



Doing Business in (Insert Country Name Here):

2008 Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In (Insert Country Name Here)

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Market Overview

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During the past several years, Armenia has experienced an impressive expansion in investment, in exports, and in real incomes. This has been the result of stabilizing fiscal and monetary policies, continued economic reforms, and substantial support, including significant flows of remittances, from the Armenian Diaspora--meaning both longstanding Diasporan communities in the U.S. and elsewhere, and also more recent Armenian emigrants, especially to Russia. Nevertheless, poverty is still high, and the sustainability of growth remains a concern. The economic reform agenda remains unfinished.

- Real GDP growth for the period 2001 - 2007 has been strong, rising from 9.6% per annum in 2000 to 13.9% in 2005 and reaching 13.7% in 2007. The Armenian government (reasonably) predicts 10% growth in GDP during 2008. Construction and agriculture remain leading sectors; foreign trade turnover for January-December 2007 grew by 39.7 %, while import growth amounted to 49.7% and exports – to 17.5%.

- Armenia's main trade partners in the period January – November 2007 were the Russian Federation (15.9% of total trade turnover), Germany (8.8%), Ukraine (6.7%), Belgium (5.%), Iran (4.1%), and the USA (4.4%). According to the National Statistical Service of Armenia, trade volume between the USA and Armenia for January – December 2007 were \$196.5 million, up 15% compared to 2006. Armenia's main imports from the USA were precious stones and metals, mineral fuels and oils, chemical products, means of transportation, machinery and equipment, and textiles. Armenia's primary export items to the USA included precious stones and metals, textiles and prepared food products.

- The high official rates of economic growth have not been accompanied by a commensurate increase in employment or reduction in poverty. According to the IMF's "Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility"- Staff Report of December 10, 2007, " 26.5% of the population still lives below the official poverty line.

- The new draft of the Armenian Government's Poverty Reduction Strategy Paper (PRSP)—also Armenia's de facto development strategy--aims to reduce the poverty rate to 19.7% by 2015. The PRSP aims to accomplish this by increasing social expenditures while providing for steady growth of private enterprise to increase the tax base.

- Armenia's accession to the WTO in 2003 and progress in privatization contribute to an improving business climate. With United States Agency for International Development (USAID) and World Bank assistance, the government has been implementing an ambitious program of reforms aimed at restructuring the banking and financial services sector,

liberalizing trade, attracting foreign investment through improved tax and customs regimes, establishing a Western accounting system, and implementing a private property regime. However, many reforms remain incomplete, and the government will have to show strong political will to make necessary changes, especially in the tax and customs services.

- Corruption, nepotism and interference by state authorities, uneven and unpredictable application of laws (particularly those relating to enforcement of contracts, bankruptcy and registration of property rights) and a weak banking sector remain serious constraints on business.
- Due to Armenia's closed borders with neighboring Turkey and Azerbaijan, nearly all goods traded with Armenia must transit Georgia, where high transport tariffs are imposed, impeding growth in Armenia's external sector. Long-term economic prospects depend significantly on whether Armenia will be successful in resolving the Nagorno-Karabakh conflict, and in establishing normal diplomatic and trade relations with Turkey and Azerbaijan.
- In the period of January – September 2006 the total inflow of Foreign Direct Investment (FDI) in Armenia was \$149.04 million. Greece has been the largest investor in the country since 1991, followed by Russia. Total American FDI in Armenia was approximately \$235 million. Main sectors of the economy of Armenia attracting foreign investment have been telecommunications, power and utilities, food processing, mining and metallurgy, trade, construction, information technologies and hotel services.
- Armenia receives one of the world's highest levels of assistance per capita. United States Government assistance to Armenia was \$69 million in fiscal year 2007, and totals around \$2 billion since 1992. In addition, the IMF, World Bank, and EBRD, as well as other financial institutions and foreign countries, have extended grants and loans to Armenia exceeding \$1 billion since 1993.
- The Millennium Challenge Corporation has signed a contract with Armenia valued at \$235.65 million. MCC has disbursed \$16.5 million since December 2007, including the most recent 6th disbursement covering the period of January – March 2008. Disbursements proceed according to the original schedule set by the program management.

Market Challenges

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The Armenian government has recognized the need to create a more inviting business environment. In 2005, President Robert Kocharian announced important reforms of the tax and customs administration, many of which have been realized. Since 2005 annual meetings with heads of tax and customs authorities that have become a tradition, used by the President to reiterate the government's determination to improve tax collection and punish evaders. The government also has ongoing programs to strengthen the financial intermediation role of the banking sector, improve governance in the administration of public services, and minimize corruption and interference by state authorities. The government's Poverty Reduction Strategy Paper and Anti-Corruption Strategy Paper (2004-2007) outline plans for reform in broad terms, but fail to address structural reforms and deregulation. The original Action Plan of the Anti-Corruption Strategy Paper expired at the end of 2006. After holding lengthy discussions throughout 2007, the government set a nine-month period for drafting a new action plan covering the period of 2008 - 2012. Representatives of civil society and international organizations are set to be involved in the process, too. The

business climate will likely remain difficult, as vested interests continue to be the main impediment to good governance. Maintaining economic growth and progress will depend on positive political developments as well. The trade embargo imposed by two of Armenia's four neighbors - Turkey and Azerbaijan - is a major impediment to development. Transport costs through Georgia are expensive. Trade with Iran is small, restricted by poor transportation links (bad roads, no railroad) and by the fact that the portion of Iran adjacent to Armenia is a remote and underdeveloped region. U.S. involvement in trade with Iran is also limited by the Iran Sanctions Act (formerly Iran-Libya Sanctions Act, ILSA), and the risk of new sanctions which might be imposed by the United Nations, in connection with Iran's illicit nuclear programs.

