

Changing Trade Patterns after Conflict Resolution in South Caucasus

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Abbreviations

AMD	Armenian dram
AR	Azerbaijan Republic
AZM	Azerbaijan manat
BOP	Balance of payments
CEE	Central and East Europe
CIS	Commonwealth of Independent States
EBRD	European Bank of Reconstruction and Development
EU	European Union
FSU	Former Soviet Union
GEL	Georgian lari
KWh	Kilowatt-hour
MW	Megawatt
PPP	Purchasing power parity
RA	Republic of Armenia
RG	Republic of Georgia
USD	United States dollar
VAT	Value added tax
WTO	World Trade Organization

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Executive Summary

This study examines the likely short-term impacts of the resolution of Nagorny Karabakh and other regional conflicts, and the consequences of lifting the associated economic blockade on the international trade in the South Caucasus region, with concentration on Armenia, Georgia, and Azerbaijan. The examination of short-term impacts includes the analysis of missing exports, opportunities for export creation, and transport savings. Although some longer-term prospects are explored, the paper does not attempt to quantify them. The report does not investigate prospects for FDI increase in the region and associated benefits for growth and mutual trade. It also does not attempt to estimate economic losses associated with inadequate transport and trade infrastructure since these issues have been explored elsewhere¹.

Since the breakup of the USSR, the South Caucasus region has experienced a range of political conflicts resulting in a number of hot and cold wars and border closures. The following conflicts affect trade in the region: the Nagorny Karabakh conflict between Armenia and Azerbaijan, the repercussions of the Turkish-Armenian conflict from the WWI period, Abkhazia and South Ossetia conflicts within Georgia, and the Chechnia conflict within Russia.

As a result of these conflicts, trade flows in the region are seriously distorted. Disrupted traditional transportation routes stifle the export and import capabilities of Armenia and Azerbaijan. At the same time, Georgia enjoys some benefits of higher-than-normal transit through its territory. Trade in some important commodities does not exist. For instance, there are no exports of gas from Azerbaijan to Armenia and of electricity from Armenia to Turkey.

The data collected during interviews of forwarders and traders in the region suggest that transport tariffs are very high. Further aggravating the situation, government-imposed transit fees (in fact, taxes) in Armenia and Georgia constitute a significant portion of transport tariffs thus further raising the costs of trade.

Trade blockades contribute to the elevated prices of energy in Armenia, which are double the Azerbaijani levels. High energy prices constitute an implicit tax on both production and consumption. Regional agricultural trade is very weak despite the differences in prices and endowments.

Nevertheless, trade restrictions have had a tendency to ease over time. Trading partners have found ways to conduct trade despite closed borders and economic blockades, albeit at extra cost. Overseas flows have also established reliable routes.

Statutory trade regime in South Caucasus is rather liberal, tariff barriers are modest. Non-tariff, unofficial barriers constitute more pronounced obstacles to trade.

All three South Caucasus countries have been running high trade deficits. Their export performance has been weak. The low export volumes can be partly explained by the

¹ *Trade Facilitation in the Caucasus*, The World Bank: Washington, DC, 2000.

physical restrictions on the movement of goods. However, a more important reason for weak export performance is the dearth of internationally competitive goods produced in the region outside of natural resources.

Applying a gravity model to the regional trade, we concluded that the South Caucasus countries tend to trade sufficiently with the CIS countries and politically friendly neighbors and undertrade with the EU, the USA, and hostile neighbors. It may be explained by well established trade links and by weaker competition and lower quality requirements for goods in the CIS markets than in more sophisticated European and American markets.

If the blockades are lifted, trade distortions will be alleviated, bringing about positive short-term welfare effects including: (i) more rational trade flows; (ii) resumption (or a major increase) of regional trade in some major commodities such as energy; and (iii) lower prices and/or higher profit margins on some important consumption and production goods.

Potential peace benefits are especially high for Armenia. First, Armenia could more than double its total exports if the Turkish and Azerbaijani markets were opened. This would erase almost a half of Armenia's dangerously high trade deficit and would lead to a 30 percent GDP increase. Due to a high import content of its potential exports, Armenia would generate a strong demand for imports, offering trade opportunities for regional partners. Second, considerable savings would result from straightening transport routes and switching to closer supply sources. Armenia could save over 50 million dollars a year, which would more than erase the deficit in freight services in the BOP and relieve the pressure on its domestic prices, especially energy.

Azerbaijan could increase its exports by 100 million dollars, or 11 percent of the 1999 level, reducing trade deficit by a quarter. As a result, GDP would increase up to five percent. It could also benefit from some transport savings arising from exports and imports.

Georgia might face a reduction of transit through its territory. Nevertheless, it is unlikely to exceed a quarter of the freight service surplus in the BOP, or 1.5 percent of trade deficit. At the same time, the country would benefit from the effects of regional cooperation.

Opening up the borders would bring positive systemic effects, especially in the energy sector. The regional electric power system would achieve the greatest efficiency if operated as one system.

A direct link between Armenian and Turkish road grids would improve availability, predictability, and reliability of shipping services for all Caucasus countries.

The prospects for a North-South transit corridor across the South Caucasus are of a longer-term nature and would require considerable investment, the economic efficiency of which is not clear at this time.

There are many overoptimistic expectations in the region about the size of peace benefits and the ease of their realization. The realization of the peace dividend will, however, depend on the strength of supply response in each of the South Caucasus countries to demand in opening markets. Current poor business environment and incomplete industrial restructuring would be a major hurdle to export performance.

What needs to be done

- Improve the foreign trade environment by the fuller implementation of the trade agreements among the CIS countries and the conclusion of new agreements with other trade partners, especially Turkey and the EU;
- Open the Armenian-Turkish and Armenian-Azerbaijani borders for trade. WTO membership and the bid of Turkey and Armenia to join the EU could be used to facilitate the normalization of trade;
- Include Armenia in the Xerox/Baku railway tariff agreements. Improve the state regulation of railway firms to insure the effectiveness of international tariff agreements;
- Reduce transit fees on a reciprocal basis;
- Eliminate the unofficial extortion on the road (especially, in Georgia and Azerbaijan);
- Streamline and increase efficiency of the customs; reduce corruption in customs administration;
- Equalize import taxation for all flows;
- Consider financial support by international organizations, including the World Bank, for trade facilitation should be considered, contingent on the progress towards conflict resolution. Trade flow optimization will require investments even in the short-run, when only the existing infrastructure is used.

1 Introduction

This study examines the likely short-term impacts of the resolution of Nagorny Karabakh and other regional conflicts, and the consequences of lifting the associated economic blockade on the international trade in the South Caucasus region, with concentration on Armenia, Georgia, and Azerbaijan. The examination of short-term impacts includes the analysis of missing exports, opportunities for export creation, and transport savings. Although some longer-term prospects are explored, the paper does not attempt to quantify them. In addition, it does not investigate prospects for FDI increase in the region and associated benefits for growth and mutual trade. It also does not attempt to estimate economic losses associated with inadequate transport and trade infrastructure.²

Since the breakup of the USSR, the South Caucasus region has had experienced a range of political conflicts resulting in a number of hot and cold wars and border closures. In this paper, we will examine the trade impacts of the following conflicts:

- A decade old dispute between Armenia and Azerbaijan over the *Nagorny Karabakh* region had led to a war between the two countries. In 1994, the armistice was reached but the borders between the two countries are closed and trade, officially, does not exist;
- *Turkish-Armenian conflict* dating back to WWI when large numbers of Armenian population perished triggering a mass exodus out of the country. Currently, the Turkish-Armenian border is closed; trade takes a circuitous route via Georgia and is well below its potential;
- *Abkhazia and South Ossetia conflict within Georgia*. These two Georgian provinces declared independence in the early 1990's and, after the wars, *de facto* retained it. The borders between the provinces and the Georgian mainland are closed;
- *Chechnia conflict within Russia*. The province declared independence in the early 1990's. After two wars, however, the central authorities have regained control over it in 1999. The borders have been opened but internal disorder in the province hampers trade.

The detailed account of the impact of the closed borders on the trade routes and transport costs is given in Sections 2.4 and 3.3.

The paper is organized as follows. Chapter 2 describes the current trade patterns, including trade volumes and BOP of each of the three South Caucasus countries, partner arrangements, commodity flows, the geography of trade, and trade regimes. Chapters 3 and 4 seek to assess the different aspects of economic losses in trade arising from the conflicts. They also try to evaluate trading outcomes if full political reconciliation is achieved in the region, including export creation, transport savings, impacts on price levels, and regional competition. Chapter 3 deals with non-energy trade and applies a

² These issues have been addressed in the World Bank report *Trade Facilitation in the Caucasus*, 2000.

gravity model to evaluate missing exports and to put into perspective current trade patterns. Chapter 4 is dedicated to trade in energy. Chapter 5 summarizes the previous results in the framework of the BOP. Chapter 6 takes up an issue of possible addition the South-North flows to the currently dominant East-West flows. Chapter 7 provides conclusions.

2 Current Trade Patterns

2.1 Trade Volumes and Balances

All three Caucasus countries run high trade deficits (see Table 1 below). The deficit-to-exports ratios have been very high in Armenia and Georgia during the whole period – from 162 to 252 percent in Armenia and from 162 to 232 percent in Georgia. The Azerbaijani deficit has been lower – between 40 and 154 percent of exports. In 1999, breaking the adverse trend, the trade deficits of all three countries shrank.

Over the past four years, Armenian and Georgian exports were stagnant, while Azerbaijani exports increased by 60 percent, thanks to large foreign investments in the oil sector.

Table 1. Trade Volumes and Balances in South Caucasus, 1995-99

(Million US Dollars)

	1996	1997	1998	1999
<u>Armenia:</u>				
Exports	290,3	232,5	220,5	231,7
Imports	855,8	892,3	902,4	811.3
Trade Balance	-565,5	-659,8	-681,9	-579.6
As % of exports	-162	-240	-252	-227
<u>Azerbaijan:</u>				
Exports	643.7	808.3	677.8	1,025.2
Imports	1,337.6	1,375.2	1,723.9	1,433.4
Trade Balance	-693.9	-566.9	-1,046.2	-408.2
As % of exports	-108	-70	-154	-40
<u>Georgia:</u>				
Exports	310.0	376.5	300.0	329.6
Imports	897.5	1,162.8	994.5	863.4
Trade Balance	-587.5	-786.3	-694.6	-533.9
As % of exports	-190	-209	-232	-162

Sources: National Statistical Agencies of Armenia, Azerbaijan, and Georgia.

2.2 Main Trading Partners and Overall Effects of Blockades

The main trading partners of the South Caucasus countries are Russia, other CIS countries, Turkey, Iran, the UAE, the EU, the USA and Canada. Their shares in trade flows between 1994 (the year of the ceasefire between Armenia and Azerbaijan) and 1998 are presented in Table 2.

Table 2: Share of Selected Partners in Exports, 1994, 1998

(Percent)

	<i>Armenia</i>	<i>Azerbaijan</i>	<i>Georgia</i>
<u>1994</u>			
Armenia	X	--	8.5
Azerbaijan	--	X	9.7
Georgia	1.3	2.5	X
Russia	38.9	21.4	34.0
Other CIS	33.1	18.2	24.2
Turkey	0.1	2.5	14.9
Iran	6.8	39.4	3.2
UAE	0.1	0.1	0.0
EU	16.4	12.8	0.9
USA and Canada	0.2	0.0	1.3
Rest of world	3.4	3.1	4.5
<u>1998</u>			
Armenia	X	--	0.6
Azerbaijan	--	X	9.6
Georgia	4.3	12.7	X
Russia	18.1	17.5	28.7
Other CIS	14.1	8.1	16.8
Turkey	1.4	22.4	10.5
Iran	14.2	14.2	1.3
UAE	1.7	0.5	0.2
EU	34.6	21.7	19.1
USA and Canada	5.4	1.4	5.9
Rest of world	11.6	2.9	13.1
<u>Change between 1994 and 1998</u>			
Armenia	X	--	-7.9
Azerbaijan	--	X	-0.1
Georgia	3.0	10.2	X
Russia	-20.8	-3.9	-5.3
Other CIS	-18.9	-10.1	-7.4
Turkey	1.3	19.9	-4.4
Iran	7.4	-25.2	-1.9
UAE	1.6	0.4	0.2
EU	18.2	8.9	18.2
USA and Canada	5.2	1.4	4.6
Rest of world	3.1	-1.6	4.0

Source: *Statistical Yearbook of South Caucasus, 2000.*

Table 2: Share of Selected Partners in Imports, 1994, 1998 (Contd.)

(Percent)

	<i>Armenia</i>	<i>Azerbaijan</i>	<i>Georgia</i>
<u>1994</u>			
Armenia	X	--	0.3
Azerbaijan	--	X	7.0
Georgia	4.5	1.0	X
Russia	28.5	15.1	7.9
Other CIS	19.2	46.4	* 65.5 *
Turkey	0.1	9.8	11.4
Iran	10.8	8.6	0.2
UAE	0.3	1.2	0.0
EU	9.4	9.0	3.6
USA and Canada	24.5	0.0	1.5
Rest of world	2.7	8.9	2.6
<u>1998</u>			
Armenia	X	--	1.1
Azerbaijan	--	X	8.3
Georgia	3.0	2.3	X
Russia	21.2	18.0	14.8
Other CIS	1.3	17.3	6.0
Turkey	6.3	20.4	11.1
Iran	7.1	4.0	0.6
UAE	6.0	4.2	2.2
EU	27.8	20.8	31.0
USA and Canada	11.3	4.0	8.7
Rest of world	27.3	13.0	24.9
<u>Change between 1994 and 1998</u>			
Armenia	X	--	0.8
Azerbaijan	--	X	1.3
Georgia	-1.5	1.3	X
Russia	-7.3	2.9	6.9
Other CIS	-17.9	-29.1	-59.5
Turkey	6.2	10.6	-0.3
Iran	-3.7	-4.6	0.4
UAE	5.7	3.0	2.2
EU	18.4	11.8	27.3
USA and Canada	-13.2	4.0	7.2
Rest of world	13.3	0.1	13.6

Source: *Statistical Yearbook of South Caucasus, 2000.*

* The largest partner was Turkmenistan (energy).

The shares changed as follows:

Exports

Armenia has been withdrawing gradually from the Russian and other CIS markets, while increasing its trade presence in the EU and Iran. The share of exports to the EU has grown thanks to the diamond processing industry (with a high import content). This operation, however, generates only a 15 percent value added. Iran buys from Armenia scrap metal, copper concentrate and electric power (on a swap basis). Armenia's exports to its other neighbors are relatively small.

Despite a loss of market share, Russia and the CIS remained a major exports market for Armenian goods absorbing brandy, synthetic rubber, and engineering products.

Azerbaijan has drastically reduced the share of its exports to Iran and other CIS countries (excluding Russia and the Caucasus) while increasing the share of Turkey and Georgia. The only exception is energy products, which remained an important export to the CIS countries.

Georgia has increased its EU share at the expense of all other partners. Still, Russia, other CIS countries, Turkey, and Azerbaijan remain its important partners.

All three countries have increased their share of exports to North America. However, this represents a modest figure in overall exports.

No trade has been officially recorded between Armenia and Azerbaijan.

Imports

Armenia has increased the shares of imports from the EU and Turkey, and it has reduced the shares from Russia and the CIS. The main import countries in 1998 were Russia, the EU, Iran, and, somewhat unexpectedly, Turkey. The latter does not have official trade relations with Armenia, and its exports go through intermediate addresses in Georgia. The share of import from North America has declined dramatically from 24.5 percent to 11.3 percent. At the same time, the value of North American imports has not changed much: It stood at 96.1 million dollars in 1994 and at 96.3 million dollars in 1998. The effect can be attributed to the rising overall value of imports and the relative decline of humanitarian aid in imports.

Azerbaijan has reduced the share of its imports from other CIS countries, and it has increased the shares from the EU and Turkey.

Georgia has reduced the imports from other CIS countries in favor of the EU and the rest of the world, including North America, which provides a large amount of humanitarian aid.

In the last half decade, in spite of economic blockades and closed borders, trade flows have tended towards gradual normalization. The only exception is the lack of official trade relations between Armenia and Azerbaijan. Even in this case, anecdotal evidence indicates that some unofficial trade between these two countries is taking root. Economic blockades and closed borders are far less rigid than one would have imagined in the early 1990s.

The general effect of blockades can be illustrated by the dynamics of the overall freight factor (the ratio of freight costs to the value of merchandise) in the BOPs of the South Caucasus countries.

As shown in Table 3, Armenia registers the highest freight factor; it is lower in Azerbaijan, and even lower in Georgia. This is not surprising, as Armenia is the most geographically isolated country; it also suffers the most from the regional blockades. The factor shows high year-to-year fluctuation due to the changes in the commodity composition of trade. For instance, a rapid growth of the diamond exports from Armenia (with high value-to-weight ratio) was a major factor behind the decrease in the freight factor.

The slope of the linear time trend ($y = a + bt$) presented in the last column shows that Armenia, which suffered the most from the blockade, has had the most pronounced, and statistically significant, tendency towards the decrease of the freight factor over time. The blockade have eased a bit, and the flow of goods has found ways around existing obstacles.

Trend coefficients for Azerbaijan and Georgia countries have large standards errors making the results ambiguous. (The Azerbaijani freight factor has had also declined, while Georgian has had increased.)

Table 3. The overall freight factors in the South Caucasus countries, 1995-99

(Percent)

	1995	1996	1997	1998	1999	Change between first and last year	Slope of linear time trend ($y = a + bt$)	Standard error for slope
Armenia	12.0	11.3	12.3	10.1	9.3	-2.7	-0.67	0.26
Azerbaijan	10.5	8.6	9.4	13.5	7.4	-3.1	-0.14	0.83
Georgia	N/A	7.9	3.9	8.2	8.3	0.3	0.53	1.10

Source: The author's calculations based on the national BOPs.

Note: The overall freight factor is the ratio of freight costs (defined as the sum of freight debit and credit) to merchandize value (the sum of merchandize debit and credit) in the balance of payments.

The freight factors in the South Caucasus are high though not impossibly high by international standards. For instance, the following countries had had similar or higher

freight factors in 1995 (in percent): Bahrain – 14.5, Kuwait – 13.8, Bulgaria – 9.7, Poland – 9.3, Ukraine – 8.4³. The freight factor in each Caucasus country is, however, much higher than in the EU, where it stands at 1.5 percent. The restrictions placed on the movement of goods explain in part the generally high freight factor in the FSU; other significant factors include high cost of transporting goods due to inefficient transportation systems and long distances between trading hubs.

The gradual easement of the blockades over the last five to seven years can be attributed to:

- Increased political stability in Georgia, which has allowed it to become a major transit route for Armenian exports and imports;
- Increased cooperation with Iran, which has increased its role as a transit country;
- Optimization of trade flows and routes due to the improved efficiency of regional trade, gained trading experience, and the increased knowledge of markets and trading partners.

The early assumptions of a prolonged and severe economic blockade made a few years ago had led to some costly, uneconomic decisions. One such example is the construction of a large freight terminal at Zvartnots airport (Yerevan), which was financed by an EBRD loan in the amount of 22.8 million dollars. The demand for air cargo transportation, which was based on the assumption about a strict international blockade of Armenia, has turned out to be significantly lower than the initial estimate. As such, the terminal currently operates at below 20 percent capacity.

