

Statement

Economic Commission for Europe

Steering Committee on Trade Capacity and Standards

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**Item 5. Supporting the removal of regulatory and
procedural barriers to trade**

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OPENING WELCOME

Dear Colleagues,

I would like to thank and congratulate the United Nations Economic Commission for Europe for their excellent job in conducting the “Regulatory and Procedural Barriers to Trade in Armenia: Needs Assessment” and the detailed “Business Process Analysis”.

I am certain, that by addressing the findings and recommendations of the study, Armenia will be able to successfully increase the contribution of trade to development. With a per capita GDP of just under US\$3,872 in 2017, a population of about 3 million, and limited natural resources, trade is very important to Armenia. The economy has a high degree of trade openness, with a trade to GDP ratio of 87%, and it is the Government’s priority to ensure that trade plays a greater role in job creation, so as to reduce reliance on remittances that accounted for 13.3% to GDP in 2017.

In particular, the study provides sound analysis for turning trade into a tool for stimulating the structural transformation of the manufacturing sector towards increased specialization in high value-added products and the establishment of a knowledge-based economy, which will result in increased export diversification, job creation and reduced poverty.

Hopefully, with the support of the UNECE, we will be able to engage donors to assist with the implementation of agreed upon recommendations that are contained in the study.

I also hope that we will continue the fruitful cooperation with the UNECE in future. I would like to take you through Armenia’s development priorities and highlight our view on the study’s contribution to addressing these priorities.

MAIN TRADE AND DEVELOPMENT REFORMS AND POLICIES UNDERWAY, FUTURE PLANS

In addition to general economic and social policies, the the government has a number of direct policies aimed at various sectors and areas:

- Industry and export promotion to encourage a transition from resource-intensive industries to knowledge-based industries, focusing initially on diamond-cutting, gold smiths, the production of watches, light industry, brandy and wine production, pharmaceuticals and biotechnologies, the production of canned foodstuffs, the production of mineral waters and juices, engineering/precision engineering, and the processing of non-ferrous minerals;

- Tourism development to encourage more visitors through better infrastructure and the reduction of the cost of getting to Armenia through, inter alia, the implementation of an "open-skies" approach, and better transport systems within Armenia;
- Information technology sector growth through the continued establishment of techno parks, incubators, and better infrastructure; support to universities; a favorable tax policy; support for SMEs and start-ups through training and information; and direct support to IT companies offering innovative products or services;
- Agriculture and rural development through a variety of programmes to increase production and improve productivity in agriculture while creating off-farm opportunities in rural areas. The programmes include support for cultivation in disadvantaged areas, irrigation, seeds, etc.; and a business anti-corruption portal, a compliance management platform for business, Armenia Corruption Report.
- Small and medium-sized enterprises (SMEs), which are to be assisted through several programmes including: the continuation and expansion of the system of state guarantees for loans for SMEs; direct support to start-up SMEs; and access to state procurement for SMEs.

To achieve these goals, improvement of both the business environment and the investment climate will remain the main key areas of the state framework policy, coupled with a significant reduction in state intervention.

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

- The yearly Doing Business Action plan;
- The review of the Law on Free Economic Zones;
- The review of the public private partnership (PPP) regime and policy; the drafting of a new law on PPPs is underway;

Armenia acceded to the Eurasian Economic Union (EAEU) in 2015, creating new opportunities for the growth of regional trade.

The European Union and Armenia signed a Comprehensive and Enhanced Partnership Agreement (CEPA) in 2017, which broadens the scope of economic and sectoral

cooperation, creating a framework for new opportunities in trade and investment, as well as bringing Armenian economic laws and regulations closer to those of the European Union. Harmonization of regulations will cover the business environment, agriculture, transport, environment, consumer protection and the energy sector.

In 2017, the authorities signed the Open Sky Agreement with the European Union to upgrade transportation infrastructure, and improve connectivity and international integration to improve the business environment.

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

The Customs Code of Armenia was replaced by the Customs Code of the Customs Union in 2015 and then by the EAEU Customs Code in 2018. Under the EAEU Customs Code, practically all customs declarations and clearance procedures are to be done electronically using a single window system, with provisions for prior-to-arrival submission of customs declaration and automatic release of goods, normally within four hours of registration. The electronic declaration system is to be completed by 2020 with a pilot project in operation since April 2018. Armenia is also a signatory to the World Trade organization Trade Facilitation Agreement, and has, to date, implemented 71 percent of its commitments.

The study shows trade facilitation efforts have resulted in: a high level of trade transparency through online publication of up-to-date information on trade related regulations and administrative procedures; an efficient home-grown information and communications technology (ICT) systems for issuing customs declarations and trade permits electronically; a well-established integrated border management system for facilitating customs clearance.

