic importance to the economy.

The Armenian Parliament has recently amended the Law on Excise tax in an attempt to equalize duties and taxes on gasoline, alcohol and tobacco for local producers and importers, following Armenia's WTO commitments of non-discrimination. The fuel-related provisions entered into force as of January 1, 2011, while the implementation of alcohol and tobacco provisions is deferred until 2014, allowing for prolonged protection of domestic producers through lower tariffs.

The GOAM has imposed performance requirements for investors as part of privatization agreements, especially for the privatization of large state assets like mines or the telecommunications network. There are no performance requirements for de novo investment.

The GOAM takes considerable interest in economic activities in the disputed region of Nagorno-Karabakh. In August 2008, the CBA terminated operations of Western Union's money transfer services in Armenia following the company's decision to close its operations in Nagorno-Karabakh under pressure from the National Bank of Azerbaijan. As the CBA's mandate does not officially include Nagorno-Karabakh, the decision by the CBA is viewed as politically motivated.

## **Right to Private Ownership and Establishment**

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The Armenian Constitution protects all forms of property and the right of citizens to own and use property. Foreign individuals who do not hold special residence permits cannot own land, but may lease it; companies registered by foreigners in Armenia as Armenian businesses have the right to buy and own land. There are no restrictions on the rights of foreign nationals to acquire, establish or dispose of business interests in Armenia.

## **Protection of Property Rights**

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Armenian law protects secured interests in property, both moveable and real. Armenian legislation provides a basic framework for secured lending, collateral and pledges, and provides a mechanism to support modern lending practices and title registration.

Domestic legislation, including the 2006 Law on Copyright and Related Rights, provides for the protection of intellectual property rights (IPR) on literary, scientific and artistic works (including computer programs and databases), patents and other rights of invention, industrial design, know-how, trade secrets, trademarks, and service marks. Armenia's legislation is in compliance with the Trade Related Aspects of Intellectual Properties (TRIPS) Agreement. In January 2005, the government created an IPR Enforcement Unit in the Organized Crime Department of the Armenian Police.

Despite the existence of relevant legislation and executive government structures, the IPR concept remains unrecognized by a large part of the local population. While pirated audio and video production is largely available at major entertainment retail shops in Yerevan, some anecdotal evidence suggests tightened measures for computer software

piracy. The onus for IPR complaints remains with the offended party. Although exact statistics are unavailable, the police assert the number of court cases involving IPR violations have increased in 2010 compared to the previous years; about 70 percent of all the cases are settled through out-of-court proceedings. There is also an Intellectual Property Agency in the Armenian Ministry of Trade and Economic Development responsible for granting patents and for overseeing other IPR related matters. While Armenia has made some progress on IPR issues, enforcement mechanisms are inadequate.

## **Transparency of Regulatory System**

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The Armenian regulatory system pertaining to business activities still lacks transparency in implementation. A small group of businesses dominates several sectors and suppresses full competition. The inconsistent application of tax, customs (especially with respect to valuation) and regulatory rules, especially in the area of trade, undermines fair competition and adds uncertainty for small- and medium-sized businesses and new market entrants. Banking supervision is relatively well developed and largely consistent with the Basel Core Principles. In early 2006, the CBA became the primary regulator for all segments of the financial sector, including banking, securities, insurance and pensions.

Safety and health requirements, most of them holdovers from the Soviet period, generally do not impede investment activities. Bureaucratic procedures can nevertheless be burdensome, and discretionary decisions by individual officials still provide opportunities for petty corruption. Despite persistent problems with corrupt officials, both local and foreign businesses assert that a sound knowledge of tax and customs law and regulations enables business owners to deflect a majority of unlawful bribe requests.

