



The Republic of Armenia



*This report was prepared by Chamber researchers
Mariana Arzangulyan and Shushanik Kyokhvayants.*

Travel to Armenia: Geography and Climate

The Republic of Armenia lies in a triangular section of the Transcaucasus, bordered by Azerbaijan, Iran, Turkey and the Republic of Georgia. With an area of 29,800 square kilometers (11,490 square miles), the landlocked country is just about the size of Vancouver Island.

The capital city, Yerevan, lies on the Hrazdan River, and is home to some 1.2 million people. The next three largest cities are Gyumri (pop. 121,000), Vanadzor (pop. 74,000) and Abovian (pop. 54,000).

Another important city is Echmiadzin, located some 20 miles west of Yerevan, which is the seat of

the patriarchate of the Armenian Apostolic Church.

The greatest part of Armenia is mountainous, while one-third is pastureland. Forest and woodland cover 12 percent of the country, arid land some 18 percent, and permanent crops cover 3 percent. The highest elevation is Mt. Aragats (4,095 meters or 13,435 feet above the sea level) and the lowest point is River Debed (400 meters or 1,312 feet above the sea level).

There are more than 200 streams and rivers in Armenia, none navigable, however, because of their steep descents and rapid currents. The Armenian countryside also boasts some 100 small, but picturesque lakes. One of the largest mountain

lakes in the world, Lake Sevan, covers an area of 1,400 square kilometers or 541 square miles and is about 1,916 meters or 6,287 feet above the sea level.

Climate in Armenia is continental, with lower temperatures and more precipitation in higher elevations. In central plateau temperature varies widely with cold winters and hot summers.

An excellent historical-cultural review of Armenia is published by *National Geographic* in the March 2004 issue; the online address of a short presentation of the article is <http://magma.nationalgeographic.com/ngm/0403/feature2/index.html>

Government

The Republic has an executive branch, unicameral popularly elected 190-member National Assembly (<http://www.parliament.am>), and judiciary: Constitutional Court (<http://www.concourt.am>) and courts of general jurisdiction. The President (<http://www.president.am>), who is head of state, is elected by popular vote for a five-year term. The prime minister (<http://www.gov.am>) is appointed by the President. The territory of the Republic of Armenia is divided into 10 administrative units - marzes (provinces). The capital city also holds the status of a marz. The Central Bank (<http://www.cba.am>),



City of Yerevan under Mt. Ararat

among other functions, develops and implements monetary policy and banking supervision.

Economy and Investments

The Index of Economic Freedom published by the U.S. Heritage Foundation and the Wall Street Journal has Armenia as the leading CIS country in terms of economic freedom for year 2003 (15% GDP growth).

Armenia's main industries include:

- Extractive Companies and Metallurgy (copper, zinc, gold, and lead)
- Jewelry and Diamond Processing
- Textile and Leather Processing
- Food Processing
- Alcoholic Beverages and Tobacco
- Wood Furniture and Woodworking
- Software Development
- Engineering
- Construction
- Net energy exporter: thermal, hydro, and nuclear power plants
- Chemicals
- Financial Services: Accounting, Banking, Insurance, Financial Intermediation
- Communication (Telephone, Internet)
- Publishing and Polygraph Services
- Tourism: Tours, Hotels

Investment Climate

The investment and trade policies of Armenia are considered to be the most open in the CIS by international organizations. Foreign companies are encouraged to invest and are entitled by law to the same treatment as local companies, moreover they have certain advantages. Armenia's investment climate is continuously improving

with a strong government commitment to attracting FDI, including refining the legislative framework. Large-scale privatization offers additional attractive opportunities.

The Law on Foreign Investment, adopted in July 1994, regulates foreign investment in Armenia. It provides guarantees to foreign investors and protects investors from changes in the business related laws for 5 years. According to the Law a "Foreign Investor" is any foreign company or citizen, a person without citizenship, an Armenian citizen permanently residing outside of Armenia, or an international organization that invests in Armenia. "Foreign investment" is any form of property, including financial assets and intellectual property, which is invested by a foreign investor directly in the territory of Armenia, in any economic or other venture.

Armenian inward FDI flows were equivalent to nearly 7 percent of GDP on average during 1998-2001, although these tailed off following progress with privatization. The main sectors receiving this FDI were energy, telecommunications, and food, with the principal source countries being Russia, Greece, the United States, and France.