Market Opportunities

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

Market Entry Strategy

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

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Chapter 2: Political and Economic Environment

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

<http://www.state.gov/r/pa/ei/bgn/5275.htm>

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Using an Agent or Distributor

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

Establishing an Office

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

Office space is widely available in Yerevan. The ongoing boom in the real estate market continues to drive up commercial prices. Prices for commercial space range from \$700-1200 per square meter in the center and \$450-700 in the suburbs. The monthly rent of commercial space ranges from \$10-35 per square meter. For detailed information on How to Establish an Office in Armenia please refer to [BISNIS Armenia country page](#).

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

Step 1

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

Step 2

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

Step 3

Obtain written statement of deposited charter capital (1 day)

Step 4

Obtain and complete registration application from State Register

Step 5

Pay stamp duty for registration (1 day)

Step 6

Submit documents to State Register

Step 7

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

Step 8

Submit documents to local tax department

Step 9

Receive tax registration certificate (2 days)

Step 10

Submit documents to the Social Security Fund

Step 11

Receive social registration certificate (2 days)

Step 12

Submit documents to Police for seal permission

Step 13

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

Step 14

Order seal at state "Seal" company

Step 15

Receive seal (2-30 days)

Step 16

Submit documents to National Statistical Office

Step 17

Receive statistical registration certificate (7 days)

Step 18

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

For more information or the pamphlet "Entrepreneur's Roadmap: How to Register Your Business" contact the Small & Medium Entrepreneurship Development National Center (SME DNC).

SME DNC

5 Mher Mkrtchyan Street,

Yerevan 375010

Tel: 54 16 48

Fax: 54 16 42

Email: info@smednc.am

Business Organization Laws:

[Law on Firm Names](#)

[Law on Joint-Stock Companies](#)

[Law on Registration of Legal Entities](#)

Franchising

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

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

Joint Ventures/Licensing

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

the license. Generally, service providers requiring professional capability such as physicians, lawyers, bus or truck drivers require compound licenses.

Selling to the Government

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Government purchases are conducted through the State Procurement Agency. The [Procurement Law of the Republic of Armenia](#) (2000) regulates the activities of the Agency and provides for the participation of foreign nationals in public sector procurement. Most of the government's large purchases are connected to programs funded by international financial donors. Ministries purchase foreign goods through public foreign trade companies and international tenders. Tenders are posted on the U.S. Department of Commerce's <http://www.bisnis.doc.gov/> website

Distribution and Sales Channels

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Armenia's domestic distribution channels are adequate for the country's small size, population, and market. The main storage facilities and wholesale companies are based in the capital Yerevan, the hub for domestic distribution. Retail and wholesale operations are often combined. Brand name recognition depends on the type of product; however it is important, as the Armenian public tends to give loyalty easily to established brands. Armenian and foreign freight-forwarding companies have established a reliable system for transporting goods to and from Armenia. While Armenia's two closed borders limit export-import routes and raise the cost of transportation, Armenian producers, importers, and freight forwarders have adopted reliable, but expensive, transport routes through Georgia. Goods from or bound for Europe and beyond enter or exit the Georgian ports of Poti and Batumi on the Black Sea coast. The overland trip between these posts and Yerevan often constitutes the most expensive part of the journey. As of the end of December 2007, the shipment of a 40-ft. container from Yerevan to New York costs about \$5,000.

Selling Factors/Techniques

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While most successful foreign businesses operating in Armenia have local representation, some businesses report that they are able to operate without an extensive local network. E-commerce is developing and some local companies will enter into preliminary negotiations over the phone, though travel to Armenia is normally required to finalize sales contracts and other deals. As in most CIS countries, personal relationships and trust are crucial in Armenia. U.S. firms typically visit potential clients, distributors or partners. However, before making a business trip, it is worth conducting a background check on the market and prospective client. Internet development and accessibility make it reasonable to maintain a local website. Both Armenian and Russian languages are equally appropriate for business communication. An increasing number of Armenians speak English as well.

Electronic Commerce

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

Trade Promotion and Advertising

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

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

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

Pricing

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

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

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

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

Sales Service/Customer Support

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

Protecting Your Intellectual Property

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Domestic legislation provides for the protection of intellectual property rights (IPR) on literary, scientific and artistic works (including computer programs and databases), patents and other rights of inventors, industrial design, know-how, trade secrets, trademarks, and service marks. Though intellectual property rights legislation has been adopted, enforcement mechanisms are still weak. Counterfeit goods, pirated music, software, films, and books are ubiquitous in Armenia; licensed copies of Western software, music or films are hard to find. The state is reluctant to enforce IPR laws unless the infringed party makes a formal complaint. Strengthening enforcement mechanisms is one of the key goals for Armenia in meeting its WTO commitments. Microsoft's entry into the market in 2006 has highlighted the IPR concerns shared by many international companies and may lead to improved IPR enforcement.

Laws on Copyrights, Trademarks, Patents:

[Law on Copyright & Related Rights](#)

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

[Law on Patents](#)

Due Diligence

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The need for due diligence when dealing with firms based in Armenia cannot be overemphasized. The Consular Section of the U.S. Embassy in Yerevan keeps an up-to-date list of [Armenian legal consulting firms](#). The U.S. Embassy also recommends contacting the [American Chamber of Commerce in Armenia](#).

