



THE REPUBLIC  
OF ARMENIA



THE EURASIAN  
ECONOMIC UNION

# THE REPUBLIC OF ARMENIA IN THE EURASIAN ECONOMIC UNION

## FIRST RESULTS





**THE REPUBLIC OF ARMENIA  
IN THE EURASIAN ECONOMIC UNION.  
FIRST RESULTS**

The publication was prepared in partnership  
with the Eurasian Economic Commission and Interstate Bank



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**The Republic of Armenia in the Eurasian Economic Union. First Results.** – M.: 2018. 48 p.

The publication was prepared by the Eurasian Economic Commission and with assistance of Interstate Bank. It is based on EEC's report "The Republic of Armenia: two years in the Eurasian Economic Union. First Results", which describes the process of The Republic of Armenia's accession to the Eurasian integration project and its outcomes. Armenia made its decision in view of the country's economic situation and peculiarities of the negotiation process. The main terms and conditions of the Treaty on the Accession of the Republic of Armenia to the EAEU and the outcomes of the first two years of the country's membership in the EAEU are analysed, as well as the prospects for economic development of Armenia to deepen its integration within the EAEU. The materials and analytical reports of Armenia authorities, the Eurasian Economic Commission and other sources were used to prepare this Report.

|                         |  |
|-------------------------|--|
| Union, EAEU             | Eurasian Economic Union  |
| Commission, EEC         | Eurasian Economic Commission   |
| Treaty on the Union     | Treaty on the Eurasian Economic Union dated May 29, 2014   |
| Member States           | States which are Members of the Eurasian Economic Union and parties to the Treaty on the Eurasian Economic Union dated May 29, 2014  |
| CU and CES              | Customs Union and Common Economic Space of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation  |
| Road Map                | an Action Plan for the accession of the Republic of Armenia to the Customs Union and the Common Economic Space of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation |
| Treaty on the Accession | Treaty on the Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union dated May 29, 2014 (dated October 10, 2014)  |
| FTA                     | Free Trade Area  |
| CIS                     | Commonwealth of Independent States   |
| EurAsEC                 | the Eurasian Economic Community  |
| CSTO                    | Collective Security Treaty Organization  |
| WTO                     | World Trade Organization   |
| SREB                    | Silk Road Economic Belt  |
| FEA                     | Foreign Economic Activities  |
| SCT of the CU / EAEU    | Single Customs Tariff of the Customs Union / EAEU  |

The Eurasian Economic Commission together with the Government of the Republic of Armenia have prepared a Report “The Republic of Armenia: Two Years in the Eurasian Economic Union. First Results”, which describes the work carried out on the accession of the Republic of Armenia to the Union, reports the first results of Armenia's membership in the Union as well as the prospects for the country's economic development within the Union.

The Report outlines the bases and reasons for the country's accession to the Union, the country's expectations, the negotiation process, the analysis of the Action Plan (Road Map) for Armenia's accession to the CU and the CES and provisions of the Treaty on the Accession of the Republic of Armenia to the Treaty on the Union, as well as the first results and prospects for the country's economic development within the Union.

The Report has been prepared based on the results of the round table “The Republic of Armenia: two years in the Eurasian Economic Union. First results”, held in July 2017 in Yerevan, where the Commission together with the country's public authorities and business and science representatives discussed the most relevant issues of Armenia's participation in the Union.

The information contained in the Report – in terms of Armenia's experience in organizing and performing the activities required for its accession to the Union, its first economic results and adaptation of the country's participation in the Union – might become useful for other states interested in the integration processes within the Union.

# The Republic of Armenia's economic development during 2010-2014 in view of Eurasian and European cooperation

1

For most countries, the period from 2010 to 2014 was an economic recovery after the global economic crisis. In Armenia this process was quite rapid, and during this period its national economy showed stable and steady growth, as evidenced by key macro indicators.

There was a gradual increase in GDP, which in 2014 reached 11.6 billion USD (Fig. 1 p. 11). The GDP per capita also increased from 3,041 USD in 2010 up to 3,852 USD in 2014.

In 2014, there was an increase in Armenia's industrial and agricultural production (Fig. 4 p. 12). At the same time, compared to 2010, the physical volume of industrial production index increased by 36%, and the agricultural production index – by 42%.

The foreign trade statistics of that period show the increasing role of the Russian Federation in the Republic of Armenia's

Fig. 2. Consumer price index in the Republic of Armenia in 2010-2014 (in percentage to the previous year)



Fig. 3. Unemployment rate in the Republic of Armenia in 2010-2014, in percentage



At the same time, the consumer price index (in average annual terms of the corresponding year) was generally decreasing: in 2010, the CPI was 108.2%, and in 2014 it reached 103% (Fig. 2).

The unemployment rate also showed a positive downward trend - from 19% in 2010 to 17.6% in 2014, reaching a minimum of 16.2% in 2013 (Fig. 3).

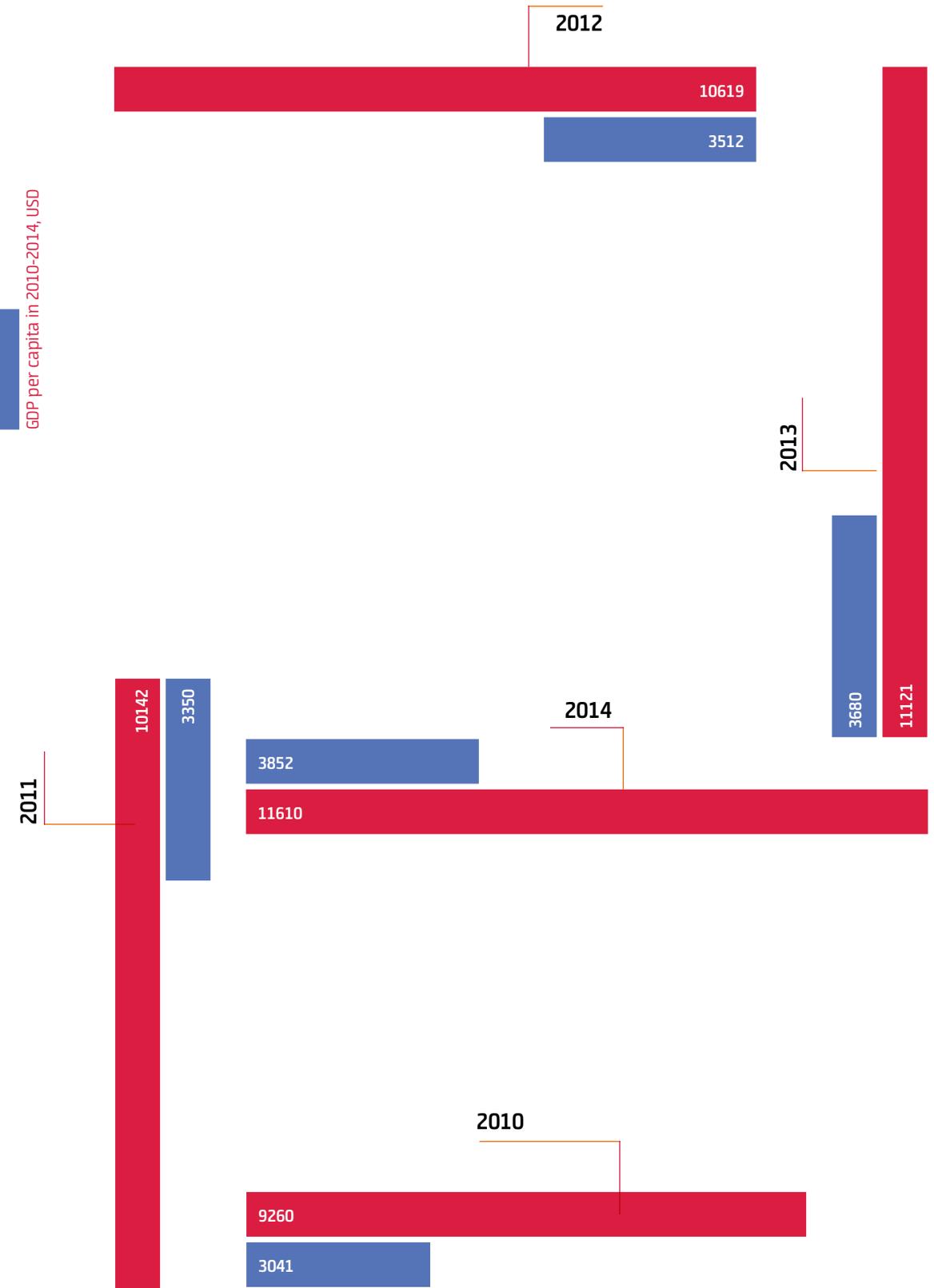
international trade cooperation by almost every indicator.

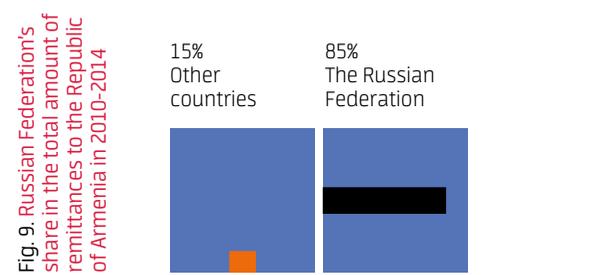
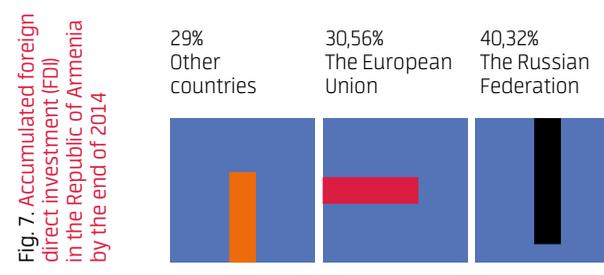
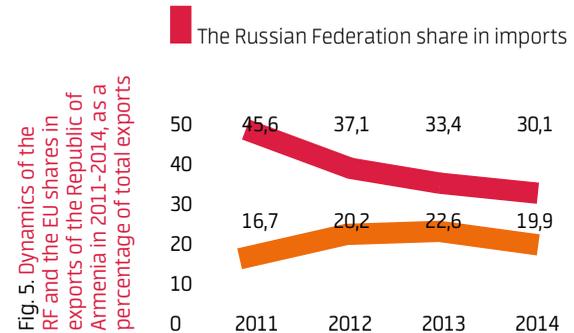
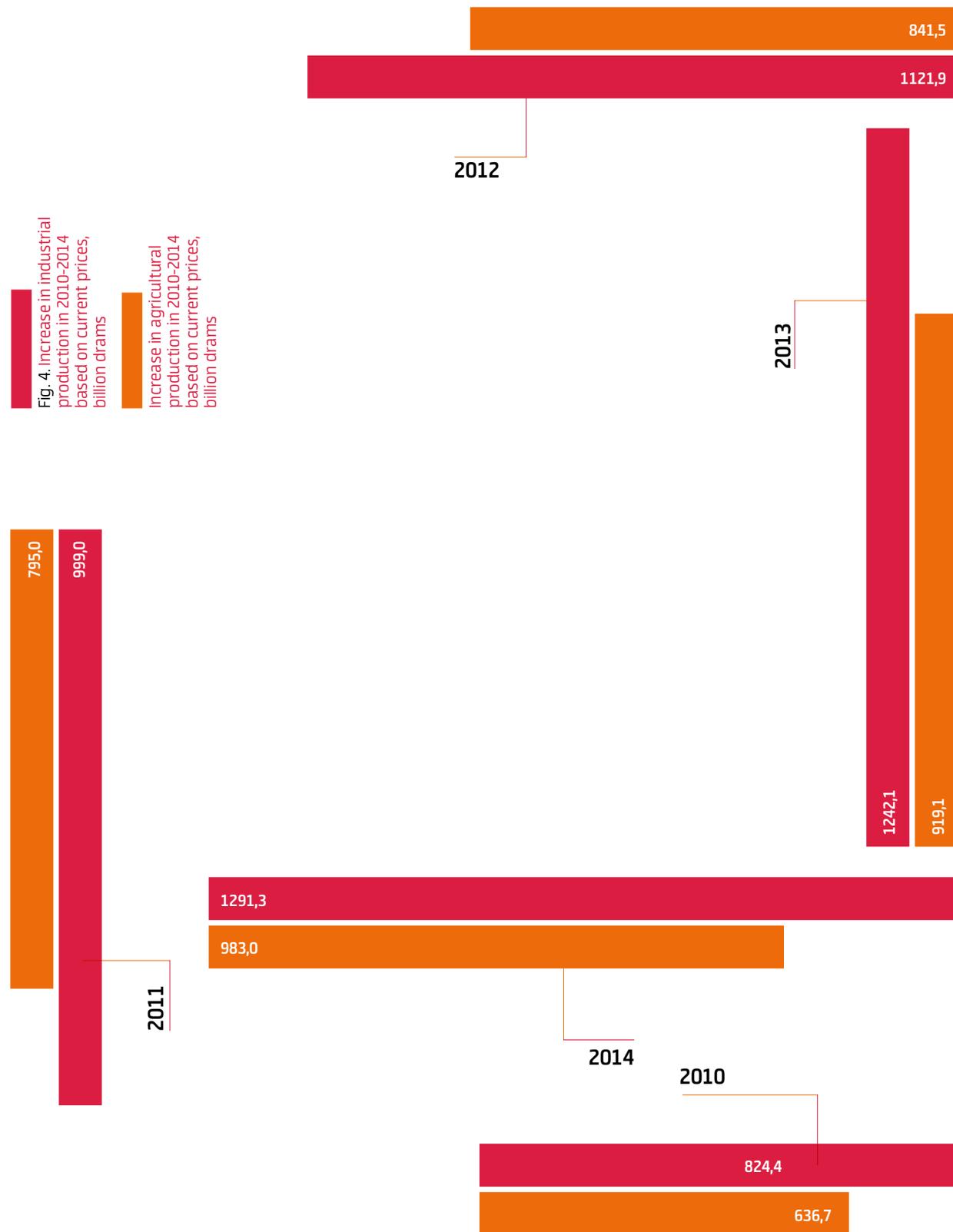
Thus, in 2012, the share of Russia in Armenian exports was about 20.2%, and the share of Russia in its imports in the same year was 24.8%.