Nevertheless, closed borders and blockades still inflict economic losses and lead to a suboptimal geography of trade in the region.

2.3 Main Commodity Flows

The main commodity flows among Armenia, Azerbaijan, and Georgia and their main trading partners, Turkey, Russia, and Iran, are presented in Table 4.

³ Source: WTO. *A Review of Statistics on Trade Flows in Services*, November 1997, Document # 97-4917. Note that oil exporters in the sample have very high freight factors due to the high costs of the transport of oil to distant markets.

Table 4. Main commodity flows in the South Caucasus, 1999

(The coverage of the relevant trade flow, in percent, is presented in parenthesis)

<i>Exporting countries</i>	<i>Importing countries</i>					
	Armenia	Azerbaijan	Georgia	Iran	Russia	Turkey
Armenia	X	--	Electricity, cement, liqueur (71 %)	Electricity, scrap metals, copper concentrate (66 %)	Liqueur, synthetic rubber, ferromolybdenum alloy (44 %)	Raw animal hides and skins (72 %)
Azerbaijan	--	X	Crude oil and oil products (86 %)	Diesel, aluminum scrap (74 %)	Electricity, tobacco, crude oil (60 %)	Diesel, plastics, crude oil (69 %)
Georgia	Oil products, wheat, gas, sawn-wood (33 %)	Electricity, ferrous metals and articles, cement (63 %)	X	Lathes, machinery and machine-tools, steel products (58 %)	Wines, ferroalloys, tea (67 %)	Scrap metals, wood (rough and sawn), sunflower seed (64 %)
Iran	Electricity, processed food, oil products (42 %)	Electricity, processed food (56 %)	Construction machines, furniture, oil products, asphalt, passenger cars (51 %)	X	N/A	N/A
Russia	Natural gas, nuclear fuel (55 percent)	Wheat, flour, cement, wood (sawn or chipped) (48 %)	Natural gas, pharmaceuticals (58 %)	N/A	X	N/A

Table 4. Main commodity flows in the South Caucasus, 1999 (Contd.)

(The coverage of the relevant trade flow, in percent, is presented in parenthesis)

Exporting countries	Importing countries					
	Armenia	Azerbaijan	Georgia	Iran	Russia	Turkey
Turkey	Cigarettes, oil products, processed food, wheat, chemicals (30 %)	Machinery and mechanisms, processed food (53 %)	Processed food, chemicals, apparel (49 %)	N/A	N/A	N/A

Sources: National Statistical Agencies of Armenia, Azerbaijan, Georgia, and Russia.

N/A: Not applicable for the purposes of this report.

The table shows that the South Caucasus countries export primarily energy, mineral resources, and semi-finished products. Armenia exports copper and molybdenum concentrate. Azerbaijan exports oil and gas. The scrap of ferrous and non-ferrous metals, released in the process of the physical dismantling of the Soviet industrial infrastructure, is among the most important exports. Some ex-Soviet industries continue to operate in the region, including Armenia's chemical industry, Georgia's metallurgy, and Azerbaijan's oil refinery; the outputs of these industries enter regional trade. Agricultural and forest products (such as animal skins in Armenia, wood and sunflower seed in Georgia) are also traded. In the last decade, the exports of agricultural products have decreased, and the exports of industrial products (especially, light industry and machinery) have collapsed, along with the collapse of regional industry. Despite transport disadvantages, products with low value-to-weight ratio continue to dominate the exports of the South Caucasus countries.

The South Caucasus countries import energy, cereals (a lot of which are offered as humanitarian aid), processed food, consumer goods, and machinery.

2.4 Geography of Trade and Transport Costs

This section describes the prevailing trade routes and between the three South Caucasus countries and their main trading partners. It also looks at associated transport and handling costs. Energy trade is relegated to the dedicated chapter. Table 5 presents various transport costs within and outside the region.

Table 5. Transport costs, 1999

(USD)

<i>From:</i>	<i>To:</i>					
	Armenia	Azerbaijan	Georgia	Iran	Russia	Turkey
Armenia	X	--	300 – 20' rail, 500 – 20' f.o.b. vessel	500 – 700 20t truck (Tehran) 1,200 – 20' (Bandar-Abbas)	3,100-3,500 -- 20' road, 2,800 -- 20' rail (to Moscow)	--
Georgia	17/t – general cargo, 30-32/t – wheat, flour, sugar, rail, 300-350 per 20t truck, 1,400 – 20', 1,800 – 40' rail, incl. terminal charges, 1,400 – 20', 1,800 - 40' road (from Poti)	\$ 500 – 700 – 20', 12-13/t (general cargo, rail, from Poti),	550 – 20', 700 – 40' (r/t, Poti – Tbilisi)		3,000 -- 20 t truck (Sverdlovsk)	15-20/t (general cargo incl. port charges)
Iran	500 – 700 20t truck (Tehran) 1,200 – 20', 1,400 – 40' (Bandar-Abbas)			X	N/A	N/A

Table 5. Transport costs, 1999 (Contd.)

(USD)

From:	To:					
	Armenia	Azerbaijan	Georgia	Iran	Russia	Turkey
Russia	2,000 for 20' (from Novoro-siisk)			N/A	X	N/A
Turkey	2,300 for 20t truck (from Istanbul),	3,500 - 13 t trailer, 3,000 - 20', 3,500 - 40' (road via Iran); 2,600 - 20', 2,900 - 40' (sea-road via Poti)	15-20/t (general cargo incl. port charges), 2,700 - 20', 3,300 - 40' (Izmir-Tbilisi, road)	N/A	N/A	X

Sources: Author's interviews with transportation and trade companies in the region. N/A -- Not applicable for the purposes of this report; 20' and 40' - 20 and 40 foot container.

Note: Transport costs between some other important destinations are listed below: Dubai - Baku: \$ 1,800-2,100 for 20' and \$ 2,900-3,000 for 40' container; West Europe-Baku: \$ 3,000 for 40' container, or \$ 3-5/kg (road), \$ 2,000-\$2,50 for a 60t wagon (railway); Poti - Europe: \$ 1,500 for 20', \$ 2,000 for 40'; Europe -- Poti: \$ 1,200 for 20', \$ 1,500 for 40'; Poti - USA (Northeast): \$ 2,200-2,400 for 20', \$ 3,000-3,400 for 40'; Yerevan - Europe: \$3,000-3,500 for 20', 4,000 for 20t truck; Europe - Yerevan: \$ 6,000 - 7,000 for 20t track; Yerevan - Los Angeles: \$ 3,600 for 20', \$ 4,900 for 40'; Ilyichevsk (Ukraine) - Yerevan: \$ 3,400 for a 60t wagon.

Trade between Armenia and Georgia utilizes railroads and roads on the common border. There are no trade barriers arising from conflicts. On the contrary, the Nagorny Karabakh resulted in the emergence of Georgia as the only conduit for Armenian trade with much of the world, including Turkey, Russia, Europe, and overseas. Georgia is likely to see its transit significance weaken if the regional borders open.

Trade between Armenia and Iran flows via road through Megri (an Armenian town on the Iranian border). A shorter route through the Nakhichevan region in Azerbaijan is closed, resulting in extra transport costs.

Since the border between Armenia and Turkey is officially closed, trade goods between the two countries are sent via Georgia. That is, Turkish goods delivered to Armenia are rerouted a Georgian intermediary. In Georgia, the stated destination is switched to

Armenia. The same scheme works in the opposite direction. This procedure does not allow trade in construction materials (due to high transport costs) and energy.

Poti serves as the main regional seaport and is linked by a railway with all three countries. The most economic mode for general cargo to Armenia would be maritime to Poti followed by railway. Containers are transported primarily by road rather than by railway due to time efficiency and better reliability.

Trade goods between Armenia and Russia travel by railway via Azerbaijan and by road via Georgia. Gas and power lines link the two countries through Georgia.

When using the railway through Azerbaijan, the consignments are assigned to a Georgian intermediary, a scheme that is used in the trade between Armenia and Turkey.

There is no recorded trade between Armenia and Azerbaijan. There is some anecdotal evidence on informal trade between the two countries, either via Georgian intermediate addresses or across the border, mainly in energy, agricultural, and consumption products. However, the volume of this trade remains small.

Trade between Azerbaijan and Georgia goes directly by railways and roads. There are gas and oil pipelines between the two countries. The routes are not affected by regional conflicts.

Trade between Azerbaijan and Iran is conducted across their common border and does not suffer from the conflicts.

Trade between Azerbaijan and Turkey must traverse either Georgia or Iran. There is a shorter road via Armenia, the use of which would bring transport costs down. General cargo delivered by ship still have to go through Poti.

Azerbaijan and Russia trade across their common border. The problems of trading that arose with the Chechen conflict in Russia were resolved in 1999 with the completion of rail and pipeline links bypassing Chechnia.

Georgia and Turkey share a common border on the Black Sea. Trade routes are not negatively affected by area conflicts.

Trade between Georgia and Russia flows directly by sea and by road or by railroad via Azerbaijan; energy flows by direct pipelines and energy lines. The closed railway on the east coast of the Black Sea (due to the Abkhazia conflict) has a minor effect on cargo flows, since that railway was designed and used for primarily passenger transportation.

Railway tariffs. After the breakup of the Soviet Union, the CIS countries switched from the Soviet tariff system to international tariffs, based on the NTT tariff system⁴. At the

⁴ The NTT international tariff agreements, in addition to the CIS, include the Baltic and CEE countries. Formally, the South Caucasus countries did not sign the agreement. However, the NTT systems is *de facto* used for transit in Azerbaijan and Georgia. Armenia is not included for political reasons.

same time, in order to slash the cost of long-haul transit, a number of CIS countries concluded separate agreements to lower the NTT tariffs. Georgia, Azerbaijan, Turkmenistan, and Uzbekistan entered into the Xerox and Baku agreements, which allow a 50 percent tariff reduction for all goods travelling between those four countries. Georgia and Armenia bilaterally agreed to a 25 percent tariff reduction for shipments within the two countries. As a result, tariffs for Armenia on the Georgian railway are 25 percent higher than those for the Xerox/Baku signatories. If Armenia joins, the tariffs for its transit will be reduced accordingly.

There are two major problems with the railway tariff schedules. First, the effective tariffs are often set with little regard to international agreements, since private and public transport providers in all Caucasus countries and Russia are not properly regulated and are ridden with corruption. Second, Armenia is not a member of the Xerox and Baku agreements, which hampers its railway transport even if its shipments were officially allowed to traverse the Azerbaijani territory.

Transit fees. Armenia and Georgia levy high transit fees on foreign vehicles. There is no transit fee in Azerbaijan, Iran, and Turkey. However, all countries apply transit quotas (the number of vehicles per year allowed to pass through the country's territory, by nation).

Fee schedules are presented in Annex 3. According to the schedules, the most common carrier -- a truck with the capacity of 10-20 tons -- transiting the Georgian territory must pay \$ 245 equivalent in local currency (at the October, 2000, exchange rate). A similar vehicle transiting the Armenian territory must pay \$ 197 equivalent, also in local currency (total fee = \$ 27.93 ecological charges + \$ 20.00 cargo transit fee + \$ 148.98 vehicle transit fee). For the Georgia-bound cargo, the fee is raised by \$ 80.

According to Table 5, transportation companies offer the following tariffs from Georgia to Armenia: \$ 300-350 for a 20 ton truck, \$ 1,400 for a 20 foot container, and \$ 1,800 for a 40 foot container. Thus, the transit fee equals 70-82 percent of the tariff for trucking, 18 percent for a 20 foot container, and 14 percent for a 40 foot container.

2.5 Trade Regimes

There are three major trading blocks in the region:

- the "free trade" agreements among the CIS countries;
- the Customs Union of Armenia, Russia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan; and
- the Customs Union of Turkey and the EU.

Trade agreements among the CIS countries, although signed by all three Caucasus republics, largely, have not been effective. As a result, they have been supplemented by a variety of bilateral and multilateral agreements. Georgia has concluded free trade agreements with Armenia, Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Moldova. These agreements stipulate zero import duties on the products from participating

countries. However, these agreements have not been ratified by the Parliament of Georgia. As a result, Georgia does not enjoy a zero import tariff and, in turn, levies full import tariffs on all CIS countries. Armenia and Azerbaijan reciprocally waive import tariffs and/or VAT for some CIS countries. Here is a telling example of the differential treatment of the CIS countries under these arrangements. In Azerbaijan, imports from Russia are subject to import tariffs and VAT; imports from Georgia and Ukraine – to VAT only; and imports from Moldova – to import tariffs only. This situation create powerful incentives to misreport the country of origin.

Even under full political normalization, the Caucasus exports to Turkey would be subject to EU regulations, including special restrictions on agricultural products and the wide use of quotas. An example of one such restriction might be Armenia's textile exports to the EU, which are free of quotas at this time. According to an Armenian trade official, this quota-free regime is mainly explained by small volumes of Armenian exports and would change if the volumes increase significantly.

Georgia is a member of the WTO, Armenia is expected to join soon, and Azerbaijan has been an observer with more remote prospects for full membership. While having an impact on import tariffs schedules, the WTO has had little other influence on regional trade so far.

The main features of trade regime by country, including import and export tariffs, excises and non-tariff regulations are presented in Annex 2. The three South Caucasus countries levy import tariffs, VAT, and excise tax on imports. There are also (small) customs clearance fees.

Import tariffs. Armenia has a unified import tariff of ten percent; a number of commodities are exempt (the majority of which are intermediate goods and food). The overall tariff level is rather low, with a weighted average tariff at four percent.

The Georgian import tariff schedule for 2000-05 has been approved by the WTO. It has a variety of tariff levels gravitating toward 12 percent.

The Azerbaijani import tariff structure is more complicated. It has three tariff levels: 15, 5, and 0 percent. There is also a multitude of specific rates (usually expressed in Euro per physical unit). The tariffs do not look excessive and are on par with the Georgian level. Some tariff unification would help, however.

In sum, import tariff levels in the Caucasus have not constituted an obstacle for regional trade. However, tariff administration has been far from efficient; the unclear procedures of the custom valuation of goods has led to bribes. As a result, importers have not been treated equally. There are three categories of importers: (i) paying statutory tariffs, (ii) paying bribes and a part of statutory tariffs, and (iii) smugglers paying only bribes.

The problems with corruption have been most pronounced in Azerbaijan. Georgia has also experienced the problems, and its Government is trying to resolve it by hiring an international firm for customs clearance. Traders, however, complain that so far this has led to longer processing times.

VAT on imports in all three countries are broadly consistent with the destination principle and stand at 20 percent. Excise taxes are levied on alcohol, cigarettes, fuel, passenger cars, and some consumption (“luxury”) goods.

Export taxes had been abolished in all countries (in Azerbaijan in 2000).

All Caucasus countries license trade in sensitive and potentially dangerous products, which is a normal procedure. Azerbaijan maintains an extensive export licensing system, which potentially could lead, and, by anecdotal evidence, does lead, to corruption.

Georgia licenses the export of raw materials (wood and wood products, scrap, metals, etc.), bringing about the same problems. Evidence of such corruption in Georgia includes the large discrepancy found between the values of its exports to Turkey in the mirror statistics. For instance, the value of the 1998 exports to Turkey, as reported by Georgia, was 20.2 million dollars. At the same time the same year’s imports from Georgia, as reported by Turkey, stood at 91.0 million dollars. Even if we add Armenia’s exports to Turkey (2.9 million dollars) to Georgia’s (since they may be recorded in Turkey as of the Georgian origin), the difference will still be 3.9 times. This large a discrepancy cannot be explained by the difference in the valuation of exports and imports.

Armenia’s trade regulations are quite liberal. No unnecessary export licensing is required. In all three countries, there are usual (non-tariff) regulations on the quality and certification of goods.

The major obstacles to trade are unofficial, non-tariff barriers related to corruption; little protection from extortion; and crimes against property. As a result, in all three countries, significant “facilitation” payments have to be made to ensure the reliable and timely movements of consignments. The World Bank report *Trade Facilitation in the Caucasus* asserts that, in Azerbaijan, “the movement of any consignment was impossible without the prior provision of a facilitation payment”; in Georgia, the rent-seeking behavior is of a random nature; and, in Armenia, it is less prevalent but still significant. Extortion on the road is also common. The unofficial payments on the road are routinely included in transport tariffs. According to anecdotal evidence, in the case of Georgia, they account for from a quarter to a third of the highway tariffs.

3 Trade after Conflict Resolution

In this chapter, we discuss the potential for trade in the region in the event of conflict resolution. We focus on non-energy trade here. Energy trade is relegated to the next chapter.

3.1 Export Opportunities

There are three missing export flows in the region -- Armenia to Azerbaijan, Azerbaijan to Armenia, and Armenia to Turkey (which is, formally speaking, positive but, for all practical purposes, zero) and one restricted export flow -- Turkey to Armenia.

In order to put into perspective the current and potential export flows in industrial products outside of natural resources, we applied the gravity model developed by Baldwin to assess the potential integration of East and West European trade⁵. Baldwin's model was estimated on trade flows among the EC, EFTA, the USA, Canada, Japan, and Turkey using the random effect method with maximum likelihood correction for first-order autoregressive error. The model has the following form:

$$\begin{aligned} \ln X_{ij} = & -17.5 - 0.88 \ln D_{ij} + 0.77 \ln Pop_i + 1.16 \ln GDPCap_i + 0.79 \ln Pop_j \\ & (12) \quad (11) \quad (26) \quad (13) \quad (25) \\ & + 1.22 \ln GDPCap_j + 0.28 Adj_{ij} + 0.53 Block_{ij}, \\ & (16) \quad (2) \quad (3) \end{aligned}$$

$R^2 = 0.99$, $DW = 2.39$, *t-statistics in parenthesis*,

where i is the exporting country, j is the importing country, Pop is population, $GDPCap$ is per capita GDP (in PPP), Adj is the dummy for adjacent countries, and $Block$ is a dummy that takes on the value 1 if the trading partners belong to a trading block.

The distances are straight lines between the capital cities ("as the crow flies"). GDP (in PPP) is expressed in 1985 U.S. dollars based on the Penn World Tables.

We used this model to calculate export flows among the three South Caucasus countries and their major partners, further referred to as "potential". The countries' GDP (in PPP) for 1996, developed by the European Comparison Project, were rebased to 1985 U.S. dollars. In order to be compatible with the Baldwin's model, the results were converted into 1996 U.S. dollars.

In our model, export volumes are represented by total exports. This has certain disadvantage since, according to the theoretical justifications of the gravity model, the model describes the best trade in manufactured products. It is poor at explaining trade in natural resources such as oil or agricultural products, since natural resource flows are determined by the exporters' endowments rather than GDP. However, due to data limitations, we have been unable to derive reliable estimates for manufactured exports.

⁵ Baldwin, Richard E. 1994. *Towards an Integrated Europe*, Centre for Economic Policy Research.