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

[BISNIS Armenia country page](#)
[American Chamber of Commerce in Armenia](#)
[Ministry of Trade and Economic Development of the Republic of Armenia](#)
[Armenian Development Agency](#)
[Spyur Business Directory](#)
[Armenia Yellow Pages Directory](#)
[Armenia Development Gateway](#)

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Information Technology

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Armenia's information technology (IT) sector consists of more than 100 firms, of which more than 30 have American partners, specializing in embedded system and semiconductor design, custom software development, multimedia and Internet applications. Nearly all IT firms in Armenia are cost-centers, lacking back-office (payments processing) and front office (call-center) services. Based on knowledge export, Armenia's IT sector receives significant attention as a possible growth industry in a landlocked country.

The IT sector currently employs between 4,000 and 4,500 people and annually generates between \$50-60 million in revenue in Armenia. As foreign direct investment (FDI) is increasing and many firms are expanding their operations in Armenia, the IT sector is set to expand in 2007. With the exception of specific accounting or financial software, nearly all IT products are exported.

Room for growth in the IT sector is determined by the availability of qualified workers. Improvements in higher education in IT are needed to turn out the calibre of workers that the sector requires and that the earliest firms in the sector were able to find. Most companies conduct their own on-the-job training. Armenia's two-year mandatory military service requirement may place unique disadvantages on the fast-changing IT sector, as trained technicians' skills may be obsolete by the time they return from military duty. A major impediment to growth in the IT sector is the unreliability of the country's aging fixed-line telecommunications infrastructure. In late 2006, Russian Mobile Telephone Operator Vimpelcom purchased 100 percent of the Armenian National Telephone operator Armentel, which previously had a monopoly on fixed-line telecommunications. However, as of October 2007 the company has relinquished all its monopolies (including international calling and Internet access), thus opening the sector to private companies.

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

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

[Guide to Armenian Information Technology Companies](#)

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

Enterprise Incubator Foundation
9 Alex Manoogian Street,
Yerevan 375070, Republic of Armenia
Tel: (374-10) 512188
Fax: (374-10) 512189
E-mail: info@eif.am; Website: <http://www.eif.am/>

Tourism and Travel

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While admittedly a niche tourism market, Armenia has not realized the full potential of its tourism industry. Most international visitors are either Diaspora Armenians or business travelers. That said, the number of visitors to Armenia increases every year. Services for tourists and travelers are reasonably good in Yerevan and developing in the rest of the country. During 2007, 510,287 people entered Armenia on tourist visas, an increase of 133.5% over 2006.

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

In June 2000, the government established the [Armenian Tourism Development Agency \(ATDA\)](#) to implement its tourism policy and promote tourism in Armenia. Until recently, ATDA received technical assistance from a number of international donors, including USAID through the International Executive Service Corps (IESC) and the U.S.-based Hovnanian International. Tourism is also one of the key sectors targeted for assistance from the USAID/CAPS project.

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

Note: on Restaurants and Franchising

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Though no well-known Western fast food chain has opened in Armenia yet, this type of business is relatively developed in Armenia. New pizzerias, restaurants, and sandwich bars have been appearing every month while the market demand for these services has been showing signs of growth. High-priced restaurants serving foreign cuisine are finding success in niche markets. The restaurant business is an attractive investment and partnership opportunity for U.S. firms. Franchise offers from well-known American chains might attract substantial interest, both from customers and from local investors.

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

Armenian Tourism Development Agency (ATDA)

3 Nalbandyan Street
Yerevan, Armenia 375010
Tel: (374-10) 54 23 03
E-mail: info@armeniainfo.am
<http://www.armeniainfo.am/>

[BISNIS Armenia country page](#)
[American Chamber of Commerce in Armenia](#)
[Spyur Business Directory](#)
[Armenia Yellow Pages Directory](#)

Mining and Metallurgy

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

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A number of international mining companies have reported problems working in this sector. However, businesses interested in further exploration of Armenia's mineral resources should contact the Department of Mineral Resources within the [Ministry of Nature Protection](#) and the Ministry of Trade and Economic Development. We also recommend the Ministry of Trade and Economic Development's flyer Positive Outlook for Mineral Sector Growth.

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[Armenian Development Agency, mining website](#)
[Ministry of Nature Protection](#)

Light Industry

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

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[Armenian Development Agency Textile Page](#)

Financial Services

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

During 2003, the liquidation of weak banks and rising statutory capital requirements resulted in the healthy consolidation of the banking sector. As of November 2007 there are 22 commercial banks with 326 branches operating in Armenia. There are 21 credit organizations in Armenia with 38 branch offices. Since July 1, 2005 the minimum required capital of a bank is set at 2.4 billion Drams (approximately \$5.7 million) with a requirement of approximately double that amount for new banks. As of January 1, 2009, total capital requirement for existing and newly established banks will increase to 5 billion Drams.

Over the first eleven months of 2007, total capital of the banks grew by 22% and, as of December 2007, was equal to 161.2 billion Drams. The banking sector generated profit of 39 billion Drams over the same period. Lending grew considerably in 2007 compared to 2006, with mortgages up by 200% and an 81% increase in consumer loans. Credit offered by banks to the private sector is low, amounting to only six percent of GDP in 2007 (it reached 8.8% in 2005), which may be partially due to a drastic drop in exports and decrease of local production.