## **Efficient Capital Markets and Portfolio Investment**

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Armenia's financial sector is not highly developed. As of October 2010, total bank assets were USD 4 billion (52 percent of GDP), up 25 percent from September 2009. The insurance market is very small, with total annual premiums for 2009 amounting to approximately USD 21 million and the first quarter of 2010 at USD 4.7 million. These numbers may increase slightly with the introduction of mandatory third party liability motor insurance, beginning January 1, 2011. IMF estimates suggest that banking sector assets account for 92 percent of total financial sector assets. Financial intermediation is poor: commercial lending rates in AMD range from 13 to 14 percent for business entities and from 18 to 22 percent for individuals. Nearly all banks require collateral located in Armenia, and large collateral requirements often prevent potential borrowers from entering the market. This remains the main barrier for SMEs and start-up companies. As of November 2010, a slight drop in commercial lending rates was registered, due to decreased business activity and increased competition among banks. Banks have restored lending after a suspension with the onset of the economic crisis in Armenia at the end of 2008 that continued throughout the first half of 2009. Mortgage rates at the end of November 2010 were 13 -13.4 percent, a decline of 6 percentage points compared to December 2009. A drop in mortgage rates is attributed to decreased demand in the real estate market.

Although there is a system and legal framework in place, Armenia's securities market is not well developed, with minimal trading activity. On November 21, 2007, OMX, a leading expert in the equities exchange industry, and the Government of Armenia signed a Share Purchase Agreement regarding the acquisition of the Armenian Stock Exchange and the Central Depository of Armenia. According to the agreement, OMX became the sole shareholder of the Armenian Stock Exchange and the Central Depository of Armenia. In addition to the Share Purchase Agreement, OMX and the Government of Armenia have also signed a Cooperation Agreement outlining joint efforts to support the long-term development of capital markets in Armenia.

Remittances constitute approximately 11-14 percent of Armenia's total GDP, a variable statistic because of the difficulty of tracking cash payments. According to the latest data released by the Central Bank, the volume of private (non-commercial) remittance inflows for January-October 2010 has increased by USD 91.5 million, or 12.3 percent compared to the same period in 2009, but falls short of the 2008 peak. The CBA's 2006 survey states that 37 percent of Armenian households regularly receive remittances. The most recent CBA data indicate that 88 percent of remittances originate in Russia and the remainder comes primarily from the US (3 percent), Europe and other CIS countries.

### **Corporate Social Responsibility**

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There is not a widespread understanding of corporate social responsibility in Armenia. It is rare to see examples of companies that contribute to their local community through charity, employee service days, or other similar programs. A positive, but rare, example is a local branch of a U.S. information technology firm which has planted trees to combat deforestation and has set up joint education programs with local universities.

### **Political Violence**

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The political scene has remained relatively calm since the 2008 post-election violence. Most of the opposition detainees in 2008 have been released under amnesty or pre-term release. Unsanctioned gatherings and small-scale rallies proceed regularly, mostly without incident, though the GOAM does restrict the freedom of assembly at certain locations and through intimidation.

The GOAM continued to use its agencies to retaliate against businesspersons who support the political opposition. Since the 2008 Presidential election, the GOAM has conducted tax audits of businesses owned by opposition supporters. In 2009 one of the leading bottled-water factories, owned by an ardent supporter of the opposition presidential candidate, was seized and put up for auction. The GOAM in late December 2009 sent police and tax inspectors to several of this person's companies after he and his brothers gave newspaper interviews criticizing the government and supporting an opposition parliamentary candidate.

Armenia's ceasefire with Azerbaijan over the disputed region of Nagorno-Karabakh has held for more than 15 years; there have been no threats to commercial enterprises from incidents in the border areas. It is unlikely that civil disturbances, should they occur, would be directed against U.S. businesses or the U.S. community.

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

**U.S. Foreign Corrupt Practices Act:** In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/>

**Other Instruments:** It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. This country is party to [add instrument to which this country is party], but generally all countries prohibit the bribery and solicitation of their public officials.

**OECD Antibribery Convention:** The OECD Antibribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD



Antibribery Convention through the U.S. FCPA. [Insert information as to whether your country is a party to the OECD Convention.]

**UN Convention:** The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. [Insert information as to whether your country is a party to the UN Convention.]

**OAS Convention:** In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 33 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>) [Insert information as to whether your country is a party to the OAS Convention.]

**Council of Europe Criminal Law and Civil Law Conventions:** Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see [www.coe.int/greco](http://www.coe.int/greco).) [Insert information as to whether your country is a party to the Council of Europe Conventions.]

