



TOWARDS TRADE FACILITATION in the South

MESSAGE FROM DONORS

Dear Friends and Colleagues,

Welcome to the first issue of the regional bulletin "Towards Trade Facilitation in the South Caucasus."

This bulletin is part of a cross-border initiative implemented by the Center for Regional Cooperation/Transparency International Armenia, Entrepreneurship Development Foundation of Azerbaijan and the Association of Young Economists of Georgia. The Eurasia Foundation's South Caucasus Cooperation Program financed this regional project in 2003-2004 with additional support from the Organization for Security and Cooperation in Europe (OSCE).

While some progress in streamlining trade processes and legislation has been made in the South Caucasus countries, a number of obstacles prevent the region from realizing its full potential. More efficient and transparent trade and transport procedures will be a vital part of achieving sustained economic growth and stability in Armenia, Azerbaijan and Georgia. This project takes an integrated approach towards achieving this goal.

Based on research and in cooperation with other local and international organizations, the partners will underline the main problems related to the field and propose joint recommendations aimed at trade facilitation. In addition, the partner organizations will facilitate a dialogue among the business community, policy experts, and government officials involved in cross-border trade.

I would like to take this opportunity to thank the United States Agency for International Development for its long-running support of The Eurasia Foundation and the South Caucasus Cooperation Program. I would also like to recognize the OSCE in Armenia, Azerbaijan and Georgia for their support of this project.

I hope that you will enjoy this issue of the South Caucasus Trade Bulletin.

Sincerely,

Robert O'Donovan

Regional Director
South Caucasus Cooperation Program The Eurasia Foundation

November 2004

Caucasus

ABOUT US

In 2001, the South Caucasus Cooperation Program (SCCP) of The Eurasia Foundation awarded three grants to a partnership of regional non-governmental organizations in order to address major needs related to promoting transparency at the Armenian, Azeri and Georgian customs. The one-year project was jointly implemented by three leading organizations from the region - the Center for Regional Development/Transparency International Armenia, the Entrepreneurship Development Foundation of Azerbaijan and the Association of Young Economists of Georgia. The first cross-country cooperation between these public policy institutes and the SCCP was proven to be quite successful.

The project research indicated that while the customs systems vary across the South Caucasus, they share a number of common problems, such as:

- Lack of coordination among multiple government agencies and departments responsible for certifying, classifying and valuating goods that creates extra problems for economic activities
- Vague legislation, closeness of the customs systems and general public unawareness that leave room for misinterpretation and arbitrary decisions by state officials
- Excessive and frequently modified regulations and procedures that cause confusion, delays and opportunities for corruption
- Poor law enforcement practices that vary from one customs point to another
- Insufficient financial, administrative, technical and human capacity, absence of merit-based recruitment processes and effective incentive mechanisms, and thus high rate of staff turnover that also result in inefficiency of customs services

The region-wide survey of 1,200 individuals and businessmen who frequently cross regional borders revealed a number of problems such as the amount of time truck drivers spent at the border ranged from several hours to days; widespread unofficial payments to customs officials amounted to hundreds of dollars on average; willingness of businessmen and individuals to initiate the majority of reported bribes to speed the customs processes, etc.

Appropriate policy and operational recommendations were developed based on the project research and survey findings. They were published in the regional bulletin and submitted to all interested parties in all participating countries. Some of the proposed recommendations were discussed in the Georgian and Azeri customs departments. The project also included a publication of booklets in five languages outlining customs procedures, which were distributed at customs points, bus stations, business schools, etc.

Throughout the project, the partners worked closely with their respective state institutions (customs committee and departments, ministry of transportation and communication, ministries of trade and economic development, etc.) keeping their representatives updated on the ongoing activities and involving them in all national and regional events. The findings of the final project report were included in the 2002 World Bank's Policy Note entitled "Trade and Transport Facilitation in the South Caucasus" as well as cited in a number of other reports and publications. The project was also incorporated in the 2003 Transparency International Corruption Fighters' Tool Kit.

In 2004, the SCCP, in cooperation with the Organization for Security and Cooperation in Europe Offices in Baku, Yerevan and Tbilisi, provided funding for a follow-up of this regional initiative. "Towards Trade Facilitation in the South Caucasus" project is aimed at promoting a constructive multidimensional dialogue among experts, state officials and business community. It will be implemented by the partner organizations during 2004-2005 to target the key factors hindering development of regional trade. To achieve this goal, the partners, together with other interested parties in each country, are gathering relevant statistical data, reviewing ongoing reforms in the field, monitoring appropriate legislative changes, providing "on-line" consultations on export/import procedures; raising "hot" issues; initiating broad discussions; increasing public awareness; organizing regional meetings, etc.

This regional bulletin is a first issue of a series of publications within the new project of the Center for Regional Development/Transparency International Armenia, the Entrepreneurship Development Foundation of Azerbaijan and the Association of Young Economists of Georgia. All materials presented by the following headings - **message from donors, about us, analytical thoughts, hot-line, questions and answers, legislative update and regional news** - are believed to be accurate as of June 2004. The partner organizations express their gratitude to all those individuals and organizations that helped prepare and publish the bulletin.