Table 6: Average annual (1995-98) and potential exports

<i>Trading partners</i>	<i>Exports (million USD)</i>			<i>Partner's share (sample = 100), %</i>		
	<i>Actual</i>	<i>Potential</i>	<i>Potential/ Actual ratio</i>	<i>Actual</i>	<i>Potential</i>	<i>Potential - Actual</i>
<u>Armenia's</u>						
<u>exports to:</u>						
Azerbaijan	--	3,276	--	--	0.6	0.6
Georgia	7,478	22,214	3.0	3.3	4.0	0.7
Turkey	4,692	35,641	7.6	2.0	6.4	4.4
EU	63,223	230,768	3.7	27.6	41.6	14.0
Russia	72,457	79,530	1.1	31.6	14.3	-17.3
USA	5,916	101,948	17.2	2.6	18.4	15.8
Iran	38,233	44,313	1.2	16.7	8.0	-8.7
Other CIS	37,304	37,396	2.4	16.3	6.7	-9.5
Subtotal	229,303	555,087	2.4	100	100	--
<u>Azerbaijan's</u>						
<u>exports to:</u>						
Armenia	--	3,234	--	--	0.3	0.3
Georgia	86,813	14,575	0.2	14.1	1.5	-12.5
Turkey	60,654	35,609	0.6	9.8	3.8	-6.1
EU	92,900	384,419	4.1	15.1	40.6	25.6
Russia	124,475	205,833	1.7	20.2	21.8	1.6
USA	4,808	171,376	35.6	0.8	18.1	17.3
Iran	161,604	62,798	0.4	26.2	6.6	-19.6
Other CIS	85,038	68,172	0.8	13.8	7.2	-6.6
Subtotal	616,292	946,018	1.5	100.0	100.0	0.0
<u>Georgia's</u>						
<u>exports to:</u>						
Armenia	18,869	21,534	1.1	10.9	1.8	-9.1
Azerbaijan	20,148	14,312	0.7	11.6	1.2	-10.4
Turkey	29,927	73,905	2.5	17.2	6.2	-11.1
EU	20,255	495,236	16.5	11.7	41.3	29.6
Russia	56,892	238,154	11.8	32.7	19.8	-12.9
USA	4,322	211,939	3.7	2.5	17.7	15.2
Iran	2,328	63,346	14.7	1.3	5.3	3.9
Other CIS	21,100	81,761	35.1	12.1	6.8	-5.3
Subtotal	173,841	1,200,186	6.9	100.0	100.0	0.0

Table 7: Average annual (1995-98) and potential exports under growth scenario

<i>Trading partners</i>	<i>Exports (million USD)</i>			
	<i>Actual</i>	<i>Potential</i>	<i>Potential/Actual ratio</i>	<i>Potential minus Actual</i>
<u>Armenia's exports to:</u>				
Azerbaijan	--	6,660	--	6,660
Georgia	7,478	43,989	5.9	36,511
Turkey	4,692	65,706	14.0	61,014
EU	63,223	389,802	6.2	326,579
Russia	72,457	106,988	1.5	34,531
USA	5,916	178,417	30.2	172,501
Iran	38,233	75,805	2.0	37,572
Other CIS	37,304	61,485	1.6	24,181
Subtotal	229,303	928,853	4.1	699,550
<u>Azerbaijan's exports to:</u>				
Armenia	--	4,577	--	4,577
Georgia	86,813	20,197	0.2	-66,616
Turkey	60,654	45,937	0.8	-14,717
EU	92,900	454,389	4.9	361,489
Russia	124,475	193,765	1.6	69,290
USA	4,808	209,877	43.7	205,069
Iran	161,604	75,174	0.5	-86,430
Other CIS	85,038	79,158	0.9	-5,880
Subtotal	616,292	1,083,075	1.8	466,783
<u>Georgia's exports to:</u>				
Armenia	18,869	30,474	1.6	11,605
Azerbaijan	20,148	20,357	1.0	209
Turkey	29,927	95,341	3.2	65,414
EU	20,255	585,376	28.9	565,121
Russia	56,892	224,191	3.9	167,299
USA	4,322	259,552	60.1	255,230
Iran	2,328	75,829	32.6	73,501
Other CIS	21,100	93,877	4.4	72,777
Subtotal	173,841	1,384,997	8.0	1,211,156

Based on Table 6, we may conclude that all three South Caucasus countries tend to export less than predicted by the gravity model. The overall ratio of potential to actual exports range from 1.5 for Azerbaijan to 2.4 for Armenia to 6.9 for Georgia. (These

ratios would, in fact, be even higher since current estimates do not take into account trade in agricultural products, energy, and other non-manufactured goods.)

The low export volumes can be partly explained by the physical restrictions on the movement of goods. However, a more important reason for weak export performance is the dearth of internationally competitive goods produced in the region outside of natural resources.

Geographically, the South Caucasus countries tend to trade sufficiently with politically friendly neighbors, the CIS countries and undertrade with the EU, the USA, and hostile neighbors. Neighboring markets are less competitive and have weaker quality requirements for imports than sophisticated European and American markets. Past traditions of regional trade also facilitate short-haul trade flows.

While regional trade may be boosted by conflict settlements, massive exports to the developed nations would not happen without a major industrial restructuring.

With higher income levels, trade potential would indeed be higher. Table 7 presents potential export volumes under the World Bank projections of the GDP levels and country populations in 2002. Under this scenario, the ratio of potential to current trade would increase to 1.8 for Azerbaijan, 4.1 for Armenia, and 8.0 for Georgia. The largest potential gains would be for exports to the EU and the USA. In case of Azerbaijan, a number of regional partners might see a reduction in exports, redirected to other destinations.

The above analysis suggests the following magnitudes of missing exports (the lower bound represents exports flows under the GDP levels in 1996; the higher bound uses the projected 2002 GDP levels): Armenia to Azerbaijan – 3.2-6.7 million dollars, Armenia to Turkey – 35.6-65.7 million dollars, Azerbaijan to Armenia – 3.2-4.6 million dollars.

A number of case studies show that export opportunities can be associated with the opening of borders. The World Bank study on the prospects for Armenia exports⁶ indicated the advantage of products with high value-to-weight ratio, in order to overcome the geographic factor. However, if regional borders open, the weight restriction may be relaxed. For instance, there may be a good market for Armenia's building materials industry (cement, building stone, tile) in Turkey and Azerbaijan. At the present time, capacity utilization in the industry is extremely low due to low domestic demand and physical barriers to trade: Cement plants are used at below 20 percent of capacity, and stone and tile production stands at about five percent of capacity. If the production capacity were more fully utilized, production could increase by 40 to 80 million dollars a year. Also, by lowering transport costs, existing exports of low value-to-weight products, such as non-ferrous metal (copper, molybdenum, zinc) ores, concentrates, and synthetic rubber would become more profitable and go up in volume.

Supply side

⁶ Elliott Hurwitz. *Prospects for Armenian Exports: Case Studies of 21 Enterprises*, The World Bank, 1995.

Outside natural resources and semi-finished products produced on the Soviet-era plants, the South Caucasus countries have rather limited export base. Necessary conditions for improved export performance include industrial restructuring and large new investment, especially foreign (which facilitates access to foreign markets and places local producers in international distribution networks). Neither will happen without a major improvement in the business climate. Recent international surveys, including the World Bank/EBRD survey, indicate grave problems in this area. The business climate rankings of the South Caucasus countries are consistently placed at the bottom of the CIS and transition economies as a whole. Official corruption and red tape are regular occurrences, property rights are poorly protected, and the agency problems abound. A marked improvement in business climate and in its perception by investors will take a long time if ever.

Also, the usual problems of the post-Soviet industrial sector have to be addressed, including/especially insufficient working capital, managerial and marketing problems, incomplete restructuring, etc. For instance, Armenia's massive engineering sector has largely lost its markets in the CIS, mostly Russia. Equipment and parts for the defense sector, as well as relatively low-quality industrial and household equipment, composed traditional engineering exports. The markets for most of these products have ceased to exist. It is the problems with the identification of new (that is, old geographically but very much changed) markets and the inflexible product mix that make it very difficult to restart exports to the CIS. Therefore, a mere reduction of physical trade barriers is not enough to bring about needed revolutionary changes in export performance.

If progress towards the improvement of business climate and industrial restructuring remains weak, it is doubtful that the potential of export creation will be fully realized.

Trade in energy and natural resources presents the most obvious export opportunities. It is discussed in detail in Section 4.2. In sum, the Armenian exports to Turkey could increase by as much as 230 million dollars, or more, thanks to the exports of electricity and construction materials. This figure equals total Armenian exports in 1999. Azerbaijani exports to Armenia could reach 120 million dollars, increasing total exports by 100 million dollars⁷, which equals ten percent of total exports.

3.2 Price Levels

Fully realizing that domestic price levels are determined by a multitude of factors, many of which fall outside foreign trade (including the exchange rates of local currencies, taxes, internal transport costs, wholesale trader markups, etc.), we still would like to compare and put into perspective the price levels in the three South Caucasus countries. Tables 8 and 9 present the comparative average prices of main commodity groups, including fuel and energy, agriculture and food, investment, and intermediate goods, among Armenia, Azerbaijan, Georgia, and Turkey. As these data refer to 1998, they do not take into account the different currency devaluation situations in the South Caucasus countries after the Russia crisis: Georgia has significantly devalued its currency after

⁷ Export flows worth 20 million dollars could be rerouted to Armenia from more distant destinations.

1998, while Armenia and Azerbaijan have not. Therefore, the relative prices in Georgia today vis-à-vis Armenia and Azerbaijan would be lower today than in 1998. Nevertheless, the above data might give some interesting insights.

As the data suggest, with respect to Azerbaijan, Armenian energy and agricultural prices are twice as high. Prices for fertilizers and timber are on par. The price of cement in Armenia is a third lower than it is in Azerbaijan and a fifth lower than in Turkey.

With respect to Georgia, Armenian energy prices are higher, and agricultural prices are at the same level.

Retail food prices are lower in Armenia than in its Caucasus neighbors, which may indicate lower retail markups.

Table 8. Comparison of Selected Wholesale Prices in Armenia, Azerbaijan and Turkey, 1998

(As percent of Turkey)

<i>Commodities</i>		<i>Azerbaijan</i>	<i>Armenia</i>	<i>Georgia</i>
Energy Products				
Average		20%	44%	32%
Electric power	KWh	33%	39%	33%
Gasoline	Ton	18%	32%	29%
Diesel oil	Ton	27%	49%	
Natural gas	M3	10%	55%	33%
Agricultural Products				
Average			104%	
Wheat	KG	67%	111%	101%
Barley	KG		131%	85%
Sunflower seed	KG		218%	89%
Beef and veal	KG	16%	34%	
Poultry	KG		113%	158%
Wool	KG	6%	33%	42%
Eggs	Unit	123%	163%	85%
Butter	KG		41%	46%
Crystal Sugar	KG	69%	55%	61%
Wheat flour	KG	87%	144%	177%
Fertilizers				
Average		74%	67%	149%
Urea	Ton	103%	84%	46%
DAP	Ton	42%	50%	61%
TSP	Ton	77%		177%
Timber				
Average		62%	36%	
Heavy logs	M3	65%	60%	
Plywood	M2		13%	
Sawnwood	M3	59%		
Copper	Ton		51%	
Portland Cement	KG	126%	78%	62%

Table 9. Comparison of Selected Retail Food Prices in Armenia, Azerbaijan and Turkey, 1998
(As percent of Turkey)

<i>Products</i>		<i>Azerbaijan</i>	<i>Armenia</i>	<i>Georgia</i>
Veal	KG	50%	42%	52%
Pork		n.a.	n.a.	n.a.
Margarine	KG	86%	78%	108%
Butter	KG	41%	37%	42%
Milk	L	72%	45%	71%
Eggs	Unit	125%	123%	112%
Bread, wheat	KG	80%	69%	67%
Crystal sugar	KG	82%	67%	73%
Potatoes	KG	169%	96%	141%
Average		88%	70%	83%

Sources: Statistical agencies of Armenia, Azerbaijan, Georgia, and Turkey.

The above data suggest that trade blockades play a role in pushing Armenia's energy prices upward. High energy prices constitute an implicit tax on both production and consumption.

High agricultural prices in both Armenia and Georgia with respect to Azerbaijan reflect somewhat inferior agroclimatic conditions in the former two countries. Whilst there are no formal trade barriers between Georgia and Azerbaijan, and the cost of transporting agricultural products between Azerbaijan and its neighbors does not exceed a quarter of the unit value, the price differential between the two countries remains very large. This situation may be explained by informal barriers and the underdeveloped, disjoint nature of agricultural markets in the region.

If trade in the region frees up, Armenia would benefit from lower energy prices.

At the same time, the agricultural sector of Armenia and Georgia likely would come under competitive pressure from Azerbaijan, if the regional market become more integrated. Increased export opportunities would be beneficial for the depressed Azerbaijani agriculture but potentially could negatively affect rural incomes and rural poverty in the other Caucasus countries.

The large price differential of Armenian cement with respect to both Azerbaijan and Turkey signals that Armenia could restart its traditional exports of construction materials to the neighbors, despite the high transportation costs of these products.

The potential benefits arising from domestic price decrease could be shared between consumers, producers, and traders. Consumers will increase their utility level, producers

will enjoy lower input prices (e.g., energy) but face increased foreign competition, and traders might absorb part of the savings as higher margins.

3.3 Transport savings

Through our interviews with transportation firms and traders, we obtained transport costs for the main trading commodities; we also assessed the economic benefits arising from shorter transport routes that would be open in a normal political situation. The difference between current and optimal costs constitutes deadweight losses incurred by firms (through lower profit margins) and household (through higher prices). Two methods were used to estimate these losses. We would like to emphasize that these estimates are based on the currently observed volumes of trade. The opening of borders would certainly push trade volumes higher, but it is difficult to predict by how much. Thus, the estimates below should be considered conservative.

Method 1 uses the minimum and maximum estimates of the shares of transport costs in the unit values of specific commodities given by traders and the estimates of transport cost reduction from route straightening by transportation companies. Hence, the estimates of transport savings are derived. If s_i is the share of transport cost in unit value, e_i is the potential economy in transport costs, and V_i is the value of trade (imports or exports) of commodity i , then total economy equals $\sum_i (V_i s_i e_i)$.

Method 2 is based on the information about transport costs per unit of cargo (such as container, truckload, rail car) provided by transport companies and trade volumes in physical units compiled by the statistics agencies. This method will also give an interval estimate because actual loading factors (i.e., how many tons on average are loaded in a container or in a truck) are unknown and we have to assume minimal and maximum loading factors. If t_i is transport cost per unit of cargo, e_i is the potential economy in transport costs, and H is the physical volume of trade, then total economy equals $\sum_i (H_i t_i e_i)$.

Table 11 shows an example of such calculations using Method 1.

Table 10 : Economy on transportation of Turkish exports to Azerbaijan, 1999 data

<i>Commodities</i>	<i>Transp. costs, % of UV</i>		<i>Value, 000\$</i>		<i>Transp. costs, 000 \$</i>		<i>Economy, 000 \$</i>	
	<i>Min</i>	<i>Max</i>	<i>Min</i>	<i>Max</i>	<i>Min</i>	<i>Max</i>	<i>Min</i>	<i>Max</i>
Total			73601.7	5223.7	16035.1	522.4	1603.5	
Equipment for TV and radio transmission	5	10	10913.2	545.7	1091.3	54.6	109.1	
Electric power			6973.9	N/A	N/A	N/A	N/A	
Sugar and granulated sugar	10	25	5492.2	549.2	1373.1	54.9	137.3	
Iron structures and parts	10	50	4661.6	466.2	2330.8	46.6	233.1	
Equipment for wheat processing	10	50	4213.1	421.3	2106.6	42.1	210.7	
Wheat flour	10	25	3512.6	351.3	878.2	35.1	87.8	
Refrigerators and freezers	5	10	3371.9	168.6	337.2	16.9	33.7	
Aluminum structures and parts	10	50	3060.8	306.1	1530.4	30.6	153.0	
Package equipment	5	10	2887.4	144.4	288.7	14.4	28.9	
Synthetic fabrics	5	10	2708.9	135.4	270.9	13.5	27.1	
Margarine	10	25	2543.2	254.3	635.8	25.4	63.6	
Furniture and parts	5	10	2330.6	116.5	233.1	11.7	23.3	
Birds eggs in shell	10	25	2077.8	207.8	519.5	20.8	51.9	
Plastic construction comm.	10	50	1978.8	197.9	989.4	19.8	98.9	
Synthetic washing preparation	10	25	1851.7	185.2	462.9	18.5	46.3	
Other sweets	10	25	1515.4	151.5	378.9	15.2	37.9	
Sunflower oil	10	25	1444.3	144.4	361.1	14.4	36.1	
Confectionery products	10	25	1187.5	118.8	296.9	11.9	29.7	
Paper products for housing	5	10	1178	58.9	117.8	5.9	11.8	
Ventilators	5	10	1172.5	58.6	117.3	5.9	11.7	
Cars- new	5	10	1094.8	54.7	109.5	5.5	10.9	
Soap	10	25	959	95.9	239.8	9.6	24.0	
Water pumps	5	10	921.5	46.1	92.2	4.6	9.2	
Other conditioners	5	10	867.4	43.4	86.7	4.3	8.7	
Doors wood	10	50	867	86.7	433.5	8.7	43.4	
Cosmetics	5	10	822.5	41.1	82.3	4.1	8.2	
Tea	10	25	730.6	73.1	182.7	7.3	18.3	
Macaroni products	10	25	535	53.5	133.8	5.4	13.4	
Cooling compressors	5	10	512.6	25.6	51.3	2.6	5.1	
Potatoes	10	25	450	45.0	112.5	4.5	11.3	
Fruits and vegetables juice	10	25	447.1	44.7	111.8	4.5	11.2	
Garlic and onion	10	25	318.8	31.9	79.7	3.2	8.0	

Transport savings arising from opening borders presented below are obtained with these methods.

Armenia

Armenia would benefit from straightening two circuitous routes – with Turkey and Iran – and from using Turkish ports for transshipments. Armenia’s use of the Georgian territory for transit will significantly decrease. Trucking costs between the Armenia and Turkey would at least halve as a result. This estimate does not include general cargo, most of which would continue to go via sea and railway rather than by road. A percentage of general cargo might be sent via road for crossborder and short distance trade. However, since no current estimates are available, we did not attempt to gauge the magnitude of this flow and so kept the estimates on the conservative side. The transport savings for Turkish imports into Armenia vary between 0.6 and 0.8 million dollars, based on the 1999 data. However, if higher, the 1998 trade volumes, are assumed, the savings will rise to 0.9 to 1.2 million dollars. Armenian exports to Turkey are currently very small, so no significant savings could be achieved at these low volumes.

In addition to savings in money, the direct link between Armenian and Turkish road systems would increase the availability, predictability, and reliability of shipping services. These features, currently unavailable for South Caucasus exporters/importers, are as important as transportation costs – if not more so. The benefits will be shared by Armenia and its Caucasus neighbors. In this case, Armenia would become a transit country rather than “the end of the line”.