The foreign trade turnover with Armenia evidences an increase in Russian share in both exports and imports, thus, in 2014

Fig. 1 BGD in 2010-2014, million USD

GDP per capita in 2010-2014, USD





Russian share in Armenia's imports became comparable to that of the EU (Fig. 5, 6). The economic relations of Armenia are also characterized by the FDI flow. Hence, Russian FDI accounted for 40.32% of the total volume (1,698.7 million USD). Only the EU had a comparable figure of 30.56% (Fig. 7). Private remittances from the Russian Federation play an important role in the

This is particularly due to the fact that one of the world's largest Armenian Diasporas is concentrated in Russia - almost 2 million people according to the official population census for 2010<sup>1</sup>. In addition, the largest Armenian outflow of migrant workers, who are the main senders of remittances to the country, traditionally accounts for Russia.

Republic of Armenia's economy, averaging about 14-15% of GDP (Fig. 8). For the period in question, Russia accounted for an average of 85% of the total amount of remittances to Armenia (Fig. 9). For example, in 2012 they made 1.44 billion USD from the total amount of 1.68 billion USD.

Armenia and Russia cooperate on a mutually advantageous basis within large investment projects: gasification of Armenia, construction of the Iran-Armenia gas pipeline, construction and modernization of the Hrazdan's 5<sup>th</sup> Power Generating Unit; updating the technical base of the Sotsky Gold Field; construction of a mining and processing plant in Lori Province and a plant for the production of medical equipment "Mega Med"; modernization of the Agarak Copper-Molybdenum Combine, plant for the production of aluminum foil, as well as a fleet of rolling stock.

During the years 2010-2014, the Republic of Armenia actively cooperated not only

<sup>1</sup> 3.2 million people live in Armenia, 700 thousand - in France, and 1.5 million - in the USA.

with the Russian Federation, but also with its CU and CES partners – the Republic of Kazakhstan and the Republic of Belarus.

Some 23 enterprises with the Kazakhstan capital were registered in Armenia. One of these was BTA Bank, which later became part of Armeconombank, OJSC. BTA Bank supported the development of small and medium-sized businesses, including the financing of export-import operations between Armenia and Kazakhstan. Since the BTA Bank had begun operating in the country, its investments in the Armenian economy totaled 50 million USD. Today, there are 60 manufacturing, construction, trade, hospitality and catering businesses with the Armenian capital operating in Kazakhstan.

The two countries cooperate quite actively in science and education, carrying out joint research: in 2013, agreements were reached on scientific and research cooperation in the field of seismic safety.

Armenia and Belarus have mutually beneficial cooperation in industry, agriculture, science and information technology, and jewelry. In addition, Armenia has become an active investor in Belarusian economy, with its direct accumulated investments in Belarus amounting to about 12.5 million USD.

Armenian economy as well as gradual growth of Armenians' wellbeing throughout this period.

The economic cooperation with the countries of the Eurasian space and, first of all, with Russia, was of exceptional importance during that time. Historically, as the largest investor in the Armenian economy, Russia has played an important role in developing its infrastructure, while no other country of the world ever had such interaction scale with Armenia.

Moreover, the Republic of Armenia is involved in various formats of international cooperation, while taking up an active position in trade and economic relations with its international partners.

Cooperation between the Republic of Armenia and the European Union covers almost all sectors, except for the military sector. The Partnership and Cooperation Agreement between Armenia and the EU dated 1996 stipulated the assistance to Armenia in its transition to the market economy and sustainable democracy, in deepening political and trade relations, as well as in improving the country's democratic and legal institutions. After the relevant actions were taken, in 2013, the Republic of

within the CIS. The Observer State status at the EurAsEC<sup>3</sup> gave Armenia the opportunity to attend public meetings of the EurAsEC governing bodies and to receive copies of documents adopted within the EurAsEC. Meanwhile, the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation was established

directions for further development in view of the concept of creating a Common Economic Space for the Eurasian integration association.

In order to study the advantages of Armenia's participation in the CU and the CES, the Government of the Republic of Armenia and the EEC<sup>6</sup> signed a Memorandum

FOR  
REFERENCE:

The Republic of Armenia is a member of the CIS and the CSTO, an observer in the EurAsEC until 2015, a participant of the Eurasian Development Bank, a member of the Council of Europe and the WTO, and cooperates with the European Union.

by the EurAsEC Member States in 2010<sup>4</sup>. The deepening of integration processes within the EurAsEC framework became tangible, bringing real economic benefits to its participants (the volume of mutual trade, calculated as the total value of export operations of the Customs Union Member States in their mutual trade, amounted to 62.3 billion USD in 2011, showing a 32.1%<sup>5</sup> increase compared to 2010). The next stage of integration was the Declaration on Eurasian Economic Integration, which stated the transition to a Common Economic Space since 2012, as well as the aspiration to create a Eurasian Economic Union.

In this regard, Armenia demonstrated its growing interest in developing cooperation with this new up-and-coming Eurasian integration association – the CU and the CES.

Thus, in 2013, the Republic of Armenia considered the possibility to deepen trade and economic cooperation in both European and Eurasian directions.

However, as implied in the terms set by the European partners, the Republic of Armenia's participation in the EU Free Trade Area could not be combined with its obligations under the CU and the CES. At the same time, there was no such dilemma within the Customs Union. Acceding to the Customs Union did not mean abandoning the European values and interaction with European partners. On the contrary, cooperation with the EU was one of the

on Interaction, which enabled to hold consultations and conferences, and prepare analytical reviews on the issues of mutual interest.

The implementation of the Memorandum's provisions began almost at once – in May 2013 Yerevan hosted consultations between representatives of the Armenian Ministry of Economy and the Commission on cooperation in technical regulation matters.

Simultaneously, comprehensive studies were conducted on Armenia's participation in the Customs Union, including public opinion polls, which showed the following:

■ as a result of acceding to the CU and the CES, Armenia's real GDP will grow by 0.2-0.5 pp in the short term due to the impact of remittances only, thus providing additional state budget revenues in the amount of 0.57% of GDP<sup>7</sup>;

■ the level of support for the Eurasian integration processes was 67%, which indicated the positive attitude of the popular majority towards Armenia's accession to the Eurasian integration association<sup>8</sup>;

■ positive effects may include tackling transport challenges, which will help Armenia overcome its transport isolation (for example, through the construction of the Iran-Armenia railway), the inflow of investments in export sectors oriented to the CU and the CES market, lowering gas prices, budgetary benefits from increased customs tariffs, etc.

<sup>3</sup> Treaty on the Establishment of the Eurasian Economic Community dated October 10, 2000.

<sup>4</sup> Single customs territory was created; customs control was postponed for an external contour of the CU borders.

<sup>5</sup> For the results of external and mutual trade of the Customs Union Member States in 2011, please go to the EEC website.

<sup>6</sup> Memorandum on Interaction between the Government of the Republic of Armenia and the EEC dated April 10, 2013.

<sup>7</sup> According to the information provided by the Republic of Armenia.

<sup>8</sup> EADB Integration Barometer – 2013 Report.

FOR  
REFERENCE:

About 30% of the entire Belarusian exports of goods to Armenia is carried out through Armenian-Belarusian Trade House "Ar-Be", LLC. There are joint ventures operating in Belarus which specialize on bottling the Armenian cognac (e.g. Armenian standard, JSC), and on manufacturing biologically active additives made of Armenian raw materials. At the same time, some enterprises with the Belarusian capital operate in Armenia, such as Trade House "BelAr", CJSC and BelAZ Kavkaz Trans Service, LLC.

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REFERENCE:

The Republic of Armenia ranked 37<sup>th</sup> of 189 countries of the world, the Republic of Belarus – 63, the Republic of Kazakhstan – 50, the Russian Federation – 92, and the Kyrgyz Republic – 68.

The Republic of Armenia is highly ranked in "Doing Business" thanks, in particular, to the country's competitive advantages for businesses that invest in the national economy. It should be noted, however, that the Republic of Armenia was ahead of the CU and the CES Member States in this ranking in 2014.

The given economic development indicators characterize stability of the

Armenia planned to sign the EU Association Agreement, including the provision on the Deep and Comprehensive Free Trade Area.

During the same period, Armenia, which was one of the CIS Member States<sup>2</sup>, ratified the Free Trade Area Agreement dated October 18, 2011 to simplify the legal framework of trade and economic relations

<sup>2</sup> Protocol to the Agreement Establishing the Commonwealth of Independent States dated December 21, 1991.

September 3, 2013 Joint Statement by the President of the Republic of Armenia S.A. Sargsyan and the President of the Russian Federation V.V. Putin on the Decision of the Republic of Armenia to join the Customs Union and the readiness of the Russian Federation to contribute to this process

In addition, Armenia considered the Eurasian integration association as a reasonable format for building predictable and most beneficial relations among the Member States, guided by the principles of free movement of goods, services, capital and labor. The single market of the CU and the CES representing 180 million people, which operated on universal and transparent principles, including the WTO rules and principles, was certainly attractive for the Armenian economy in such strategic sectors as energy, transport, high technology, agriculture and manufacturing. In the long term, this meant creating more jobs, raising production volumes, expanding the range of products, and developing the services sector.

The studies' results showed significant advantages and benefits for the country in case of its accession to the CU and the CES. Furthermore, as the economic union was still at the initial stage of its formation, Armenia's accession to the Eurasian integration association as a full member would enable it to be directly involved in joint elaboration and development of the Union's legal framework. In this respect, the absence of common borders between the Republic of Armenia and the Customs Union was finally considered to represent no obstacle for the country to join the integration association.

At the moment of decision-making, Armenia was highly ready to join the CU and the CES – the country succeeded in achieving significant progress in institutional reforms in accordance with the best international practices and standards, in strengthening and improving the efficiency of public administration system, and in creating favorable conditions for business and investment activities.

All considered, the Republic of Armenia made a decision to join the Customs Union and the Common Economic Space and expressed its readiness to actively participate in the formation of the EAEU. The decision to join the Customs Union was of strategic importance for Armenia.

It was based on the aspiration to create the most favorable conditions for sustainable growth and formation of competitive economy as well as the understanding that the challenges facing Armenia can only be tackled through collective endeavors. The integration environment would minimize economic risks and ensure sustainable growth for the Armenian economy. At the same time, it has become a logical move for Armenia to take part in the integration association with the States, which are historically its main economic, political and military partners.

After the President of the Republic of Armenia S.A. Sargsyan addressed the Heads of Member States of the CU and the CES, the issue of Armenia's accession to the Customs Union and the Common Economic Space was considered at the session of the Supreme Body of the Customs Union on October 24, 2013. As a result, the Heads of the Republic of Belarus, the Republic of Kazakhstan, the Russian Federation and the Republic of Armenia adopted the Statement "On participation of the Republic of Armenia in the Eurasian integration process".

Hence, Armenia started its accession process to join the Eurasian integration association on mutually beneficial and equal terms, considering it as a "lever" of economic growth and a necessary condition for new ideas and opportunities to be realized.

5

**SIMPLE STEPS  
IN SIDE OF COMMON  
EURASIAN HOME**

1

**To obtain the status of the candidate state by sending an appeal to the Chairman of the Supreme Eurasian Economic Council. The decision is made by the Heads of the Union Member States.**

2

**To participate in the activities of the working group for the study of readiness to join the Union, the development of a roadmap for accession to the Union and the draft contract, which outlines the rights and responsibilities of a state candidate, as well as the format of its participation in the work of the government bodies of the Union.**

3

**To realize points of the program action plan ("roadmap") for accession to the Union.**

4

**To participate in the preparation of the report of the Working group on the implementation of the obligations arising from the right of the Union.**

5

**To participate in signing the international Treaty of accession to the Union with the Member States of the Union. The Treaty is subject to ratification and shall enter into force upon completion of all ratification procedures.**

**THE EURASIAN ECONOMIC UNION IS OPEN FOR ANY STATE WHICH SHARES ITS GOALS AND PRINCIPLES, UNDER CONDITIONS AGREED UPON BY THE MEMBER STATES.**

## Accession of the Republic of Armenia to the Customs Union and the Common Economic Space

2

While Armenia worked on its accession to the CU and the CES, Kyrgyzstan also carried out preparatory activities within its own accession process. However, the two countries had significantly different economic and geographical profiles. As Armenia had higher starting positions, it accomplished necessary measures in a fairly short time.

In autumn 2013, a five-sided Working Group was established on the issue of Armenia's accession to the CU and the CES and preparation of the Road Map<sup>1</sup>. Its composition was approved, including representatives of each Member State of the CU and the CES, the Republic of Armenia and the Commission<sup>2</sup>. In total, this Working Group had 6 meetings in Moscow and Yerevan.

As part of implementation of the Memorandum on Deepening Interaction between the Republic of Armenia and the Eurasian Economic Commission dated November 6, 2013, Armenia's representatives began to participate in open meetings of

<sup>1</sup> Decision of the Supreme Eurasian Economic Council No. 49 dated October 24, 2013 "On the accession of the Republic of Armenia to the Customs Union and the Common Economic Space of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation".

<sup>2</sup> Decision of the Council of the Commission No. 71 dated September 19, 2013 "On the working group on the accession of the Republic of Armenia to the Customs Union and the Common Economic Space of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation".

the Supreme Eurasian Economic Council, the Council and the Board of the Commission. Hence, Armenia was given the real opportunity to observe the activities of the CU, the CES and their supranational bodies from the inside.

Active work was launched on preparation and coordination of the Action Plan (Road Map) for Armenia's accession to the CU and the CES. The Road Map was drafted taking into consideration the state of Armenian customs infrastructure, its geographical position, as well as national regulatory and legal framework.