ANALYTICAL THOUGHTS

The millennium shift has in no way diminished Europe's "attraction". The "All roads lead to Rome" saying has a brand new meaning today. However, whilst Rome simply imposed its will, Brussels just "establishes" criteria. Which are these criteria? How to meet them? Recipes for achieving this goal have recently been proposed by the Concept Paper elaborated within the framework of the "Sustainable Economic Development Policy for Armenia" project by the United Nations Development Program office in Armenia together with the Ministry of Trade and Economic Development. The Concept Paper represents another major step in promoting Armenian-European cooperation and revealing prospects of a full economic integration in the future.

The mission and the main goal of the Concept Paper are as follows: "To accomplish transition from a poor to a developed country in the shortest time possible". According to the authors of the Concept Paper, bearing in mind that the economic growth rates are currently rather high in Armenia, economic convergence is an absolutely realistic development strategy provided that an adequate economic policy is implemented. If the 1994-2000 economic growth level of on average 6% is maintained, and the present economic growth rate of about 2.5% continues in the USA, in 20 years GDP (in PPP) of Armenia, would total to 16.2% of that of the US. Should economic growth occur at 8%, then the ratio would reach 23.6%. In the long run, achieving that high growth rates is possible.

The Concept Paper also sets out the main principles and the methodology, on which strategy to accomplish the above goals should be based. Within the framework of the Concept Paper, the consistent economic growth observed in 1994-2002, is mainly explained by overcoming the economic crisis, increased macroeconomic stability and the establishment of a relatively open economic model compared to the other post-Soviet countries. Among other major factors, inflow of funds from abroad as a part of both official international aid, official money transfers from those who left the country, as well as "natural" protectionism for domestic production derived from extremely high transportation costs under the blockade, are mentioned. The import substitution process allowed the revealing of several development clusters, with food industry being dominant. According to the authors of the paper, if the economic growth continues at an average rate of 6%, by 2004, the GDP would exceed gross consumption. This implies that from this point on, the increase in domestic consumption can no longer act as an incentive for economic development, especially when being related to import substitution opportunities.

Thus, it appears then to only be possible to achieve economic growth through the promotion of exports. Currently, two successful models related to domestic market capacity exist, the European and the Asian models. The European model is based on full economic, thus later also political, integration of countries under a common structure, which ensures free access to other markets with no restrictions whatsoever as regard to movement of people, goods, and capital. Today, a common currency is seen as one of the most important features of this model as well. The European Union, based on this principle, is the world's largest market. The Asian model is based on the notion that a country should achieve economic development by itself. Here, export based economic development is considered as one of the most important factors to boost capacity on the domestic market. Change of the economic development pattern as well as adoption of a new development strategy is especially important in view of achieving sustainable economic growth.

The authors state that for a "small and poor" country like Armenia, it would be unrealistic to pick the alternative that implies relying upon own efforts. Note is also made that, according to the international practice, the integration between "poor" countries has never been successful. Based on these lessons from history, in the Concept Paper, the European Union (EU) is set as the most desirable target for integration, whilst other regional structures, such as the CIS and the Black Sea cooperation are considered as having no prospects. In practice, elaboration of development scenarios for Armenia arrives to the discussion of two development scenarios: within the EU, and outside of the EU. The development pattern based on joining the EU as a basis for long-term strategy, as well as the elaboration of policies aimed to meet the EU membership requirements are considered by the authors of the Paper to be much more desirable than the alternative implying independent development based on bilateral relations.

The paper however, states that to initiate negotiations on membership with the EU, Armenia has to ensure a minimum development level as well as to comply with a number of requirements. If one bears in mind that the next European Union enlargement will be when accepting Bulgaria and Romania as members, then it can be assumed that the minimum development level required is that of these two countries. Here, per capita GDP in PPP makes nearly USD 5,000-5,500, which is nearly double that of Armenia. On the other hand, in these countries the per capita GDP only comprises 1/3 of the GDP of the poorest EU countries, Portugal and Greece, and 20-25% of the EU average. The authors state that to initiate the EU integration process, Armenia would have to have a per capita GDP in PPP of about USD 6,000 (at 1999 prices). According to even the most optimistic forecasts this would take 12-15 years to achieve.

The Paper therefore suggests that in providing for further integration into the European Union, the choice of a long-term development strategy should be subject to the following framework:

The stage of autonomous development including switching to growth pattern based on the major development factor, export expansion. One of the main objectives is to bring per capita GDP (in 1999 prices) to a level of USD 6,000. Another objective is to ensure that conditions and structures are in place, and necessary reforms have been implemented which are required to gradually introduce innovative development institutes and enhance the innovative development scope in the future;

The EU general integration requirements should be considered as development criteria. The choice of policies and scheduling of actions should be prioritised by having a high development rate in mind. Therefore, actions that have to be undertaken to join the EU should be postponed until a middle stage, or should be timed to occur along with the integration negotiations. This, among other things, implies that sticking to the export expansion based development pattern can result in a dramatic modification of the present socio-economic policy framework, and the economic policy should remain liberal and open.

Along the transition to an export expansion based development pattern as envisaged by the Partnership and Cooperation Agreement (PCA) between European Union and Armenia, actions have to be undertaken to harmonize the Armenian legislation with the European legislation. Afterwards, a comprehensive analysis of the EU accession Copenhagen criteria has to be carried out. These include: 1) political criteria covering the stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for, and protection of minorities, etc.; 2) economic criteria covering the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU; 3) The EU membership criteria, i.e. the ability to take on the obligations of a membership, including adherence to the aims of a political, economic and monetary union. This step has to be followed by the development of a program aimed to comply with the criteria, or components thereof.