Commercial lending rates remain high, however, from 17% to 20.8%, and virtually all banks require collateral located in Armenia for commercial loans. The government has outlined a program to increase financial intermediation by establishing deposit insurance, thereby building the public's trust and confidence in the system and resulting in the attraction of more savings deposits.

The international community renders significant assistance to the banking sector. USAID helped to establish the electronic transfer and data exchange inter-bank system (CBANet) in Armenia and linked it with SWIFT. USAID, the World Bank, EBRD and other organizations support local lending programs administered by certain local banks, and donors are funding projects to expand the mortgage market and enhance services within the financial sector. The banking sector in Armenia is regulated by the following laws:

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

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

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[Central Bank of Republic of Armenia](#)

Central Bank of Armenia Regulations on [Banking System & Supervision](#)

Central Bank of Armenia [“Banking System of Armenia”](#)

World Bank working paper: [“Armenia Banking and Insurance Sector: Key Issues and Recommendations for Development”](#)

Construction

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Construction has been the leading sector of the economy for the past six years. In 2007, growth in the sector was 19.7%, constituting 21% of the country's GDP. Growth in construction is mainly driven by an increased demand for higher-quality housing funded primarily by remittances. Diaspora Armenians seeking a base within Armenia have also contributed significantly to demand in the sector. Prices for apartments in multi-story buildings in Yerevan, while up overall by an estimated 30% in 2007, vary from \$428 to \$2,800 per square meter, depending on the neighborhood. Mortgage lending is gaining more popularity and more reputable local banks now offer mortgage loans with better terms.

Opportunities

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

Agriculture

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More than 40% of Armenia's population works in the agricultural sector, accounting for about one-fifth of GDP. Even modest growth can have implications for the entire economy. Growth in the agricultural sector constituted 17.5% of Armenia's overall GDP structure in 2007. Both the [U.S. Department of Agriculture](#) and [USAID](#) are implementing projects with small and medium-sized agribusinesses, helping to bring Armenian products to market domestically and abroad. Agricultural products include grain crops, vegetables and fruits including grapes, figs, pomegranates, apricots, peaches, potatoes, sugar beets, tobacco, cotton, specific oils (such as geranium), peppermint, and special teas. Export costs are high, including transportation, taxes and promotion payments. Export sales are made primarily to the Armenian specialty product market within the Diaspora community and CIS, but are also expanding to other areas such as the Gulf states and the USA. Firms that emphasize high quality, specialty food products and Armenian specialties are finding success despite the high cost of transportation and the lack of developed distribution channels. The nominal appreciation of the Dram against the U.S. dollar and fears of inflation are causing concern among many of the country's exporters about the potential loss of competitiveness of Armenian products in foreign markets.

Opportunities

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Though not large in terms of population and buying power, Armenia can be an interesting market for American agricultural product exporters in specific fields. Armenia is a net food importer, and domestic agriculture cannot satisfy demand for a range of items such as meat and poultry products, sugar, flour, soft drinks, wine, rice, vegetable oils and high-value grocery products. Import tariffs are generally low (up to 10%) and product safety and quality certification processes and import procedures are based on international standards, or are being upgraded as a result of Armenia's accession to the WTO.

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

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Chapter 5: Trade Regulations and Standards

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Import Tariffs

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

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

There are no duties on temporary imports, or imports made on credits to the government or pursuant to other international assistance. Armenia has no export tax.

Customs authorities calculate and collect Value Added Tax (VAT) (20%), road tax and environmental payments at the point of entry. In addition, there are excise taxes on crude oil and derivative products, alcohol and tobacco. For more information on payments see the Armenian Customs website: <http://www.customs.am/> (under construction).

Trade Barriers

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The Armenian Customs Code is in compliance with WTO requirements. Nevertheless, improper implementation of the Customs Code remains a barrier to trade. According to a November 2004 study by the World Bank in partnership with the Armenian Ministry of Trade and Economic Development, more than half of medium-sized companies engaged in foreign trade operations described customs administration as a major obstacle to doing business. The study found that, on average, the process of import customs clearance took 4.8 days. The study reports that the customs clearance process costs on average more than \$3,500. The study found this cost to include, on average, \$150 in fines and sanctions, and \$440 in unofficial payments or bribes. According to the study, nearly one-third of importing companies reported paying unofficial payments or bribes to customs officials.

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

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

Import Requirements and Documentation

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

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

U.S. Export Controls

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A relatively small percentage of total U.S. exports and re-exports are controlled or require a license from BIS. License requirements are dependent upon an item's technical characteristics, the destination, the end-user, and the end-use. You must determine whether your export requires a license. For more information please visit the [Department of Commerce \(DOC\) Export Controls website](#), maintained by the DOC's Bureau of Industry and Security.

Temporary Entry

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

Labeling and Marking Requirements

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

Prohibited and Restricted Imports

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

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

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

Customs Regulations and Contact Information

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STATE CUSTOMS COMMITTEE
3 Khorenatsi Street, Yerevan 375015
Mr. Armen Avetisyan, Chairman
Tel: (374-10) 53-60-51
Fax: (374-10) 53-80-35
E-mail: mpk@customs.am
<http://www.customs.am/>

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Standards Organizations

The National Institute of Standards and Quality is a Closed Joint Stock Company operating under the Ministry of Trade and Economic Development.