In addition, a thorough national-level preparatory work was carried out within 8, and then, 22 specially created sectoral working groups (on technical regulation, finance, industry, energy, customs and tax regulation, tariff and non-tariff regulation, information technology, market protection, and anti-dumping policy). Coordination and preparation of summary information was ensured by the Coordination Council governed by T.S. Sargsyan, Prime Minister of the Republic of Armenia<sup>3</sup>.

To join the CU and the CES, Armenia had to carry out 267 items of the Road Map in interaction with the Commission and the Member States. The necessary measures

<sup>3</sup> Decision No. 834 of the Prime Minister of the Republic of Armenia dated September 18, 2013.

were mainly aimed at harmonizing Armenian national legislation with the legal framework of the CU and the CES.

Armenia was also required to analyze the way it applied bilateral and multilateral agreements with third countries for possible contradictions between Armenia's obligations under these agreements and the legal framework of the CU and the CES. Considering its obligations under the WTO with respect to import customs tariffs, Armenia had to compare the rates of import customs duties applied under the SCT of the CU with its own import tariffs. Accordingly, it was necessary to ascertain whether Armenia could negotiate on changing its obligations within the WTO. Thus, tariff obligations was one of the "sensitive" issues for Armenia when making a decision to join the Customs Union.

It was important to elaborate the timeframes for transition periods for the entry into force of the CU technical

application of the CU and the CES legal framework.

Ensuring information exchange between government agencies of the Republic of Armenia and the CU and the CES Member States required an appropriate information system technology platform. As for the statistics sector, organizational measures were needed to arrange statistical survey of mutual trade between the Republic of Armenia and the CU and the CES Member States.

Armenia had to analyze its national program documents and existing policies in industry in order to determine national priorities of industrial development and cooperation with the CU and the CES Member States, as well as conditions ensuring the access of Armenian authorized organizations to the services of natural monopolies in the electric power sector taking into account the absence of common borders with other Member States of the CU and the CES.

FOR  
REFERENCE:

The weighted average import customs tariff applied by Armenia was one of the lowest among the WTO Members. It was about 2.7% at the rate of RNB (in the CU – 7.6% in 2013). Zero rate of customs duty applied to 73% of commodity items, and 10% rate of customs duty – to other items. At the same time, Armenia did not apply any tariff quotas. In many sectors, particularly in the trade in services, the Armenian trade regime was even more liberal than the one enshrined in its obligations under the WTO. The combination of these liberal conditions intensified the need for temporary exemptions from the SCT for the Republic of Armenia regarding the most sensitive commodity groups.

regulations, the timeframes for the implementation of measures for additional material, technical, methodological and personnel support of laboratory facilities of the authorized authorities with respect to sanitary, phytosanitary and veterinary measures. These transition periods were justified by the need to prepare national accreditation and government control system for practical application of the Customs Union technical regulations.

In order to inform Armenian businesses and public services about regulation changes in certain sectors, the Road Map also included certain activities for consultations with Armenian business community and training of authorized authorities' employees on various sectoral issues related to the

As for its trade in services and investments, Armenia should list the most sensitive sectors in order to agree on exemptions. In addition, Armenia had to be involved in coordination of draft international treaties developed in furtherance of agreements concluded within the CU and the CES.

According to the Union law, Russian is defined as the working language of the Union governing bodies, therefore Armenia had to translate a number of national regulatory legal acts from Armenian into Russian with a view to ensure the appropriate interaction, including the interaction between public authorities of the Union Member States.

The Road Map measures implied various deadlines: before concluding the

international agreement on Armenia's accession to the CU and the CES; from the date of entry into force of the Treaty on Armenia's Accession to the CU and the CES; and within a certain period of time after Armenia's accession to the CU and the CES. This was primarily driven by the need to organize the work of both business community and the State in a new legal and regulatory environment.

The active work on the draft Road Map was completed two months later by approval of the Action Plan (Road Map) for Armenia's accession to the CU and the CES at the level of Heads of States<sup>4</sup>.

Armenia addressed the issue of timely and diligent implementation of the Road Map in a consistent manner. It approved a national Schedule of Measures<sup>5</sup> specifying the timeframes and determining responsible Armenian government agencies. In addition, the information on the Road Map was sent to the Commission enabling it to monitor its implementation.

As a result, all the measures of the Road Map with the implementation period "before accession" were carried out by September 2014, which allowed the Republic of Armenia to prepare a draft Treaty on the Accession.

For detailed information on the Road Map items implementation, see the Annex.

<sup>4</sup> The SEEC Decision No. 56 dated December 24, 2013 "On the Action Plan (Road Map) on the Accession of the Republic of Armenia to the CU and the CES of the Republic of Belarus, Republic of Kazakhstan and the Russian Federation".

<sup>5</sup> Resolution No. 61-H of the Government of the Republic of Armenia dated January 23, 2014.

## Accession of the Republic of Armenia to the Eurasian Economic Union

3

The process of Armenia's accession to the CU and the CES coincided with the Union's transition to the next stage of economic integration – creation of the Eurasian Economic Union<sup>1</sup>. In this regard, on April 29, 2014, the Supreme Eurasian Economic Council decided to prepare a draft Treaty on the Accession of the Republic of Armenia to the CU and the CES, taking into account the formation of the Eurasian Economic Union<sup>2</sup>. Thus, by carrying out the measures provided by the Road Map Armenia was actually joining the Eurasian Economic Union instead of the CU and the CES.

In the course of negotiation process, it was noted that in some areas Armenian national legislation was more consistent with international practices, so its application within the Union should be considered in the future. At the same time, as the Republic of Armenia was preparing the draft Treaty on the Accession, it had to agree on regulating such sensible issues as the exemption from the SCT of the provisions on cars for individuals and legal entities, certain types of civil aircraft, military products, sugar, textiles;

<sup>1</sup> The draft Treaty on the Union was then at the final stage of approval and was scheduled for signing at the meeting of the Supreme Eurasian Economic Council on May 29, 2014.

<sup>2</sup> The SEEC Decision No. 65 "On carrying out activities for the implementation of the Action Plan (Road Map) for the accession of the Republic of Armenia to the CU and the CES of the Republic of Belarus, Republic of Kazakhstan and the Russian Federation" dated April 29, 2014.

methodology for the distribution of import customs duties in light of the adoption of new members and risks of "parallel imports" due to the transition period for Armenia's accession to the Agreement on Single Principles of Regulation for Safeguard and Protection of Intellectual Property Rights dated December 9, 2010.

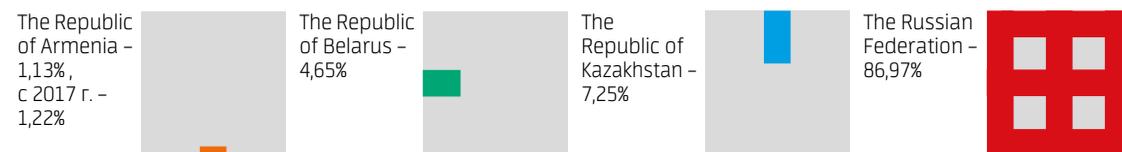
The draft Treaty on the Accession was discussed and finalized on numerous occasions at expert consultations, Working Group's meetings as well as the Commission's Council meetings.

As a result, on October 10, 2014, Presidents of the CU and the CES Member States and the Republic of Armenia signed the Treaty on the Accession of the Republic of Armenia to the Treaty on the Eurasian Economic Union dated May 29, 2014.

The Treaty on the Accession of the Republic of Armenia to the Treaty on the Union, stating the sheer fact of its accession, enshrines the conditions and transitional provisions on the application by the Republic of Armenia of certain provisions of the Treaty on the Union and other agreements, which constitute the legal framework of the CU and the CES. It also contains relevant changes, in particular, concerning the norms of distribution of import customs duties for each Union Member State (Fig. 10 p. 21).

In addition, Annex No. 2 to the Protocol on Trade in Services, Establishment, Activities

Fig. 10. Distribution sums of import customs duties in EAEU



and Investments (Annex No. 16 to the Treaty on the Union) has been amended to include four “horizontal” restrictions (exemptions from the national regime) maintained by Armenia in respect of certain sectors and activities.

The individual national list of restrictions, exceptions, additional requirements and conditions for Armenia<sup>3</sup> within the Union contains only 9 exceptions concerning the provision of national treatment for certain sectors: licensed activities, advocacy,

notary and private security activities, etc. Likewise, Armenia saves restrictions on the services of insurance agents and insurance brokers: insurance mediation related to the conclusion and distribution of insurance contracts on the country's territory on behalf

when exported from free economic areas and territories of free warehouses to other customs territories of the Customs Union.

The Treaty on the Accession also contains provisions for the settlement of issues related to the membership of the Republic of Armenia in the WTO, arisen from the need for Armenian business community and government authorities to adapt to new conditions within the Union.

Armenia has no common borders with the Member States, so it has been established

that the movement of goods and vehicles (except for goods transported by pipelines, power lines, water or air) shall be carried out according to the customs transit procedure under the Customs Code of the CU, in which case the goods retain the status of the Union

Only legal entities established in accordance with Armenian legislation have the right to receive subsidies, regardless of the nature of their capital owners; foreign citizens and stateless persons have no right to own land, except in cases stipulated by the law. The lease period of land plots which are the state and (or) municipal property cannot exceed 99 years, except for agricultural lands which lease period is up to 25 years. Any subsoil user can only be a legal entity, including a foreign state company; only Armenian citizens who have received a qualification certificate issued by the authorized state authority can work in the field of cartography, geodesy, register keeping and land management.

of foreign insurers is not allowed, except for intermediary reinsurance operations carried out by insurance brokers. The list of remaining restrictions on the establishment and (or) activities in financial services sector also contains only 9 items in total.

As regards single regulations for granting industrial subsidies in Armenia, the following norm was valid until January 1, 2017: in accordance with Armenian legislation, goods recognized as Armenian according to substantial transformation criterion, were exempted from customs duties and taxes

<sup>3</sup> The SEEC Decision No. 18 “On amendments to the SEEC Decision No. 112 dated December 23, 2014” dated May 8, 2015.

goods. After completion of customs transit procedure in respect of the Union goods, the customs office of destination will not perform customs operations related to the placement of such goods for temporary storage or their customs declaring.

The Treaty on the Accession stated that Armenia's representatives should be fully engaged in activities of the Union governing bodies. Upon entry into force of the Treaty on the Accession, the Armenian President became a full Member of the Supreme Eurasian Economic Council, and the Prime Minister, in his turn, became a Member of the Intergovernmental Council. Moreover, Armenia sent its official representatives to

the EEC Council, being also represented in the EEC Board by its three Board Members, just as other EAEU Member States<sup>4</sup>. At the same time, Armenia's representatives were approved as judges in the Court of the Eurasian Economic Union.

Hence, the Republic of Armenia became the Member of the Union since January 2, 2015 and began its active work in the Union governing bodies.

Since February 1, 2016, the Board is composed of 10 Members – Ministers: two from each Union Member State, one of

them being the Chairman of the Board. In accordance with the rotation basis and in the order of the Russian alphabet, Armenia's representative T.S. Sargsyan was appointed the Chairman of the Board since 2016.

Finally, as the responsibilities were allocated among the Board Members, Armenia's representative K.A. Minasyan was entrusted with a new relevant area of the Commission's activities (internal markets, informatization, information and communication technologies).

Since February 1, 2015, the Republic of Armenia has been applying the Protocol on the procedure for charging and distributing import customs duties and the Regulations on transferring and distributing special protection and anti-dumping duties.

As for the customs regulation: the activities of customs intermediaries (brokers) and persons carrying out storage in warehouses and establishing tax-free shops shall be exercised on the same terms for 18 months, and the activities of customs carriers - for 6 months since the date of entry into force of the Treaty on the Accession. Vehicles for personal use shall be imported on the Armenian territory on the same terms until January 2, 2020 (within 5 years since the date of entry into force of the Treaty on the Accession).

As for the customs-tariff and non-tariff regulation: it was determined that goods with the rates of import customs duties lower than those applied under the SCT of the Union can only be used on Armenian territory.

As for the technical regulation: the transition to the technical regulations of the Union was scheduled one year after the entry into force of the Treaty on the Accession (since January 2, 2016), while some other technical regulations have later terms of their application (2 years after the entry into force of the Treaty - for technical regulations on machinery and equipment, furniture, tractors; 4 years later - for technical regulations on motor roads, and 5 years later - for technical regulations on wheeled vehicles).

As regards the intellectual property, a three-year transition period (until January 2, 2018) was assigned for starting the application of the regional principle of the exhaustion of exclusive trademark rights.

If the share of goods manufactured in third countries exceeds 15% in the Republic of Armenia's structure of annual exports to other Member States, then the Member States shall be entitled to initiate the procedure of early termination of this transition period. In this respect, the Republic of Armenia shall submit to the Commission quarterly statistical data on its trade turnover with other Member States, including on the goods originating from Armenia itself.

In addition, a list of temporary exemptions from the SCT of the Union was determined for Armenia, enumerating in total some 770 commodity codes with their maximum exemption periods expiring at the latest in 2022. Depending on tariff protection levels, exemptions were established for a period from 1 to 7 years for the main commodity groups: engine-driven and transport vehicles; food products (dairy products, grains, cereals); pharmaceuticals; petroleum products; fertilizers; polymeric materials and articles made thereof. Until 2022, products of military use as well as civil aircrafts and helicopters are also exempted from import customs duties.

<sup>4</sup>The SEEC Decision No. 1 “On the Republic of Armenia's candidacies of a member of the Commission's Council and members of the Board” dated January 2, 2015.

## First results of the Republic of Armenia's participation in the Eurasian Economic Union

4

At the time of its accession to the Union, Armenia already had preferential treatment within the CIS as a party to the Free Trade Area Agreement dated October 18, 2011, and enjoyed significant tariff exemptions. Acceding to the Union allowed the country to get even more tangible economic effects due to the Common Economic Space, common technical regulation, sanitary and phytosanitary measures and non-tariff regulation. Such results evidence that the liberalization of tariff regulation on its own is not enough to genuinely ensure the free movement of goods.