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Fragments from "All Roads Lead to Brussels: integration with Europe in the Context of 'Sustainable Economic Development Policy for Armenia' Concept Paper", published in *Armenian Trends*, Q4 (#1), 2003.

1. "Sustainable Economic Development Policy for Armenia", Yerevan, 2003 (see <http://www.undp.am>).

2. E.g. within a generation.

3. "Sustainable Economic Development Policy for Armenia", Yerevan 2003, p. 4.

4. *Ibid.*, p. 6.

5. *Ibid.*, pp. 24-25.

6. *Ibid.*, pp. 26-27.

HOT - LINE

According to provision 2.1 of the Regulations on Terms and Conditions of the Customs Declaration (see Order No. 1106 of the Azerbaijani State Customs Committee from December 26, 1997), the "customs declaration is not considered a customs document". Meanwhile, the Regulations do not specify who in the customs bodies is authorized to issue this document to those engaged in foreign economic activities. As a result, since the businessmen, who are supposed to declare the value of the goods, cannot receive the document from customs officers, they have to clear their goods "in line with domestic prices", as suggested by customs officers. This, in turn, forces businessmen to make extra (unplanned) expenses, which affects the efficiency of their foreign economic activities.

By and large, the declaration and customs clearance operations cannot be seen as simple procedures, since they require in-depth knowledge of the customs legislation. For instance, more than half of the 54th paragraph of the Cargo Customs Declaration, the main customs clearance document regulating the transit of goods and transport vehicles, is filled out with codes. The complaints being sent to the Resource Center established under the Association of Merchants and Producers of Azerbaijan providing assistance to those engaged in foreign economic activity show that businessmen cannot cope with all the legal formalities prescribed by the customs legislation. Any mistake made at the time of customs declaration of goods and vehicles can be interpreted by customs officers as intentional. This leads to penalties for the violation of the customs legislation or additional expenses caused by the delays in the customs clearance of goods or vehicles.

In an attempt to solve such problems, most western countries set up an institute of the brokers, back at the beginning of the 20th century. At present, the majority (up to 90%) of foreign trade transactions in developed European countries are registered by brokerage firms. The actual existence of brokerage services in Azerbaijan does not solve the problem, since none of such organizations in Azerbaijan are officially registered. On the other hand, if being registered those customs brokers are required to indicate their own address and telephones when clearing the goods and vehicles (see paragraphs 14 and 54 of the Cargo Customs Declaration). Thus, not those involved in foreign economic activities, but brokers themselves take responsibility for all potential risks related to customs operations. Since businessmen are normally unaware of clearance procedures, it is much more effective and efficient to have brokers specialized in the field to deal with customs officers. In other words, the establishment of the institute of the customs brokerage will significantly facilitate transparency of customs and simplify export and import procedures.

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QUESTIONS AND ANSWERS

What is the sequence and amount of customs duties in Georgia?

- Customs fee (0,15% of customs value of goods);
- Quarantine fee (for goods, which are subject to phytosanitary or veterinary control);
- Customs duty (customs fee plus customs value of goods, which is differentiated in accordance with the Law of Georgia "On Customs Tariffs and Duties");
- Excise tax (for goods subject to excise), which is differentiated in accordance with the Law of Georgia "On Customs Tariffs and Duties";
- Value-added tax VAT (customs fee, customs duty, value of goods plus excise (if applied) - 20%;
- Payment for motor transport vehicles crossing the territory of Georgia and for their overloading, which is differentiated depending on type of motor transport vehicles in accordance with the Tax Code of Georgia and varies from 60 to 880 GEL (Georgian Lari) and made by the owner of the vehicle only.

How customs value and country of origin are defined at the Georgian customs?

- Customs value of goods and country of origin are determined by the Law of Georgia "On Customs Tariffs and Payments", from March 20, 1998, orders of the Head of the State Customs Department of Georgia #186 "On Rule of Calculation of Customs Value of Goods Imported in Georgia", from October 4, 1999, and #198 "On Approval of Rule of Determination of Country of Origin, for Goods Imported to Georgia", from October 18, 1999.
- According to legislation, customs value of goods is defined as a price of goods crossing the customs border of Georgia, on the basis of which customs duty is calculated. Customs value of goods includes costs of acquisition transaction, their transporting to the customs point of Georgia, loading and unloading, insurance, inspection (in addition to the fee for obtaining documents certifying inspection before the conveyance), broker service, licenses and other payments made for the use of intellectual property. For importing products previously exported from the country in the customs regime of export for processing goods outside Georgia, customs value of the declared products exported for processing is deduced from the total custom value.
- If the value of imported goods cannot be timely determined, importer should be given the opportunity to take them away from the customs, if it does not assume a money deposit equal to the amount calculated on the basis of maximum customs value of goods of all types of duties and fees.

* * *

- To identify country of origin, where the goods were originated or processed (it can be also a group of countries, custom unions, a region or section of a country) it is obliged to request certificate of origin (original or formal copy) issued by a relevant body of that country, which shall be submitted together with the customs declaration.

- Certificate of origin shall contain information concerning title and address of importer; number of pieces, package material, types of locations, signs and numbering; category of goods; gross and net weight of goods; and in some specific cases amount and volume of goods, and if possible data regarding transport vehicles and transportation route.

- Certificate of origin should also include an application of the sender (a producing or transporting company) that goods meet respective criteria of origin. If needed, the validity of the specified data can be checked by addressing an authorized body issued certificate to obtain additional information. The validity of data stated in the certificate shall be confirmed by respective authority for the period of 4 years, starting from the day of signing.