**Free Trade Agreements:** While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: <http://www.ustr.gov/trade-agreements/free-trade-agreements>. [Insert information as to

whether your country has an FTA with the United States: Country [X] has a free trade agreement (FTA) in place with the United States, the [name of FTA], which came into force. Consult USTR Website for date: <http://www.ustr.gov/trade-agreements/free-trade-agreements.>]

**Local Laws:** U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

**Assistance for U.S. Businesses:** The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at [www.trade.gov/cs](http://www.trade.gov/cs).

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at [tcc.export.gov/Report\\_a\\_Barrier/index.asp](http://tcc.export.gov/Report_a_Barrier/index.asp).

**Guidance on the U.S. FCPA:** The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at [www.justice.gov/criminal/fraud/fcpa](http://www.justice.gov/criminal/fraud/fcpa). Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html). More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Corruption remains a significant obstacle to U.S. investment in Armenia. The Armenian Government introduced a number of reforms over the last four years, including the simplification of licensing procedures, civil service reform, a new criminal code, privatization in the energy sector, anti-corruption laws and regulations, and in 2004, establishment of an Anti-Corruption Council tasked with coordinating the government's

anti-corruption activities and improving policies aimed at the prevention of corruption. Nevertheless, corruption remains a problem in critical areas such as the judiciary, tax and customs operations, health, education and law enforcement. Petty corruption is widespread throughout society.

In November 2003, the GOAM adopted a National Anti-Corruption Strategy paper which contained an action plan aimed at the introduction of tax and customs reforms, harmonization of legislation, and improvement of public access to information. The plan, completed in 2007, was widely criticized by local and international observers for failing to yield any result. After lengthy discussions initiated at the beginning of 2008, the Armenian Government adopted a new anti-corruption strategy paper and action plan for 2009-2012. Priorities set by the new strategy include improvement of legislation and infrastructure to combat money laundering, increasing transparency in the public sector, and enhancement of accountability of all branches of government. Beginning in early 2010, the Armenian Prime Minister publicly, and repeatedly, reprimanded various government ministers for failing to cut down on corruption within their institutions. The President and Prime Minister noted that the replacement of four cabinet ministers in December 2010 was partially to address problems with corruption.

According to the Transparency International (TI) 2010 Corruption Perception Index (CPI) report, Armenia ranked 123<sup>th</sup> among 178 countries, with a score of 2.6 (on a "10-0" scale, where "10" is the cleanest country and "0" the most corrupt). Armenia's score places it in the category of "mostly corrupt." The latest score is consistent with Armenia's pattern of a gradual decline in the annual rating. During the last three years, Armenia's CPI was 2.9, 2.7, and 2.6 in 2008, 2009, and 2010, respectively. Meanwhile, recent findings of the Global Corruption Barometer (GCB), a worldwide public opinion survey, identified the Armenian education sector as the most corrupt, followed by the police and judiciary.

Relationships between high-ranking government officials and the emerging private business sector encourage influence peddling. Powerful officials at the federal, district, or local levels acquire direct, partial or indirect control over emerging private firms. Such control is exercised through a hidden partner or through majority ownership of a prosperous private company. This involvement can also be indirect, e.g., through close relatives and friends. These practices promote protectionism, encourage the creation of monopolies or oligopolies, hinder competition, and undermine the image of the government as a facilitator of private sector growth.

The Law on Civil Service, in force since January 1, 2002, restricts participation by civil servants in commercial activities. The new Law on the Disclosure of Property and Income for heads of state authorities has increased transparency in government officials' decision-making and influence. Corrupt practices exist widely within private companies as well, mostly in the form of tax fraud and unregistered business activities.

In a move to increase transparency and introduce a degree of "naming and shaming" of major tax-dodgers, since 2006 the GOAM has published quarterly lists of the country's largest business taxpayers. It is not clear if this has had the intended effect, as companies of some major businesspersons feature prominently on the list, while others remain conspicuous by their absence.