If the Turkish port of Trabson were to be used for the transshipments of Armenian trade goods instead of the Georgian port of Poti, the ground share of container transport costs would decrease by one-fourth. General cargo would probably continue to flow through Poti, since Trabson has no rail link. It is more economical to use rail cars than trucks for general cargo. Currently, about 5,000 containers per year pass through Poti on their way to/from Armenia. At a transshipment cost of \$1,400 for a 20 foot container and a \$1,800 cost for a 40 foot container, the savings would range from 1.8 to 2.0 million dollars a year.

If the Turkish port Mersin on the Mediterranean coast were used instead of Poti, it will help to eliminate transshipments from/to Mediterranean ports en route to North America, West Europe, and Asia⁸. Estimates indicate that this might result in as much as a 65 percent transport savings for general cargo⁹. However, the inability of Turkish railways

⁸ The shallow-water port Poti cannot accept large ocean-going vessels necessitating transshipments in smaller, so-called feeder, ships from/to Mediterranean ports. Container ships are smaller and can enter Poti. They do not require transshipments in the Mediterranean. Therefore, the above estimates refer to general cargo rather than containers.

⁹ Elliott Hurwitz’ estimate quoted in *The World Bank Transport Sector Review for Armenia, 1995*.

to handle the massive transit of general cargo raises doubts about the viability of this scheme.

Ground transportation costs to/from Iran would go down by at least one-third if the road via Nakhichevan rather than Megri is used. This would result in savings ranging from 3.6 to 4.8 million dollars for Iranian imports to Armenia and from 0.4 to 0.8 million dollars for Armenian exports to Iran.

Total transportation savings for Armenia would amount to 6.4-8.4 million dollars. The 1999 BOP shows a 63.6 million dollar debit in freight services and a 30.3 million dollar deficit. Hence, the savings would decrease the debit by 10-13 percent and the deficit by 21-28 percent.

The affect on Russian transit to Armenia via Georgia would be only minor, since the majority of Russian exports are energy (natural gas and nuclear fuel), which do not use sea or rail routes. The transit of Armenian exports to Russia currently sent via Azerbaijani railway through Georgian intermediate addresses would become easier and quicker to arrange if intermediary is eliminated. Substantial cost savings would arise only if Armenia were to enter railway tariff agreements with Azerbaijan.

Azerbaijan

Opening the road between Azerbaijan and Turkey via Armenia would reduce the transport cost between the two countries by ten percent. Trade is currently conducted via Georgia or Iran. Not all trade flows should be included in the calculations of potential transport savings. Twenty-nine percent of trade goods are delivered by sea and railway via Georgia rather than by road, since it is mainly general cargo, for which road transportation is not economical. Also, it is unrealistic to assume that transit through Georgia and Iran will cease completely. Therefore, we have applied a correction factor of 0.5 to cost economy estimates. The final estimates range from 0.5 to 1.2 million dollars for imports and from 0.2 to 0.6 million dollars for exports (based on 1999 data). Total savings are in the range of 0.7-1.8 million dollars, or 1-3 percent of the 1999 debit in freight services in the BOP.

Georgia

As mentioned above, Georgia is likely to lose a part of its transit traffic to/from Armenia if the Turkish border with Armenia opens. Mostly container traffic would be affected. Much of long-haul general cargo would probably continue to travel through Georgia by rail and sea, since the Turkish railways are not likely to be used for mass transit of goods due to their low technical capacities.

Using the data provided by the authorities of the port of Poti, we have estimated current container traffic between Armenia and the rest of the world through Georgia at 5,000 units per year. Interviewed forwarders have estimated that, if Turkish ports were used instead of Poti, the road portion of transportation would cost 25 percent less. At the current cost of \$1,400 per 20 foot container and \$1,800 per 40 foot, and the estimated 80 percent share of 20 foot containers, this amounts to a total potential savings of 1.9 million

dollars. If a quarter of the traffic still continued to use Poti, the estimate would stand at 1.4 million dollars. The resulting loss of transit revenues to Georgia would range between 5.6 and 7.4 million dollars, or 16-21 percent of the surplus in cargo services in the BOP.

4 Trade in Energy

4.1 Current Flows

Energy flows have immense importance in the region. Armenia and Georgia are the importers of petroleum and natural gas. The economies of these countries are very dependent on fuel imports. The disruption of fuel supplies in the early 1990s brought these economies to nearly total collapse. Armenia has large surplus electric power capacities. Azerbaijan has relatively large proven resources of oil and gas but is a net importer of power. (This happens not because of a lack of generating capacities but due to disruptions in the fuel supply to power stations caused by payment problem.)

The data are presented in Annex 1. It should be noted that all countries in the region export and import electric power on a swap basis in order to smoothen seasonal and peak differences.

The major energy flows in the region are as follows.

Armenia imports natural gas and nuclear fuel from Russia. Petroleum products are imported from a variety of destinations, including Iran, Georgia, East and West Europe, and, recently, Turkey. It exports electricity to Georgia and Iran.

Georgia imports natural gas from Russia, oil and petroleum products from Azerbaijan, Iran, and the Gulf states. Georgia exports electric power to Turkey, Azerbaijan, and a very small amount to Russia (it is, in fact, a net importer).

Azerbaijan imports electric power from Turkey, Iran, Georgia, and Russia. It exports oil and petroleum products to Russia, Turkey, Iran, Georgia, the Gulf states, and outside of the region, to the CIS, Europe, and other destinations. Azerbaijan exports electric power to Russia, Iran, Georgia, being a net importer of power.

4.2 Flows after Conflict Resolution

4.2.1 Electric Power

The greatest efficiency would be achieved if the South Caucasus countries and their neighbors operated as one system. This would economize particularly on generation capacity investments. It would also allow for more economic dispatch. For instance, Armenia sometimes spills water at its low-cost hydro stations, given the lack of export opportunities, in order to run its nuclear capacity at its minimum efficient level. While Armenia is doing that, Georgia might be running the high-cost thermal units at Gardabani.

There are a number of reasons why the systems are not integrated. One is straightforward: Armenia cannot trade electricity directly with Turkey or Azerbaijan for political reasons (even though Turkey has electricity shortages). Another is more complex: For technical reasons, Armenia and Georgia cannot safely operate in parallel with Russia and Iran unless Azerbaijan joins in. This requires a level of cooperation between Armenia and Azerbaijan that has not yet been achieved. Since Armenia operates in parallel with Iran, and Georgia with Russia, this restricts Armenian electricity trade with Georgia.

Armenia by far has the most excess generating capacities in the region. This capacity can be used if new markets for energy (especially Turkey) are opened. An increase in power exports of Georgia and Azerbaijan will be rather small. The excess annual average generating capacity of Armenia is conservatively estimated at 1,000 MW. That will allow exports of over 190 million dollars worth of energy at the average unit value for Armenian exports in 1999 of 2.8 cents per KWh.

Armenia's power export has a high import content (natural gas and nuclear fuel currently imported from Russia). The import content of the above additional power generation would stand at 100 million dollars a year. If the unit values of gas decrease by 25 percent (in the case of the substitution of Russian gas by Azerbaijani), the import content would go down to 80 million dollars. This number will go further down if the efficiency of generation increases due to better use of capacity.

The realization of the above export potential is dependent on investment needed to upgrade and replace the aging and neglected power generation capacities and distribution systems, including the proposed closure of the nuclear plant. According to the World Bank staff estimates, medium-term investment requirements in the sector amount to \$300 million.

4.2.2 Natural gas

Currently, Russia and Azerbaijan are the main gas suppliers in the region.

In the case of conflict resolution, Armenia may fully or partially substitute Russian natural gas with gas from Azerbaijan. Though the price of natural gas is difficult to predict due to the localized, and *ad hoc*, nature of the gas market (especially in the CIS), lower transport costs would probably result in a 25 percent savings,¹⁰ or about 25 million dollars a year. For Azerbaijan, this would mean 100 million dollars in extra exports. However, the existing infrastructure has not been used in almost ten years and the technical condition of the pipelines may call for investments, or even for new pipeline construction. Therefore, these savings look uncertain.

Longer-term prospects for Azerbaijani gas are related to the Turkish market. Turkey is the only reliable paying gas market in the region, and there is high competition for this market among regional producers. The gas markets in the CIS suffer from non-payment

¹⁰ According to the World Bank report *Trade Facilitation in the Caucasus*, 2000.

problems. Turkey has entered into an agreement to purchase 16 billion cubic meters delivered via the proposed Trans-Caspian pipeline that is likely to traverse Turkmenistan, the Caspian Sea, Azerbaijan, and Georgia.

There is much argument about the prospective gas pipeline routes, which will determine what countries will benefit from gas transit. The possible transport of Azerbaijani gas to Turkey requires multi-billion dollar investments and cannot bring any short-term effects.

4.2.3 Oil and petroleum products

The short-term effects of peace on crude oil transit will be trivial. The only existing pipeline runs through Georgia. Any new pipelines will require large investments and a long construction time. After much debate over the possible routes for transporting Caspian oil, in October 2000, Azerbaijan and a group of foreign sponsors (including companies from the UK, Norway, Turkey, Japan, and the U.S.) signed an agreement of financing oil pipeline from Baku to the Turkish Mediterranean port of Ceyhan. The 2.4 billion dollar pipeline with the annual capacity of 17 million tons of crude is expected to be completed in 2004. Nevertheless, the economic viability of the project is still to be evaluated. This pipeline would traverse Azerbaijan, Georgia, and Turkey.

Petroleum products are affected by closed borders in a qualitatively similar manner to general consumer goods and intermediates traded in the region. The price-raising effect comes from circuitous transport routes. However, there is an extra dimension of non-existing trade. The prime example would be the export of oil products from Azerbaijan to Armenia. The sale of Azerbaijani oil products to Armenia using the same terms as they used with other countries, would lead to a cost reduction of 25 percent,¹¹ or over 20 million dollars. These savings result from more than merely straitening supply routes to Armenia, meaning that Azerbaijani exports will probably replace those of other countries. However, Azerbaijan has production constraints on the volume of its petroleum exports and, in any case, would be able to export all it wants. Therefore, it cannot be stated that there is a potential for increasing Azerbaijani export volumes thanks to the opening of the Armenian fuel market.

5 Effects on the BOP

This chapter sums up the potential benefits of the trade normalization developed in the previous chapters.

The estimates (see Table 11) are on the conservative side and represent only a part of potential short-term benefits.

¹¹ Ibid.

Table 11. Selected potential effects of trade normalization in South Caucasus

(Million U.S. dollars)

	<i>Armenia</i>	<i>Azerbaijan</i>	<i>Georgia</i>
Transport savings	6.4-8.4	0.7-1.8	
Savings from using lower-cost energy	45		
Missing exports	268.9-342.4	103.2-104.6	
Including: gravity model	38.9-72.4	3.2-4.6	
natural resources/ energy	255-296	100	
Total effect	320.3-395.8	103.9 – 106.4	
Complementary imports	80-100		
Total effect minus complementary imports	220.3-315.8	103.9 – 106.4	
As percent of 1999 trade deficit	38-54	25 - 26	
Loss of transit revenues			7.4
As percent of 1999 trade deficit			1.4

Source: Author's calculations.

Armenia would annually save 6-8 million dollars on the transport costs of non-energy imports and 45 million dollars on switching the flows of natural gas and petroleum products to new sources. Though this reduction in transportation services would be shared between domestic and foreign providers, most of it would reduce current deficit, because foreign transport companies dominate the market and their services are shown as debit in the BOP.

The potential increase in exports would range from 269 to 342 million dollars a year, more than doubling total exports. At the same time, the complementary imports necessary to sustain this increase in exports would stand at around 100 million dollars. The resulting improvement in BOP would exceed 220 million dollars, or 38 percent of the current trade deficit.

The potential new export volume equal 15 - 19 percent of GDP. However, exports are likely to have a multiplier effect on GDP. Assuming a (modest) multiplier of 2.0¹², the increase in exports may lead to up to 30 - 38 percent of the GDP growth.

Impressive as it is, these estimates fall far short of the widespread expectations about potential economic performance in the case of trade liberalization in the region. On more than one occasion, the author has encountered local economists and officials projecting doubling GDP. Without profound (and protracted) economic restructuring, these expectations are hardly realistic.

Azerbaijan could increase its exports by 100 million dollars, or 11 percent of the current level, slashing the trade deficit by a quarter. As a result, GDP would increase up to five percent.

Georgia might face a reduction of transit through its territory. Nevertheless, it is unlikely to exceed a quarter of the freight service surplus in the BOP, or 1.5 percent of trade deficit. At the same time, the country would benefit from the effects of regional cooperation. The most obvious example would be the integration of the electric power systems that would bring about large efficiency gains.

6 North-South transit

This chapter takes up (the highly debated) issue of possible strategic changes in trade flows from the dominant East-West to include currently less important North-South direction of trade.

It is tempting to think that, when the countries in the region drastically increase their trade with the Gulf states, supported by the existing (but currently blocked) railway, the currently dominant East-West trade flows would be supplemented with the North-South flows. This new route might be also thought of as a transit path to Russia and Central Asia.

This scenario, however, has many potential problems making it very hard to firmly justify at this time. The Nakhichevan-Iran rail link, even when used during Soviet times, had a small cargo capacity. In the past decade, the unused infrastructure has fallen into disrepair and has been vandalized. Significant investments are now needed to restart even a modest regular service. To update this link sufficiently to handle higher cargo volumes, investments must increase manifold.

Another example of North-South route is the highway between Iran and Azerbaijan. It is currently used to link the Persian Gulf (Iranian port Bandar-Abbas) with the CIS railway system. Highway transport costs are low due to cheap fuel prices in Iran, and the reliability of service is good thanks to Iran's quality road grid and highly reputable

¹² For example, Richard Beilock ("Armenia's Economic Dead End". Working Paper of the University of Florida, 1999.) assumed exports-to-GDP multiplicator for Armenia at 3.0.

trucking companies. Nevertheless, there are no transit flows at present. Russia is better served by northern Black Sea ports and Central Asia -- by Poti and railway.

Nevertheless, if and when such a transit flow might emerge is an open question. Geography might suggest such a possibility in the future, but it must be supplemented by infrastructure development. There is interest in this issue among such countries as Russia, Iran, and India, which has recently signed a protocol on the development of the North-South transport corridor through the Caspian Sea. A land transport corridor might also draw some attention in the future. Another major transport initiative, TRACECA, aims at developing a East-West corridor through the Caucasus and the Caspian Sea to Asia. If it is successful, the developed infrastructure would greatly reduce the capital requirements for the North-South corridor.

7 Conclusions

Current situation

The South Caucasus countries have been maintaining high trade deficits. Their main exports are base commodities and energy. Tariff barriers to trade are modest. Non-tariff, unofficial barriers constitute more pronounced obstacles to trade.

Disrupted traditional transportation routes stifle the export and import capabilities of Armenia and Azerbaijan. At the same time, Georgia enjoys some benefits of higher-than-normal transit through its territory. Trade in some important commodities does not exist, including the export of gas from Azerbaijan to Armenia and of electricity from Armenia to Turkey.

Transit fees in Armenia and Georgia constitute a significant portion of transport tariffs thus further raising the costs of trade.

Trade blockades contribute to the elevated prices of energy in Armenia, which are double the Azerbaijani levels. High energy prices constitute an implicit tax on both production and consumption. Regional agricultural trade is very weak despite the differences in prices and endowments.

Nevertheless, trade restrictions have had a tendency to ease over time. Partners in the immediate trading neighborhood, in many cases, have found ways to resume trade, albeit at extra cost (i.e., Turkey-Armenia trade via Georgia, Armenia-Russia trade via Azerbaijan). Overseas flows have also established reliable routes. As a result, freight factor in Armenia, which provide a broad measure of the relative cost of transporting trade goods, has decreased.

Applying a gravity model to the regional trade, we concluded that the South Caucasus countries tend to trade sufficiently with the CIS countries and politically friendly neighbors and undertrade with the EU, the USA, and hostile neighbors. It may be explained by well established trade links and by weaker competition and lower quality requirements for goods in the CIS markets than in more sophisticated European and American markets.

Peace benefits

If the blockades are lifted, trade distortions will be alleviated, bringing about positive short-term welfare effects including: (i) more rational trade flows; (ii) resumption (or a major increase) of regional trade in some major commodities such as energy; and (iii) lower prices and/or higher profit margins on some important consumption and production goods.

Potential peace benefits are especially high for Armenia. First, Armenia could more than double its total exports if the Turkish and Azerbaijani markets are opened. This would erase almost a half of Armenia's dangerously high trade deficit and would lead to a 30 percent GDP growth in the short-run. Due to a high import content of its potential exports, Armenia would generate a strong demand for imports, offering trade opportunities for regional partners. Second, considerable savings would result from straightening transport routes and switching to closer supply sources. Armenia could save over 50 million dollars a year, which would more than erase the deficit in freight services in the BOP and relieve the pressure on its domestic prices, especially energy.

Azerbaijan could increase its exports by 100 million dollars, or 11 percent of the current level, reducing trade deficit by a quarter. As a result, GDP would increase up to five percent. It could also benefit from some transport savings arising from exports and imports.

Georgia might face a reduction of transit through its territory. Nevertheless, it is unlikely to exceed a quarter of the freight service surplus in the BOP, or 1.5 percent of trade deficit. At the same time, the country would benefit from the effects of regional cooperation.

Opening up the borders would bring positive systemic effects, especially in the energy sector. The regional electric power system would achieve the greatest efficiency if operated as one system.

A direct link between Armenian and Turkish road grids would improve availability, predictability, and reliability of shipping services for all Caucasus countries.

The prospects for a North-South transit corridor across the South Caucasus are of a longer-term nature and would require considerable investment, the economic efficiency of which is not clear at this time.

A political settlement *per se* would not bring about immediate and drastic changes in the overall economic performance in the South Caucasus, given the region's current poor business environment and its incomplete industrial restructuring. Widespread expectations to the contrary are hardly realistic. Too many overoptimistic projections of peace benefits circulate in the region.

Thus, each country could benefit greatly from the following:

- Improve the foreign trade international environment by better implementing the trade agreements among the CIS countries and concluding new agreements with other trade partners, especially Turkey and the EU;
- Open the Armenian-Turkish and Armenian-Azerbaijani borders for trade. WTO membership and the bid of Turkey and Armenia to join the EU could be used to facilitate the normalization of trade;
- Include Armenia in the Xerox/Baku railway tariff agreements. Improve the state regulation of railway firms to insure the effectiveness of international tariff agreements;
- Reduce transit fees on a reciprocal basis;
- Eliminate the unofficial extortion on the road (especially, in Georgia and Azerbaijan);
- Streamline and increase efficiency of the customs; reduce corruption in customs administration;
- Equalize import taxation for all flows¹³;
- Consider financial support for trade facilitation by international organizations, including the World Bank, contingent on the progress towards conflict resolution. Trade flow optimization will require investments even in the short-run, when only the existing infrastructure is used.

¹³ A example of discriminatory taxation of imports can be found in Armenia. The current rules exempt physical persons for VAT if the volume is under specified threshold while fully tax legal persons. The firms (legal persons) widely use this loophole to minimize VAT payments by hiring physical persons to import on their behalf.