- Certificate of origin is not required, if customs value of imported goods does not exceed 1,000 USD. Goods, which origin is not exactly determined, can be cleared at the customs after making all necessary payments calculated at a maximum rate.

How does the Georgian legislation determine double destination products and what products are included in this category?

In accordance with the Law of Georgia #13511Is "On Import and Export Control of Armament, Military Equipment and Products of Double Destination", from April 28, 1998, the products of double destination include those, which are not made for military purposes, but may be used for production of nuclear, chemical and other weapons of mass destruction, as well as the means of their transportation. The conveyance of such products (see listed below) through the customs border of Georgia is subject to special control:

- ordinary armament and equipment, raw materials, materials, special devices and technologies, the services related to their production;

- nuclear materials, technologies, devices, equipment, special non-nuclear materials, sources of radioactive emanation and isotopic products mentioned in the list provided by any international non-proliferation treaty or agreement;

- chemicals and technologies of double destination, which may be used for production of chemical weapons of mass destruction mentioned in the list provided by any international non-proliferation treaty or agreement;

- pathogenic organisms, their genetically modified forms and fragments of genetical materials, which may be used for production of

bacteriological (biological) weapons of mass destruction, mentioned in the list provided by any international non-proliferation treaty or agreement;

- devices, materials and technologies used for rocket weapons production mentioned in the list provided by any international non-proliferation treaty or agreement;

- scientific-and-engineering information, services and results of intellectual property related to military products.

In addition, special control may be applied to certain categories of products, under the Decision of the President of Georgia.

What documents are required for exporting goods from Georgia to Russia, and what payments are obligatory?

According to the order #798 of the Ministry of Revenues of Georgia "On Approval of Documents and Certificates Necessary for Customs Clearance of Export and Import of Goods", from November 21, 2001, these are the following documents:

- cargo-customs declaration
- documents certifying declarant's authority to submit cargo-custom declaration;

- transport documents, confirming the fact of cargo transfer;

- contract or substituting document concluded between the subjects of foreign economic activities; invoice;

- document confirming the taxpayer's identification number (taxpayer's certificate) issued by tax inspection service;

- certificate of origin of goods issued by an authorized body of respective country;

- certificate of conformity of goods issued by the Department of Standardization, Metrology and Certification of Georgia or its territorial body should be submitted for the goods that are subject to obligatory certification;

- phytosanitary certificate issued by the Plant Protection Service of the Ministry of Agriculture and Food of Georgia or its territorial department (for goods, which are subject to phytosanitary-quarantine control);

- veterinary or sanitary certificate issued by the Veterinary Department of the Ministry of Agriculture and Food of Georgia or its territorial department (for goods, which are subject to veterinary-quarantine control);

- license issued by an authorized body (for goods, export of which is subject to licensing).

* * *

In accordance with the Law of Georgia #1226-1Is "On Customs Duties", from February 18, 1998, for exporting goods to Russia a customs fee of the amount of 0,15% of customs value of goods is to be paid (not less than 50 Georgian Lari (GEL) and not more than 2000 GEL).

What taxes are required for importing agricultural products to Georgia by physical persons from Azerbaijan?

- Customs fee of the amount of 0,15% of customs value of goods (not less than 50 GEL and not more than 2000 GEL).
- Customs duty (5% and 12% rate of customs duty is applied to Azerbaijan, as it is not a WTO member). For agricultural products, it is mainly 12%, though according with the bilateral agreement "On Free Trade" concluded between Georgia and Azerbaijan Republic (entered into force for the Georgian party on July 10, 1996), neither customs duties nor any taxes of equivalent operation are imposed for exporting and importing goods, which are originated on the customs territory of either contracting party (in the case of Azerbaijan, such goods should be accompanied with certificate of origin) and allowed to be imported to the territory of the second contracting party.

Association of Young Economists of Georgia

1. In the countries where phytosanitary and veterinary service is absent, the import is performed without certificate, on the basis of import permission, issued by the Plant Protection Service and the Veterinary Department of Georgia, respectively.

LEGISLATIVE UPDATE - ARMENIA

1. The Government Decision 1632-N from December 11, 2003, on Amending the Government Decision 662 from October 26, 1999.

This Government decision is concerned with the procedure of applying new excise stamps dated 2004 on excisable goods (tobacco products and alcoholic beverages), as well as the re-application of stamps on unsold goods still carrying excise stamps with old dates.

2. The Government Decision 1779-N from November 21, 2003, on Approving the Lists of Documents and Data Necessary for Customs Control and the Procedure of their Submission to Customs Agencies.

This Government decision was adopted in order to clarify the list of documents necessary for customs control and clearance of goods moving across the Armenian customs border. The decision specifies the documents that the Armenian customs agencies may demand for importing and exporting goods, and the procedure of submitting such documents to customs agencies. Customs agencies shall not demand any documents other than those laid down in this List. This decision repealed the Government Decision 413, from May 15, 2001, which used to define a longer list of documents and was not clear about the procedure of submitting them to customs agencies, in order to minimize potential abuse and illegalities in the field.

3. The Government Decision 1927-N, from Novem-

ber 21, 2003, on Approving the Procedure of Applying a Red-Green Channel System of Customs Control in Respect of Cargo Accompanied by Natural Persons Arriving at and Departing from International Airports of the Republic of Armenia.