As of January 1, 2009, in an attempt to cut back on shadow economic activity and tax evasion, as well as to increase budget revenues, the GOAM tightened enforcement of a 2005 law that obliged traders to report all transactions through cash registers. To maximize the effectiveness of implementation, GOAM resorted to an innovative tactic of encouraging customers to demand cash register receipts from retailers; state-run lotteries were instituted at the end of each month, during which control numbers of the receipts were to be drawn. Monetary prizes for winners ranged from USD 16.60 to 1,600. Although after a few months the lottery was suspended due to fraud allegations, most retailers, fearing unexpected tax audits, continue to provide receipts to customers. According to official estimates, as a result of this action, the GOAM has managed to raise about USD 30 million in additional revenues.

Another recent effort to increase tax compliance by larger companies was legislation permitting the State Revenue Committee to place tax inspectors on the premises of large companies (those with annual turnover exceeding USD 10.5 million, and/or those with more than USD 1.3 million in imports in a three-month period) to oversee sales volumes, prices and corresponding documentation, product deliveries, etc. The amendment went into effect January 1, 2010.

### **Anti-Corruption Resources**

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a “Lay-Person’s Guide to the FCPA” is available at the U.S. Department of Justice’s Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: [http://www.oecd.org/departement/0,3355,en\\_2649\\_34859\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html). See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html).
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009](http://www.transparency.org/policy_research/surveys_indices/cpi/2009). TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See [http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp). The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://go.worldbank.org/RQQXYJ6210>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

## Bilateral Investment Agreements

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Armenia has bilateral investment treaties (BITs) in force with 21 countries: the U.S., Argentina, Austria, Belarus, Bulgaria, Canada, China, Cyprus, France, Germany, Greece, Georgia, Iran, Italy, Kyrgyzstan, Lebanon, Romania, Switzerland, Ukraine, the United Kingdom and Vietnam. According to the U.N. Conference on Trade and Development, Armenia has also signed BIT agreements with Belgium, Egypt, Finland, India, Israel, Russia, Tajikistan and Turkmenistan, but these agreements have not yet entered into force. Armenia is a signatory of the CIS Multilateral Convention on the Protection of Investor Rights.

The Treaty between the Republic of Armenia and the United States of America Concerning the Reciprocal Encouragement and Protection of Investment (the Bi-lateral Investment Treaty or BIT) was ratified in September 1995. The BIT mandates that investment conditions for investors of each party be no less favorable than for national investors (national treatment) or for investors from any third state (a Most-Favored-Nation clause).

## OPIC and Other Investment Insurance Programs

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The "Investment Incentive Agreement between the Government of the Republic of Armenia and the Government of the United States of America," signed in 1992, provides a legal framework for OPIC's operations in Armenia. OPIC offers political violence insurance in Armenia and insures against expropriation. OPIC insures against currency

inconvertibility only on a case-by-case basis. Armenia is also a member of the Multilateral Investment Guarantee Agency (MIGA).

## **Labor**

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Armenia's human capital is one of its strongest resources. The labor force is generally well educated, particularly in the sciences. Almost one hundred percent of Armenia's population is literate. Enrollment in secondary school is 92.8 percent, and enrollment in senior school (essentially equivalent to American high school) is 85.6 percent. According to a survey by the U.N. Development Program, approximately 20 percent of Armenians have completed some sort of higher education program.

Much of the new foreign investment in Armenia has occurred in the high-tech sector. High-tech companies have established branches or subsidiaries in Armenia to take advantage of the country's pool of qualified specialists in electrical and computer engineering, optical engineering, and software design. Pilot training programs have increased the supply of qualified software programmers, and Armenia's IT sector is growing based on its qualified pool of inexpensive labor. A number of IT firms that had faced the risk of a significant phase-out and/or shutdown due to the latest global economic developments, have gradually stabilized during 2010.

The amended Labor Code came into force in June 2005, and is considered to be largely consistent with international best practices and the international conventions to which Armenia is a party. The law sets a standard 40-hour work week, with minimum paid leave of 28 calendar days annually. The current legal minimum wage established by the 2011 budget, equals AMD 32,500 (about USD 90) per month. Most companies also pay a non-official extra-month bonus for the New Year's holiday. Entry-level skilled professionals (such as software engineers) command wages of about USD 500 per month. Wages in the public sector are often significantly lower than those in the private sector and, while all wages must be paid in AMD, many private sector companies continue to use a fixed exchange rate to denominate employee salaries.