Armenia's integration cooperation within the Union allowed to address the consequences of unfavorable economic environment for the national economy.

The slowdown of Armenia's economic growth rates in 2015 was due to significant negative impact of various factors, such as free market price crash and sanctions against its main trading partner, Russia<sup>1</sup>. Following the slowdown of economic growth rates in Russia and depreciation of Russian ruble, Armenia saw a decrease in actual amounts of its remittances. This, in turn, led to the decline of retail trade having a negative impact on the tax revenues of Armenian budget.

<sup>1</sup> In 2015, the Russian economy declined by 3.7%, it also continued to decline in 2016.

In 2016, Armenia achieved positive growth rates in a number of economy sectors. In 2015, due to its agriculture, the country achieved economic growth of 2.4 percentage points, and the industry ensured 1.0 percentage points. The services sector increased by 1.6%, contributing 0.7 pp to overall economic growth, while the volume of construction decreased by 1.2%, which caused a 0.3 pp negative impact on economic growth.

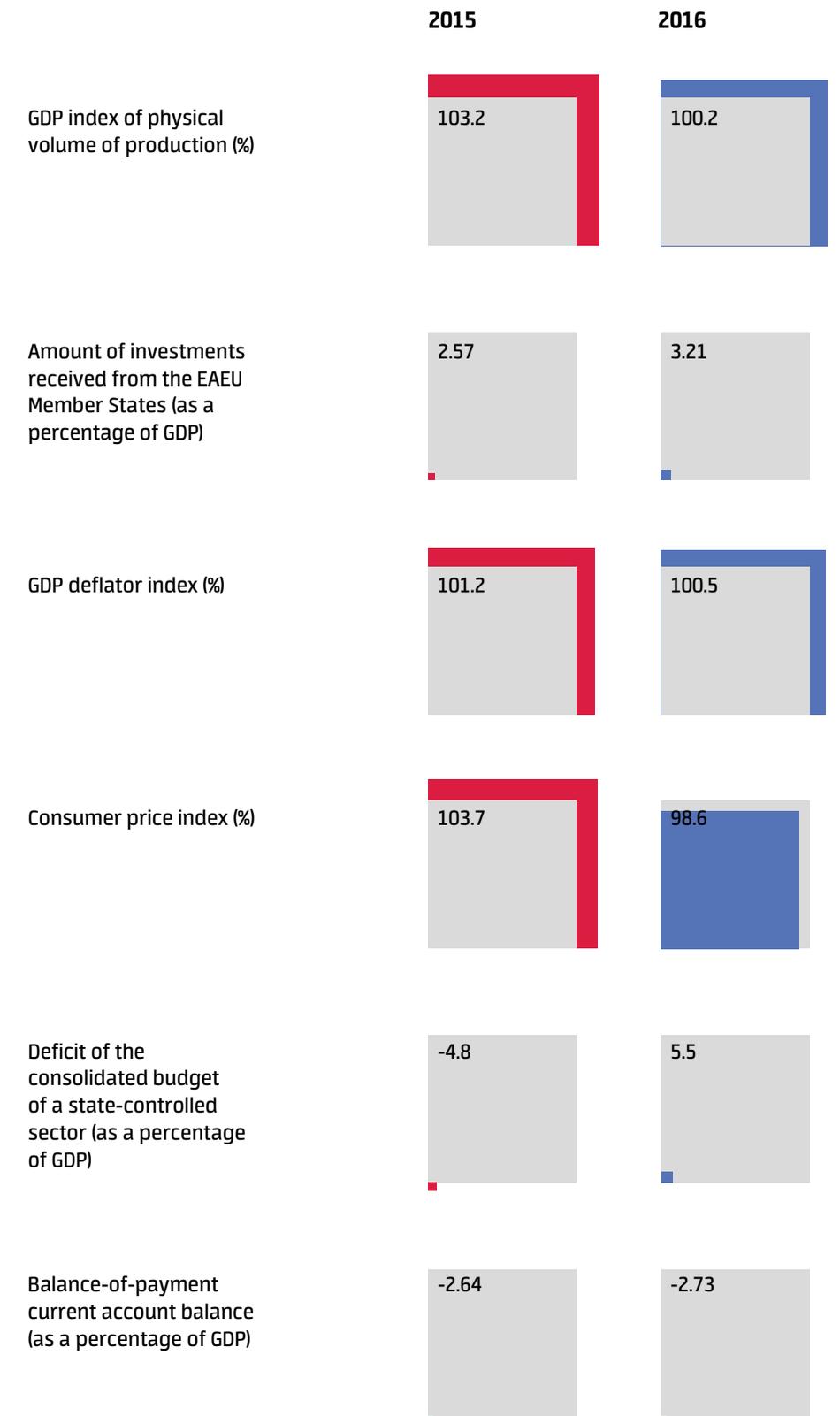
The structure of the economy has also improved: the industry share reached 16.7% in 2016.

Besides, the decline in prices in the international commodity markets as well as positive dynamics in Armenian agricultural sector in 2015-2016 created the deflationary environment, as the consumer price index decreased by 5.1 pp in 2016 compared to 2015. (Fig. 11).

Despite the economic growth was insignificant in 2016, it became more diversified and was driven by growing exports, in particular to the Union Member States.

Exports growth prevented the balance-of-payment current account balance from deteriorating, which offset the reduction of net income from abroad resulting from the decline in remittances. Thus, according to the Ministry of Finance of the Republic of Armenia, in 2015, the exports of goods and services

Fig. 11. The main macroeconomic indicators of the Republic of Armenia, 2015-2016



growth reached 4.9% in annual terms, while imports of goods and services decreased by 15.1%, and, in 2016, exports growth reached 19.7%, while imports grew by 7.6%.

By the end of 2016, export supplies from Armenia increased significantly both to the Union Member States (by 53.7%) and to third countries (by 13.7%). However, exports growth to third countries was due, among other things, to growing industrial production based on raw materials and components originating from the Union partners, and to better competitiveness of the manufactured products.

Some positive changes took place in the Republic of Armenia's mutual trade with the Union Member States. For example, many commodity types were supplied to Belarus, Kazakhstan and Kyrgyzstan from Armenia for the first time (Fig. 12).

As compared to 2015, the volume of Armenian exports to Belarus increased almost twice and reached 13.4 million USD.

Exports to Kazakhstan increased by 19.4% and reached 5 million USD.

The volume of Armenian exports to Kyrgyzstan increased 2.8 times and reached 1.04 million USD.

Exports of food products and agricultural raw materials increased 1.3 times (6.5 million USD), textiles, textile products and footwear – 76 times (2.3 million USD), chemical industry products – 3.2 times (0.5 million USD).

Despite Armenian exports to Russia decreased by 20.6% (reaching 244.9 million USD) in 2015, it increased by 52.9% in 2016, as compared to the end of 2015. The comparable amounts of Armenian export supplies to Russia can be observed in terms of the most competitive and essential commodity items in the market of the Russian Federation and the Union as a whole, such as: alcoholic and non-alcoholic beverages, vegetables and fruits, garments and clothing accessories (knitted and textile),

same time, when moving goods between the Republic of Armenia and the States that are not Members of the Union, the country's economic entities were allowed to document these goods, except for transit, under "processing for domestic consumption" customs procedure and "special customs procedure", which were not included in the Customs Code of the Republic of Armenia before it joined the Union. A preference is given to the electronic customs declaration as contemplated by the Customs Code of the Customs Union.

Exports of food and agricultural raw materials increased by 15.2% (1.9 million USD), textiles, textile products and footwear – 24.7 times (1.6 million USD).

household appliances, air conditioners and pumps, medicines, vaccines and pharmaceuticals.

At the same time, in 2016, imports from Russia increased by 7.3%, and imports from Kazakhstan rose 5.5 times.

In general, Armenian foreign trade turnover increased from 4.7 billion USD in 2015 to 6.4 billion USD in 2017.

The unemployment rate in Armenia was slightly declining: from 18.5% in 2015 to 18.0% in 2016, reaching 17.8% in 2017. At the same time, there was a decrease in migrant workers' remittances to Armenia – according to the data of the Central Bank of the Republic of Armenia – there was a 7% decline in 2016 compared to 2015.

As regards the free movement of goods, services, capital and labor within the Union, the following actions are being taken in the country.

Since Armenia acceded to the Treaty on the Union and its National Assembly adopted the Law "On Customs Regulation" dated December 17, 2014, it enjoys the free movement of goods within the Union without filling in customs declarations and without state control (transport, sanitary, veterinary-sanitary, quarantine and phytosanitary), except for the cases stipulated by the Treaty on the Union. At the

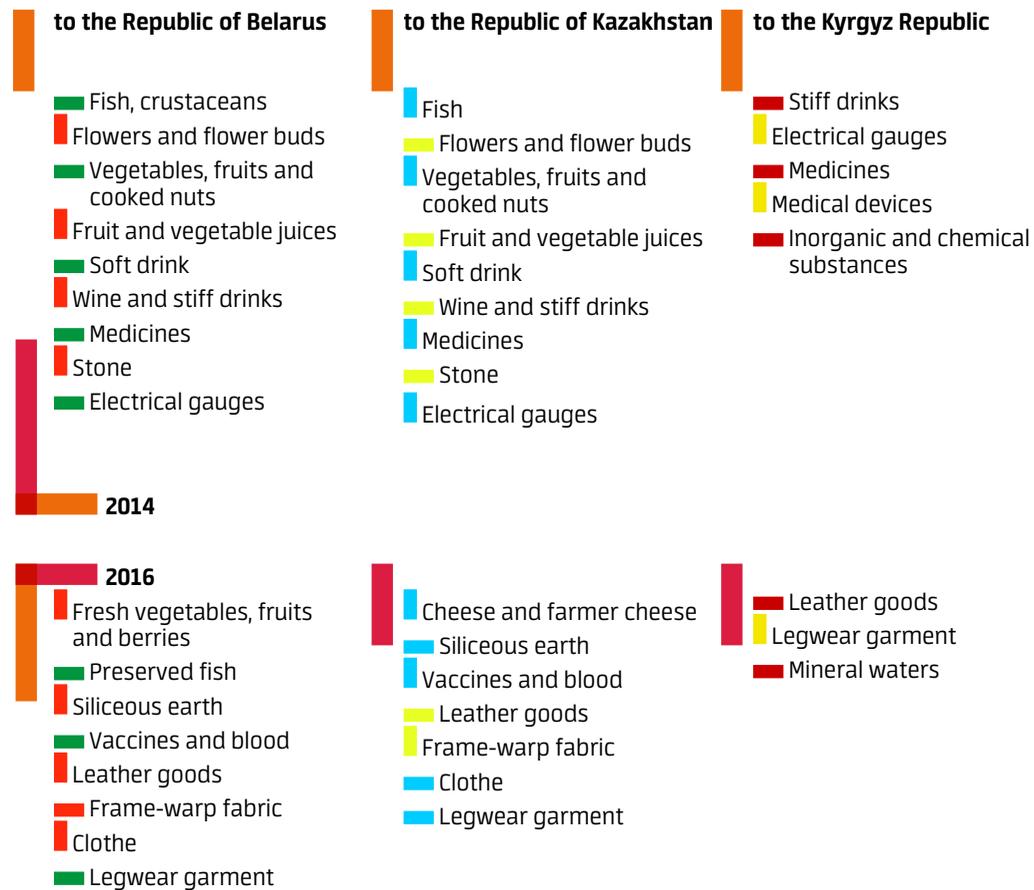
Relevant registers are kept for the providers of customs services, a system for securing payment of customs duties and taxes has been implemented, and warehouses for temporary storage of goods have been created where goods can be stored for up to 4 months until declaration issues are settled. In addition, the system of authorized economic operators has been improved.

Thanks to the customs procedures simplification, the establishment of a mechanism for transport control and the liberalization of road transport of goods, more goods are now transported by road. According to the Ministry of International Economic Integration and Reforms of the Republic of Armenia, the time for customs procedures shortened from 50 to 3 hours. Armenian vehicles and carriers now can travel on preferential terms via "Verkhny Lars" International Automobile Border-Crossing Point (2 lanes have been allocated).

The volume of cargo transportation by road transport showed an expansive growth in 2016. In 2015, it increased by 27.5% compared to 2014, reaching 6.9 million tons. In 2016, it was 2.3 times higher than in the previous year (Fig. 13 p. 28).

In 2016, the income to the country's budget from the share of customs duties distributed within the Union decreased in

Fig. 12. Diversification/extension of export structure of the Republic of Armenia Armenian goods that came on the markets of the EAEU Member States in 2016 for the first time

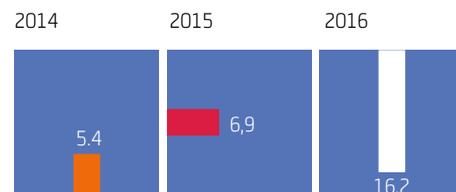


comparison with 2015. However, in 2017, the share of inpayments to the budget from customs duties within the Armenian income structure already increased by 31% in comparison with 2016.

As part of the harmonization of tax legislation, the procedures have been simplified for calculation and payment of indirect taxes for imports to Armenia from the Union Member States and vice versa. The goods imported from the Union Member States by individuals for their personal use are exempted from indirect taxes.

Furthermore, the Commission promptly resolved the issue of charging VAT on

Fig. 13. Dynamics of the volume of cargo transportation by road transport of the Republic of Armenia, 2014-2016 (million tons)



individuals importing cars into Armenia, which made part of its activities on elimination of barriers undermining the functioning of the Union internal market. At the beginning of 2016, relevant amendments<sup>2</sup> were adopted to the Law of the Republic of Armenia No. 3R-118 "On Value Added Tax" dated June 16, 1997, according to which individuals importing cars to the Armenian

Summarizing the results of joint efforts of the Commission and antitrust authorities of the Union Member States, the mobile operator of the Republic of Armenia ArmenTel, CJSC reduced roaming tariffs (voice communication) 6-fold, from 40 rubles per minute to 7 rubles per minute. In general, it was decided to reduce tariffs at the average by more than 50% across the country<sup>3</sup> (Fig. 14).