The National Institute of Standards and Quality maintains a national fund of standards of the Republic of Armenia which contains International (ISO), Interstate (GOST), Regional (EN), Armenian (AST) and other standards.

Currently, certificates of quality/safety issued or accepted by The National Institute of Standards and Quality under the Ministry of Trade and Economic Development (SARM) are required for tobacco products, alcoholic drinks, and petroleum products. Imported vitamins and other pharmaceutical products are subject to certification by the Ministry of Health. Most food products should be certified for quality/safety by SARM. In 1997, USDA and SARM exchanged letters in which SARM agreed to recognize USDA safety certificates for meat and poultry products. For a complete list of products (except pharmaceuticals) subject to certification and certification procedures, please see the Armenian Customs website <http://www.customs.am/> (site under construction) or contact the Department for Standardization, Certification, and Metrology of the Ministry of Trade and Economic Development of Armenia.

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

NIST Notify U.S. Service

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

Conformity Assessment

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

Accreditation

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

Publication of Technical Regulations

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

Trade Agreements

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Armenia is a member of the WTO. In addition, Armenia has Free Trade Regimes with Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, and Ukraine. Under the terms of the free trade agreements, tariff exemptions are extended to goods traded between Armenia and Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine.

Web Resources

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

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

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

[BISNIS Report: Product Certification Process \(October 2005\)](#)

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Chapter 6: Investment Climate

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Overview

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According to data from the National Statistical Service (NSS), foreign investment in Armenia has steadily increased from USD 70 million in 2001 to USD 470 million as of September 2007. From January to September 2007, Foreign Direct Investment (FDI) in Armenia totaled USD 311 million, a 209 percent increase over the same period in 2006. Major foreign investments were from Russia, Lebanon, Argentina and Germany. Gross domestic product (GDP) growth remained strong at approximately 13 percent for 2006, continuing the trend of the last 6 years. The IMF projects GDP growth of approximately 10 percent in 2008.

The largest foreign investors in Armenia are those who have acquired interests in the telecommunication, mining, energy, air transportation and financial sectors. The privatization of Yerevan's largest hotels, two historic brandy factories, the Zvartnots International (Yerevan) and Shirak (Gyumri) Airports, the telecommunications network, several mining assets and much of the energy generation and distribution system accounts for the bulk of foreign commercial presence in Armenia.

According to the NSS, FDI inflows were up by 33 percent year-on-year in the first half of 2007. Lebanon was the leading investor in this period, accounting for around one-third of the total, attributable to the fact that the Lebanese company K-Telecom owned Armenia's largest mobile phone network until Russia's MTS bought it in September. Both K-Telecom and ArmenTel, the national telecommunications company now owned by Russia's Vimpelcom, have been investing heavily in the expansion of their competing wireless networks. Consequently, the telecoms sector remained by far the largest recipient of FDI in January-June 2007, attracting almost 60 percent of the total. Civil aviation attracted around nine percent of total FDI, owing to the reconstruction of the capital, Yerevan's Zvartnots International Airport; construction was the third-largest destination with eight percent of FDI.

Greenfield investments consist of mostly small and medium-sized enterprises. More than a dozen U.S. information technology (IT) firms have established subsidiary operations in Armenia.

In 2007, the Armenian dram (AMD) continued to appreciate significantly, especially against the U.S. dollar, contributing to an increase of 6.8 percent in year-on-year inflation as of November 2007. The Central Bank and IMF both cite increased U.S. dollar remittance inflows as one of the primary drivers of the dram appreciation trend. According to the National Statistical Service, as of November 30, 2007, nominal appreciation of the dram against the U.S. dollar reached about 12 percent for the year, following a 19 percent appreciation in 2006 and 7 percent in 2005. Some anecdotal data suggest that AMD appreciation in recent years has caused the decline of exports of traditional commodities, in which the export-to-import ratio in the total trade turnover is roughly 27-to-73. This will raise concerns among domestic exporters about the potential loss of competitiveness in overseas markets, particularly given the rapid rate of wage growth in Armenia.

Openness to Foreign Investment

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Conversion and Transfer Policies

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There are no limitations on the conversion and transfer of money or the repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management or technical service fees. Most banks can transfer funds internationally within 2-4 days. The Government maintains the Armenian Dram (AMD) as a freely convertible currency under a managed float. According to the 2005 law on "Currency Regulation and Currency Control," prices for all goods and services, property and wages must be set in Armenian Drams. There are exceptions in the law, however, for transactions between resident and non-resident businesses and for certain transactions involving goods traded at world market prices. The new law requires that interest on foreign currency accounts be calculated in that currency, but be paid in Armenian Drams.

Expropriation and Compensation

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Under Armenian law, foreign investments cannot be nationalized; they also cannot be confiscated or expropriated except in extreme cases of natural or state emergency, upon a decision by the courts and with compensation. While the U.S. government is not aware of any confirmed cases of expropriation, a local subsidiary of a U.S.-based mining company is engaged in an ongoing dispute with the Armenian Government and has accused the latter of expropriating company assets. To date, there has been no court assessment of the company's claims. The company is seeking an amicable settlement of its dispute.