## **Foreign-Trade Zones/Free Ports**

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Armenia has no foreign trade zones or free ports at present. However, the Armenian Government has approved a concept to create a free trade zone in the area of Zvartnots International Airport. Another free trade zone was proposed to cover the Gyumri area as part of the Gyumri Techno-City concept paper unveiled by the former Minister of Economy but its future is uncertain.

## **Foreign Direct Investment Statistics**

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The Armenian National Statistical Service reported that total foreign investment for the first nine months of 2010 was USD 472 million, down 9.5 percent from the same period in 2009. Of that foreign investment, USD 348 million was foreign direct investment (FDI), down 9.3 percent compared with the previous year.

In 2010, the most significant foreign investments in Armenia came from Russia (USD 148 million) and France (USD 116 million) constituting 42 and 33 percent of the total, respectively. This was due to Russia's continued investment in the energy sector as well

as the expansion of services by France Telecom (dba Orange) that entered the Armenian market in 2009. Argentina was the third biggest investor, its FDI reaching USD 26 million, or 7 percent of the total, which consists predominantly of investments in the air transportation infrastructure as it continues to upgrade Zvartnots International Airport.

The following is volume of FDI based on data by the Armenian National Statistical Service:

**Net FDI**

<b>Years</b>	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Volume (USD m)</b>	70	111	121	217	287	305	582	1000	732

The final FDI numbers for 2010 will be available after March 2011.

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## Chapter 7: Trade and Project Financing

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### How Do I Get Paid (Methods of Payment)

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While some establishments accept cash only, credit cards are increasingly accepted at hotels, restaurants and stores. Domestic or international company-to-company sales are primarily made by bank transfer (especially in the state sector), letter of credit, or on a barter basis. In March 2010, ACBA Credit-Agricole Bank became the first American Express Representative in Armenia and performs a wide variety of transactions with American Express Cards and Traveler's Cheques.

Armenia has one licensed credit bureau, the [Armenian Credit Reporting Agency \(ACRA\)](#). There is no licensed collection agency.

### How Does the Banking System Operate

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Armenia's economy is still cash-based. Most retail transactions are in cash. The large role of remittances and reliance on foreign partners has increased the significance of bank transfers. The use of debit and credit cards is increasing as the network of Automatic Tellers (ATMs) and point-of-sale (POS) terminals expands. Armenian banks provide a range of standard banking services, including bank transfers, lending programs, corporate deposit accounts, plastic card operations, trade finance (including LOC, collections and guarantees) as well as trust operations, dealer/broker transactions and others.

### Foreign-Exchange Controls

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Armenia has a liberal regime of foreign exchange regulation. Armenian residents and foreign nationals can hold foreign currency accounts, and import, export and exchange foreign currency relatively freely in accordance with the Central Bank of Armenia's [Regulation 8](#) and the [Law on Currency Control](#). Other important foreign exchange regulations include:

[Regulation 10 "Licensing and Regulation of FX Purchase and Sale Operations"](#)

[Regulation 11 "Issue of License to Stock Exchanges for FX Trading"](#)

[Regulation 12 "Licensing and Regulation of FX Dealer Purchase and Sale Operations"](#)

### U.S. Banks and Local Correspondent Banks

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The Central Bank of Armenia maintains a list of Armenian Banks that includes their SWIFT information and correspondent banking relationships.

### Project Financing

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Private banks limit their lending operations to short-term loans in local currency at high rates of interest (18-24%). These banks usually demand collateral of adequate or higher market value (houses, cars, gold, etc.). Project financing is very limited unless implemented through subsidized loan programs funded by foreign governments and multilateral financial institutions, and aimed at private business development for specific categories of organizations. Even semi-guaranteed loans tend to have annual interest rates of up to 15%.

A number of governmental agencies provide project financing, export financing and insurance services to investors in Armenia. Most projects financed by international institutions such as the World Bank or EBRD are contracted on a tender basis.