Moreover, the tariffs for mobile communication services have been reduced not only in Armenia, but all across the Union.

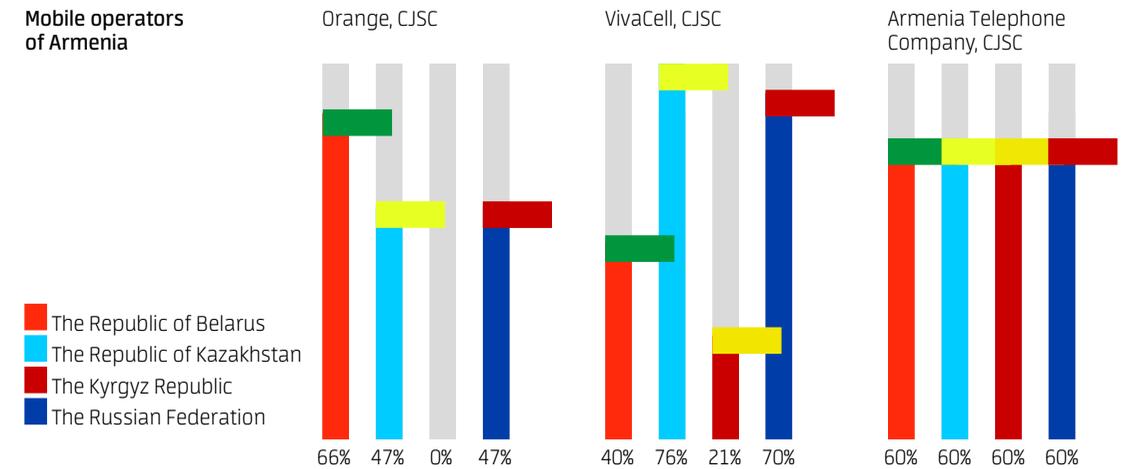
In the energy sector, persistent efforts are currently being aimed at the construction of a high-voltage DC transmission line of 400 kV between Armenia and Georgia. As early as in 2019, the Armenian energy system will be connected via Georgia to parallel operating energy systems of the Union Member States, thus helping to eliminate some technical obstacles to the interstate power transmission through the Member States' territories.

Simultaneously, the construction of a high-voltage transmission line of 400 kV between Iran and Armenia is ongoing, which would enable Armenia to serve as an energy corridor between Iran and the Union, if necessary. The construction of new high-powered energy lines will allow Armenian electric power companies to become full-fledged participants of the Union's common electric power market and to make use of all potential integration opportunities, including those existing in electric power transit and exportation.

on the border, which made a 9% decrease compared to 2016. Arrangements were reached at the Russian and Armenian Prime Ministers' meeting held on April 2016 in Yerevan. As a result, a Protocol was signed between governments of the two countries on amending the Agreement on the pricing

Nowadays, the legal framework required for launching common markets of medicines and medical devices has been essentially formed, and since the beginning of May 2017, their actual functioning became possible. A transition period is provided to ensure a smooth transition from national to unified

Fig. 14. Reduction of tariffs for roaming mobile communication services



procedure for the amounts of natural gas delivered to the Republic of Armenia dated December 2, 2013.

One of the most important directions within the Union is the creation of common markets of medicines and medical devices. Relevant agreements on common principles and rules for the circulation of medicines and medical devices within the Union were signed on December 23, 2014. In November 2016, the entire package of by-laws was adopted in full, which allowed bringing medicines and medical products regulation on a fairly new level (similar to the European Union's one) by eliminating restrictions within the Union in mutual trade in medicines at all stages of a medicine life-cycle (development, manufacturing, safety and efficacy studies, supply and distribution).

In December 2015, the Member States signed a number of Protocols on the accession of the Republic of Armenia to the Agreements on Single Principles and Rules of Circulation of Medicines within the Eurasian Economic Union dated December 23, 2014, which entered into force on April 26, 2017.

regulation. It will allow preventing shortages in public health systems of the Union Member States as well as help medicines manufacturers adapt to new requirements in the most comfortable way. In particular, until December 31, 2020, manufacturers have the right to choose any rules (national or unified) for medicines registration. Medicinal products registered according to national rules until December 31, 2020 shall pass re-registration according to common market rules until December 31, 2025. When filing a dossier for medicines registration until December 31, 2018, the manufacturer may submit national documents issued by the Member States and confirming the compliance of its manufacturing process to the requirements of national GMP regulations instead of submitting a GMP certificate of the Union.

In general, the membership of Armenia in the Union will allow not only to increase the amount of registered medicines, but also to fundamentally promote their circulation. As regards the circulation of medical devices, the opportunity now arises to head start

FOR REFERENCE:

The inpayments from taxes and duties to the Armenian budget in 2016 exceeded the inpayments of 2010 by 53.7%, i.e. the average growth of inpayments from taxes and duties to the country's budget for the period 2010-2016 amounted annually to 9.0%.

territory from other Union Member States have been exempted from VAT.

A significant work has been carried out to reduce the cost of roaming services within the Union in order to unify (harmonize) laws and remove barriers in mobile communications sector.

<sup>2</sup> Law of the Republic of Armenia No. 3R-31 "On Amending the Law of the Republic of Armenia "On Value Added Tax" dated March 26, 2016.

One of the most important issues for Armenia is the reduction of oil and gas prices. The Russian gas price for Armenia was reduced in 2015 from 190 USD to 165 USD per thousand cubic meters, considering the country's accession to the Union.

In 2017, the Russian gas price for Armenia was 150 USD per thousand cubic meters

<sup>3</sup> According to the State Commission for the Protection of Economic Competition of the Republic of Armenia

such regulation, using the scientific, technical and human resources of the Member States, as well as the legal framework of the Union, since to date there was a problem of insufficient quality control over the turnover of medical devices in the country, as control means left over from the Soviet era were largely lost (scientific, production and human resources). Armenia's integration in the common market of medicines and medical devices will allow ensuring the guaranteed control of their quality, safety and efficacy at little cost.

Armenia's accession to the Eurasian Economic Union not only contributed to the development of its national transport complex, but also helped to define approaches to the formation of a common Eurasian transport space and creation of a common transport services market in the Union. Therefore, Armenia's special geographical location and the lack of common borders with other Union Members highlighted the existing problems of transport (road) control at the external border of the Union and exchange of corresponding information. In this respect, the work has begun on updating the international road transport control.

Thanks to liberal conditions created in Armenia for entering rail transportation sector, a single unified tariff for rail transportation has been introduced (since January 1, 2017, South Caucasus Railway, CJSC began applying unified tariffs for all types of railway traffic - export, import and intrastate).

Armenia implements several projects on development and construction of transport infrastructure, two of which - the construction of the Southern Armenia-Iran Railway and the investment program of the North-South Road Corridor - represent great importance for the Union and the Silk Road Economic Belt.

The developed Armenia-Iran railway line will connect the existing railway system of the two countries and will grant Armenia access to international commodity markets through Iran and its seaports. The investment program of the North-South Road Corridor will help using the Union's transit

potential in more rational way. The 556 km road will connect the North and the South of the country, meeting high international standards for construction of transport routes, security and comfort, strengthening transport links towards Europe-Caucasus-Asia and reducing transportation time.

According to the new Law of the Republic of Armenia No. 3P-21-H "On Procurement" dated December 16, 2016, some types of public procurement have been reduced, conditions of organization and participation in procedures have been simplified, an out-of-court legally competent and independent system of filing complaints has been established, the degree of transparency and openness of procurement procedures has been increased and mechanisms for preventing possible corruption acts have been provided.

Owing to functional and institutional changes, the volume of single-source urgency-based state procurements has been significantly reduced. The volume of actual single-source procurements was about 21.2 billion drams (in total, 18.6% of the funds provided for competitive procurements) in 2015, and about 6.6 billion drams (in total, 7.2% of the funds provided for competitive procurements) in 2016. The degree of competition in procurement procedures has increased. In addition, the number of customers has increased, and more procurement types are now carried out using e-procurement system. In 2015-2016, some 29 Armenian suppliers took part in state procurements of the Union Member States. The total cost of procurement agreements (contracts) with suppliers (contractors, performers) from the country reached 5.8 million USD in two years, and the agreements (contracts) for the procurement of goods (works, services) by countries of origin amounted to 7.5 million USD.

In 2015-2016, the agricultural production in Armenia increased at the average by 3.7%, while self-sufficiency indicators for most agricultural items also improved. In the context of mutual trade with the Union Member States, the supply of agricultural products and food from Armenia reached 258.4 million USD in 2016, which was a 5.1%

increase compared to 2014. The country's export supplies to the internal market of the Union in 2016 was mainly represented by alcoholic and non-alcoholic beverages - 39.4%, fruits and vegetables - 14.7%, dairy products - 3.3%, fish and tobacco - 2.6%, and vegetable, fruit and nut products - 3.4 % (Fig. 15).

During its 2 years in the Union, Armenia achieved positive results in trade with third countries in agricultural products and food: imports decreased by 32.6 %, while exports rose by 47.6 %.

Armenia also recorded the greatest industrial production growth rates, which showed a significant 6.7% increase in 2016 and an overall 12.2% increase for the last two years. High production rates were observed in 12 manufacturing industries in 2016: production of other transport equipment increased by 15.4 times, other processing industries - by 87.8%, whereof production of jewelry increased almost twice (by 97.7%), production of electrical equipment - by 56.0%, production of computers, electronic and optical devices - by 27.5%, production of leather, leather goods and footwear - by 20.3%. At the same time, the decline in production was observed in five manufacturing industries: manufacture of

"economies of scale" and marketing development. Thus, by the end of 2016, mutual trade in industrial products of Armenia and the Union countries increased by 40.3%, including mutual trade in manufacturing products - by 40.0%.

In addition, in terms of establishing industrial cooperation within the Union, the country is actively involved in ongoing work on the implementation of the main directions of industrial cooperation<sup>4</sup>.

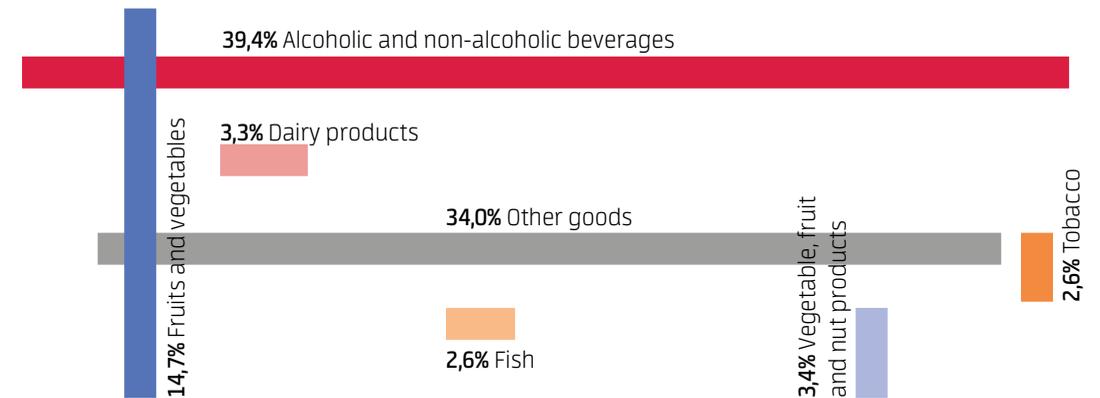
Armenia has improved its position in various international rankings on the following criteria: macroeconomics, business climate, trade, and financial sector (Fig. 16, 17 p. 34-36).

The Republic of Armenia applies the Treaty on the Union's norms in the field of technical regulation in compliance with the conditions and transitional provisions established by the Treaty on the Accession.

Hence, it is provided that the Union's technical regulations and Armenian national legislation shall be simultaneously effective on the country's territory. The timeframes for the application of this mechanism have been established.

It's worth mentioning, however, that in respect of products subject to 32 technical

Fig. 15. Structure of agricultural and food supplies from the Republic of Armenia to the internal market of the EAEU in 2016

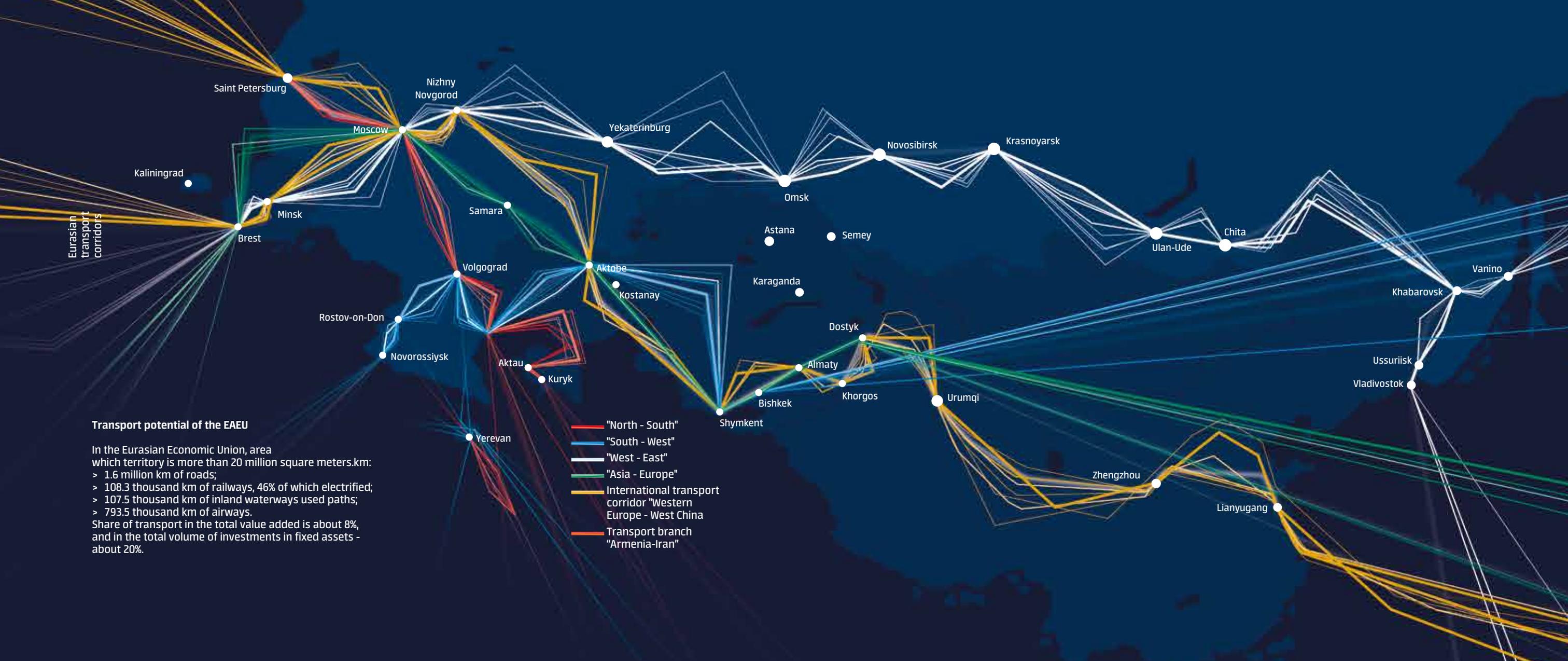


non-metallic mineral products (by 20.4%) and chemical industry (by 8.7%), manufacture of paper and paper products (by 1%), printing and reproduction of recorded materials (by 0.6%), manufacture of other machines and equipment (by 6.3%).