Annexes

1 Main trade flows in South Caucasus

Armenia

Main Imports from Georgia, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Oils petroleum, bituminous, distillates, except crude	KG	27378399	4362433	0.2
Durum wheat	KG	20912090	3069947	0.1
Natural gas, liquefied	KG	2469755	986135	0.4
Wood sawn, chipped lengthwise, sliced or peeled	M3	3425	319235	93.2
Poultry, domestic, whole, fresh or chilled	KG	149688	143703	1.0
Containers, bobbins and packages, of plastics	KG	91684	142564	1.6
Coal, briquettes, ovoids etc, made from coal	KG	3000000	120017	0.0
Wheat or meslin flour	KG	314000	93935	0.3

Main Exports to Georgia, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Electricity	KWh	244348	7003071	28.7
Cement (Portland, alumnus, slag or hydraulic)	KG	30188	830198	27.5
Liqueur, spirits and undenatured ethyl alcohol <80%	l 100%	30694.3	480646	15.7
Cigars, cigarettes etc, tobacco or tobacco substitute	000 Units	19404.7	355049	18.3
Glass bottles, flasks, jars, phials, stoppers, etc	Units	1075460	69979	0.1
Beer made from malt	LITR	11808	3238	0.3
Aluminum foil of a thickness <0.2mm	KG	806.5	3170	3.9
Tomatoes, prepared or preserved, not in vinegar	KG	4044	2941	0.7

Main Imports from Russia, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value (\$)</i>	<i>Unit Value (\$)</i>
Natural gas, liquefied	Th.M3	1226497	7212398	58.8
Oils petroleum, bituminous, distillates, except crude	KG	2101616	3824851	0.2
Vinyl polymers in primary forms	KG	1520	3483057	2291.5
Motor vehicles for transport of persons (except buses)	Number	602	2341195	3889.0
Durum wheat	KG	4757630	767817	0.2
Cast and rolled glass, sheets and profiles	M2	192588.	569044	3.0
Railway or tramway sleepers (cross-ties) of wood	M3	1456	268453	184.4
Motor vehicles for the transport of goods	Number	63	259174	4113.9
Flour or meal of oil seed, fruit, except mustard, soy	KG	542128	140639	0.3
Rolled stainless steel sheet, width >600mm	KG	55203	131278	2.4
Polymer based paints, varnishes in non-aqueous medium	KG	87451.1	131083	1.5
Woven cotton fabric, >85% cotton, <200g/m2	M2	141584.	115990	0.8
Butter and other fats and oils derived from milk	KG	43000	77598	1.8
Aluminium foil of a thickness <0.2mm	KG	31300	77513	2.5
Milk and cream powder unsweetened <1.5% fat	KG	43325	69711	1.6
Sardine, brisling, sprat prepared/preserved, not minced	KG	63067.2	67042	1.1
Uncooked pasta, not stuffed or prepared, without eggs	KG	107194	55303	0.5
Sunflower-seed or safflower oil, crude	KG	68096	41257	0.6
Live poultry, domestic fowls, ducks, geese, etc.	Units	96000	30779	0.3

Main Imports from Russia, 1999 (Contd.)

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value (\$)</i>	<i>Unit Value (\$)</i>
Birds eggs, in shell, fresh, preserved or cooked	000 Units	458.64	21404	46.7
Margarine, edible animal or veg oil preparations nes	KG	16000	17600	1.1
Refined sugar, in solid form, nes, pure sucrose	KG	28400	8280	0.3
Synthetic organic coloring matter	KG	1000	8025	8.0

Main Exports to Russia, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value (\$)</i>	<i>Unit Value (\$)</i>
Liqueur, spirits and undenatured ethyl alcohol <80%	É100%	400586.24	6542691	16.3
Synthetic rubber	KG	3032070	5655385	1.9
Tobacco, tobacco substitute products nes	KG	1127338	2099342	1.9
Ferro-alloys	KG	92000	517710	5.6
Jewellery and parts, containing precious metal	KG	28.77	297825	10351.9
Synthetic organic colouring matter	KG	47410	156408	3.3
Mounted precious or semi-precious stones, not diamonds	KARAT	320660.25	154854	0.5
Aluminium foil of a thickness <0.2mm	KG	21543	103555	4.8
Unsweetened beverage waters, ice and snow	KG	276864	97912	0.4
Tomatoes nes, prepared or preserved, not in vinegar	KG	72000	68400	1.0
Worked monumental, building stone, articles thereof	KG	217707.9	54985	0.3
Beer made from malt	LITR	42276.3	24644	0.6
Apricots, fresh	KG	39015	23589	0.6
Uncooked pasta, not stuffed	KG	17000	6537	0.4

or prepared, without eggs
Refined sugar, in solid form, KG 4500 1342 0.3
nes, pure sucrose

Main Imports from Turkey, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Cigars, cigarettes etc, tobacco or tobacco substitute	000 units	491730	6289092	12.79
Oils petroleum, bituminous, distillates, except crude	KG	9201982	1564344	0.17
Polymer based paints, varnishes in non-aqueous medium	KG	882803.4	933554	1.06
Organic surface active agent, preparation, except soap	KG	631933	648405	1.03
Birds eggs, in shell, fresh, preserved or cooked	000 units	13296.24	638848	48.05
Live poultry, domestic fowls, ducks, geese, etc.	Units	120500	246769	2.05
Wheat or meslin flour	KG	1557900	467375	0.30
Sunflower-seed or safflower oil, crude	KG	389812.4	247106	0.63
Refined sugar, in solid form, nes, pure sucrose	KG	797200	207277	0.26
Particle board, similar board, wood, ligneous material	M3	813.58	199810	245.59
Margarine, edible animal or veg oil preparations nes	KG	137632	121104	0.88
Rice in the husk (paddy or rough)	KG	142780	71170	0.50
Tube or hollow profile, seamless iron/steel not cast	KG	103840	39144	0.38
Durum wheat	KG	1542.08	22644	14.68

Main Exports to Turkey, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Raw hides and skins of bovine, equine animals	KG	2092085	749973	0.36
Raw skins of sheep or lambs	Unit	65928	62603	0.95
Parts for electric motors and generators	KG	21060	38100	1.81
Aluminum waste or scrap	KG	21400	10272	0.48
Wood in the rough or roughly squared	M3	87.84	6979	79.45
Lathes for removing metal	Number	4	3500	875.00

Main Imports from Iran, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Electricity	KWH	377843	1143531	30.3
Palm oil and its fractions, not chemically modified	KG	4178478	3815943	0.9
Rice, husked (brown)	KG	6473735	3372091	0.5
Oils petroleum, bituminous, distillates, except crude	KG	5203838	2394174	0.5
Uncooked pasta, not stuffed or prepared, without eggs	KG	6668813	2297703	0.3
Bovine cuts boneless, frozen	KG	1949795	1970885	1.0
Butter and other fats and oils derived from milk	KG	917100	1377600	1.5
Sunflower or safflower oil, fractions simply refined	KG	1782096	1097696	0.6
Petroleum gases and other gaseous hydrocarbons	KG	2478981	990096	0.4
Soaps	KG	1594837	816505	0.5
Birds eggs, in shell, fresh, preserved or cooked	Th.Numbe r	15435.72	768707	49.8
Refined sugar, in solid form, nes, pure sucrose	KG	2421700	608377	0.3
Margarine, edible animal or veg oil preparations nes	KG	692026	597774	0.9
Tomatoes nes, prepared or preserved, not in vinegar	KG	719773.8	419337	0.6
Poultry, domestic, whole, fresh or chilled	KG	289310	361641	1.3
Particle board, similar board, wood, ligneous material	M3	1931.27	314647	162.9
Oils petroleum, bituminous, distillates, except crude	KG	126719.1	111604	0.9
Cement (Portland, aluminum, slag or hydraulic)	KG	334270	26034	0.1
Aluminum waste or scrap	KG	4000	3044	0.8

Main Exports to Iran, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Electricity	KWH	370061.4	1097915	29.7
Aluminum waste or scrap	KG	8601395	7317141	0.9
Copper ore	KG	1971857	2756860	0.1
Copper, copper alloy, waste or scrap	KG	1116035	1323779	1.2
Ferrous waste or scrap, ingots or iron or steel	KG	3837450	276260	0.1
Zinc ore	KG	500000	137900	0.3
Ferro-alloys	KG	162450	60849	0.4
Synthetic rubber	KG	50000	38400	0.8
Coloring matter nes, inorganic luminophores	KG	3035	6677	2.2
Oils petroleum, bituminous, distillates, except crude	KG	12700	6350	0.5

Azerbaijan

Main Imports from Georgia, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Electricity	143129.6	3529.2	0.02
Cement	25115.2	1102.2	0.04
Drilling ferrous pipes	1840.8	862.2	0.47
Mineral water- dkl	124	444.2	3.58

Main Exports to Georgia, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Electricity	89496.3	2141.9	0.02
Cotton oil	2065.8	828.1	0.40
Nuts and ...	927.8	861.1	0.93
Crude oil & oil products	242345.2	22259.9	0.09
Car petrol	128230.3	20406.3	0.16
Kerosene	63621.2	9128.2	0.14
Diesel	92007.1	9982.2	0.11

Main Imports from Russia, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Unit</i>	
		<i>Value</i>	<i>Value</i>
		<i>(\$)</i>	<i>(\$)</i>
Wheat-ton	302879.9	41484.0	0.14
Electricity – 000 KWh	864833.9	20881.1	0.02
Water pumps unit	8670	15227.7	1.76
Woods m3	315140.9	13567.1	0.04
Wheat flour-ton	77816.2	13361.3	0.17
Cars -new	2674	10242.7	3.83
Cement ton	214769.1	8498.6	0.04
Railway and tram equipment		6236	
Trucks- new	1301.0	5310.6	4.08
Mixtures -ton	1040	2559.0	2.46
Tiles tons	34669.7	1809.9	0.05
Wood tiles m3	19565.7	1710.2	0.09
All type electric engine unit	1088	1708.1	1.57
Buses(used) unit	317	1632.3	5.15
Beer - 000 dkl	197.6	1285.2	6.50
Wood tiles m2	2529719.5	1009.2	0.00
Lubricants	1436.1	946.1	0.66
Fuel oil	3042.4	105.3	0.03

Main Exports to Russia, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Unit</i>	
		<i>Value</i>	<i>Value</i>
		<i>(\$)</i>	<i>(\$)</i>
Electricity – 000 KWh	796913.8	23844.2	0.03
Tobacco -ton	16530.9	17306.5	1.05
Cotton(unprocessed) -ton	6083.5	4710.2	0.77
Cotton(processed) -ton	1093.3	953.0	0.87
Special petrol -ton	12467.5	1598.1	0.13
Car petrol	6484.8	1378.8	0.21
Diesel	10016.7	1587.2	0.16
Oil cocs	61124.3	3626.1	0.06
Nuts - ton	669.7	1376.2	2.05
Fresh fruits	16711.9	1262.7	0.08
Tea - ton	1381	1292.2	0.94

Main Imports from Turkey, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Unit</i>	
		<i>Value</i> <i>(\$)</i>	<i>Value</i> <i>(\$)</i>
Equipment for TV and radio transm.	132	10913.2	82.68
Electricity	285306.6	6973.9	0.02
Sugar	23441.5	5492.2	0.23
Ferrous constructions	1325.5	4661.6	3.52
Equipment for processing wheat		4213.1	
Wheat flour	16727.8	3512.6	0.21
Other refrigerators and freezers	345	3371.9	9.77
Aluminum constructions	437	3060.8	7.00
Package equipment	280	2887.4	10.31
Synthetics films- 000 m2	73552.9	2708.9	0.04
Margarine	4271.5	2543.2	0.60
Furniture and parts		2330.6	
Eggs-000 units	78439.1	2077.8	0.03
Plastic construction comm.		1978.8	
Synthetic detergents	3283.9	1851.7	0.56
Other sweets	6979.6	1515.4	0.22
Sunflower oil	3214.3	1444.3	0.45
Bread and bakeries	3185.1	1187.5	0.37
Paper products for housing		1178	
Ventilators	6091	1172.5	0.19
Cars	210	1094.8	5.21
Soap	1954	959	0.49
Water pumps	3118	921.5	0.30
Other conditioners	663	867.4	1.31
Doors-wood		867	
Cosmetics		822.5	
Tea	614.1	730.6	1.19
Pasta	1886.9	535	0.28
Cooling compressors	10483	512.6	0.05
Potatoes	5366.1	450	0.08
Juice	871.9	447.1	0.51
Garlic and onions	4957.7	318.8	0.06

Main Exports to Turkey, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Crude oil	81232.8	4305.3	0.05
Car petrol	15071.5	2831.4	0.19
Other light distillates	5633.2	939.3	0.17
Diesel	272413.1	35134.5	0.13
Polyethylene	15395.5	7405.1	0.48
Leather -ton	4235	894.1	0.21
Leather ship- 000 unit	380	342.8	0.90
Unprocessed cotton	1134.3	934.9	0.82
Processed cotton	2862.3	2363.9	0.83
Unprocessed aluminum	4784.4	2914.3	0.61

Main Imports from Iran, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Value</i> <i>(\$)</i>	<i>Unit</i> <i>Value</i> <i>(\$)</i>
Electricity	342951.7	13541.5	0.04
Cement	103687.2	4498.3	0.04
Pasta products	11334.7	2531.7	0.22
Potatoes	25428.9	2284	0.09
Equipment for bakeries -unit	13	1982.1	152.47
Ice cream	1187.1	1346.5	1.13
Bread and products	2672.6	1057.4	0.40
Eggs – 000 units	21512.1	911.3	0.04
Mandarin	3332.8	846.1	0.25
Tiles for floor and walls, decorative - 000 m2	227.5	797.1	3.50
Cabbage	5921.7	658.4	0.11
Footwear - 000 pairs	4914	587.9	0.12
Soap	1477.6	551.1	0.37
Detergents	1113.8	547.4	0.49
Tomatoes canned	1591.5	532.7	0.33
Apple	2788.4	516.3	0.19
Furniture		496.8	

Main Exports to Iran, 1999

<i>Commodity</i>	<i>Quantity</i>	<i>Value (\$)</i>	<i>Unit Value (\$)</i>
Diesel	134964.7	11301.5	0.08
Ferrous scrap	9175.5	474	0.05
Unprocessed aluminum	6683.8	4201.9	0.63
Aluminum scrap	1843.7	1079.2	0.59
Diskettes		2515.1	

Turkey

Main Imports from Azerbaijan, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value (\$)</i>	<i>Unit Value (\$)</i>
Other cotton- not clothed (T154)	KG	14,129,106	17,237,774	1.22
Low density polyethylene-specific weight<0.94(in first phases)	KG	12,739,090	7,006,744	0.55
Diesel oil-used for other purposes, %0.05<Sulphur ratio =<%0.2	KG	32,538,577	4,187,583	0.13
Aluminum-base alloys in ingot or liquid phase	KG	2,235,270	2,058,155	0.92
Ox and cow skins-fresh or wet-salted, whole, raw	KG	2,250,850	2,016,909	0.90
Water buffalo and young buffalo calf skins-fresh or wet-salted, whole, raw	KG	3,478,450	1,941,267	0.56
Sheep skins with wool-raw	Unit	1,001,116	1,701,556	1.70
Ethyl alcohol-alcohol degree =>%80, get from agricultural products, not modified	LT	19,005,000	996,638	0.05
Long filaments cotton- not clothed (T154)	KG	278,950	560,563	2.01

Main Exports to Azerbaijan, 1999

<i>Commodity</i>	<i>Unit Value</i> (\$)
Sugar (cane, beet sugar) chemically pure saccharine	29,909
Electric current	14,265
Margarine, animal, vegetable eaten fat mixtures, chemicals	13,909
Wheat flour, wheat flour mixed with rye	10,235
Apparel and clothing, knitted	9,835
Bird and poultry eggs- with skin	6,819
Glass for table, kitchen, toilet, house parts etc	6,613
Electrical equipment for telephone-telegraph with wire	4,876
Other food products containing chocolate and cacao	4,856
Metal-base equipment, apparatus and such goods	4,672
Construction and its parts made from iron-steel	4,533
Knitted apparel and clothing, not knitted	4,244
Machines and equipment for cleaning, separating, grinding, processing seeds	4,155
Carpets, floor coverings with special operation	3,703
Polymer-based, melting in environment without water, dispersing paint, varnish	3,526
Sugar products (including white chocolate), without chocolate	3,439
Glazed ceramic flooring, paving stones, fireplace,	3,156

square cement floor tile	
Soaps, surface active organic materials	3,133
Washing, cleaning chemicals-excluding soaps	3,034
Bread, pastry, cake, biscuits etc baker products, wafer, capsule	2,677
Ferments, micro- organisms, baking powder	2,570
Other furniture, their parts	2,549
Poultry meat and edible meat offal	2,464

Main Imports from Georgia, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value</i> (<i>\$</i>)	<i>Unit Value</i> (<i>\$</i>)
Aluminum scraps	KG	16,920,788	10,262,084	0.61
Others			9,960,832	
Beech(Phages SPP.)- Spherical	M3	72,414	8,470,619	116.97
Electric current	KWh	239,133,400	8,250,100	0.03
Other remnants and scraps-unclassified	KG	92,174,430	7,991,835	0.09
Sunflower seeds-broken or not broken-other	KG	26,642,950	6,896,069	0.26
Rolled steel coil sheet (w/ carbon) <%0.25 (size)	KG	40,951,073	6,625,314	0.16
Cathodes and cathode parts-from electrolytic copper	KG	4,027,467	6,512,697	1.62
Beech(Phages SPP.)- other	M3	27,487	3,728,344	135.64
Ferro-silicon-magnesium alloy	KG	7,088,794	3,338,006	0.47
Remnants and scraps of copper-refined copper	KG	1,735,330	1,882,586	1.08
Remnants and scraps of copper- copper-zinc based	KG	3,112,665	1,748,077	0.56
Other machines for splitting and grinding	KG	305,183	1,351,500	4.43
Light oils(except crude oil)-done a special operation	KG	5,564,464	1,255,622	0.23
Rolled steel coil sheet (w/ carbon) <%0.25 (size)	KG	6,098,298	843,051	0.14
Ammonium nitrate-Other	KG	3,728,900	394,530	0.11
Last distillation point 270 OC, light petroleum product ratio =<%37	KG	0	0	
Fuel oils-% 1<Sulphur ratio =<%2-Other	KG	0	0	

