



TOWARDS TRADE FACILITATION in the South

MESSAGE FROM CENTRAL ASIA



My trip to Baku happened thanks to the Project implemented by our NGO "Fergana Valley Lawyers without Frontiers", with support of the Eurasia Foundation Office in Kyrgyzstan.

The Project entitled "Towards Trade Facilitation in the South Caucasus" carried out by regional NGOs is also funded by the Eurasia Foundation South Caucasus Cooperation Program and the OSCE Offices in the region. It is aimed at promoting transparency at regional customs and facilitating trade across the South Caucasus region. We became highly interested in this Project and decided to learn from its experience. Our interest was driven primarily by the fact that, for three years now, these organizations have been successfully implementing joint regional projects.

The meeting in Baku that we attended, together with Georgian state officials and representatives of the Union of Entrepreneurs, the Association of Freight Forwarders and the Association of Merchants and Producers of Azerbaijan, was organized within the abovementioned Project. It helped us receive useful information concerning successful experience of three regional organizations and their cooperation aimed at trade facilitation in the region. Georgian guests had the opportunity of laying the ground for cooperation with Azeri organizations and learn from their best practices. I believe that if Georgian businesses also had a possibility to attend the meeting in Baku, they would have been able to make contacts with their Azeri colleagues to fruitfully cooperate with them in the future.

Caucasus

Participants of the meeting devoted to the issues of trade cooperation between Azerbaijan and Georgia were competent enough to discuss achievements, problems and prospects of that cooperation. It was good to see that those representatives of state institutions, who actively participated at the meeting, appreciated the need for cooperation with the NGO sector in order to further inter-state relations.

In my opinion, the importance to discuss the obstacles to the development of trade cooperation and economic relations between Azerbaijan and Georgia and to seek joint solutions was obvious. All participants gathered reliable and comprehensive information on the current state of affairs related to "Azerbaijan-Georgia" trade and economic cooperation and talked about the perspectives of expanding the cross-boundary collaboration.

The meeting was also quite helpful for us, guests from Central Asia. We witnessed how actively and effectively can NGOs facilitate the development of economic cooperation between neighboring countries, the creation of an atmosphere of mutual understanding and friendship relations between states and citizens for the sake of maintaining stability and peace in the region.

Hopefully, regional projects of this nature could be implemented not only amongst the South Caucasus countries, but also between the South Caucasus and Central Asia regions to develop trade and economic collaboration and to develop transport corridors between these regions.

Adilbek Ismailov

Regional Coordinator in Kyrgyzstan
Network of Centers for Legal Assistance in Cross-Bordering
Issues in the Fergana Valley

REGIONAL MEETINGS IN BAKU, YEREVAN AND TBILISI

In November-December 2004, there were three regional meetings organized within the joint Project "Towards Trade Facilitation in the South Caucasus" funded by the South Caucasus Cooperation Program of the Eurasia Foundation and the OSCE Offices in participating countries. Those events were planned to introduce the Project achievements, and present recent developments and main problems related to trade facilitation in the region. The purpose of regional meetings was to bring together practitioners, experts and businessmen to discuss the challenges concerning import and export

procedures and practices and perspectives of economic integration in the South Caucasus.

The first meeting was prepared by Azeri partner organization - Entrepreneurship Development Foundation - and held in ICR Plaza Hotel, Baku, on November 26, 2004, with participation of representatives of state institutions (namely, Cabinet of Ministers and Tax Ministry), NGOs, private companies, donor organizations and journalists.



Taleh Shamchiev, Azeri Project Director, welcomes participants

Georgian participants included David Kordzadze, Ministry of Finance; Levan Jarkava, Customs Department of the Ministry of Finance; Giorgi Kalandadze, Ministry of Economic Development; Niko Tevdorashvili, Project Director; Dato Narmania, Project Expert; and Ani Katamidze, Director of Association of Young Economists of Georgia. Participants from Central Asia also attended the meeting. Prior to the meeting, the Eurasia Foundation grantees from Uzbekistan, Kirgizstan and Tajikistan contacted partner organizations in Armenia, Azerbaijan and Georgia with a request to visit the South Caucasus to learn from their experience of regional cooperation in the field.