Dispute Settlement

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

16. Many Armenian courts suffer from low levels of efficiency, independence and professionalism and there is a need to strengthen the Armenian judiciary. While there have been a few investment disputes involving U.S. and other foreign investors, there is no

evidence of a pattern of discrimination against foreign investors in these cases. In general, the government honors judgments from both arbitration and Armenian national courts. Disputes to which the Armenian Government is not a party may be brought before an Armenian or any other competent court, as provided by law or by agreement of the parties. There is a special Economic Court that hears commercial disputes. The verdict of an Economic Court can be appealed to the Court of Cassation, the highest judicial authority in Armenia. The Law on Arbitration Courts and Arbitration Procedures provides rules governing the settlement of disputes by arbitration. According to Constitutional amendments of 2005, the courts of first instance must undergo a major restructuring; as a result, in January 2008, the GOAM abolished the Economic Court and launched a new specialized administrative court and courts of general jurisdiction to hear civil and criminal cases, in the hope of streamlining these proceedings. Armenia is a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Washington Convention) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Performance Requirements and Incentives

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Armenia currently has incentives for exporters (no export duty, VAT refund on goods and services exported) and foreign investors (income tax holidays, and the ability to carry forward losses indefinitely). The government amended the VAT law in November 2005 to allow companies to delay VAT payments for 1-2 years on certain imported goods used in production and manufacturing. Also, in accordance with the Law on Foreign Investment, several ad hoc incentives may be negotiated on a case-by-case basis for investments targeted at certain sectors of the economy and/or of strategic importance to the economy.

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

Right to Private Ownership and Establishment

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

Protection of Property Rights

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Armenian law protects secured interests in property, both moveable and real. Armenian legislation provides a basic framework for secured lending, collateral and pledges, and provides a mechanism to support modern lending practices and title registration. Although the mortgage market has been slow to develop, increased competition among a number of

commercial banks has led to better lending conditions with interest rates as low as 11.5 percent (compared to 16-17 percent in 2004).

Domestic legislation, including the 2006 Law on Copyright and Related Rights, provides for the protection of intellectual property rights on literary, scientific and artistic works (including computer programs and databases), patents and other rights of inventions, industrial design, know-how, trade secrets, trademarks and service marks. Armenia's legislation is in compliance with Trade Related Aspects of Intellectual Properties (TRIPS) Agreement.

In January 2005, the government created an IPR Enforcement Unit in the Organized Crime Department of the Armenian Police. The onus for IPR complaints remains with the offended party; the Government of Armenia has yet to prosecute one case of IPR violations successfully. It is not yet clear, however, whether the action that it has taken represents the beginning of stronger IPR enforcement efforts or selective enforcement. There is also an Intellectual Property Agency in the Armenian Ministry of Trade and Economic Development responsible for granting patents and for overseeing other IPR related matters. While Armenia has made some progress on IPR issues, strengthening enforcement mechanisms remains a priority.

Transparency of Regulatory System

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

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

Efficient Capital Markets and Portfolio Investment

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Armenia's financial sector is not well developed. As of September 2007, total bank assets were USD 2 billion (32.9 percent of GDP), up 13.2 percent from September 2006. IMF estimates suggest that banking sector assets account for 95 percent of total financial sector assets. Financial intermediation is poor: commercial lending rates in AMD range from 17 percent to 20.8 percent. Nearly all banks require collateral located in Armenia and large collateral requirements often prevent potential borrowers from entering the market.

Although there is a system and legal framework in place, Armenia's securities market is not well developed. On November 21, 2007, OMX, a leading expert in the equities exchange industry, and the Government of Armenia signed a Share Purchase Agreement regarding the acquisition of the Armenian Stock Exchange and the Central Depository of Armenia.

According to the agreement, OMX becomes the sole shareholder of the Armenian Stock Exchange (Armex) and the Central Depository of Armenia (CDA). In addition to the Share Purchase Agreement, OMX and the Government of Armenia have also signed a Cooperation Agreement outlining joint efforts to support the long-term development of the capital market in Armenia.

Remittances constitute a significant share of Armenia's total GDP. According to the latest data released by the Central Bank, the volume of private (non-commercial) remittances for January-September 2007 has increased by almost 40 percent compared to the same period in 2006. The Central Bank has forecast that remittances will reach a new, full-year high of USD 1.35 billion in 2007. The Central Bank's 2006 survey states that 37 percent of Armenian households regularly receive remittances. The most recent Central Bank data indicate that 80 percent of remittances originate in Russia and the remainder come primarily from the US and Europe.

Political Violence

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We know of no incident involving politically motivated damage to commercial property in Armenia. In 2007, however, there were reports of harassment and intimidation of businessmen who have ties to an opposition candidate in the upcoming presidential election. A Presidential election is scheduled for February 19, 2008. Armenia's ceasefire with Azerbaijan has held for more than 10 years; there have been no threats to commercial enterprises from skirmishes in the border areas. It is unlikely that civil disturbances, should they occur, would be directed against U.S. businesses or the U.S. community.

Corruption

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Corruption remains a significant obstacle to U.S. investment in Armenia. The Armenian Government introduced a number of reforms during the last four years, including the simplification of licensing procedures, civil service reform, a new criminal code, privatization in the energy sector, anti-corruption laws and regulations, and in 2004, establishment of an Anti-Corruption Council tasked with coordinating the government's anti-corruption activities and improving policies aimed at the prevention of corruption. Nevertheless, corruption remains a problem in critical areas such as the judiciary, tax and customs operations, health, education and law enforcement. Petty corruption is widespread throughout society.

In November 2003, the GOAM adopted a National Anti-Corruption Strategy paper which contained an action plan aimed at introduction of tax and customs reforms, harmonization of legislation and improvement of public access to information. The plan, completed in 2007, was widely criticized by local and international observers. The Armenian Government has circulated a draft of a new anti-corruption strategy, which it has yet to adopt.