**Ex-Im Bank** provides a framework for financing the purchase of U.S. exports. For more information regarding types of export finance available, contact: Export-Import Bank of the United States, 811 Vermont Avenue, N.W., Washington D.C. 20571 Tel: (800) 565-EXIM or (202) 565-3946 Fax: (202) 565-3380 Web: <http://www.exim.gov/>.

**U.S. Trade and Development Agency's (TDA)** primary activity is the funding of feasibility studies performed by American firms that examine the technical, economic, environmental, and financial aspects of major development projects. TDA helps U.S. companies pursue overseas business opportunities through: funding of feasibility studies, orientation visits, specialized training grants, business workshops and various forms of technical assistance. For more information on TDA programs and application procedures, contact: U.S. Trade and Development Agency, Room 309, SA-16, Washington DC 20523-1602, Tel: (703) 875-4357, Fax: (703) 875-4009, E-mail: [info@tda.gov](mailto:info@tda.gov), Web: <http://www.tda.gov>.

**Overseas Private Investment Corporation (OPIC)** is a U.S. government agency that encourages U.S. businesses to invest in developing countries and emerging market economies, creating U.S. jobs and exports. OPIC assists American investors through three principal programs: (1) financing investment projects through direct loans and loan guarantees (project finance), (2) insuring investment projects against a broad range of political risks, and (3) providing a variety of investor services. OPIC participation per project can range from as low as \$2 million to as high as \$200 million. For further information on OPIC's regular finance program, contact: Finance Department, Overseas Private Investment Corporation, 1100 New York Avenue, N.W., Washington, DC 20527, Tel: (202) 336-8480, Fax: (202) 408-9866; <http://www.opic.gov>.

**The International Finance Corporation (IFC)** finances project investments and insurance in Armenia - local office, 9 V. Sargsyan Street, Republic Square, Yerevan, Tel: (374-10) 54-52-41, 54-52-42, Fax: (374-10) 54-5245, Web: <http://www.ifc.org>  
3/28/2007

**The European Bank for Reconstruction and Development (EBRD)** also actively supports public and private sector development in Armenia. To learn about EBRD projects in Armenia contact: The European Bank for Reconstruction and Development (EBRD) - local office, 20/1 Marshal Baghramian Avenue, Yerevan 375019, Tel: (374-10) 540-425, 540-426, 542-427, Fax: (374-10) 540-430, Web: <http://www.ebrd.com/> or EBRD, One Exchange Square, London EC2A 2EH, United Kingdom.

**U.S. Agency for International Development (USAID)** funds a Portfolio Guarantee Program aimed at facilitating attraction of financial resources to issue loans/credit to SMEs. This effort currently offers Bond Guarantee to INECO bank and Portable

Guarantee to First Mortgage Company (FMC), a Universal Credit Organization (UCO) to attract debt financing for a) lending to SMEs and b) mortgage/housing loans to low income families in the regions of Armenia. In the case of FMC, USAID provided the Portable Guarantee facility debt financing of an aggregate principal amount of up to \$5,000,000 in the form of a 7-year loan to be obtained from a private sector commercial bank, private financial institution or private investor. USAID provides a 50% risk-sharing loan guarantee to a private sector lender selected by FMC. This will allow FMC to obtain capital for its mortgage lending operations. In case of INECO bank, USAID provides 50% Guarantee of INECO bank's net losses of principal arising from defaults on the bonds issued by the bank. The maximum cumulative principal amount of all bonds issued under the USAID Guarantee will not exceed US \$9,000,000. The principal outstanding amount of bonds issued up to now by INECO bank with the USAID guarantee is about US \$1,000,000 Million. The funds obtained through bonds are made available for SMEs lending.

## Web Resources

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Export-Import Bank of the United States: <http://www.exim.gov>

EXIM's Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/ccc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

(Insert a link to the applicable Multilateral Development Bank here and any other pertinent web resources.)

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## Chapter 8: Business Travel

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### Business Customs

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Armenians are hospitable. Foreigners should be aware that large meals and lengthy toasts might accompany many of their business and social contacts. It is also common to give gifts and to take visitors to historical sites. Armenians who are unacquainted with Western business norms might view as disrespectful refusals of lengthy meals or all-day outings.