Main Exports to Georgia, 1999

<i>Commodity</i>	<i>Unit</i>	<i>Quantity</i>	<i>Value (\$)</i>	<i>Unit Value (\$)</i>
Crystal sugar-not containing added flavor or color giving substance	KG	97,724,576	22,355,321	0.23
Suitable for bread and hot spring(red) wheat flour	KG	40,896,560	7,838,172	0.19
Chicken eggs-not for propagating, not for broody hen	Unit	132,053,619	5,771,843	
Margarine(except liquid margarine)-other	KG	4,511,765	3,853,932	0.85
Washing chemicals not containing soap-retail	KG	2,774,346	2,988,304	1.08
Baby linens and similar hygienic goods-others	KG	737,674	2,214,313	3.00
Other synthetic paints	KG	1,551,769	1,963,868	1.27
Other chocolate and chocolate products-filled	KG	1,011,101	1,642,790	1.62
Baker ferment-dry, live	KG	733,694	1,502,882	2.05
Parts of puching or test bore machines	KG	166,000	1,494,035	9.00
Other chewing gum-saccharine ratio<% 60, sugar covered/uncovered	KG	880,460	1,493,059	1.70
Other pralines-whether filled or not	KG	707,696	1,266,066	1.79
Machines and equipment used for grinding and processing cereals	KG	352,654	1,209,490	3.43
Sunflower seed fat-not use for other technical/industrial purposes	KG	1,348,983	1,045,359	0.77
Chicken eggs-not for propagating, for broody hen	Unit	17,430,159	1,015,387	0.06
Sunflower seed fat-packed<=1KG	KG	806,490	600,085	0.74
Demijohns, bottles, flasks etc goods-volume>2LT	KG	166,706	261,540	1.57
Other washing and cleaning chemicals-other	KG	151,100	151,197	1.00

2 Trade regime

2.1 Armenia

Tariff Regulations

According to the regulations on customs duties:

- The rates of export duties for the goods are 0 %;
- The rates of import duties for the goods are 10 % and 0 % (Table 2.1.1);
- There are no duties for the export of goods by physical persons;
- Duty-free import of goods by physical persons is allowed for the goods worth up to US \$500.00, including:
 - Divisible, similar goods with total weight equal up to 50 kg;
 - Goods under HS codes 0901 and 2101 - 1 kg;
 - Goods under HS code 22 – two liters or one bottle, if the volume of bottle is more than two liters;
 - Goods under HS code 2402 - 400 pieces;
 - Goods under HS code 1604 30 - 0.2 kg.
- Customs duties for the part exceeding the cost or quantity of goods imported by individuals mentioned above are collected according to the rates indicated in the Table 2.1.1.
- Same person has a right for a duty-free import of goods mentioned above not more than twice during one calendar month.
- No import customs duties are collected from:
 - Fixed assets, stipulated by authorized capital of joint-stock or foreign company and imported by a foreign partner;
 - The goods, which are transported across the territory of RA (transit);
 - Transport in compliance with the legal procedure of the international transportation of goods, luggage and passengers, as well as the equipment and fuel for the transportation, and the food products for the passengers;
 - Currency and securities;
 - The goods imported in RA as a humanitarian aid or within a charity;
 - The goods, which are temporarily imported in RA and exported from RA for the purpose of processing or reprocessing, as well as the goods for non-trade exhibitions, shows and other similar activities; specialized equipment used in mass media, television, cinematography, science, education, culture, and public health; samples and packaging; goods for science, education, and culture; advertising materials; animals.
 - In other cases, which are stipulated by international agreements.
- There are import excise taxes only for 11 denominations of goods (Table 2.2.2). Therewith, for some imported goods, which are subject to excise taxation, the rate of excise tax should not be less than: for the goods indicated under HS Code 2203 - less than amount equivalent to US\$ 0.35 per liter; for the goods indicated under HS Codes 2204, 2205, 2206 for each liter of 100% spirits – less than amount equivalent to US\$ 0.5 per liter; for the goods indicated under HS Code 2207 for each liter of 100% spirits - less than amount equivalent to US\$1.2 per liter; for the goods indicated under HS Code 2208 for each liter of 100% spirits less than amount equivalent to US\$ 3.75 per liter; for the goods indicated under HS Code 2710 0690 - less than amount equivalent to US\$ 15 per ton.

- For the petroleum imported in the Republic of Armenia there is a fixed payable amount equivalent to US\$ 120.00 per ton. Within this fixed amount, the value of VAT will be equal to 43.55%, and the value of excise tax will be equal to 56.45%.

Regulation for calculation and collection of the single fixed value payable for imported tobacco products, including value-added tax, excise tax, and customs duty:

HS Code	Product Name	Fixed Value for 1000 PCs. (In USD equivalent to AMD)
2402 10 001	Cigars	5000
2402 10 009	Cigarillos	60
2402 20 900	Cigarettes with filter	15
2402 20 910	Cigarettes without filter	6.0

Collection of Customs Fee

- A customs fee for customs registration is collected at the following rates:
 - For customs registration (with the exception of those for freight traffic) of goods and other articles transported across the customs border of RA, as well as of money and currency transferred by banks, the customs fee equal to AMD 3500 is collected.
 - For freight traffic the following customs fee is collected:
 - for the customs inspection of goods by weight equal up to one ton – AMD 1000;
 - for each additional (either incomplete) ton exceeding one ton – AMD 300.
 - For giving the documents (forms) the customs fee equal to AMD 1000 is collected by customs bodies.
 - For the customs inspection of transport the following customs fee is collected:
 - for passenger cars with up to 10 seats - AMD 2000;
 - for other means of transportation - AMD 5000.
- Customs fee is not to be collected from:
 - the goods imported into the customs territory of RA within humanitarian aid or a charity. In this case, if it is not clearly indicated in Legislation (including international agreements), the definition of program is to be stated by authorized body for coordination of humanitarian aid of the RA Government;
 - personal goods transported across the customs border of RA by individuals (with the exception of private entrepreneurs) according to the Legislation with the exception of personal transport;
 - goods imported by physical persons (with the exception of private entrepreneurs) in quantity, which is not more than it is stipulated in the Article 6 of the RA Rule "On Customs Duties";
 - cultural values, which are temporarily exported and then imported in compliance with the legal regulations;
 - transport, which perform legal international transportation in the time of such transportation.

Ecological Charges

According to the regulations on ecological charges, an ecological charge is to be collected for waste of harmful materials into the air space from the entering the RA territory transports, which are registered in foreign countries, as well as for the goods imported in RA, which are harmful for the environment.

Ecological charge for waste of harmful materials into the air space from the transports, which are registered in foreign countries, is not collected from diplomatic missions, carriers of goods within humanitarian aid or a charity, and the Armed Forces of the Russian Federation.

A charge is also collected for the following goods:

HS CODE	DENOMINATION OF GOODS	RATE (%) FROM CUSTOMS VALUE
6811	asbestos slate, asbestos heat-insulating devices (shields)	1
681310	automotive brakes	1
78	lead-containing articles	1
3208	dyes	1
853931	luminescent lamps	1
28439010	amalgams (mercury)	1
3215	printing materials	1
320611, 320619	zinc oxide (white)	1
2710 00 260, 2710 00 270, 2710 00 290, 2710 00 320, 2710 00 340, 2710 00 360	gasoline	44, but not more than for 1 ton in AMD equivalent to USD 85
2709, 2710, 2713, 2714	petroleum, petroleum products, fuels, lubricants, fuel oil	2
3823	mineral oils	0.5
831110	electrodes (welding)	0.5
29029010	naphthalene (solid)	0.5
850710	automotive batteries (lead, lithium),	0.5
85071010	batteries for civil aviation	0
8504 with the exception of 850440, 850450, 850490	transformers	0.5
8532 with the exception of 853290	condensers	0.5
401110, 401120, 40121030, 40121050, 40121090	tires	0.25
3701, 3702, 3704, 3705, 3706	film	0.25
7019	glass fiber	0.25

HS CODE	DENOMINATION OF GOODS	RATE (%) FROM CUSTOMS VALUE
7309, 7310, 7311, 7611, 7612, 7613, 8609	empty packaging (containers, tank trucks, tanks)	0.25
3402	detergents (cleaning agents)	0.15
330720, 3307, 8418	freon-containing devices and goods (refrigerators, deodorants)	0.15
3923, 392510	plastic and polyethylene packages and packs	0.15

Goods in transit are relieved from ecological charges.

Non-Tariff Regulations: Quotas and Licenses

Licensing for the exports and imports of goods is regulated by the resolution of Government of Republic of Armenia.

The import of “Pharmaceuticals 13.02, 29.38, 29.41, 30.03, 30.04”, as well as the export of “Pharmaceuticals 05.10, 12.11, 13.02, 29.38, 29.41, 30” are licensed by the Ministry of Public Health of the Republic of Armenia.

The import of “Chemicals for plant preservation 38.08” is licensed by the Ministry of Agriculture and Food of the Republic of Armenia.

The export of wild animals and plants defined in Red Book licensed by the Ministry of Environment and Mineral Resources of the Republic of Armenia.

The export of textile and textile products licensed by the Ministry of Finance and Economy of the Republic of Armenia. HS code 500100000-521225900.

Re-export

The licensing of re-export of the goods originating in Armenia to third countries is performed by the Ministry of Industry and Trade.

Re-export of goods originated in CIS countries are performed only with license given by conforming authorized institution.

The re-export of goods originated from other countries is not subject to licensing.

Other limitations

The Government of Republic of Armenia has defined the list of prohibited goods for the import and export, as well as transit via Republic of Armenia (see attachment).

For exportation of certain kinds of special machinery and equipment it is required to have the clearance of the Ministry of Defense of RA.

Certificate of Compliance

By the Resolution No. 15 of the Government from January 16 of 1998 there was defined the list of goods and services which in Republic of Armenia obligatory require certificate of compliance to safety during importation (see attachment).

The importation to RA Customs area of the goods, that require obligatory certification, for free rotation is allowed only if they comply with the requirements of obligatory certification stated in RA.

To get Customs registration for importation by Customs Regime of goods, that require obligatory certification of RA, together with other necessary documents, conformity certificate or sign issued by Armstatestandard or his agent can also serve as a basis.

Enterprises and entrepreneurs, citizens of RA or other countries can import goods that require obligatory certification without certificate of compliance only if their quantity does not exceed the amounts given in attachment 6.

The goods imported to RA which are supposed to serve for official use of international organizations, ambassadorial and consulate missions of other countries situated in RA and for personal use of their staff and staff families are not subject to the obligatory certification.

For the export of "color and black metals - 74.01, 74.14, 75, 76.01-76.14, 78-80, 81.01-81.13, 26.03-26.13" certificate of conformity is required, which is given by RA certificate body.

Currency Regulations

Individuals have a right to import currency without limitation in the case of presenting customs declaration according to defined regulations.

According to the Resolution No.143 of the RA Government, individuals have a right to export without any document from Republic of Armenia an amount of currency equal to US\$ 10000 (or in other equivalent currency) in bank documents, treasury notes and coins. An amount exceeding US\$10000 must be transferred by bank service.

Table 2.2.1

RATES OF CUSTOM TARIFFS IN THE REPUBLIC OF ARMENIA

HS code	Description	Im-ports	Ex-ports
01	Live animals	0	0
02	Meat and edible meat offal	10	0
03	Fish, crustaceans & aquatic invertebrates	10	0
0301	Fish, live	0	0
04	Dairy produce; birds eggs; natural honey; edible products of animal origin, nesoi	10	0
05	Products of animal origin, nesoi	10	0
06	Live trees, plants; bulbs, roots; cut flowers & ornamental foliage	10	0
07	Edible vegetables & certain roots & Tubers	10	0
0701 10 000	Potatoes seed	0	0
08	Edible fruit & nuts; citrus fruit or melon peel	10	0
09	Coffee, tea, mate & spices	10	0
10	Cereals	0	0
11	Milling products; malt; starch; inulin; wheat gluten	10	0
12	Oil seeds & oleaginous fruits; miscellaneous grains, seeds & fruit; industrial or medicinal plants; straw & fodder	0	0
1206 00	Sunflower seed, whether or not broken	10	0
13	Lac; gums, resins & other vegetable sap & extracts	0	0
1302	Vegetable saps & extracts; pectates; agar-agar; mucilage & thickeners	10	0
14	Vegetable plaiting materials & other vegetable products	0	0
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	10	0
16	Edible preparations of meat, fish, crustaceans, mollusks or other aquatic invertebrates	10	0
17	Sugars and sugar confectionery	10	0
18	Cocoa and cocoa preparations	10	0
19	Preparations of cereals, flour, starch or milk; bakers wares	0	0
1902	Pasta, whether or not cooked or stuffed (with eat or other substances) spaghetti, macaroni, noodles, lasagna, gnocchi, ravioli, cannelloni, couscous	10	0
1904	Foods prepared by swelling, roasting cereals or cereal products; cereals other than corn/maize Cornflakes	10	0
1905 30	Cookies (sweet biscuits), waffles and wafers	10	0
20	Preparations of vegetables, fruit, nuts or other plant parts	10	0
21	Miscellaneous edible preparations	10	0
2102	Yeast, baking powder, other dead single-cell microorganisms	0	0
22	Beverages, spirits and vinegar	10	0

HS code	Description	Im-ports	Ex-ports
23 2309 10	Food industry residues & waste; prepared animal feed Dog and cat food, put up for retail sale	0 10	0 0
24 2402	Tobacco and manufactured tobacco substitutes substitutes Cigars, cigarettes, cheroots, cigarillos of tobacco or substitutes	0 10	0 0
25 2501 00 910	Salt; sulfur; earth & stone; lime & cement plaster Salt, table	0 10	0 0
2515	Marble, travertine & other calcareous monumental or building stone of specific gravity of 2.5 or more; alabaster	10	0
2516	Granite, porphyry, basalt, sandstone & other monumental or building stone, crude or cut etc.	10	0
2518	Dolomite, calcimined or not, roughly trimmed etc.	10	0
2523	Cements Portland, alumnus, slag, supersulfate & similar hydraulic cements	10	0
26	Ores, slag and ash	0	0
27	Mineral fuels, mineral oils & products of their distillation; bitumen substances; mineral wax	0	0
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	0	0
29	Organic chemicals	0	0
30	Pharmaceutical products human or animal substances for therapeutic or prophylactic use	0	0
31	Fertilizers	0	0
32	Tanning or dyeing extracts; tannins & derivatives; dyes, pigments & coloring matter; paint & varnish; putty & other mastics; inks derivatives etc	0	0
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	0	0
34	Soap; waxes; polish; candles; modeling pastes; dental preparations with basis of plaster	0	0
35	Albuminoidal substances; modified starch; glues; enzymes	0	0
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	0	0
37	Photographic or cinematography goods	0	0
38	Miscellaneous chemical products	0	0
39 3917 391710	Plastics and articles thereof Tubes, pipes & hoses & their fittings of plastics joints, elbows, flanges, artificial guts, sausage casings Art guts, sausage casing, harden protein/cellulose	0 10 0	0 0 0

HS code	Description	Im-ports	Ex-ports
3917 21 100	Tubes, pipes & hoses, rigid, of polymers of ethylene for aircraft	0	0
3917 21 910	Plastic tubes, pipes & hoses, rigid, of polymers of ethylene for aircraft	0	0
3917 23 100	Plastic tubes, pipes & hoses, of polymer of vinyl chloride	0	0
3917 23 910	Plastic tubes, pipes & hoses, of polymer of vinyl chloride for aircraft	0	0
3917 29 910	Tubes, pipes & hoses, rigid, of plastic nesoi for aircraft	0	0
3917 31 100	Flexible tubes, pipes & hose, min burst press 2>.6mpa for aircraft	0	0
3917 33 100	Tubes, pipes & hoses, not rigid, not reinforced, with fit, of plastics, for aircraft	0	0
3917 39 910	Tubes, pipes & hoses, of plastics, nesoi, for aircraft	0	0
3917 40 100	Fittings for tubes, pipes & hoses, of plastic, for aircraft	0	0
3922	Baths, washbasins, lavatory pans, seats & covers, cisterns, similar sanitary ware of plastics	10	0
3923	Articles of plastic for the conveyance or packing of goods or closures stoppers, lids, caps, closures, plastic containers, boxes, crates, cases, bottles	10	0
3924	Tableware, kitchenware, toilet & other household articles of plastics	10	0
3925	Builders' ware of plastics, nesoi, reservoirs, tanks, doors, windows, frames, shutters, blinds	10	0
3926	Other articles of plastics nesoi office & school supplies, gloves, aprons, handles, knobs, ornamentals, buckets, pacifiers, nursing items, parts for boats & yachts, beads, gaskets, seals, belting, mattresses, fasteners	10	0
3926 90 100	Other articles of plastics, nesoi, for aircraft	0	0
40	Rubber and articles thereof, <i>including:</i>	0	0
4011 10 000	Tires of rubber for mot cars	10	0
4012 10 300	Retried tires of rubber for mot cars	10	0
4012 10 500	Retried tires of rubber for buses & trucks	10	0
4012 20 900	Used tires of rubber	10	0
4013 10 100	Inner tubes of rubber for mot cars	10	0
4015 19 100	Gloves, except surgical etc	10	0
4015 19 900	Other Gloves	10	0
4015 90 000	Article of apparel	10	0
4016 91 000	Floor covering & mat, vulcanize rub, exc. hard rub	10	0
4016 92 000	Erasers, of vulcanized rubber, exc. hard rubber	10	0
41	Raw hides and skins (other than fur skins) and leather	0	0

HS code	Description	Im-ports	Ex-ports
42	Leather articles; saddlery and harness; travel goods, handbags & similar; articles of animal gut (not silkworm gut)	10	0
43	Fur skins and artificial fur; manufactures thereof	0	0
4303	Articles of apparel, clothing accessories & other articles of fur skin	10	0
44	Wood and articles of wood; wood charcoal	0	0
45	Cork and articles of cork	0	0
46	Manufactures of straw, esparto or other plaiting materials; basketwork & wickerwork	10	0
47	Pulp of wood or of other fibrous cellulose material; waste & scrap of paper & paperboard	0	0
48	Paper & paperboard & articles thereof; paper pulp articles	0	0
4818	Toilet paper, handkerchiefs, tissues, towels, napkins, tablecloths, diapers, tampons, bed sheets, etc.	10	0
4819	Cartons, boxes, cases, bags, other packing containers, of paper, paperboard, cellulose wadding, webs; office box files, letter trays of paper, etc.	10	0
49	Printed books, newspapers, pictures and other products of printing industry; manuscripts, typescripts and plans	0	0
50	Silk, including yarns and woven fabric thereof	10	0
5002	Raw silk (not thrown)	0	0
5004	Silk yarn, not spun from waste, not retail packed	0	0
5005	Yarn spun from silk waste not put up retail sale	0	0
51	Wool & animal hair, including yarn & woven fabric	0	0
52	Cotton, including yarn and woven fabric thereof	0	0
53	Other vegetable textile fibers; paper yarn and woven fabrics of paper yarn	0	0
54	Manmade filaments, including yarns & woven fabrics	0	0
5407	Woven fabrics of synthetic filament yarn	10	0
5408	Woven fabrics of artificial filament yarn	10	0
55	Manmade staple fibers, including yarns & woven fabrics	0	0
5503	Synthetic staple fibers, not carded, combed or processed for spinning thereof	10	0
56	Wadding, felt and non-woven; special yarns; twine, cordage, ropes and cables and articles thereof	0	0
57	Carpets and other textile floor coverings	10	0
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	10	0
5801	Woven pile fabrics & chenille fabrics (not 5802,5806)	0	0
5802	Woven terry fabrics & toweling (not narrow of 5806); tufted textile fabric (not 5703)	0	0
5803	Gauze (other than narrow fabrics of 5806)	0	0