The Biggest Foreign Investors in the Republic of Armenia:

- AK Development LLC (Hotel)
- Amyot Exco (Member of Grant Thornton Int.) (Advisory services, auditing)
- BGI/Castel Group (Alcoholic Beverages)
- Bristol Myers Squibb (Pharmaceuticals)

- British Airways (Tele-communication/Transportation)
- Coca-Cola Company (Beverages)
- Aeropuertos Argentinos 2000 "Armenia" (International Airports)
- Ferfano Corporation (Diamond Processing)
- First Dynasty Mines (Mining, Jewelry)
- Glaxo Welcome Plc (Pharmaceuticals)
- HSBC (Banking)
- Hunstman Corporation (Construction)
- Italtel (Telecommunication)
- KPMG (Auditing, Consulting)
- Nairit Ransat Plc (Chemicals)
- OTE (Telecommunication)
- Pernod Ricard (Beverages)
- RENCO Spa (Hotels)
- Tashe (Diamond Processing)

For more information on investing companies and future prospects, visit <http://www.armeniadiaspora.com/business/progress.html#Foreign>

Investment Incentives

There are many reasons to invest in Armenia. These include:

- Access to CIS and Middle East Markets
- No Export Duty
- Foreign Exchange Free Conversion
- Free Repatriation of Profit
- Political and Economic Stability
- Favorable Investment Legislation
- Investment Guarantees
- Strong Government Commitment to FDI Attraction
- Well Educated, Skilled and Easily Trainable Workforce
- Cost-Efficient Labor Force and Science Based Skills

Companies Engaged in Agro-Production

- 100 Per Cent Ownership by Foreigners Permitted
- No Restrictions on Remittances
- Stable Local Currency
- Competitive Energy Cost

Foreign investors can make investments in Armenia through the establishment of fully foreign-owned companies (including representations, affiliates, and branches), the purchase of existing companies and securities, or the establishment of joint ventures. The company registration process takes about a week.

Companies with foreign investments of over 500 million AMD (about 855,000 US\$) enjoy a corporate tax holiday for two years after making an investment (for details see Taxation Section). Additionally, there are some special tax incentives in Gyumri Region.

There are also incentives for exporters - no export duty and a VAT refund on goods and services exported.

There are no limitations on the volume and type of foreign ownership, the number of foreign employees and access to financial sources. Although foreigners can only lease land, a company registered by a foreigner as an Armenian business entity does have the right to buy land. Foreigners may obtain permission to use land under long-term leases, and concessions for the use of Armenian natural resources with the participation of an Armenian company.

Taxation

Companies with foreign investment are subject to the same tax regime as Armenian companies. Specific privileges (exemptions) in corporate taxation apply to companies with foreign investment exceeding 500 million AMD (approx. 855,000 US\$). The annual rate of profit tax is 20%. The basic rate of value added tax is 20%.

Double taxation treaties (DTTs) are in force with Belarus, Bulgaria, China, France, Georgia, Iran, Latvia, Lebanon, Lithuania, Romania, Russia, Turkmenistan and Ukraine. Treaties with Belgium, Egypt, Greece, Netherlands, Poland, Syria and Uzbekistan are subject to ratification. The number of DTTs is rapidly increasing.

For more details on Armenian Laws see: <http://www.euplac.am>.

Companies Protection and Profits Repatriation

As provided by the law on Foreign Investments, in the case of changes in the legislation of Armenia regulating foreign investments, the laws, which were in force at the time when the investment was made, shall be applied for a five-year period, upon the request of a foreign investor.

Foreign investments in Armenia cannot be nationalized or confiscated.

Investors must be compensated for any damage or loss of profit resulting from improper actions by state bodies or officials. Compensation shall be paid at current market prices or prices determined by independent auditors either in the currency invested, or in

any other currency mutually agreed upon by the parties.

There are no restrictions on conversion or repatriation of capital and earnings including branch profits, dividends, interest, royalties, or management/technical service fees. Cash exports are limited to 10,000 US\$ or its equivalent. There are no limitations on wire transfers. Funds may be converted and transferred through all domestic banks.

Twenty-two banks have foreign participation in Armenia. The majors are HSBC-Armenia (UK), Mellat Bank (Iran), Unibank (Russia), Areximbank (Russia) and Commercial Bank of Greece.