Relationships between high-ranking government officials and the emerging private business sector encourage influence peddling between officials and the private firms from which they benefit. Powerful officials at the federal, district or local levels acquire direct, partial or indirect control over emerging private firms. Such control is exercised through a hidden partner or through majority ownership of a prosperous private company. This involvement can also be indirect, e.g., through close relatives and friends. These practices promote

protectionism, encourage the creation of monopolies or oligopolies, hinder competition and undermine the image of the government as a facilitator of private sector growth.

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

Bilateral Investment Agreements

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

The Treaty between the Republic of Armenia and the United States of America Concerning the Reciprocal Encouragement and Protection of Investment (the Bi-lateral Investment Treaty or BIT) was ratified in September 1995. The BIT sets forth investment conditions for investors of each party to be no less favorable than for national investors (national treatment) or for investors from any third state (a Most-Favored-Nation clause). It protects investment against expropriation and nationalization, and regulates dispute settlements between foreign companies and the governments of each party. Armenia does not have a bilateral taxation treaty with the United States, nor is there any indication that this lack has done any economic harm to U.S. business interests. U.S. Embassy Yerevan and the Department of State would welcome information from U.S. firms or individuals to substantiate whether such a treaty would materially facilitate U.S. trade and investment in Armenia.

OPIC and Other Investment Insurance Programs

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The "Investment Incentive Agreement between the Government of the Republic of Armenia and the Government of the United States of America," signed in 1992, provides a legal framework for OPIC's operations in Armenia. OPIC offers political violence insurance in Armenia and insures against expropriation. OPIC insures against currency inconvertibility only on a case-by-case basis. Armenia is also a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor

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Armenia's human capital is one of its strongest resources. The labor force is generally well educated, particularly in the sciences. Almost one hundred percent of Armenia's population is literate. Enrollment in secondary school is 92.8 percent and enrollment in senior school (essentially equivalent to American high school) is 85.6 percent. According to a survey by

U.N. Development Program, approximately 20 percent of Armenians have completed some sort of higher education program.

Much of new foreign investment in Armenia is in the high-tech sector. High-tech companies have established branches or subsidiaries in Armenia to take advantage of the country's pool of qualified specialists in electrical and computer engineering, optical engineering and software design. Pilot training programs have increased the supply of qualified software programmers, and Armenia's IT sector is growing based on its qualified pool of inexpensive labor.

The amended Labor Code came into force in June 2005 and is considered to be largely consistent with international best practices and the international conventions to which Armenia is a party. The law sets a standard 40-hour working week with minimum paid leave of 28 calendar days annually. The draft 2008 budget, which has been approved by the National Assembly, increases the legal minimum wage to AMD 25,000, which, given the ongoing appreciation of the Armenian national currency, exceeds the formerly prevailing de facto monthly minimum wage of 50 U.S. dollars. Most companies also pay a non-official extra-month bonus for the New Year's holiday. Entry-level skilled professionals (such as software engineers) command wages of about USD500 per month. Wages in the public sector are often significantly lower than those in the private sector and, while all wages must be paid in AMD, many private sector companies continue to use a fixed exchange rate to denominate employee salaries.

Foreign-Trade Zones/Free Ports

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Armenia has no foreign trade zones or free ports at present. The company that took over management of the Zvartnots airport in June 2002 has discussed with the Armenian Government the possible establishment of a free trade zone on the territory of the airport, but such a zone has yet to be established.

Foreign Direct Investment Statistics

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

Net FDI (According to IMF data)

Years	2001	2002	2003	2004	2005	2006	2007(est)
Vol(USD m)	70	111	121	217	287	305	350

In 2007, some of the most significant foreign investments for the Armenian economy came from Russia, Lebanon and Argentina. The Russian Mobile Telephone Operator Vimpelcom (operating under the Bee Line brand), which purchased 100 percent of the Armenian National Telephone operator Armentel (which itself had been acquired by the Greek OTE company in 2006), has made significant investments to upgrade the network. [NOTE: It had previously announced plans to invest around USD 100 million in 2007 and has relinquished its monopoly over international calling and access to the internet. End Note]

Argentinian-owned Armenian International Airports Company has made considerable investments as it continues to upgrade Zvartnots International Airport. Its investment is

expected to increase in 2008, once it commences renovation of Armenia's second largest airport in the north of the country.

In September 2007, another Russian telecom company, MTS, acquired 80 percent ownership in Vivacell, the second mobile operator in Armenia, with the remaining 20 percent remaining under the ownership of the Lebanese K-Telecom Company. Prior to the sale of the controlling stake to MTS, the Lebanese company had made a significant investment to expand the network further.

Dutch Haypost Trust Management, which entered into a concessionary management agreement of the Armenian postal service in 2006, has invested around USD two million out of projected USD 10 million in upgrading the postal system and establishing local postal bank branches all over the country.

The Armenian National Statistical Service reported that total foreign investment for the first nine months of 2007 was USD 470 million, up 58 percent from the same period in 2006. Of that foreign investment, USD 311.6 million was foreign direct investment (FDI), up 209 percent compared to the previous year; FDI accounted for 4.8 percent of GDP growth in 2006 and 5.8 percent of GDP growth for the first nine months of 2007.