HS code	Description	Im-ports	Ex-ports
59	Impregnated, coated, covered or laminated textile fabrics; textile articles for industrial use	0	0
5904	Linoleum; floor cover with coating, covering on a textile backing	10	0
60	Knitted or crocheted fabrics	0	0
61	Apparel articles and accessories, knitted or crocheted	10	0
62	Apparel articles and accessories, not knitted or crocheted	10	0
63	Other textile articles; needlecraft sets; worn clothing and worn textile articles; rags	10	0
64	Footwear, gaiters and the like and parts thereof	10	0
6406	Parts of footwear; insoles, heel cushions; gaiters, leggings and similar	0	0
65	Headgear and parts thereof	10	0
66	Umbrellas, walking-sticks, seat-sticks, riding-crops, whips, and parts thereof	10	0
67	Prepared feathers, down and articles thereof; artificial flowers; articles of human hair	10	0
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	10	0
6812 90 100	Articles of asbestos fibers etc nesoi, for aircraft	0	0
6813 10 100	Brake linings a pads, asbestos, other minerals, celuls	0	0
6813 90 100	Other friction material, asbestos, other minerals, celluls, for aircraft	0	0
69	Ceramic products	10	0
70	Glass and glassware	0	0
7004	Drawn & blown glass, in sheets, whether or not having an absorbent or reflective layer, but not otherwise worked	10	0
7005	Float glass & surface ground or polished glass in sheets, whether or not having an absorbent or reflective layer, but not otherwise worked	10	0
7009	Glass mirrors, framed or not, including rear-view mirrors	10	0
7013	Glassware for table, kitchen, toilet, office, indoor decoration (not 7010,7018)	10	0
7016	Glass paving blocks, slabs, bricks, squares, tiles, other pressed or molded; glass cubes & small wares; leaded glass windows; multicellular or foam glass in blocks, panels, plates, shells, etc	10	0
7018	Glass beads, imitation pearls/precious stones/semiprecious and similar (not imitation jewelry); glass eyes, statuettes, other lam worked glass; glass	10	0

HS code	Description	Im-ports	Ex-ports
71	Natural or cultured pearls, precious or semiprecious stones, precious metals and metals clad therewith and articles thereof; imitation jewelry; coin	0	0
7101	Pearls, natural or cultured, not strung, mounted or set; ungraded pearls, natural or cultured (strung for transport)	10	0
7113	Articles of jewelry & parts of precious metal or of metal clad with precious metal	10	0
7114	Articles of goldsmiths'/silversmiths' wares and parts of precious metal or of metal clad with	10	0
7115	Other articles of precious metal or of metal clad with precious metal	10	0
7117	Imitation jewelry	10	0
7118	Coin	10	0
72	Iron and steel	0	0
73	Articles of iron or steel	0	0
7323	Household articles & parts thereof, of iron or steel iron or steel wool, teakettles, cooking ware, kitchen ware, tin late, loves	10	0
74	Copper and articles thereof	0	0
75	Nickel and articles thereof	0	0
76	Aluminum and articles thereof	0	0
7615	Aluminum table, kitchen & household articles K parts thereof pot scourers, polishing pads, gloves	10	0
7616	Other articles of aluminum (not 8305) nails, tacks, staples, screws, bolts, nuts, rivets, cotter pins, washers	10	0
78	Lead and articles thereof	0	0
79	Zinc and articles thereof	0	0
80	Tin and articles thereof	0	0
81	Other base metals; cermets; articles thereof	0	0
82	Tools, implements, cutlery, spoons & forks of base metal & parts thereof	0	0
8215	Tableware & kitchenware and base metal parts thereof spoons, forks, ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar tongs	10	0
83	Miscellaneous articles of base metal	0	0
8303	Safes, strong boxes and doors, cash or deed boxes, etc and parts thereof, of base metal	10	0
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0	0
8415	Air conditioning machines with fan K element to change temperature and humidity; parts thereof	10	0

HS code	Description	Im-ports	Ex-ports
8415 81 100	Air conditioning mach etc incl refrig unit etc for aircraft	0	0

HS code	Description	Im-ports	Ex-ports
8415 83 100	Air conditioning machines etc not incl refrig unit for aircraft	0	0
8415 90 100	Parts, nesoi, of air conditioning machines of 841581, 841582 and 841583 for aircraft	0	0
8418	Refrigerators, freezers etc; heat pumps (not 8415); parts thereof	10	0
8418 10 100	Combined refrigerator-freezers w separate doors for aircraft	0	0
8418 30 100	Freezers, chest type, capacity not exc 800 liters for aircraft	0	0
8418 40 100	Freezers, upright, capacity not exc 900 liters for aircraft	0	0
8418 61 100	Compres type heat pump unit w heat ex nesoi for aircraft	0	0
8418 69 100	Refrigerating/freezing equipment, nesoi for aircraft	0	0
8450 11	Washing mach automatic w dry line cap not ov 10kg	10	0
8450 12	Wash mac with blt-in cent dry, cap not exc 10 kg	10	0
8450 19	Wash mach, capacity not exc 10 kg, household, nesoi	10	0
8472	Duplicating machines	10	0
85	Electric machinery, equipment and parts; sound equipment; television equipment, <i>including:</i>	10	0
8501	Electric motors and generators (no generating sets)	0	0
8502	Electric generating sets and rotary converters	0	0
8503	Parts for. electric motors, generators(including sets), rotary converters	0	0
8504	Electric transformers, static converters & inductors; parts thereof rectifiers	0	0
8505	Electromagnets; permanent magnets, articles to become permanent magnets; magnet chucks, clamps, couplings, clutches, brakes, electromagnetic lifting heads; parts thereof	0	0
8507 40 100	Nickel-iron storage batteries for aircraft	0	0
8507 80 100	Storage batteries nesoi for aircraft	0	0
8507 90 100	Pts elect storage batteries inc separators thereof for aircraft	0	0
8508	Electromechanical tools for working in hand with self-contained electric motor; parts thereof drills, saws, grinders, polishers, sanders, screwdrivers	0	0
8511	Electrical ignition/starting equipment; generators and cut-outs; parts thereof ignition magnetos, magneto-dynamos, ignition coils, spark plugs, glow plugs, starter motors, dynamos, alternators	0	0
8515	Electric, laser or other light or photon beam, ultrasonic, electron beam, magnetic pulse or plasma arc soldering, brazing or welding machines; electric machines for hot spraying of metals or sintered metal carbides; parts thereof	0	0
8516 21	Electric storage heating radiators	0	0
8516 29	Electric space heating apparatus, nesoi	0	0
8516 80 100	Electric heating resistors for aircraft	0	0

HS code	Description	Im-ports	Ex-ports
8518 10 100	Microphones and stands therefor for aircraft	0	0
8518 21 100	Single loudspeakers, mounted in their enclosures for aircraft	0	0
8518 22 100	Multiple loudspeakers, mounted in same enclosure for aircraft	0	0
8518 29 100	Loudspeakers, nesoi for aircraft	0	0
8518 30 100	Head-ear-phones & combined microphone/speaker sets for aircraft	0	0
8518 40 100	Audio-frequency electric amplifiers for aircraft	0	0
8518 50 100	Electric sound amplifier sets for aircraft	0	0
8520 90 100	Magnetic sound recording or reproducing eq nesoi for aircraft	0	0
8521 10 100	Video recording or reproducing apparatus mgtc tape for aircraft	0	0
8522 90 100	Pts & access f sound/video reproducing, record appr for aircraft	0	0
8525 10	Transmission apparatus for radio or television	0	0
8525 20 100	Transmission appr incorporating reception apparatus for aircraft	0	0
8526	Radar apparatus, radio navigational aid & remote control apparatus	0	0
8527 90 100	Reception appr radio-telephone/telegraph etc nesoi for aircraft	0	0
8529 10 100	Antennas and antenna reflectors and parts for aircraft	0	0
8529 90 100	Pts, ex antenna, for trnsmssn, rdr, radio, tv, etc nesoi for aircraft	0	0
8530	Electrical signaling, safety or traffic control equipment, equipment for..railways, streetcar lines, subways, roads, inland waterways, parking facilities, port installations, airfields (not 8608)	0	0
8531	Electrical sound or visual signaling apparatus (not 8512, 8530); parts thereof: bells, sirens, indicator panels, burglar alarms, fire alarms smoke detectors	0	0
8532	Electrical capacitors, fixed, variable or adjustable: parts thereof	0	0
8533	Electrical resistors, (not heating resistors); parts thereof rheostats, potentiometers	0	0
8534	Printed circuits	0	0
8535	Electrical apparatus for switching or protecting electrical circuits, for electrical connection..over 1000 volts switches, fuses, lightening arresters, surge suppressors, plugs, junction boxes	0	0
8536	Electrical apparatus for switching or protecting electrical circuits, for electrical connection..not over 1000 volts switches, relays, fuses, surge suppressors, plugs, junction boxes, lamp holders	0	0

HS code	Description	Im-ports	Ex-ports
8537	Boards, panels, consoles, desks, cabinets, etc. with electrical switching apparatus etc. of 8536 or 8536	0	0
8538	Parts for electrical switching apparatus of 8535,8536,8537	0	0
8539 10 100	Sealed beam electric lamp units or aircraft	0	0
8543 89 100	Elec. mach & appr, having individual function nesoi for aircraft	0	0
8544	Insulated..wire, cable, electric conductors; optic fiber cable	0	0
8545	Carbon electrodes & brushes, lamp & battery carbons; other articles of carbon/graphite for electrical purposes electrodes, brushes	0	0
8546	Electrical insulators of any material	0	0
8547	Insulating fittings for assembly (not 8546); conduit tubing & joints of base metal line with insulating material	0	0
8548	Electrical parts of machinery nesoi (not elsewhere specified or included)	0	0
86	Railway or tramway. Locomotives, rolling stock, track fixtures and parts thereof; mechanical & electro-mechanical traffic signal equipment	0	0
87	Vehicles, (not railway, tramway, rolling stock); parts and accessories	10	0
8701	Tractors	0	0
8702	Public-transport type passenger motor vehicles	0	0
8703 90 100	Passenger motor vehicles, nesoi (trolleybus)	0	0
8704	Motor vehicles for transport of goods	0	0
8705	Special purpose motor vehicles wreckers, mobile cranes, fire fighting, concrete mixers, road sweepers, spraying, mobile specialized units	0	0
8709	Works trucks, self-propelled (noi fitted with lifting/handling equipment) used in..factories /warehouses/dock areas/airports; parts thereof	0	0
8710	Motor Tanks & other armored fighting vehicles, motorized; parts thereof	0	0
8713	Invalid carriages	0	0
8714 20	Parts and accessories of invalid carriages	0	0
88	Aircraft, spacecraft, and parts thereof	0	0
89	Ships, boats and floating stuctures	0	0
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments/apparatus; parts & accessories	0	0
9006	Photographic still cameras, flash apparatus (not discharge lamps of 8539); parts & accessories	10	0

HS code	Description	Im-ports	Ex-ports
9009	Photocopying & thermocopying apparatus; parts & accessories	10	0
91	Clocks and watches and parts thereof	10	0
9104 00 100	Inst panel clk & clk simlr, for vehicle, aircrft, etc for aircraft	0	0
9108-9112, 9114	Watch movements, complete & assembled	0	0
92	Musical instruments; parts and accessories thereof	0	0
93	Arms and ammunition	0	0
94	Furniture; bedding, mattresses, cushions etc; other lamps & light fitting, illuminated signs and nameplates, prefabricated buildings	10	0
9401 10 100	Seats of a kind used for aircraft	0	0
9402	Medical, surgical, dental or veterinary furniture	0	0
9403 20 100	Metal furniture nesoi for aircraft	0	0
9405 10 100	Chandelier ceilng/wall lghtng fttng ex public lght	0	0
9405 60 100	Illuminated signs, illuminated nameplates	0	0
9405 92 100	Lamps parts of plastics for 9405 10 & 9405 60 groups	0	0
9405 99 100	Parts for lamps and lighting fittings, nesoi for 9405 10 & 9405 60 groups	0	0
9406	Prefabricated buildings	0	0
95	Toys, games & sports equipment; parts & accessories	0	0
9504	Articles for arcade, table or parlor games, bowling alley equipment; parts & accessories pinball, bagatelle, billiards, casino tables, cards, video games, chess, checkers, dominoes	10	0
9506	Articles & equipment for sports	10	0
9508 00 000	Merry-go-rounds, oth fairground amusements, parts	10	0
96	Miscellaneous manufactured articles	10	0
97	Works of art	10	0

Table 2.2.2

EXCISE TAX RATES FOR IMPORT

Code of the good in accordance with the official register	Name of product group	Rates (%)
1604.30100	Caviar	200
22.03	Beer	50
22.04; 22.05; 22.06	Grape wine and wine syrup	50
22.07; 22.08	Wine and vodka products	125
24.02	Tobacco production Cigarettes with filter Cigarettes without filter	100
27.10.00270 27.10.00290 27.10.00320	Gasoline	35
27.10.00340		
27.10.00360		
27.10.00690	Diesel fuel	10
42.03	Apparel made of leader	25
43.01; 43.02; 43.03; 43.03 10 300	Furs and products made from furs including sheep fur used in uniforms for workers and soldiers	25 0
69.11; 70.13.31	Porcelain and crystal	25
71.13 - 71.17	Jewelry, fancy jewelry	15

*The tariffs accepted by the Parliament of RA are applied starting from January 1",1997.

LIST
of goods prohibited for import into the
Republic of Armenia

1. All kinds of weapons, ammunitions, explosives, military machines and parts for their production, military outfit.
2. Drugs, anesthetic materials, materials with strong psychotropic effects, medicines, medical materials, medical equipment.
3. Materials with pornographic content.

Note: The import of the goods mentioned in items 1 and 2 may be done only by the special order of the Government of RA.

LIST
of goods prohibited for transit transportation via territory of the
Republic of Armenia

1. All kinds of weapons, ammunitions, explosives, military machines and parts for their production, military outfit.
2. Nuclear materials (including substances in form of heat producers), substances of ionizing radiation.

3. Poisons, drugs, materials with strong psychotropic effects, devices for usage of opium and hashish.

Note: The transit transportation of the above mentioned goods and materials via the territory of RA may be done by the license of Government of RA.

**LIST
of goods prohibited for export from the
Republic of Armenia**

1. All kinds of weapons, ammunitions, explosives, military machines and parts for their production, military outfit.
2. Drugs, anesthetic materials, materials with strong psychotropic effects, medicines, medical materials, medical equipment.
3. Securities, recognized invalid.
4. Articles of art and antiquity, representing national wealth and historical inheritance.
5. Materials containing state secrets.

Note: The goods mentioned in the 1-st and 2-nd points may be exported by the special order of the Government of RA.

**LIST
of Goods which require obligatory Certificate of Compliance in Republic of
Armenia**

Code by HS	Short name
0201-0204, 0206-0210	Meat and meat products
0302-0307	Fish, crayfish and other aquatic invertebrates
0401, 0408	Milk and dairy products
0407, 0408	Bird eggs
0409	Natural Honey
0702-0704, 0706 10 000, 0707, 0709-0712, 0713 10 200	Edible vegetables, root crops, tubers
0801- 0812, 0813 10 000, 0813 40 300	Edible fruit, nuts, peels of cucurbitaceous and citrus plants
0901, 0902	Coffee, tea
1006	Rice
1101-1104, 1108	Milling products
1501, 1502, 1507 10 900, 1509-1512, 1515 19 900, 1516, 1517	Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes
1601-1605	Products made from meat, fish and crayfish and aquatic invertebrates
1701-1704	Sugar, confectionery products, chewing gum
1801, 1804-1806	Cocoa, cocoa preparations

Code by HS	Short name
1901, 1902, 1905	Products made from flour, cereals, milk, flour confectionery products
2001-2009	Products made from vegetables, fruit and nuts
2101-2105, 2106 90 100	Miscellaneous edible preparations, ice-cream, yeast
2201-2209	Alcohol and non alcohol beverages, vinegar
2401-2403	Tobacco and tobacco substitutes
2501 00 910	Table salt
2707, 2710, 2711	Petroleum products
2936	Vitamins
3001-3006	Pharmaceutical products
3101-3105	Fertilizers
3303, 3304, 3305, 3306	Perfumes, make-up products, hair-care products, tooth-paste
3401,3402	Soap, organic surface-active agents
3605	Match
3808, 3819, 3820	Toxic chemicals, brake liquids, antifreeze
3923, 3924	Plastic products
4011 (except 4011 30100), 4013	Tires, rubber inner tubes for mot. cars, buses and trucks
4014 90 100	Nipples
6107-6109, 6111, 6112, 6115, 6116	Jersey underwear, jersey sports-wear for children, swimming-suits, socks, stockings and gloves
6207, 6211	Underwear for children, skiing costumes, swimming-suits etc.
6302	Bed linen for children
7417	Non electrical home appliances for preparing and heating food
7615	Aluminum table, kitchen and household articles and parts thereof, pot scourers, polishing
8215	Knives, forks, spoons and other kitchen tools and cutlery
8508, 8509 (except 850810, 8508 80, 8508 90, 8509 90)	Electro-mechanical hand equipment, electromechanical domestic appliances
8516 (except 8516 80, 851690)	Electrical heating home appliances
8536 (except 8536 10, 8536 20, 8536 30, 8536 41, 8536 50, 8536 90)	Electrical appliances for current connection, disconnection, interruption and defense
8539 (except 8539 10, 8539 41,8539 90)	Electrical bulbs
9018 (except 9018 31, 9018 32, 9018 39)	Medical, surgical, dental, veterinary instruments and appliances

Code by HS	Short name
9018 31, 9018 32, 9018 39	Medical injectors, needles and instruments
9304	Aerosol gas devices (gas flasks, perozol guns, mechanical spreader of gas), gas guns, including revolvers
9405 (except 9405 10 100, 9405 50, 9405 60, 9405 91, 9405 92, 9405 99)	Electrical lamp-shades
9502, 9503	Toys
9613	Gas lighters

2.2 Azerbaijan

In the Customs Gates of Azerbaijan Republic conducts the follow taxes, when goods, transport facilities and others crossed the border:

Customs taxes

Value added tax (VAT)

Excise

Customs transaction fees

All custom collections paid in Azerbaijan manat using exchange rate of Azerbaijan National Bank.

EXPORT TAXES

All export commodities independent of its kind are free of export duties.

Oil and oil products, electric power, light metals and cotton was considered as strategic export goods of Azerbaijan export, and their export was regulated by licenses (see Annex) (This regulation was lifted up in 2000).

Foe weapons and military equipment, parts, nuclear materials, technology, equipment and other commodities (see Annex), import and export are permitted solely by the decision of the Council of Ministry of AR.

Export and import of wild animals, wild crops, raw materials from wild animals and wild crops, snake poison, art collections and others (see Annex) are permitted only by expert references of appropriate government institutions.

IMPORT TARIFFS

The rates of import tariffs have enclosed in Table 2.2.1. There are rates of 0, 5 and 15 percent.

The «Rules on implementation of custom valuation of goods imported to and exported from Customs area» are determined by the Decree of Council of Ministry of Azerbaijan Republic N 7 12.01.1999.