Such an intense industrial growth in Armenia became possible due to the

regulations, the possibility to simultaneously apply both the national legislation and the Union's technical regulations is no longer available due to the end of transition periods.

<sup>4</sup> Decision No. 9 of the Intergovernmental Council "On Main Directions of Industrial Cooperation within the Union" dated September 09, 2015.



**Transport potential of the EAEU**

In the Eurasian Economic Union, area which territory is more than 20 million square meters.km:

- > 1.6 million km of roads;
- > 108.3 thousand km of railways, 46% of which electrified;
- > 107.5 thousand km of inland waterways used paths;
- > 793.5 thousand km of airways.

Share of transport in the total value added is about 8%, and in the total volume of investments in fixed assets - about 20%.

- "North - South"
- "South - West"
- "West - East"
- "Asia - Europe"
- International transport corridor "Western Europe - West China"
- Transport branch "Armenia-Iran"

In EAEU the coordinated transport policy is implemented, aimed at stepwise establishment of the single transportation services market and the formation of the single area based on the principles of business competition, publicity, safety, reliability, accessibility and ecological compatibility.

In the frame of the single transport area, safe passenger passage and cargo shifting and transport vehicles, technical and technological compatibility of transport systems of state members will be provided.

The transition to single EAUE transport area will provide equal access conditions

for services delivery, will reduce shifting time, will decrease transport costs, will increase population mobility and transport availability, will eliminate bottleneck transport infrastructure problems, will realise EAEU potential. Already achieved:

- > elimination of the system of authorization of international cargo transportation among state members
- > transport control relocation to the external EAEU border
- > the establishment of information exchange among the bodies, implementing transport control

- > unified inner state tarriffs on cargo shifting depending on the accessibility and ecological compatibility
- > setting the price band changes of tariffs on railway transportation;
- > determination of the transportation access rules of carriers of member states to the adjoining railway infrastructure of other member states.

The Program of stagewise liberalization of coastal road transportation of goods is being implemented and it will provide an opportunity for EAEU road carriers to have access to the domestic freight market of the member states.

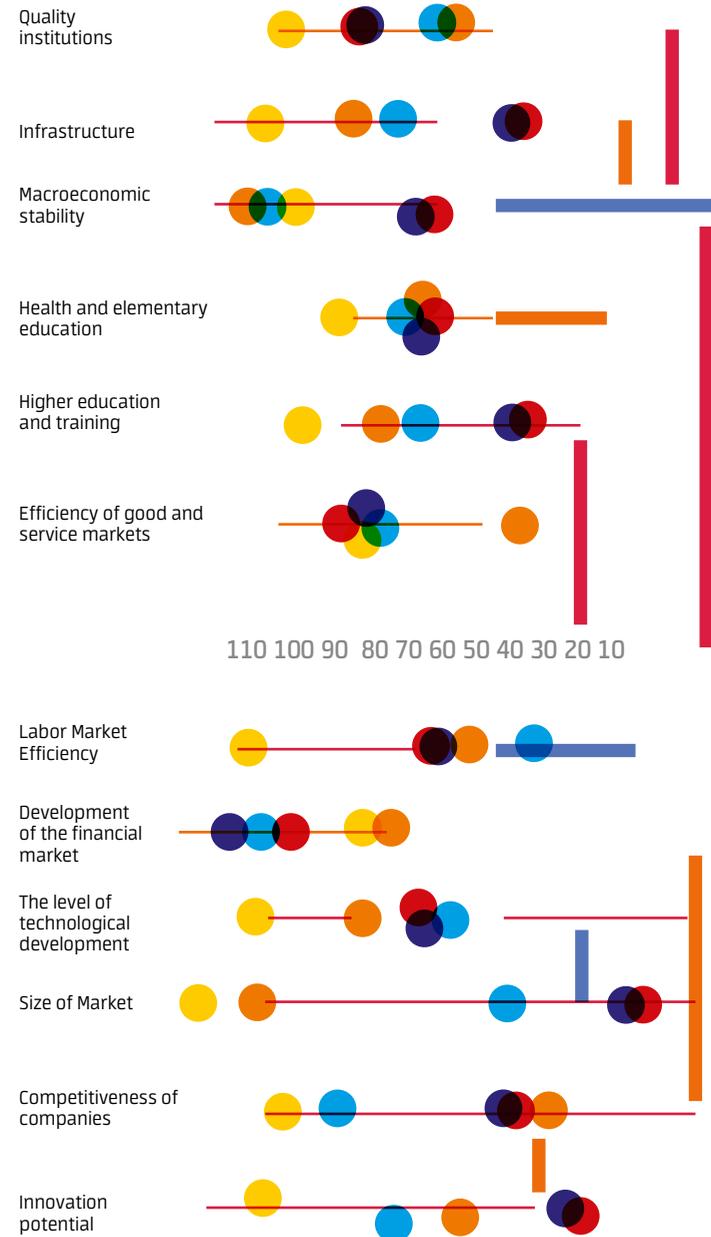
More favorable conditions for the access of vessels under the flag of the Member States to the inland waterways of the Member States of the Union are being agreed.

Favourable conditions will be provided and projects of transport infrastructure and logistics centers will be realized/ implemented, which in their term will simplify the conditions of transit through the Union and thus will create a land bridge between Europe and Asia and ensure the provision of comprehensive, competitive transport services.

Fig. 16. The Eurasian Economic Union and Member States in international rankings

**GLOBAL COMPETITIVENESS INDEX<sup>1</sup>**

In 2017, the EAEU<sup>2</sup> situated 40 place in the ranking of 137 economies. Compared with 2016, there was an increase by 4 positions (from 44 to 40 place).

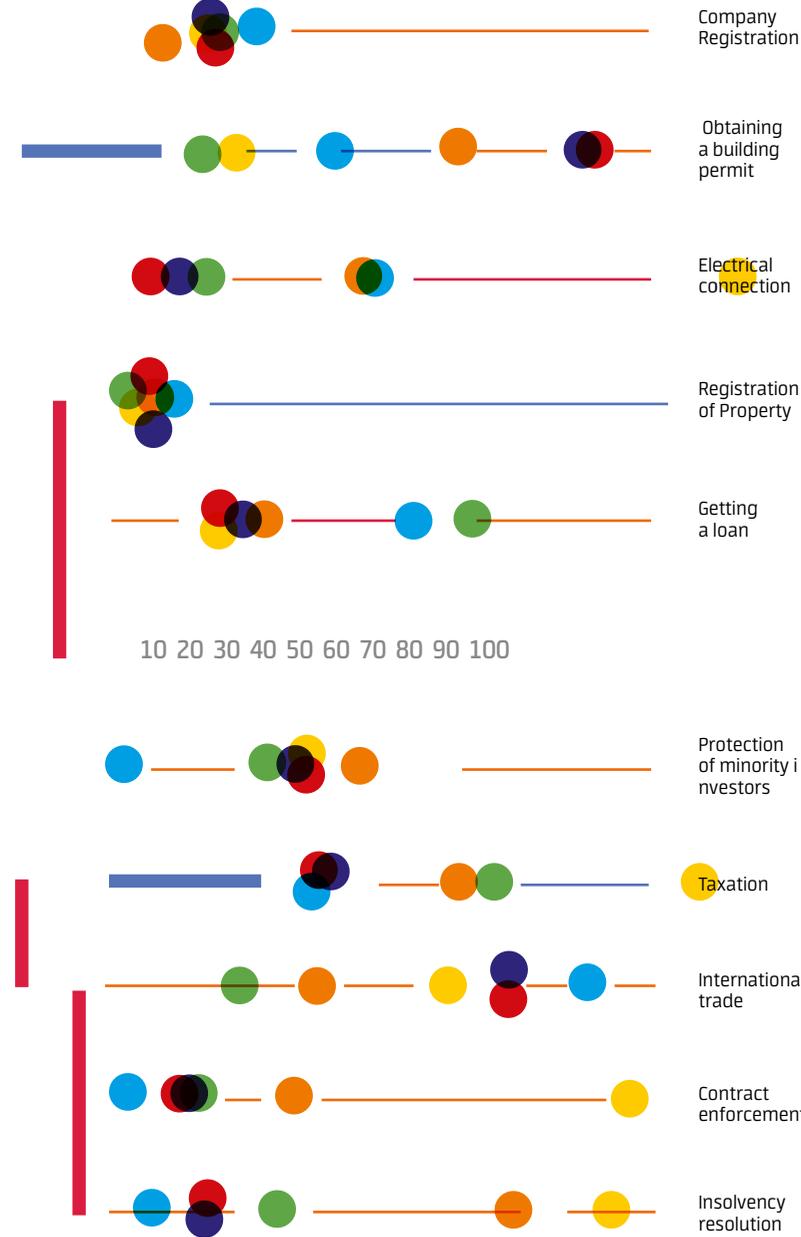


**EAEU**



According to the Global Competitiveness Index for 2017, the EAEU occupies the highest positions in the sub-indices "size of market" (11 place), "higher education and professional training" (35 place), "infrastructure" (39 place).

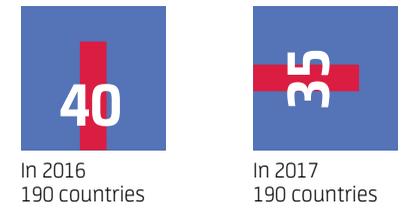
<sup>1</sup> The Republic of Belarus isn't included in the Index of global competitiveness.



**DOING BUSINESS**

In the rating "Doing Business - 2018", the EAEU ranks 35<sup>th</sup> place of 190 economies. Compared with the previous year, according to the indicator of distance from the front line, all the countries of the EAEU improved their positions.

**EAEU**



<sup>2</sup> The position of the EAEU is calculated as the weighted average of the positions (indices, subindexes) of the Union Member States in proportion to the contribution of the Member States to the total GDP of the integration association.

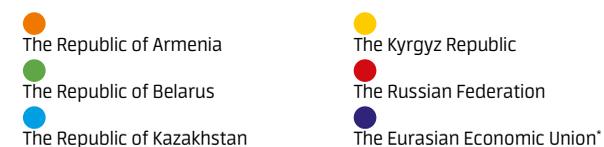
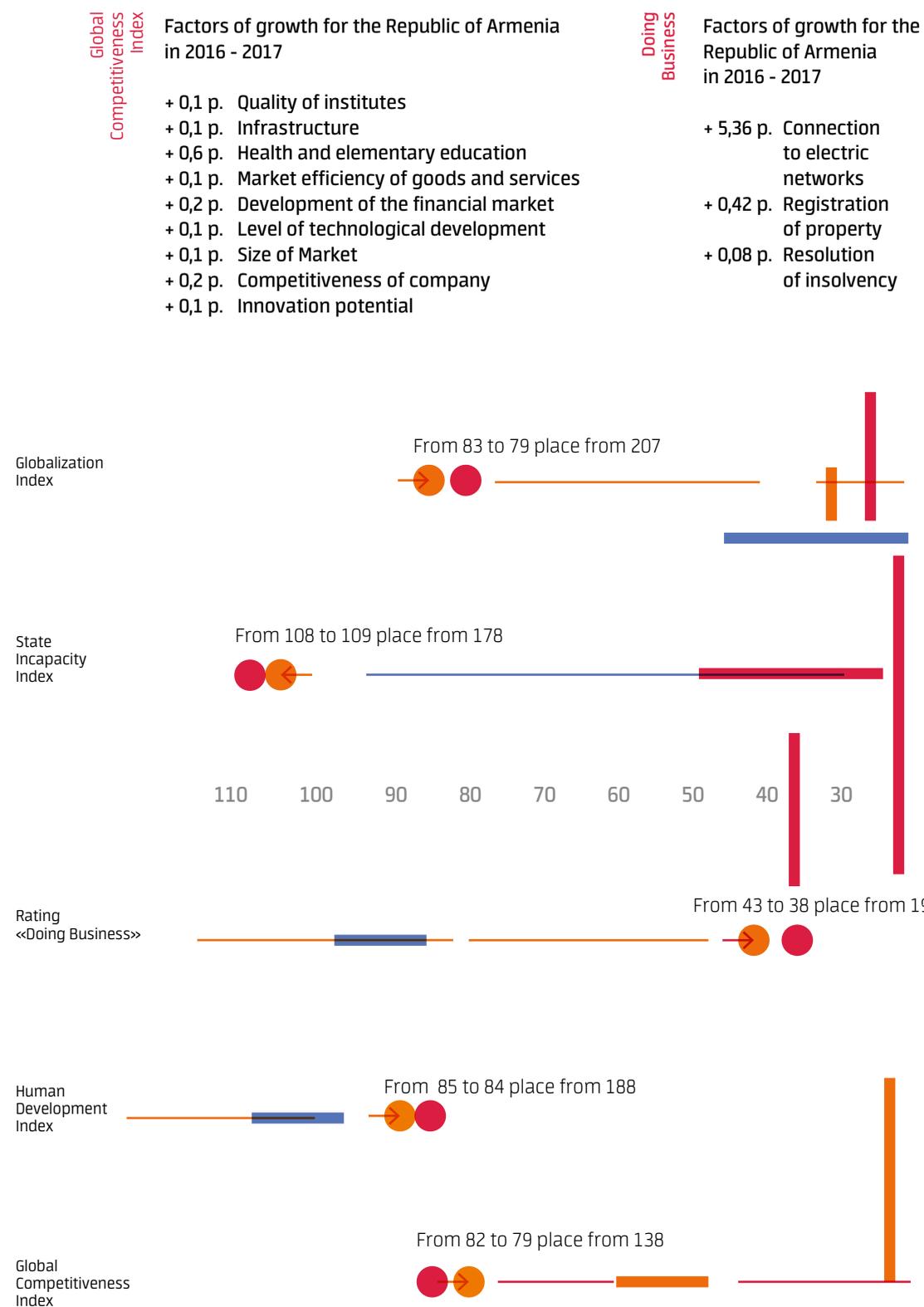


Fig. 17. Positions of Armenia in various international rankings in 2016 (compared to 2015)



At the same time, the Armenian national legislation can be applied along with the provisions of the Union's technical regulations "Road Safety" until January 2, 2019, and for the products subject to the Union's technical regulations "On the Safety of Wheeled Vehicles" – until January 2, 2020.