This Government decision replaced the Order 85-MVE of the Head of the Armenian Customs Department from July 10, 1998, on Establishing Customs Control with the Application of a Red-Green Channel System at the Customs Point in the "Zvartnotz" Airport, which was in effect flowing from the provisions of the previous Customs Code and was no longer in conformity with the current legislation. Under this Government decision, a two-channel system shall be applied in not only the "Zvartnotz" customs house, but also other airports. The procedure contains a number of provisions concerned with the relevant parts of the Kyoto Convention aimed at harmonization of customs procedures with the international standards.

4. The Government Decision 224-N from February 26, 2004, on Amending the Government Decision 502-N from March 20, 2003.

This decision, which introduced amendments to the Government decision 502-N from March 20, 2003, eliminated the quantitative restrictions on natural persons under the aforementioned decision. Prior to this amendment, any natural person and foreign legal entity had no right to import to the Armenian customs territory the so-called "apparently commercial quantity" of goods, and the Government had enacted a decision to specify the volumes of such goods in a special matrix. In the event of importing goods in excess of the specified quantity, natural persons and foreign legal entities had to become registered under the Armenian legislation as business entities.

Decision 224-N defines that there shall be no restrictions on the volume of any "apparently commercial quantity" of goods imported by citizens of the Republic of Armenia, and that natural persons may pay the respective taxes and import an unlimited quantity of goods. The restriction, before its elimination, caused major complications in terms of customs procedures regarding goods imported to Armenia by its citizens. For instance, in accordance with the former list, a citizen had the right to import 6 pairs of clothes and the closing attributes, and 2 sets of suits, and if a citizen were importing any more clothes, he/she would have to become registered as a business entity.

5. The Government Decision 245-N from February 26, 2004, on Regulating the Export of Cultural Valuables and Items.

This Government decision repealed the previous Decision 137 from March 5, 1999, on Regulating the Export of Cultural Valuables and Items. The new decision considerably simplified the procedure of exporting cultural valuables.

In the past, there was a list, and cultural valuables could be exported with an export certificate issued by the Cultural Valuable Preservation Department of the Ministry of Culture, Youth Affairs, and Sports. At present, under the new Decision, all valuables may be exported without a certificate, except for the pieces of certain authors.

6. The Government Decision 392-N from March 25, 2004, on Introducing "2004"-dated Excise Stamps for Certain Excisable Goods Imported to Armenia.

This Government decision is concerned with the deadlines for introducing excise stamps bearing the new date.

7. The Government Decision 514-N from April 8, 2004, on Approving the Procedure of Providing Samples for Phytosanitary Expertise.

This Government decision has clarified the procedure of providing samples for phytosanitary expertise. In the past, there was no such procedure, and there used to be much room for abuse.

8. The Government Decision 591-N from April 29, 2004, on Amending the Government Decision 172 from March 9, 2001.

This decision introduced amendments to the Government Decision 172 from March 9, 2001, on the Approval of the Procedure of Customs Clearance outside the Places Designated for Customs Clearance and during Non-Working Hours of Customs Agencies. In the past, an importer or exporter that needed customs clearance during non-working hours of the customs agencies, for instance, at 6:10 pm, had to apply to the Armenian State Customs Committee for written permission, which would arrive no earlier than the next day. However, according to these amendments, the permission may be given by the customs house performing customs clearance of the goods in question, which is especially important for perishables and goods in need of special preservation conditions.

9. The Government Decision 908-N, from June 25, 2004, on Approving the Procedure of Exporting from Armenia Timber and Certain Timber Products.

This Government decision has regulated the procedure of exporting from the Armenian customs territory timber and certain timber products. According to it, timber products shall be exported on the basis of a timber and timber products conformity certificate issued by the Ministry of Agriculture. In the past, there was no similar requirement in the relevant legislation.

10. The Government Decision 901-N from June 17, 2004, on Amending the Government Decision 662 from October 26, 1999.

This Government decision is concerned with some amendments to the existing procedure of applying excise stamps to excisable goods regarding the replacement of old stamps with new ones.

During the first part of 2004, the following legislative and sub-legislative acts have been also enacted and approved:

- Law HO-25-N on Amending the Armenian Customs Code.

- Law HO-74-N on Amending the Law on Approving the List of Such Zero-Rated and Non-Excisable Goods Imported by Organizations and Private Entrepreneurs, for which Customs Agencies Do not Accrue and Collect VAT".

- Order 03/97-N of the Head of the Armenian State Customs Committee from December 15, 2003, on Approving the Sample Report on the Presence of a Customs Declaration Marked "Clearance Authorized" and "Cargo Received".

- Order 03/69-N of the Head of the Armenian State Customs Committee from September 22, 2003, on Approving the Procedure and Cases of Preliminary Declaration of Goods Moved across the Armenian Customs Border under the Customs Regimes "Import for Free Circulation" and "Export for Free Circulation".

- Order 04/04 of the Head of the Armenian State Customs Committee from January 24, 2004, on Approving the Official Commentary of the Armenian State Customs Committee on the Salary of Customs Servants and the Customs Service Career Record.

- Order 04/11-N of the Head of the Armenian State Customs Committee from February 9, 2004, on Amending Order 03/42-N of the Head of the Armenian State Customs Committee from June 4, 2003.

- Order 04/49-N of the Head of the Armenian State Customs Committee from April 27, 2004, on Approving the Procedure of Accreditation of Journalists in the Armenian State Customs Committee.