Reliable international communication is expensive and often not accessible. This means that many Armenian firms answer only that correspondence that is of vital interest to them.

Due to differences in interpretation and understanding of some business terminology (some of which is very new for Armenia), U.S. businessmen are strongly encouraged to make absolutely sure that the content of their communications, negotiations and agreements with Armenian partners is thoroughly understood.

Corruption is a factor in the majority of state organizations in Armenia, including enforcement bodies such as the police and customs departments. Though foreigners are sometimes exempt from petty corruption, there may be cases where officials will delay a process, hinting that a good "tip" may fix things immediately. When this happens, U.S. businessmen are encouraged to consult with the U.S. Embassy's Economic Section. The [Foreign Corrupt Practices Act](#) prohibits American companies from making corrupt payments to foreign officials for the purpose of obtaining or keeping business.

### Travel Advisory

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The U.S. Department of State maintains an up-to-date [travel advisory and consular information sheet for Armenia](#) on it [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1141.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1141.html) website.

### Visa Requirements

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American citizens must have a visa to enter Armenia. It is possible to obtain a visa upon arrival at the Yerevan airport or on-line at <http://www.armeniaforeignministry.am/eVisa/faq.htm>.

Otherwise address inquiries to:

Armenian Embassy  
1660 L. Street, NW, Suite 11  
Washington, D.C. 20036 (Tel: 202-628-5766; Fax: 202-698-5769)

Armenian Consulate  
50 North La Cienega. Boulevard, Suite 210  
Beverly Hills, CA 90211 (Tel: 310-657-7320; Fax: 310-657-7419).

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security evaluations are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/>

## Telecommunications

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Armentel is the only provider of land-line telecommunication services in Armenia. For information on long-distance service options contact: Armentel, Long Distance Telephone Exchange, Azatutian Avenue, Yerevan, 375044, Armenia; Tel: (374-10) 28-81-51, 15-10-02, Fax:(374-10) 15-13-33.

Armenia has three mobile telephone providers. In addition to Armentel, Vivacell and Orange Telecom provide both mobile and internet service:

VivaCell (K-Telecom CJSC), Argishti  
4/1, Yerevan, Armenia; Tel: (374 -10) 568 777, Fax: (374-10) 569 222, E-mail: [info@vivacell.am](mailto:info@vivacell.am) website: [www.vivacell.am](http://www.vivacell.am)

ORANGE Armenia, Tel: 26/1 Vazgen Sargsyan St., 7th Floor ("Erebuni-Plaza" business center), Yerevan; (374-10) 51-35-51; E-mail: [contact-centre@orangearmenia.am](mailto:contact-centre@orangearmenia.am).

To subscribe to international telex services, contact the Ministry of Transportation and Communication, Union Bldg., Republic Square, Yerevan 375010; Tel: (374-10) 52-66-32, Fax: (374-10) 15-14-46.

Various providers offer Internet and e-mail services:

ARMINCO LLC, 28 Isahakyan St. Yerevan, 375009, Armenia; Tel: (374-10) 52-63-26, 28-14-25, Fax: (374-10) 28-50-82; E-mail: [postmaster@arminco.com](mailto:postmaster@arminco.com)

INFOCOM, 22 Saryan Street, floor 4, Yerevan, 375002, Armenia; Tel & Fax: (374-10) 52-88-56, or 15-19-26; E-mail: [postmaster@mtd.armenia.su](mailto:postmaster@mtd.armenia.su)

XTERNET, 19, Sayat-Nova Street, Yerevan 375001, Armenia; Tel: (374-10) 54-80-41, Fax: (374-10) 54-80-45; E-mail: [support@xter.net](mailto:support@xter.net)  
NETSYS, 38 Abovyan Street, Yerevan; Tel: (374-10) 54-00-91, Fax: (374-10) 54-00-21, E-mail: [webmaster@netsys.am](mailto:webmaster@netsys.am)

CORNET, 10 Hanrapetoutioun St, Yerevan, 375010, Armenia; Tel (374 -10) 59-41-59, (374-10) 54-45-20, Fax: (374-10) 59-41-54, E-mail: [admin@cornet.am](mailto:admin@cornet.am) [info@cornet.am](mailto:info@cornet.am). Prices from Night time \$15 to full time \$45.