The provisions which establish the mechanism of simultaneous application of the Union's technical regulations and Armenian national legislation on the country's territory, allowed those FEA traders who adapted to new terms and provisions to import into Armenia, since the entry into force of the Treaty on the Accession, any products which comply with mandatory requirements established in the Union's technical regulations without additional conformity assessment procedures. Meanwhile, the products which meet the requirements established by the Armenian legislation are released into circulation on its territory only.

Two years is rather short time to summarize important results, but even today benefits and prospects of further development of the Armenian economy within the Union have become obvious.

The results of 2017 show a positive trend: all Union Member States observe economic growth. The Union's GDP physical volume index for 2017 increased by 1.8% compared to the last year. At the same time, Armenia's GDP increased by 7.5% during this period. (Fig. 18 p. 38).

Armenian foreign trade for January-December 2017 increased by 28.1%, reaching 4,563.6 million USD. At the same time, exports increased by 20.7% and reached 1,687.6 million USD, while imports increased by 32.9% and reached 2,075.9 million USD. The Republic of Armenia's trade with the Union Member States increased in volume in January-December 2017. Export supplies amounted to 555.1 million USD and rose by 41.0%, while import supplies amounted to 1,306.7 million USD and rose by 23%. Despite

In 2017, the Republic of Armenia was ranked 39<sup>th</sup> out of 189 States, the Republic of Kazakhstan – 35<sup>th</sup>, the Republic of Belarus – 37<sup>th</sup>, the Kyrgyz Republic – 75<sup>th</sup>, and the Russian Federation – 40<sup>th</sup>.

To let Armenian business community, certification bodies and testing laboratories adapt their activities to the new industry conditions, the Commission's Board has adopted the Procedure for implementing the Union's technical regulations in the Republic of Armenia. It implies the transitional provisions in terms of validity of conformity assessment documents issued or adopted in accordance with the Armenian legislation on the application date of the Union's technical regulations, as well as the possibility to manufacture and release into circulation any products in accordance with these documents.

As regards the migration, in 2015, the share of migration flows to Russia increased and reached 94.6%, and the share of migrant workers who left the country reached 80.0% (construction remains the main sector of employment among migrants - 66.9%, followed by agriculture - 18.8%). The share of households involved in external migration processes also showed a 33.8% increase.

the largest share in Armenian mutual trade with the EAEU countries fell on Russia (97.5% in exports), it is worth mentioning that Armenian exports to Kyrgyzstan increased by 70%.

Industrial production in Armenia continues to accelerate, as it demonstrated a 12.6% increase in 2017. The country is a leader in terms of industrial production index (Fig. 19 p. 39). During the mentioned period, cargo transportation increased by 36.9%, and retail turnover - by 5.6% (Fig. 20 p. 39).

In fact, after joining the Union, Armenia received investment loans from the EADB Eurasian Fund for Stabilization and Development to finance projects for irrigation systems modernization (40 million USD), construction of the North – South road (150 million USD), as well as to support certain measures of the Program for promoting economic growth and export industries launched by the Armenian government (300 million USD).

Armenia's prospects and opportunities within the Eurasian integration process as well as the development of digital technologies in the country were discussed at the round table "The Republic of Armenia: two years in the Eurasian Economic Union. First results" held on July 6, 2017 in

the use of modern digital technologies ensuring goods traceability to facilitate customs procedures and other formalities for moving goods from the Armenian territory to the territory of other Union Member States, which still exist due to the lack of common borders;

the growth of the country's investment attractiveness. This is particularly true for the light industry: thus, at the end of 2015, large companies specializing in clothing manufacture began to operate in Armenia. Owing to their activities, thousands of new jobs were created across the country.

Fig. 18. Index of GDP physical volume of the EAEU Member States (in % to January-December of the previous year, in constant prices)

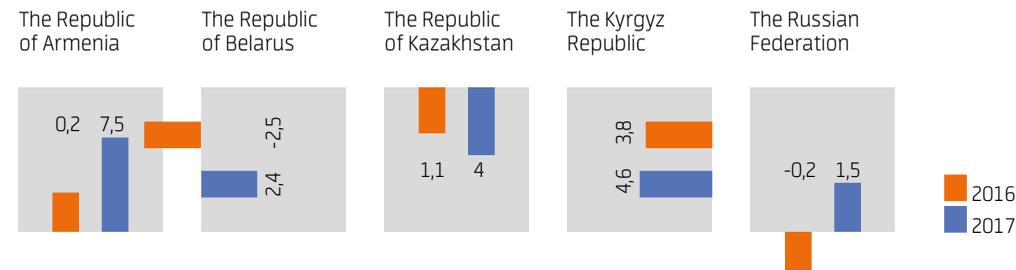
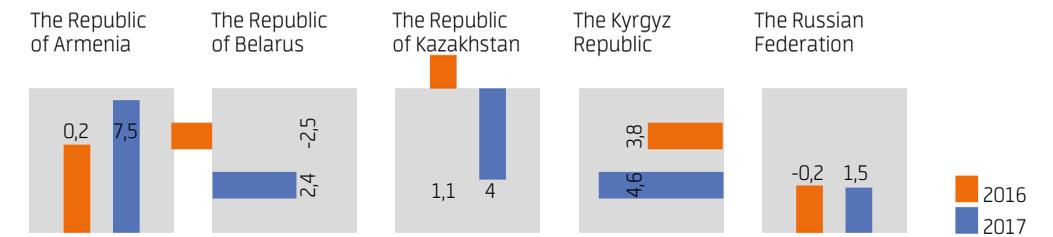


Fig. 19. Industrial Production Index of the EAEU Member States (in % to January-December of the previous year, in constant prices)



Yerevan. During the discussion, Armenian representatives of business, science and public authorities noted positive effects the country had gained by joining the Union, including: leadership in industry development, increase in gross domestic product and supply of Armenian products to the Union's common market. At the same time, there were also indicated tangible positive results of the Union functioning as a whole: the authority and importance of the Union in the international stage continues to grow, its development program is being implemented systematically.

The round table attendees expressed their consolidated opinion on good prospects for developing the Eurasian integration association.

Along with the positive assessments of Armenia's membership in the Union, there were also mentioned some challenges requiring special attention. There's a number of reasons for it: failure of the Member States to observe the Union's law, existing "gaps", lack of required additional regulation mechanisms, existence of norms requiring improvement, etc.

Thus, the business community representatives pointed out the following challenges for further elaboration:

double VAT taxation in mutual trade of the Republic of Armenia and the Union Member States (first of all, the Russian Federation);

strengthening logistics potential, including railway and road transport infrastructure, as part of the regional cooperation that the Union establishes and develops with third countries (in particular, with Iran), which represents a strategic importance for the Union Members;

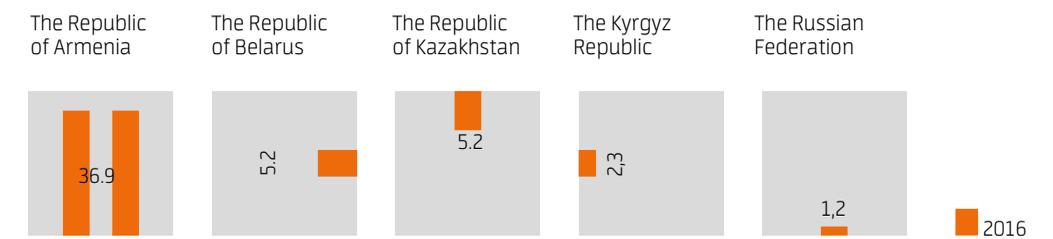
mutual recognition of samples in jewelry industry (the lack of unified requirements for the circulation of valuable goods during their transportation between Member States);

differentiating sanctions against the entrepreneurs that violate the terms and conditions of tenders, as well as settling the issue of electronic signatures recognition in public procurement;

developing cooperation on supplies of non-metallic ore materials from Armenia; ensuring the identity of statistical data (the need to develop a common accounting methodology).

Such challenges are normally expected to emerge within any ongoing integration project. Meanwhile, the economic actors themselves largely note positive trends in Armenia's economic development. It is not just the diversification of markets, but also

Fig. 20. Index of cargo transportation of the EAEU Member States (in % to January-December of the previous year)



Following the round table's results, the attendees agreed that it would be highly relevant for each Union Member State to analyze their individual integration effects and to discuss it with the representatives of the related countries' state authorities, business and expert communities.

Such format of interaction between national authorities, the Commission, as well as business and science circles has proven its relevance in practice, which makes it reasonable to be applied in the future with respect to other Union Member States.

## Prospects for the Republic of Armenia's economic development in the Eurasian Economic Union

5

The Treaty on the Union establishes the Union Development Program up to 2025, which includes gradual creation of relevant single and common markets, as well as the implementation of agreed (coordinated) policies in various areas. The Union Development Program is implemented both domestically and internationally including positive prospects and mutual benefits for Armenia from its participation in the Union, as well as for the Union as a whole.

The domestic track includes the following directions.

■ Diligent and timely implementation of the Union's law.

One of Armenia's priorities is the entry into force of the International Treaty on Creating the Common Electric Power Market, scheduled for 2019. It should be noted that the country has great opportunities for expanding electricity exports outside the Union, in particular, to Iran. Such timely creation of the common electric power market will allow Armenian electric power companies to become competitive participants in the Union common market and to make use of the existing potential in electricity transit and exportation.

In addition, the creation of the Union common markets for gas, oil and petroleum products, scheduled for 2025, would be important from the perspective of lowering energy prices for Armenia.

■ Ensuring the Member States' observance of the Union law as well as compliance of the national legislation with the Union law.

In this respect, it should be noted that Armenia responds to ensuring compliance of its national legislation with the Union law rather promptly. Thus, the issue of charging VAT on individuals importing cars into Armenia was resolved in a very short time. At the beginning of 2016, relevant amendments were adopted to the Armenian law "On Value Added Tax", according to which individuals importing cars into the Republic of Armenia from other Union Member States are exempted from VAT.

■ Systematic identification and elimination of barriers in the Union's internal market.

The Republic of Armenia can receive positive evaluation in terms of ensuring identification and elimination of barriers, taking into account the smallest amount of barriers identified in Armenia. However, the lack of information in Russian related to public procurement held in Armenia using e-procurement still represents a barrier today.

Special attention shall be paid to ensuring the translation of Armenian national laws and regulations from Armenian into Russian for the sake of full-scale integration development, as it would make the work and interaction of the Union Member States,

the Commission and business circles more efficient.

■ Reducing exemptions and restrictions; In general, the active position of Armenia on this issue will help significantly enhancing the free movement of goods, services, capital and labor. In the context of Armenia's participation in the Union, the reduction of exemptions from the SCT shall be considered in the future.

■ Improvements to the Union law.

In the current rapidly changing conditions and considering the development of integration processes, it is necessary to make changes to the Union law. In addition, law enforcement practice has shown that since the application of the Treaty on the Union a number of its provisions need to be adjusted. In this regard, a combined working group on improvement of the Treaty on the Union's provisions has been established within the Commission<sup>5</sup>. However, best international practices shall also be taken into account when improving the Union law, including the

FOR  
REFERENCE:

The ICT industry has increased 4.3 times since 2010, and the number of IT companies operating in the global market has increased 2.4 times since 2010 and is more than 400 today.

implementation of international standards and norms. The Armenian experience in various areas may also appear very useful for the Union's further development. In particular, it should be noted that the Republic of Armenia is one of the leaders among the Union Member States in the Doing Business ranking, due to the ease of business and property registration in the country. Another advantage of Armenia is rapidly developing information and communication technologies.

For reference: The ICT industry has increased 4.3 times since 2010, and the number of IT companies operating in the global market has increased 2.4 times since 2010 and is more than 400 today.

The Armenian potential in this area will certainly help implementing the digital agenda of the Union up to 2025.

<sup>5</sup> Instruction No. 112 of the EEC Board "On Combined Working Group on Improvement of the Provisions of the Treaty on the Eurasian Economic Union dated May 29, 2014" dated August 2, 2016.