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Chapter 7: Trade and Project Financing

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- [How Does the Banking System Operate](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
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How Do I Get Paid (Methods of Payment)

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While some establishments accept cash only, credit cards are increasingly accepted at hotels, restaurants and stores. Domestic or international company-to-company sales are primarily made by bank transfer (especially in the state sector), letter of credit, or on a barter basis.

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

How Does the Banking System Operate

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

Foreign-Exchange Controls

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

Other important foreign exchange regulations include:

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

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

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

U.S. Banks and Local Correspondent Banks

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

Project Financing

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

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

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

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

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

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

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

U.S. Agency for International Development (USAID) funds a [Loan Portfolio](#)

[Guarantee Program](#) to finance local SMEs. This effort currently offers a Loan Portfolio Guarantee (LPG) to two local commercial banks ([Converse](#) and [Ineco](#)) to cover up to 50% of net portfolio losses resulting from lending operations to SMEs. The maximum cumulative amount of all loan disbursements made subject to this guarantee shall not exceed US\$ 4,500,000 or the Armenian Dram (AMD) equivalent. The loan guarantee ceiling (per individual loan) is US\$ 200,000. Another organization that provides loans to medium-sized enterprises is the Izmirlian-Eurasia Universal Credit Company. This organization was set up with USAID funds provided to the Eurasia Foundation and private financing from the Izmirlian Foundation. The average loan size is approximately US\$ 35,000. For more information on USAID-funded projects, contact [USAID Yerevan](#).

Web Resources

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

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

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

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

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

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

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

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

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Chapter 8: Business Travel

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Business Customs

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

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

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

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

Travel Advisory

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The U.S. Department of State maintains an up-to-date [travel advisory and consular information sheet for Armenia](#) on it <http://www.travel.state.gov/> website.

Visa Requirements

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

Otherwise address inquiries to:

Armenian Embassy

1660 L. Street, NW, Suite 11

Washington, D.C. 20036 (Tel: 202-628-5766; Fax: 202-698-5769)

Armenian Consulate

50 North La Cienega. Boulevard, Suite 210

Beverly Hills, CA 90211 (Tel: 310-657-7320; Fax: 310-657-7419).

U.S. companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance, if required. Visa applicants should go to the following links.

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

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

U.S. Embassy Yerevan Consular Section: <http://www.usa.am/consular.html>

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

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

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

(Insert here the web address for the consular section of the local embassy website.)

Telecommunications

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Armentel is the only provider of land-line telecommunication services in Armenia and was the only mobile telecom operator until June 2005. For information on long distance service options contact: Armentel, Long Distance Telephone Exchange, Azatutian Avenue, Yerevan, 375044, Armenia; Tel: (374-10) 28-81-51, 15-10-02, Fax:(374-10) 15-13-33.

As of June 2005, a second mobile telephone service provider, VivaCell, entered the Armenian market. For service options contact: VivaCell (K-Telecom CJSC), Argishti 4/1, Yerevan, Armenia; Tel: (374 -10) 568 777, Fax: (374-10) 569 222, E-mail: info@vivacell.am website: www.vivacell.am

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

Various providers offer Internet and e-mail services:

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

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

XTERNET, 19, Sayat-Nova Street, Yerevan 375001, Armenia; Tel: (374-10) 54-80-41, Fax: (374-10) 54-80-45; E-mail: support@xter.net

NETSYS, 38 Abovyan Street, Yerevan; Tel: (374-10) 54-00-91, Fax: (374-10) 54-00-21,

E-mail: webmaster@netsys.am

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

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

Transportation

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Armenia's public transportation system includes a system of crowded minibuses and a modest one-line subway in Yerevan. Taxis are widely available through numerous taxi agencies or in the streets. Foreigners should expect to pay 1,000 Armenian Dram (almost \$3 at current exchange rates) for a taxi fare within Yerevan, and 4,500 Armenian Dram (about \$12.50) to and from the airport. A car and driver costs about \$75 per day.

Language

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

Health

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The Consular Section of the U.S. Embassy keeps a list of doctors on the following website: <http://www.usa.am/consular/physicians.html>. For more information you may call the Consular Section directly at (374 10) 49-46-86.

Local Time, Business Hours, and Holidays

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

National public holidays are as follows:

New Year December 31-January 2

Christmas January 6

Armenian National Army Day January 28

Women's International Day March 8

Mothers' Day April 7

Armenian Genocide Memorial Day April 24

Victory and Peace Day May 9

First Republic Day May 28

Constitution Day July 5
Independence Day September 21
Earthquake Memorial Day December 7

Temporary Entry of Materials and Personal Belongings

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

Web Resources

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

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

[U.S. Embassy Yerevan Consular Section](#)

Rediscovering Armenia: A Travel Guide <http://www.usa.am/travelguide.html>

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Chapter 9: Contacts, Market Research, and Trade Events

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Contacts

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The Armenian government maintains a list of contact information and websites for its various ministries at: http://www.gov.am/enversion/ministry_5/ministry.htm
BISNIS Armenia maintains a list of government and business association contacts on its website: <http://www.bisnis.doc.gov/bisnis/country/armenia.cfm>

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

<http://www.amcham.am/>

The U.S. Embassy
1 American Avenue
Yerevan 375082, Armenia
Tel: (374-10) 46-47-00
Fax: (374-10) 46-47-42
<http://www.usa.am/>

Market Research

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

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

Trade Events

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

<http://www.export.gov/tradeevents.html>

(Add link to trade events section of local buyusa.gov website here or just delete this text.)

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

(Insert link to Products and Services section of local buyusa.gov website here.)

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.