WEB ISP, Br. Alikhanian 2 str., building 22; Tel: (374-10) 34-42-00, 34-27-11, Fax: 34-42-00, E-mail: [info@web.am](mailto:info@web.am). Web site does not work on Netscape 4.78 (!). "Light Minutes" (09.00-21.00) 4.5 Drams per minute, "Dark Minutes" (21.00-09.00) 2.5 Drams per minute.

ICON Communications, 26/4 Saryan St., Yerevan, Tel: (374-10) 59-09-00, (374-10) 59-09-09; E-mail: [info@icon.am](mailto:info@icon.am).

UCOM Telecommunications, 9 Tpagrichneri St., Yerevan, Tel: (374-10) 52-52-58; E-mail: [info@ucom.am](mailto:info@ucom.am).

## Transportation

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Armenia's public transportation system includes a system of crowded minibuses and a modest one-line subway in Yerevan. Taxis are widely available through numerous taxi agencies or in the streets. Not all taxis are metered. Foreigners should expect to pay 1,000 – 1,500 Armenian Dram (almost \$3-\$5 at current exchange rates) for a taxi fare within Yerevan, and 4,500 Armenian Dram (about \$12.50) to and from the airport. A car and driver costs about \$75 per day.

## Language

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Armenian is the official language of the country and is used for all official documents. The majority of the population speaks Russian as well. English is a mandatory third language in many schools, and local universities produce an increasing number of English-language specialists. Finding an interpreter or translator is usually not difficult.

## Health

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The Consular Section of the U.S. Embassy keeps a list of doctors on the following website: [http://armenia.usembassy.gov/acs\\_medical.html](http://armenia.usembassy.gov/acs_medical.html). For more information you may call the Consular Section directly at (374 10) 49-46-86

## Local Time, Business Hours, and Holidays

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Armenia is in a single time zone, GMT+4 in winter and GMT+5 in summer.

National public holidays are as follows:

New Year December 31-January 2

Christmas January 6

Armenian National Army Day January 28

Women's International Day March 8

Mothers' Day April 7

Armenian Genocide Memorial Day April 24

Victory and Peace Day May 9

First Republic Day May 28

Constitution Day July 5

Independence Day September 21  
Earthquake Memorial Day December 7

### **Temporary Entry of Materials and Personal Belongings**

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Armenian and foreign citizens can import duty free articles valued up to \$300, with some exceptions. A \$100 or 20 kg. exemption applies to goods not personally carried across the border. Persons arriving in Armenia for permanent residence can import their personal belongings duty free. There is no limit on hard currency imports to Armenia.

### **Web Resources**

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Welcome to [Travel.State.Gov](#) Consular Information and Travel Advisories from the Department of State.

[Ministry of Foreign Affairs of Republic of Armenia Visa Application Guidelines](#)

[List of Local Attorneys](#)

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## Chapter 9: Contacts, Market Research and Trade Events

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- [Market Research](#)
- [Trade Events](#)

### Contacts

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The Armenian government maintains a list of contact information and websites for its various ministries at: <http://www.gov.am/en/structure/>

The Yerevan chapter of the American Chamber of Commerce website is:

<http://www.amcham.am>

The U.S. Embassy

1 American Avenue

Yerevan 375082, Armenia

Tel: (374-10) 46-47-00

Fax: (374-10) 46-47-42

<http://www.usa.am>

### Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/mrktresearch/index.asp> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, and is free.

### Trade Events

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents/index.asp>

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## Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully, connect them with trade opportunities and support them once they do have exporting opportunities.**

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: [www.export.gov](http://www.export.gov)

For more information on the services the U.S. Commercial Service offers to U.S. exporters, please click on the following link: (Insert link to Products and Services section of local buyusa.gov website here.)

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E)**.

**We value your feedback on the format and contents of this report. Please send your comments and recommendations to: [Market\\_Research\\_Feedback@trade.gov](mailto:Market_Research_Feedback@trade.gov)**

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