LEGISLATIVE UPDATE - AZERBAIJAN

1. The Cabinet of Ministers Decision 34 from March 20, 2004, on Introducing Changes to "Customs Duty Rates on the Import of Goods to Azerbaijan" adopted by the Cabinet of Ministers Decision 161 from December 22, 2003, which was an addition to the Cabinet of Ministers Decision 80 from April 12, 2001, "On Customs Duty Rates on Export-Import Operations and Customs Clearance Duty Rates Charged in the Republic of Azerbaijan".

This Cabinet decision has changed the tariff rate on the 10th category of goods and positions 1001100000, 1001901000, 1001909100 and 1001909900 from "5" to "0".

2. The Cabinet of Ministers Decision 58 from April 20, 2004, on Introducing Changes to "Customs

Duty Rates on the Import of goods to Azerbaijan", adopted by the Cabinet of Ministers Decision 80 from April 12, 2001, "On Customs Duty Rates on Export-Import Operations and Customs Clearance Duty Rates Charged in the Republic of Azerbaijan.

This Cabinet decision has changed some customs duties on the import of a number of goods to ad valorem duties, with 15%-rate for the items attributed to the following category positions: 0303, 0304, 0305, 0306, 0307, 1604, 3923, 3924, 5607, 5701, 5702, 5703 and 5904.

3. The Cabinet of Ministers Decision 59 from April 30, 2004, on Introducing Changes to the "Regulations for Physical Entities Transporting Goods that are not Earmarked for Manufacturing or Commercial Activity across the Azeri Customs Border" adopted by the Cabinet of Ministers Decision 105 from May 31, 2001.

This Cabinet decision has reduced the allowed amount of fish caviar exported by physical entities from 660 to 200 grams.

4. The Cabinet of Ministers Decision 66 from May 12, 2004, on Introducing Additions to the "List of Goods Imported to Azerbaijan that Have a VAT Exemption" adopted by the Cabinet of Ministers Decision 124 from July 13, 2000.

This Cabinet decision has added to the list lignite (coal) as a VAT exempt item.

5. The Cabinet of Ministers Decision 67 from May 18, 2004, on Introducing Additions and Changes to the "Regulations for Physical Entities Transporting Goods that are not Earmarked for Manufacturing or Commercial Activity across the Azeri Customs Border" adopted by the Cabinet of Ministers Decision 105 from May 31, 2001.

This Cabinet decision has clarified the restrictions on the conveyance of firearms.

6. The Cabinet of Ministers Decision 73 from May 24, 2004, on Introducing Changes and Additions to some Cabinet Decisions.

This Cabinet decision is aimed to promote the development of silkworm breeding in the country through giving a VAT exemption to silkworm seed. Also, according to that decision, the tariff rate for the category position of 0511998010 has been changed from "15" to "0".

7. The Cabinet of Ministers Decision 74 from May 24, 2004, on Introducing Changes to "Customs Duty Rates on the Import of Goods to Azerbaijan" adopted by the Cabinet of Ministers Decision 161 from December 22, 2003, which was an addition to the Cabinet of Ministers Decision 80 from April 12, 2001, "On Customs Duty Rates on Export-Import Operations and Customs Clearance Duty Rates Charged in the Republic of Azerbaijan".

This Cabinet decision has changed the tariff rate on the 6th category of goods and positions 0602101000 and 0602201000 from "15" to "0".

During the first part of 2004, the following legislative and sub-legislative acts have been also enacted and approved:

- Law 606-11Q from March 19, 2004, on the Ratification of The Agreement on Cooperation and Mutual Assistance in the Area of Prevention, Research and Elimination of Consequences of Customs Violations signed between the Governments of the Azerbaijani Republic and France in Paris on January 22, 2004.

- Law 710-11Q from July 29, 2004 on the Ratification of The Agreement on Cooperation and Mutual Assistance in the Area of Customs between the Governments of the Azerbaijani Republic and Turkey signed in Ankara on April 13, 2004.

- Law 650-11QD from July 29, 2004, on Introducing Changes and Additions to the Customs Code of the Azerbaijani Republic.

- Decree of the President of the Azerbaijani Republic 60 from May 6, 2004, on Introducing Changes to the Structure of the State Customs Committee to Establish a Medical Service Department within the Committee.

- Decree of the President of the Azerbaijani Republic 84 from June 30, 2004, on Introducing Changes and Additions to the Structure of the State Customs Committee to Transform the Department of Statistics and Information Technologies into the Main Department of Statistics and Information Technologies.

LEGISLATIVE UPDATE - GEORGIA

1. The Law on Amending the Georgian Customs Code, adopted on February 24, 2004 and enforced on April 5, 2004.

This law is aimed to ensure a refund of the overpaid customs duties since April 5, 2004. No more than 3% of sums transferred to the united account of budget revenues from customs bodies are removed to the special refund sub-account of the state treasury. The percent of the refunded amount is defined by the respective Order of the Ministry of Finances of Georgia. It is restricted to transfer the refund of the overpaid customs duties to cover liabilities of other tax-payers. Rules and terms of refunding are established by the Georgian Government.

Taking into account period of limitation of payment of taxes, established by the Tax Code of Georgia, the obligation to refund the overpaid amount of customs duties emerges the day of submission of written request of a tax-payer to customs bodies. An interest rate, added to the amount of refund for each quarter, is equated to the one established by the National Bank of Georgia for government loans.