Another indicator of successful reforms that can be deduced from the study is the strong competitive position of Armenia's top 20 exports in all target countries including in the EU and the Eurasian Economic Union, with the value of the revealed comparative advantage (RCA) index exceeding 1. These exports, which include food and beverages, chemical products and manufactured goods, have registered a consistent improvement in their overall competitiveness, with the value of RCA rising steadily. This means that the exports of said products are unlikely to be substituted by alternative sources if the EU decides to lower its MFN rate or extend GSP treatment to countries exporting similar products. This is significant, since as the study shows, Armenia has registered almost full and complete utilization of EU GSP preferences.

Moreover, the majority of the interviewed traders reported plans to expand their production and/or trade activities over the period 2019-2020, encouraged by the new

opportunities generated by the regional integration agreements with the EAEU and the EU.

Female owned enterprises (which included 30 out of the 91 interviewed traders) reported receiving significant support from the Government to overcome market entry barriers and engage in exports. This is another important achievement, as the Government has been mainstreaming gender equality into its development efforts.

The challenge, as argued in the study, is to maintain these positive trends to stimulate trade creation effects. The assessment shows that trade expansion is undermined by several regulatory and procedural barriers, which were common among male and female-owned enterprises. Most of these barriers stem from the multi-faceted reforms underway to fulfil the country's commitments under the regional agreements with the EAEU and the EU. Most notable among these barriers is the apparent lack of clarity amongst traders over the implications of regional harmonization, particularly those associated with the country's commitments under the EU.

The barriers operate throughout the international buy-ship-pay supply chain, with the lack of clarity over applied rules and procedures the exploratory costs falling on traders. The preparation of trade documents for proving compliance with national and destination countries' regulatory requirements pose yet another set of constraints. Traders singled out several trade documents as difficult to obtain due to the demanded supporting documents and/or long wait time. The difficulties described by traders point to the strict rules and requirements applicable in target markets; the inherent complexities of striking a balance between trade facilitation and other national concerns (e.g., dual use certificates and other import permits); repetitive submission of documents (e.g., support documents submitted in several copies for obtaining trade documents); and, weaknesses in the conformity assessment system. There is also a need support the businesses in transitioning to paperless trade. The study shows that the electronic customs declarations are not widely used by traders.

In addition, traders accrue prohibitive transport costs, given the landlocked status of the country and limited range of transit routes available, which are limited to routes via Georgia.

Importance of Ensuring the availability of best possible methods and routes of transit for exported and especially imported goods of humanitarian nature in a landlocked country like Armenia can not be overestimated.

Enterprises are faced with considerable costs in the form of fees for forwarders and transport operators. These fees reflect at once the longer routes and the significant

risks that these actors face owing to the transportation bottlenecks in the region, some of which are inaccessible in winter.

The significance of these costs is reflected in the fact organizing transport inflates trade costs, which, in the UNECE study, includes fees for obtaining trade documents, passing customs and organizing transport. For example, around 59 percent of the surveyed male-owned enterprises reported that trade costs account for over 20 percent of their monthly expenditures, with transport accounting for the lion's share. Most of the exporters assume the bulk of transport costs, with less than a handful reporting delivery under favorable incoterms. The situation is different for importers. The majority included freight costs in the payable price.

The study provides several recommendations to support the removal of these barriers. It also invites the Government to focus business support initiatives on the enterprise growth dynamics, namely: implementation of quality standards as a key element in improving the enterprises' production processes and competitiveness, adapting to technological change, engagement in e-commerce, access to finance, access to and availability of information on export opportunities, cooperation and networking with national, regional and global enterprises.

The study suggests that more needs to be done to further engage female enterprises in export activities, as the majority of interviewed entrepreneurs were focused on local markets. They also reported modest expansion plans in comparison with male-owned enterprises. It is worth mentioning that around 65 percent of the male-owned enterprises said that they are preparing to launch new products in the coming two years. Moreover, around 27 percent were planning to establish additional branches in Armenia, and another 33 percent reported plans to source from new suppliers, particularly from the EAEU, to develop and diversify their production activities.

Beyond the above, enterprises noted that their development prospects are undermined by the lack of skilled staff at reasonable costs locally (reported by 57 percent of the traders); poor quality of electricity supply (45 percent); the underdeveloped road network (41 percent) and the high income tax levels (40 percent). The Government is aware of these constraints and is seeking solutions in consultation with donors.

It is the Government's hope that donors will take the findings and recommendations into account as they plan their support for Armenia. The recommendations will help:

- Complete the country's transition to a paperless trading system
- Fulfill the country's commitments under the WTO Agreement on Trade facilitation

- Develop of the national quality assurance system, particularly through the achievement of international recognition of conformity assessment results issued by Armenian bodies
- Further develop the national system of metrology
- Develop the manufacturing enterprises' technological capability and foster innovation, understood as the accumulated knowledge and skills to identify, appraise, utilise and improve on existing technologies and production techniques or develop new ones to modernize production processes and venture into new innovative production activities

I will now let my colleagues from Food Safety Inspectorate, State Revenue Service and Ministry of Economic Development and Investments address the issues and recommendations in customs and quality assurance areas in more detail.

Thank you.