All forms of property and civil rights to own and use property are protected under the Constitution. The Law on Property Registration regulates issues relating to registration of property rights.

Armenia is also a member of MIGA as an additional guarantee for foreign investors.

Dispute settlement

Commercial disputes may be settled either in state courts or through alternative dispute resolution mechanisms. Commercial or property-related disputes may be settled out of court through institutional or ad hoc panels of experts (e.g. chambers of commerce or bank associations). Armenian courts are independent.

Armenia is a signatory to the international convention on investment disputes and is a member of the International Center for Investment Disputes Settlement.

As provided by the Bilateral Investment Treaties (BIT) signed by

Armenia, foreign investors can apply to internationally established tribunals for the resolution of commercial issues.

Bilateral Investment Treaties

Bilateral treaties on investment promotion and protection (BITs) have been concluded with 30 countries, 22 of which have already been ratified. These are Argentina, Belarus, Belgium-Luxemburg economic union, Bulgaria, Canada, China, Cyprus, France, Great Britain, Georgia, Germany, Greece, Iran, Italy, Israel, Kyrgyzstan, Lebanon, Romania, Tajikistan, Ukraine, USA and Vietnam. BITs with Brazil, Czech Republic, Japan, Holland, Macedonia, Morocco, Slovenia, and Jordan are under negotiation. Armenia is a signatory to the CIS Multilateral Convention on the Protection of Investor Rights.

Trade Liberalization

On December 10, 2002 Armenia joined the WTO.

Today, Armenia has a liberal foreign trade regime with a simple two-band import tariff (at 0% and 10%), no taxes on exports, and no quantitative trade restrictions. Import, export, and domestic production licenses are required only for health, security, and environmental reasons. There are no limits on hard currency imports.

The new Customs Code (in force since January 1, 2001) streamlines customs procedures and complies with WTO Rules.

Russia-Armenia Relations

History of traditionally friendly Russian-Armenian relations takes its

roots in times of Ancient Russia (<http://www.armenianhistory.info>). Inclusion of Eastern Armenia in Russian Empire in the 19th century fostered for national consolidation and rapid socio-economic development of Armenian Nation. Russian Federation recognized independence of the Republic of Armenia on December 18, 1991. Diplomatic relations were established on April 3, 1992. Coincidence of geo-political interests of the two states in the post-Soviet reality brought Armenia and Russia to a level of strategic partnership and allied relations that develop progressively. Yerevan and Moscow collaborate actively in international problems solution, support regional co-operation in Caucasus, e.g. in the framework of 'Caucasian Four' group (Russia, Armenia, Azerbaijan, Georgia).

Legislative base for political, economic and humanitarian co-operation as well as co-operation in the field of national security is comprised of 150 documents, including interstate Agreement on Friendship, Co-operation and Mutual Assistance (August 29, 1997) and Agreement on Long-Term Economic Co-operation until 2010 (September 15, 2001). In 2000-2003, presidents of the states paid official visits to Moscow and Yerevan.

Despite absence of reliable transportation between two states, Russia is the leading economic partner of Armenia. Commodity turnover between the countries increases significantly (around 80% growth in 2002-2003). Trade balance is traditionally in Russia's favor. In the structure of Russian export fuel,

raw diamonds, aluminum products, machines, equipment and transportation means prevail. Imports from Armenia include food, alcoholic beverages, machines and equipment. Inflow of Russian natural gas and nuclear fuel supplies work of the largest Hrazdan Thermal Electric Station and Armenian Thermal Electric Station that produce up to 80% electric energy of Armenia. Armenian lapidary industry uses mainly Russian diamond imports.

Russian capital investments into Armenian economy amount to \$200 million. Largest Russian companies are active in Armenia in the industries of energy, aluminum processing, air transportation, food processing. Around 500 enterprises with Russian participation are registered in Armenia and work working in the mentioned industries.

Diverse humanitarian links are supported. In 1997, Russian-Armenian (Slavonic) university (<http://www.rau.am>) was founded that is now one of the leading educational institutions.

Russian-Armenian military co-operation aims at providing security to both states, collective security of CIS countries, supporting stability in the region. Russian military base 102 is located on the territory of Armenia, Armenian part of CIS border is provided by Russian military forces. A joint Russian-Armenian military group is formed.

Information is provided by Embassy of Russian Federation in the Republic of Armenia (<http://www.armenia.mid.ru/Armenia/4.html>). □