2. The Law on Amending and Annexing the Law on Customs Tariffs and Custom Payments, adopted on December 31, 2003, and enforced on January 1, 2004.

This law provides a tax exempt from customs payments for importing hard wheat (category/position 100110000), soft wheat and seed meslin (category/position 100190910) and rye (category/position 100110000) from the WTO member countries to Georgia, starting from January 1, 2004.

It also make a tax exempt for importing tobacco goods and raw materials to Georgia (except for tobacco of brand "Trapizon") until January 1, 2005.

In addition, goods brought to the customs territory of Georgia in the regime of a temporary import and/or export are taxed at the same rate as those goods imported in the regime of free circulation, starting January 1, 2004.

3. The Order 160 of the Minister of Finance of Georgia from March 17, 2004, on Adding to the Order 309 of the Minister of Finance of Georgia from June 13, 2003, on Determination by the Customs Department of the Ministry of Finance of Georgia of Operational Territories of Customs Bodies and Locations of Customs Clearance.

The Order defines the following operational territories of customs bodies:

- Customs Department of Atcharia city of Batumi, Batumi, Khelvachauri, Kobuleti, Khulo and Kedi Districts;
- Regional Customs House "East" city of Tbilisi, Rustavi, Gardabani, Marneuli, Bolnisi, Tetrtskaro, Dmanisi, Tsalka, Sagaredjo, Gurdjaani, Telavi, Akhmeta, Lagodekhi, Qvareli, Dedoplistsqaro and Signaghi districts;
- Regional Customs House "North" - Kazbegi, Dusheti, Mtskheta, Tianeti, Akhagori, Khashuri, Gori, Kareli, Kaspi, Qornisi, Djava and Tskhinvali districts;
- Regional Customs House "West" - Poti, Kutaisi, Ozurgeti, Chokhatauri, Lanchkhuti, Senaki, Abasha, Khobi, Martvili, Tsqaltubo, Oni, Ambrolauri, Tsageri, Lentekhi, Tqibuli, Khoni, Terdjola, Vani, Baghdati, Sachkhere, Tshiatura, Zestaphoni, Kharagauli, Samtredia, Zugdidi, Chkhorotsqu, Tsalenjikha and Mestia districts;
- Regional Customs House "South" - Akhaltsikhe, Borjomi, Adigeni, Aspindza, Ninotsminda and Akhalkalaki districts;
- Regional Customs House "Railway" - Tbilisi, Poti, Kutaisi, Rustavi, Akhaltsikhe, Borjomi, Adigeni, Aspindza, Ninotsminda, Akhalkalaki, Khashuri, Gori, Kareli, Kaspi, Mtskheta, Kazbegi, Dusheti, Tianeti, Qornisi, Djava, Tskhinvali, Akhagori, Gardabani, Marneuli, Bolnisi, Tetrtskaro, Dmanisi, Tsalka, Sagaredjo, Gurdjaani, Telavi, Akhmeta, Lagodekhi, Qvareli, Dedoplistsqaro, Signaghi, Tsqaltubo, Oni, Ambrolauri, Tsageri, Lentekhi, Tqibuli, Khoni, Terdjola, Vani, Baghdati, Sachkhere, Tshiatura, Zestaphoni, Kharagauli, Samtredia, Ozurgeti, Chokhatauri, Lanchkhuti, Senaki, Abasha, Khobi, Martvili, Zugdidi, Chkhorotsqu, Tsalenjikha and Mestia districts;

Accordingly, the custom clearance locations and addresses are defined, as follows:

REGIONAL CUSTOMS HOUSES

Customs Department of Atcharia

Clearance Customs Office (Batumi, Adlia)
Batumi Port (4, Shavshveti St., Batumi)

East

Tbilisi (1. 14, Yumashev St., 2. 95, Aghmashenebeli Ave., 3. Tbilisi Airport)
Mtskheta District (Zahesi settlement, 105, Mshvido-ba St.)
Rustavi (38, Pirosmeni St.)
Telavi (Tbilisi Highway, 2 Lane)

North

Gori (2, Tskhinvali Highway)
Mtskheta (1, Natakhtari St., Narekvavi District)

West

Poti (7, Khobi St.)
Tsqaltubo District (Village of Qvitiri, "Sabazho-Camping")
Zugdidi (1, Janashia St.)

South

Adigeni District (Village of Ortchosani)

Railway

Tbilisi (154, Queen Tamar Ave.,)
Rustavi (38, Pirosmeni St.)
Tsqaltubo District (Village of Qvitiri, "Sabazho-Camping")

4. The Decree 68 of the President of Georgia from February 19, 2004, on Changes on Structural reorganization of the Customs Department of the Ministry of Finance of Georgia.

This Presidential Decree abolishes a structural unit of the Customs Department under the Ministry of Finances of Georgia, namely, regional customhouse "Energy Customs". The functions of that particular structure are transferred to other customs bodies, in accordance with the amendments to the Charter of Customs Department and other legal documents.

5. The Agreement between the Governments of the GUUAM Member Countries "On Mutual Aid and Cooperation in the Field of Customs".

This agreement was signed by the Governments of the GUUAM member countries on July 4, 2003, in Yalta. It came into force, from the Georgian side, on December 30, 2003.

Pursuant to the agreement, the participating parties should provide, upon request, the needed reliable information, related to the customs legislation, conveyance and unloading of goods, their storage and destination, value and origin, as well as the data concerning deliberate actions that may infringe the customs legislation.