The following products are free of import tariffs:

Agricultural inputs: seed, machines, tractors, fertilizers, veterinary medicine, veterinary equipment;

Packaged baby food, medicines;

Goods for diplomatic missions and bodies;
Import of humanitarian aid organizations, import of humanitarian aid products by legal and natural bodies with permission of special commission on humanitarian aid;
Technical assistance goods of international organizations;
Equipment for prophylactics and treatment of invalids;
Imports of foreign investors as a contribution to the statutory capital of joint venture or to fully foreign-own capital enterprises;
Goods temporary imported for re-export by a determined date without processing;
Goods in transit;
Goods for duty free shops;
Imports of foreign employees for own usage;
Imports paid for from the state budget.

The import of alcohol drinks (excluding beer), ethyl (food) spirits, tobacco products are conducted only by licenses (see Annex). The Ministry Economy of Azerbaijan Republic sets annual quotes for import these products. The Ministry of Trade gives licenses to fill these quotes.

VALUE ADDED TAX

Collection of value added taxes is performed in accordance with the Law on VAT of Azerbaijan Republic and the Decree of Council of Ministry on VAT of 16.06.1997. All imported goods crossing the borders are taxed. The rate of VAT is 20%. VAT is collected from the import goods produced outside the CIS. Goods produced in the CIS imported from other countries are also taxed. If C is customs value, F is customs fees, A is excise tax, then the VAT on imports equals $(C+F+A) \times 20/100$.

The rate of VAT on exports to non-CIS area is equal 0.
Goods exported to CIS area are taxed at 20% VAT.

List of commodities exempt from VAT independent of origin of producing:
Agricultural inputs: seed, machines, tractors, fertilizers, veterinary medicine, veterinary equipment;
Packaged baby food, injects, medicines;
Goods for diplomatic missions and bodies;
Import of Humanitarian aid organizations, import of human aid products by legal and natural bodies with permission of special commission on humanitarian aid;
Technical assistance goods of international organizations;
Technical device for prophylactics and treatment of invalids;
Imported goods to be state ownership as result heritage, expropriation and ownerless
Import of foreign investors as a contribution to the statutory capital of joint venture or to fully foreign capital enterprises;
Goods temporary imported for re-export by a determined date without processing;
Goods in transit;
Goods for duty free shops;
Imports of foreign employees for own usage;
Imports paid for from the state budget.

EXCISES

Excise taxpayers are bodies, who import the excisable goods to Azerbaijan, excluding import of raw materials and goods for own consumption.

In the Annex, the rates of excise taxes on import for goods produced in the non-CIS area are listed.

Imported goods and passenger cars of CIS origin are excisable in the case of imports from the non-CIS area;

Goods listed in the Annex are excise taxable independent of origin produced;

Only after payment of the excise tax Customs bodies gives permission for free circulation of goods and cars in Azerbaijan.

CUSTOM CLEARANCE FEE:

The custom clearance fee of the goods (including transport facilities) is defined at 0.15% of the import/export value, but not lesser than USD 10;

For each addition copy of the Customs declaration there is a USD 5 fee.

Custom transaction fee for the transit goods is defined at USD 30, for each addition declaration - USD 10.

Registration fee for the imported trucks and cars, buses is USD 20, for other transport facilities - USD 15.

Outside of normal business hours, the transaction fees are doubled.

Table 2.2.1. Import Tariffs

Group	Code	Description	Import tariff
1		Animals	5%
4			0
5			0
7		All seeds	0
	70110000	Potatoes as seed (October-November and February-march)	0
	70110000	Potatoes	15%
8	80520	Citrus crops: October- December and January-February other period	Euro 0.1 per kg 15%
	807	Melons and water melons	15%
	808	Apples, pears and quinces	not less Euro 0.1 per 1 kg Euro 0.1 per kg
9	902	Tea	15%
			not less Euro 0.5 per 1 nominal kg
10	1001	Wheat	5%
	1008	Buckwheat	5%
	100300900	Barley	5%
11		Flour and other grain meal	5%
12	121291	Sugary beet	15%
22	2201-2202	Natural and mineral water	15%
			not less Euro 0.25 per 1 nominal liter
	220300	Beers	Euro 0.1 per 1 liter
	2204	Wine	Euro 1.3 per 1 liter
	220410110	Champagnes	Euro 1.5 per 1 liter
	220720	Ethyl spirit	Euro 1 per 1 liter
	2205	Grape wines	Euro 1.0 per 1 liter
	2208	Strong beverages (brandy, gin, vodka, liqueurs)	Euro 2 per 1 liter
24	240220	Cigarettes	Euro 1.2 per 1000 unit
25			0
26		Ores	0
27	270111		0
	270112		0
	270710900		0
	270720900		0
	2708		0
31		Fertilizers	0
37			0
38			0

Group	Code	Description	Import tariff
39	3922-3924	Plastic products	15%
			not less Euro 0.15 per 1 kg
40	4012	Tiles	Euro 10 per unit
44	44	Woods and products	10%
	4406	Railway ties	5%
48	4801	News print	5%
	4804-	Paperboard	5%
	4805,4821		
51	510121000	Wool-washing	5%
52	5203	Cotton fibers	5%
	5205		5%
59	5902	Fabrics of polyamide fibers	5%
69	6902-6903	Bricks fire resistant	5%
72	72	Iron and articles	5%
74		Copper wires	5%
76	7601-7608	Aluminum plates, sheets	5%
78		Lead	5%
84	8413	Pumps for liquids	5%
	8427	Auto equipment, trucks	5%
		Data-processing equipment	5%
	851730	Switchboard units for phone and telegraph lines	
	852530	TV camera	5%
87	870210190	Cars for passenger carriers (1-3 year old)	15%
			not less Euro 0.6 per 1 cm ³
	87021090	Cars for passenger carriers (3-5 year old)	15%
			not less Euro 1 per 1 cm ³
	870321900	Cars (1-3 year old)	15%
			not less Euro 0.6 per 1 cm ³
	870321900	Cars (3-5 year old)	15%
			not less Euro 1 per 1 cm ³
	870321	Cars (5 year and older)	15%
			not less Euro 5 per 1 cm ³
	8704	Trucks	5%
	870421390	Trucks(1-3 year old)	5%
			not less Euro 0.1 per 1 cm ³
	870421390	Trucks (3-5 year old)	5%
			not less Euro 0.2 per 1 cm ³
	870421390	Trucks (5 year and older)	5%
			not less Euro 3 per 1 cm ³

Imports and Exports Subject to Licensing by the Council of Ministers

	Commodities	Code
1	Weapon and military equipment, parts	8710; 8802; 18803; 9301; 9306;

2	Gunpowder, explosives, pyrotechnics	8526
3	Nuclear materials and technology, equipment, radioactive waste	3601; 3602-3604
4	Narcotics and psychotropic means, chemical poisons	
5	Technology, equipment, and materials for Weapon production	

Imports and Exports subject to Licensing by Other Government Bodies

	Commodities	Code	Licenser
	EXPORTS		
1	Wild animals, wild crops		AR Committee on Ecology
2	Raw material prepared from wild animals and wild crops for medicine, snake poison		AR Committee on Ecology and Ministry of Health
3	Information by region of AR on the resources of the heat energy and mineral resources		AR State Committee on Geology and Mineral Resources, State Geodesy and Map drawing Committee
4	Inventions, "Now-How" and results of scientific research		AR Academy of Science, State Committee on Science and Technology
5	Art collections and numismatic things	9701-9706	Ministry of Culture
	IMPORTS		
1	Chemical means for plant protection	3803	Ministry of Agriculture
2	Medicine and equipment for veterinary needs		State Veterinary Committee
3	Medicine and medical equipment	9018-9022	Ministry of Health
4	Services : construction transport (freight and passenger) services communication services Juridical services		State Committee on Architecture, State Committee on Ecology Caspian Shipping Company, AzAL, "Azeravttransport" company Ministry of Communication Ministry of Justice

Commodities exempt from VAT

Group	Commodities
84	Nuclear reactors, equipment and parts excluding: 841451900; 841510000; 841581900; 841720; 841810900; 841821-841829000; 841830910; 841830990; 841840910; 841840990; 841850; 841891000; 842211000; 842310100; 842381500; 8450; 845210; 8469; 8470; 847110; 847120000-847120600; 847191000-847191900; 847199; 8472; 8476
85	Electric machines and equipment, parts excluding: 850710910; 850810; 8509; 8510; 8511; 8512; 8516; 851710; 851720000; 851781100; 8518; 8519; 8520; 8521; 8522; 8523; 8524; 852719000; 852721; 852731; 852732; 852739; 852810000-82810690; 852810730-852810980; 852820000-852820200; 852820000-852820200; 852820730-852820990; 852910200-852910700; 8539
86	Trains, locomotives, vans, tramway, parts, railing equipment
87	Transport equipment, excluding 8702; 8703; 8711; 8712; 8714
88	Aerospace equipment, parts
89	Ships, boats, and other sailing equipment, excluding 8903
90	Equipment and facilities used in healthcare, excluding 9004; 9006

Excise rates for non-CIS imports

	Commodities	Rate
1	Cars	15%
2	Vodka	65%
3	Spirits	90%
4	Brandy	65%
5	Champaign	45%
6	Hard alcohol	40%
7	Wines	40%
8	Liqueur	65%
9	Beer	40%
10	All type tobacco products	50%

Excise rates for fuels

	Commodities	Rate
1	Aircraft petrol B-91/115	65.49%
2	Automobile petrol AI-95, AI-98	65.03%
3	Automobile petrol AI-92, AI-93	65.23%
4	Automobile petrol AI-72, AI-76	64.76%
5	Jet engine petrol	39.46%
6	Diesel	29.83%
8	Other petrol	33.45%

2.3 Georgia

Georgian Import Tariffs (Approved by the WTO for the period 2000-2005)

Code (in HS 96)	Description	Rates at date of WTO accession	Average tariffs at date of accession	Final rates	Final average tariffs
1	2	3	4	5	6
01	live animals	12	12	12	12
02	meat and edible meat offal	12	12	12-10	11.96
03	fish and crustaceans, mollusks and other aquatic invertebrates	12	12	0-12	0.4
04	dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	12-25	16.6	5-25	13.963
05	products of animal origin, not elsewhere specified or included	12	12	0-12	10.6
06	live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	12	12	12	12
07	edible vegetables and certain roots and tubers	12-17	12.7	10-17	12.6
08	edible fruit and nuts; peel of citrus fruit or melons	12-17	12.98	10-17	12.93
09	coffee, tea, spices	12-20	12.5	12-20	12.5
10	cereals	12	12	10-12	11.9
11	products of the milling industry; malt; starches; wheat gluten	12-20	13.18	10-20	13.12
12	oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	12	12	0-12	7.60
13	gums, resins and other vegetable saps and extracts	12	12	12	12
14	vegetable plaiting materials; vegetable products not elsewhere specified or included	12	12	12	12
15	animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	12	12	0-12	4.4

Code (in HS 96)	Description	Rates at date of WTO accession	Average tariffs at date of accession	Final rates	Final average tariffs
16	preparations of meat, of fish or of crustaceans, mollusks or other aquatic invertebrates	12	12	0-12	4.6
17	sugars and sugar confectionery	10-12	11.9	5-12	11.6
18	cocoa and cocoa preparations	12	12	10-12	10.6
19	preparations of cereals, flour, starch or milk; pastry products	12-20	17.6	12-20	16.6
20	preparations of vegetables, fruit, nuts or other parts of plants	12-30	21.55	10-30	20.5
21	miscellaneous edible preparations	12-25	17.8	0-25	15.90
22	beverages, spirits and vinegar	0.2-3 euro/lt	0.2-3 euro/lt		
23	residues and waste from the food industries; prepared animal fodder	12	12	0-12	6.4
24	tobacco and manufactured tobacco substitutes	12-30	24	12-30	24
25	salt; sulphur; earths and stone; plastering materials, lime and cement	12-20	13.4	12-20	13.4
26	ores, slag and ash	12-15	12.1	12-15	12.1
27	mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	12	12	12	12.0
28	inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	12	12	0-12	6.2
29	organic chemicals	8-12	11.9	0-12	5.7
30	pharmaceutical products	5	5	0	0.0
31	fertilizers	12	12	6.5-10	7.85
32	tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks	12	12	6.5-12	7.7
33	essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	12	12	6.5	6.5

Code (in HS 96)	Description	Rates at date of WTO accession	Average tariffs at date of accession	Final rates	Final average tariffs
34	soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modeling pastes, "dental waxes" and dental preparations with a basis	12	12	6.5-12	7.9
35	albuminoidal substances; modified starches; glues; enzymes	12	12	6.5	6.5
36	explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	12	12	6.5	6.5
37	photographic or cinematographic goods	12	12	6.5	6.5
38	miscellaneous chemical products	5-12	11.6	0-12	6.2
39	plastics and articles thereof	0-12	11.3	0-12	8.5
40	rubber and articles thereof	0-12	10.9	0-12	8.2
41	raw hides and skins (other than furskins) and leather	12-15	12.8	12-15	12.8
42	articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	12	12	0-12	11.5
43	furskins and artificial fur; manufactures thereof	12	12	12	12
44	wood and articles of wood; wood charcoal	12	12	5-12	11.4
45	cork and articles of cork	0-12	10.7	0-12	10.7
46	manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	12	12	12	12
47	pulp of wood or of other fibrous cellulose material; recovered (waste and scrap) paper and paperboard	5-12	11.7	0	0
48	paper and paperboard; articles of paper pulp, of paper or of paperboard	0-12	11.9	0	0
49	printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	12	12	0	0
50	silk	12	12	4-12	10.4
51	wool, fine or coarse animal hair;	4-12	10.2	0-12	6.3

	horsehair yarn and woven fabric				
52	cotton	5-12	11.9	4-12	7.0
53	other vegetable textile fibers; paper yarn and woven fabrics of paper yarn	12	12	4-12	6.5
54	man-made filaments	5-12	10.3	4-10	6.8
55	man-made staple fibers	12	12	4-8	6.4
56	wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	12	12	4-12	9.9
57	carpets and other textile floor coverings	12	12	8-12	11.7
58	special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	12	12	8-12	9.9
59	impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	12	12	8	8
60	knitted or crocheted fabrics	12-15	13.8	8-12	10.4
61	articles of apparel and clothing accessories, knitted or crocheted	12-15	13.4	7-15	13.2
62	articles of apparel and clothing accessories, not knitted or crocheted	12-15	12.5	6-12	11.9
63	other made up textile articles; sets; worn clothing and worn textile articles; rags	12-15	12.15	10-12	11.97
64	footwear, gaiters and the like; parts of such articles	12-20	16.1	8-12	10.6
65	headgear and parts thereof	12	12	12	12
66	umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	12	12	12	12
67	prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	12	12	12	12
68	articles of stone, plaster, cement, asbestos, mica or similar materials	0-12	11.3font>	0-12	10.7
69	ceramic products	12	12	10-12	11.6
70	glass and glassware	0-12	11.8	0-12	11.6
71	natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	12	12	12	12
72	iron and steel	5-12	10.8	0-12	0.2
73	articles of iron or steel	0-12	10.8	0-12	8.5
74	copper and articles thereof	0-12	11.2	0-12	0.4
75	nickel and articles thereof	12	12	0	0
76	aluminum and articles thereof	0-12	10.7	0-5	0.5

Code (in HS 96)	Description	Rates at date of WTO accession	Average tariffs at date of accession	Final rates	Final average tariffs
78	lead and articles thereof	12	12	5	5
79	zinc and articles thereof	12	12	5	5
80	tin and articles thereof	12	12	5	5
81	other base metals; cermets; articles thereof	0-12	11.7	0-5	4.9
82	tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	12	12	5	5
83	miscellaneous articles of base metal	0-12	10	0-12	8.1
84	nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0-5	4.2	0-5	2.3
85	electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	0-5	3.4	0-5	2
86	railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signaling equipment of all kinds	12	12	12	12
87	vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	5-12	11.7	0-12	9.6
88	aircraft, spacecraft, and parts thereof	0-12	7.35	0-12	7.35
89	ships, boats and floating structures	12	12	12	12
90	optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	0-5	3.8	0-5	1.9
91	clocks and watches and parts thereof	0-12	11.8	0-12	11.4
92	musical instruments; parts and accessories of such articles	12	12	12	12
93	arms and ammunition; parts and accessories thereof	12	12	12	12
94	furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-	0-12	10.4	0-12	4.7

	plates and the like; prefabricated buildings				
95	toys, games and sports requisites; parts and accessories thereof	12	12	0-12	6.1
96	miscellaneous manufactured articles	12	12	12	12
97	works of art, collectors' pieces and antiques	12	12	12	12

3 Transit fees

3.1 Armenia

For each entering the RA territory transport registered in foreign country the ecological charges are collected at the following rates:

TYPE OF TRANSPORT	AMOUNT (AMD)
for passenger car	2500
for bus with less than 12 seats	5000
for bus with 12 and more than 12 seats	10000
for truck with u to 8 tons tonnage	5000
for truck with 8 - 20 tons tonnage	10000
for truck with 20 and more tons tonnage	15000

Transit fees

For any quantity of goods passing transit by the territory of the Republic of Armenia an amount equal to US\$ 20.00 is collected, except the goods passing for the Republic of Georgia, for which an amount equal to US\$ 100.00 is collected.

In accordance with the law of RA "On transit payment", transportation facilities registered in other countries for using public automobile routs of the Republic of Armenia pay the following route tariffs for each entrance:

N/N	Type of vehicle	The amount of the tariff (in Drams)
1.	passenger cars with up to 7 seats	10 000
2.	buses with up to 13 seats	20 000
3.	buses with from 13 to 30 seats	40 000
4.	buses with 30 and more seats	60 000
5.	trucks and trailers with up to 1.5 tons carrying capacity	15 000
6.	trucks and trailers with from 1.5 to 3 tons carrying capacity trucks and	25 000
7.	trailers with from 3 to 5 tons carrying capacity	40 000
8.	trucks and trailers with from 5 to 10 tons carrying capacity trucks and	65 000

9.	trailers with from 10 to 20 tons carrying capacity	80 000
10.	trucks and trailers with from 20 to 36 tons carrying capacity	110 000
11.	trucks and trailers with 36 and more tons carrying capacity	150 000

The route payment is collected by the Customs officers at Customhouses at the entrance of transportation facilities registered in other countries on the territory of the Republic of Armenia.

3.2 Georgia

Road tax is levied on all foreign vehicles crossing the Georgian territory. The tax depends on the type of vehicle and the weight of a cargo. If the vehicle is loaded above its capacity, for each additional ton additional tax is paid.

Road tax schedule (for all foreign vehicles)

<i>Vehicle type</i>	<i>Tax (GEL)</i>	<i>For each additional ton</i>
Cars	60	
Vans (up to 13 passenger seats)	115	
Vans (13-30 passenger seats)	230	
Buses (30+ passenger seats)	380	
Trucks (up to 3 tons)	230	23 (10% of tax)
Trucks (3-10 tons)	380	38 (10% of tax)
Trucks (10-20 tons)	480	48 (10% of tax)
Trucks (20-40 tons)	650	32.5 (5% of tax)
Trucks (40+ tons)	880	44 (5% of tax)

Plus there is extra charge for each additional axle.