■ Along with the implementation of existing agreements within the Union, the issues of deepening cooperation and expanding integration to certain new social and humanitarian areas are going to be elaborated.

The Armenian initiatives in this area will allow to bring the Eurasian integration to the new level and, in particular, provide additional opportunities for the economic growth. For example, this year, the country initiated the decision on removal of limits for professional athletes-legionnaires. As a result, since the Member States have assumed the obligation not to introduce or apply any restrictions set by their legislation in order to protect national labor market with respect to labor activities carried out by citizens of the Union Member States, the Commission has decided that the Member States shall observe relevant provisions of the Treaty on the Union regarding labor activities carried out in physical training and sports organizations

in the State of employment of professional athletes who are the citizens of other Member States<sup>6</sup>.

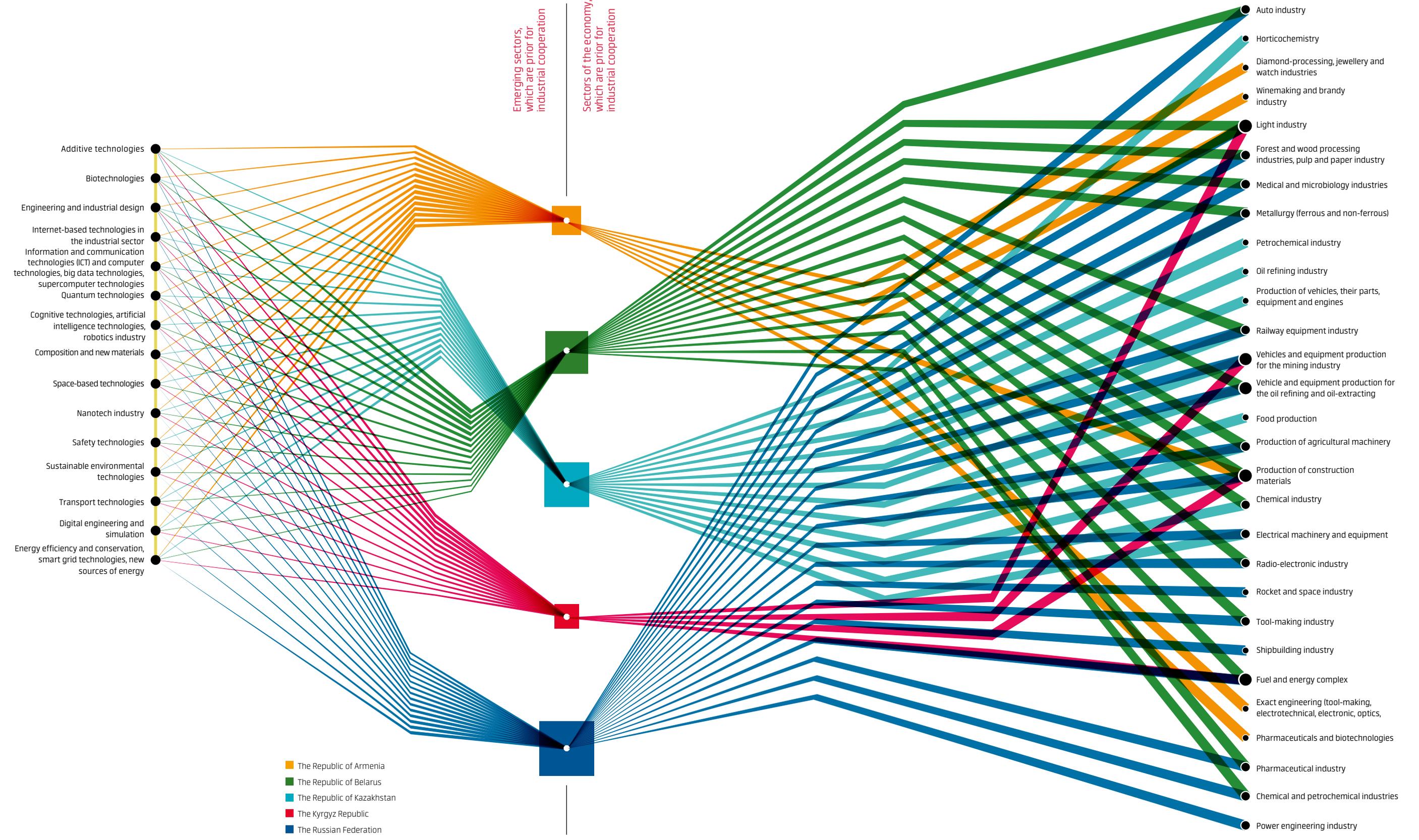
International cooperation of the Union includes such areas as:

■ Ensuring access to new markets; Another important area of Armenia's activities within its the Union membership are negotiations aimed at the conclusion of the EAEU-Iran interim agreement, which would lead to the creation of the Union's Free Trade Area with the Islamic Republic of Iran. In this light, the positioning of Armenia as a "bridge between the Islamic Republic of Iran and the Eurasian Economic Union" is reasonable enough. Within the framework of the Union, some opportunities emerge to implement numerous investment programs. For example, the construction of the Armenia-Iran railway is important not only for Armenia as a way to overcome the country's transport isolation and make

<sup>6</sup> Decision No. 47 of the Commission's Board dated May 11, 2017.

Emerging sectors,  
which are prior for  
industrial cooperation

Sectors of the economy,  
which are prior for  
industrial cooperation



use of its transit potential, but also for the Union as a whole – as an opportunity to enter regional commodity markets.

Coordination of actions for the Union's entering and positioning on the global market, including for attracting foreign direct investments, as well as reducing and eliminating common economic security threats.

It is significant that Armenia's membership in the Union does not prevent it from developing its relations with the European Union in terms of both political dialogue and economic ties. Nowadays, Armenia has a trade system with the European Union GSP+<sup>7</sup>, which allows Armenian manufacturers to easily enter the European market, so any company from the Union Member States can take advantage of this privileged trade regime by opening its branches in Armenia.

Armenia continues to actively cooperate with the European Union. In March 2017, the Comprehensive and Enhanced Partnership Agreement was initiated, and it is scheduled for

signing before the end of 2017<sup>8</sup>. Nowadays, the accumulated experience and current cooperation of Armenia and the European Union can be useful for establishing an effective EAEU-EU dialogue. After all, the EAEU is an open economic community, which must take its natural place in global communications as a reliable bridge between Europe and growing Asia.

As for general integration effects expected in all Member States and, in particular, in Armenia in the mid-term, there is an increase in competitiveness of both national businesses and national goods, rising investment attractiveness, growing use of transit potential combined with the development of transport and logistics infrastructure, reindustrialization and deepening industrial cooperation, as well as strengthening human potential for the single labor market.

Armenia relying its own experience and competitive advantages, will contribute to strengthening of the Eurasian space.

<sup>7</sup> Extended Generalized System of Preferences (GSP+) with the EU countries. The Generalized System of Preferences (GSP) is a system of preferential customs tariffs applied by the developed countries for the goods exported from the developing countries in order to promote their economic growth and enhance their export potential. It includes preferential MFN (Most-Favored-Nation) tariffs or duty-free importation of permitted goods exported by beneficiary countries to the markets of countries granting preferential treatment.

<sup>8</sup> Since 2015, the European Commission and the Republic of Armenia have been working on the formation of a new legal framework for bilateral relations.

## Conclusion

This analysis evidences the reasonableness and long-term benefits of Armenia's strategic decision to join the Eurasian integration association. Here are the factors that have become decisive for this choice:

■ survey results which have confirmed significant advantages and benefits for the country in case of its accession to the CU and the CES, and subsequently its membership in the EAEU;

■ close cooperation with the countries which have historically been the Republic of Armenia's main partners.

In fact, it took Armenia a little more than a year to make and implement the decision to join the integration association.

Throughout this process, the work was carried out within the framework of the Memorandum on Interaction between the Government of the Republic of Armenia and the Commission in order to establish a dialogue and identify the prospects of integration processes within the CU and the CES. Then, after the decision on accession, in order to adapt to the integration conditions, the Commission and the Republic of Armenia signed a Memorandum on Deepening Interaction, allowing Armenia to be directly involved in the activities of the Union's governing bodies.

Armenia achieved high starting positions with regard to economic and institutional

reforms, which allowed it to prepare, approve and implement the Road Map measures required for joining the CU and the CES in a fairly short time.

At the same time, Armenia not only joined the existing regulatory and legal framework, but also contributed to the formation of the Union law, taking into account its experience of successful application of the best international practices of economic regulation. For example, Armenia proposed to consider the implementation within the Union of the international principle of exhaustion of intellectual property rights, which is currently applied in the country.

The Treaty on the Accession had been signed before the Treaty on the Union came into force. Since January 2, 2015, the day after the entry into force of the Treaty on the EAEU, Armenia became a Member of the Eurasian Economic Union.

It is important to note that at the time of its accession to the Union, Armenia already had a preferential treatment within the CIS as a party to the Free Trade Area Agreement dated October 18, 2011, and enjoyed significant tariff benefits. Accessing to the Union allowed the country to get even more tangible economic effects due to the Common Economic Space, the use of a single technical regulation, SPS-measures and non-tariff regulation. Such results evidence that the liberalization of tariff regulation on its

own is not enough to genuinely ensure the free movement of goods.

Armenia has integrated harmoniously into the Union's activities, and is already receiving first economic benefits. Due to the use of the "scale effect" (marketing development), the Armenian mutual trade in industrial products with the Union Member States rose by 40.3% by the end of 2016, while showing a 57.4% increase by the end of 2017. At the same time, industrial production in Armenia grew by 6.7%, while showing a 12.6% increase in 2017.

In the context of mutual trade with the Union Member States in 2017, exports of food and agricultural products from Armenia increased by 23.7% (accounting for 57.6%

In addition, in 2017, Armenia enjoyed the reduction of oil and gas prices, so the Russian gas price was set for the country at 150 USD per thousand cubic meters.

By the end of 2017, the Armenian GDP increased by 7.5%. Foreign trade for January-December 2017 increased by 28.1%, reaching 4563.6 million USD. At the same time, exports increased by 20.7% and reached 1,687.6 million USD, while imports increased by 32.9% and reached 2,875.9 million USD. The Armenian export supplies within the Union increased by 41% and reached 555.1 million USD, while imports increased by 23% and reached 1,306.7 million USD. The largest share in Armenian mutual trade with the EAEU countries fell on Russia (97.5% in exports),

contributes to the integration and development of the Union as a whole in these areas.

The country is actively promoting the projects aimed at improving and deepening cooperation on the single market formation within the Union, for example, for jewelry and precious stones. Today, Armenia is working to address challenges related to the transportation and trafficking of valuable goods (precious metals and precious stones), as well as to elaborate the procedure for moving valuable goods between the Union Member States.

Thanks to Armenia, the Union could further develop its foreign economic strategy. Close cooperation between Armenia and Iran has opened the prospects for the Union's entry on the Middle Eastern market. In this light, the Union is currently holding negotiations with the Islamic Republic of Iran with a view to deepen mutual cooperation.

The Republic of Armenia, as a Member State of the Union, continues its active cooperation with the EU, which confirms the Union transparency and demonstrates the possibility for the Member States to

develop their own fruitful foreign economic relations. Moreover, the existing cooperation between Armenia and the European Union is important for the Union as a whole, taking into account its aspiration to create a universal economic space.

Armenia has occupied its niche in the architecture of the Eurasian integration acting in both national economic interests and Union's common interests. The country has real opportunities to make the full use of its experience and potential, which will contribute to the implementation of the main program of the Union development up to 2025, improvement of the Union law, introduction of new areas/directions of integration into the Union legal environment, identification and elimination of barriers in the internal market of the Union, and reduction of exemptions and restrictions.

Armenia is conscious that the best results of integration cooperation can be achieved only through joint coordinated efforts of all Union Member States, therefore, while it highlights its own priority areas, it remains at the forefront of the entire integration agenda.

400 kV Armenia-Georgia and Iran-Armenia high-voltage power lines are under construction today. This will allow Armenian electric power companies to participate in the Union common electric power market. The ongoing construction of the southern Armenia-Iran railway, which could become an alternative way for the transportation of energy resources and other goods will help Armenia reaching the outside world. The investment program of the North-South road corridor, which will provide conditions for the transportation of goods and passengers, and make Armenia an attractive corridor for regional and international transport, is also being implemented.

of Armenian total exports in mutual trade), textiles, textile products and footwear – 1.5 times (13.7%), machinery, equipment and vehicles – 1.6 times (5%).

The growth of physical volume of goods and services exports from Armenia in 2017 reached 19.7% as many commodity types were supplied from the country to the Union Member States for the first time.

Thanks to the customs procedures simplification, more goods are now transported by road (in 2016, the traffic increased more than 3 times and reached 16.2 million tons). The time for customs procedures was shortened from 50 to 3 hours. The inpayments from taxes and duties in 2016 exceeded the 2010 inpayments by 54.4%.

The unemployment rate declined by 0.5 percentage points in 2016 compared to 2015, and by 0.7 percentage points in 2017. There was, however, a decrease in migrant workers' remittances to Armenia: according to the data of the Central Bank of the Republic of Armenia, a 7% decline was recorded in 2016 compared to 2015.

while Armenian exports to Kyrgyzstan increased by 70%.

Industrial production in Armenia continues to gain momentum, having shown a 12.6% increase in 2017. Cargo transportation increased by 36.9%, and retail trade turnover – by 5.6%.

At the same time, Armenia is not just taking the opportunities and enjoying the advantages of the Union being a bare recipient of Eurasian integration results: it has become one of the pioneers in developing those areas left unaddressed (while always prioritizing the Union formation task).

With its best practices and achievements in a number of economy sectors, Armenia is actively involved in integration development within the Union in such areas as digital agenda, creation of a single market of alcohol and tobacco products, and intellectual property regulation. By ensuring an intense development of its information and communication technologies, agriculture, tourism, science and education, Armenia

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