According to the agreement, the contracting side should, upon request, take the appropriate measures to supervise individual natural and legal persons, if they have infringed or are suspected of the infringement of the customs legislation on the territory of the contracting party state; the place of cargo storage, if the cargo is destined to the territory of the requesting country for illegal circulation; the conveyance of cargo in the case of serious infringement of the customs legislation by the second contracting party, the requesting state; the transport means if they were used or may be used for the infringement of the customs legislation of the contracting party, the requesting state.

The customs bodies of the contracting parties shall render assistance to each other, within their competence, in the event they consider it necessary for the proper enforcement of the customs legislation, in particular, in the case of having some information regarding the following:

- actions that may cause the infringement of the customs legislation and represent interests of the second contracting party;
- new methods and means used for the infringement of the customs legislation;
- goods that are the object of the infringement of the customs legislation on the territory of the second contracting party;
- individual persons suspected of the infringement of the customs legislation on the territory of the second side-country;
- transport means and containers suspected to be used or will be used as the means of the infringement of the customs legislation on the territory of the second contracting party state.

1. In 6 days, after the day of the submission of written request

2. The World Trade Organization

3. GUAM - Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova

REGIONAL NEWS

Corridor Development in the South Caucasus

On May 18-19, 2004, the Georgian Ministry of Infrastructure and Development, the World Bank and the UNECE organized in Tbilisi a Workshop on Corridor Development in the South Caucasus. Two corridors were considered separately: Batumi/Poti-Baku and Batumi/Poti-Yerevan. The Workshop objectives were: a) to develop solutions for improved transit and international multi-modal transport b) to develop solutions to implement integrated border management/single processing window at the border and c) to develop solutions to exchange transport and trade information on a corridor basis. Participants from state institutions, business companies and non-governmental organizations from Armenia, Georgia and Azerbaijan, as well as from international entities, such as the OSCE, attended the Workshop.

The Workshop participants made short-term and long-term recommendations concerning transit strategies in each participating country and the region as a whole targeted at promoting economic integration in the South Caucasus through facilitating development of both trade and transport. Recommendations concerned improvement of appropriate legislation and procedures, infrastructure, information exchange, security, coordination and monitoring of border and other related services, etc. All the Workshop materials (presentations, background papers and recommendations) are available at:

<http://wbln0018.worldbank.org/ECA/Transport.nsf/ECADocByLink/6D10CF14086496E585256EAE0061503D?Opendocument>.

For more details on Trade and Transport Facilitation topics visit the Global Facilitation Partnership for Transportation and Trade visit

<http://www.gfptt.org/Entities/TopicList.aspx>.

Customs Cooperation of the CIS Countries

The 39th Meeting of the Council of the Heads of Customs Services of the CIS countries took place in Yerevan on June 3, 2004. The Council's activities are targeted to more effective use of economic potential of the CIS countries, better collaboration of participating states against illegal trade and trafficking, etc. The information network between 12 states operating within the scope of customs cooperation allows tracking the movement of any good through the CIS borders. Representatives of 9 CIS countries attended the Meeting aimed at promoting regional integration and coordination of customs services, as well as ensuring harmonization of customs legislation and simplification of customs procedures. It was mentioned at the Meeting that there is an urgent need to move from declarative statements to concrete steps in order to jointly decrease crime at the CIS customs.

The main focus of regional cooperation was pointed out to be the fight against customs illegalities, corruption and shadow economy. There was also a discussion of the draft agreement concerning unification and simplification of customs formalities in the case of the cross-border power transmission. Particularly, the Head of the Armenian Customs Committee Armen Avetisyan said that the problems regarding regulation of all border- and transit-related issues between Armenia and Georgia, one of the main trade partners of Armenia and the key transit territory for the country, should not be discussed at the CIS Meeting, since they are put into the agenda of bi-lateral negotiations. In the context of improving border coordination between these two neighboring states, the Head of the Customs Department of Georgia Georgi Godabrelidze assured that certain measures would be taken in the nearest future by respective Georgian authorities.

For more details see daily "Hayastani Hanrapetutyun", #101 (3480), June 4, 2004.

Structural Reforms at the Azeri Customs

A new customs warehouse has been put into service outside Baku. The warehouse will contribute not only to the development of Baku, but that of the whole region. The customs warehouse has been set up by the British Murphy company. The warehouse will help Azerbaijan provide for a corridor for international trade and transport. It will mostly accommodate goods being exported and imported to and from Iran and Georgia.

The Baku Automobile Vehicles Customs Checkpoint, with authority to operate on the entire customs territory of the Azerbaijan, has been established as well. Its main objective is to enforce the observance of the customs legislation at the time of clearance of automobile vehicles and prevent cases of tax evasion and other illegalities. Starting from June 15, 2004, all automobile vehicles brought to the territory of the country (except for the Nakhchivan Autonomous Republic), as well as those that did not undergo the customs clearance procedure before the indicated date, are to be registered at the Baku Automobile Vehicles Customs Checkpoint.

To strengthen customs control over cargo transported by ferry-boats and to prevent the illegal circulation of radioactive substances, the UPK-PM-5000 radiation detectors have been installed at the "Bara-Kechidi" Customs Checkpoint. The modern devices, which have been put in the customs checkpoint's railway terminal, will enable the customs officers to exercise effective control over the cargo passing through the checkpoint in trains and transport vehicles and help detect any sources of radiation.

For more details see www.az-customs.net

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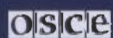
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