Representatives of Association of Young Economists of Georgia in Baku

Intermediate results of the comparative analysis of appropriate legislation and statistical data, possibilities of expansion of trade cooperation and perspectives of development of transport corridor between two countries, taxation policy in bordering zones and institutional problems hindering trade facilitation in Azerbaijan, as well as trends of economic development in all countries of the region, were introduced and discussed at Baku meeting.

Adilbek Ismailov, Director of "Lawyers of Fergana Valley", made a presentation regarding difficulties of trade development in bordering zones of the Central Asia region.

The next meeting took place in Congress Hotel, Yerevan, on December 17, 2004. Center for Regional Development/Transparency International Armenia hosted participants from Georgia, among whose were Niko Tevdorashvili and Dato Narmania from Georgian partner NGO - Association of Young Economists of Georgia - and Levan Djarkava from the Customs Department of the Georgian Ministry of Finance. There were also representatives of the Armenian Customs Committee, Ministry of Trade and Economic Development, Ministry of Communication and Transportation, Ministry of Finance and Economy, import and export-related businesses, business associations, international organizations and media.



Participants of Yerevan meeting address questions to Georgian guests

At the meeting in Yerevan, Armenian business companies involved in trade and transportation were briefed about implementation of the joint project, ongoing reforms related to customs and tax services in Georgia and Armenia, and challenges of regional integration in the South Caucasus. The audience was particularly informed that some of Georgian transit procedures would be simplified and certain payments would be cancelled in the year of 2005.

Participants from state institutions and private companies addressed various questions to representatives of both Georgian and Armenian Customs Services to clarify certain procedures, which are currently hampering import and export development in Armenia. The attendees of Yerevan meeting specifically targeted issues of excise taxes, road fees, approval of the Armenian veterinary permissions by respective Georgian authorities, etc.



Armenian businessmen and state officials discuss the presented materials

Lastly, Armenian and Azeri participants attended the regional meeting in Tbilisi organized by Association of Young Economists of Georgia in Marriott-Tbilisi Hotel on December 24, 2004. Armenia was represented there by Amalia Kostanyan, Project Director, Anna Danielyan, Association of Freight Forwarders, and Pavel Siradeghyan, Ministry of Transportation and Communication. The Azeri delegation consisted of Tale Shamchiyev, Project Director, Sabit Bagirov, President of Entrepreneurship Development Foundation, Babek Muradov, President of "Effect" holding company, and Mr. Baba Mamedov, President of "Atlas" company. Among Georgian participants were representatives of the Customs Department of the Georgian Ministry of Finance, Ministry of Economic Development, Ministry of Agriculture, local NGOs and journalists.

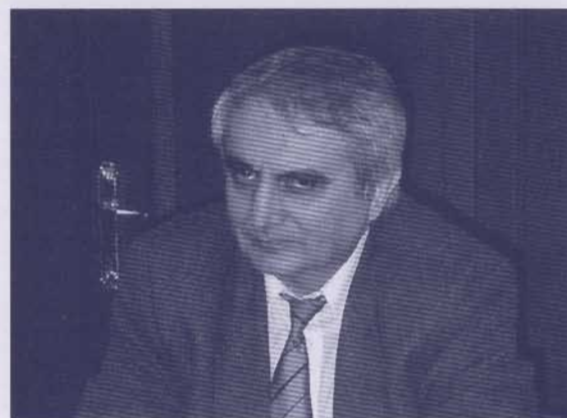


Armenian, Azeri and Georgian participants at Tbilisi meeting

In Tbilisi, Project Directors from three participating countries summarized the results of regional meetings in Baku and Yerevan, introduced the first issue of Regional Bulletin and discussed how to implement "on-line" consultations. There were presentations regarding opportunities and risks of Georgia's membership in WTO and new perspectives of the countries of the region in the light of new European neighborhood policies. Participants also highlighted recent developments of trade facilitation in the region and pointed to the areas of future collaboration after the completion of the given project. One of the mentioned areas was related to European integration of the South Caucasus countries.



Presentation in Tbilisi on perspectives of the South Caucasus countries in the light of new European Neighborhood Policy



Many politicians and economists, culture specialists and sociologists in Azerbaijan are asking the question: "What does the new neighborhood policy mean to Azerbaijan and what can the possible membership of the European Union imply?"

Today, there is a good cooperation between Azerbaijan and the European Union, which includes several directions:

1. Trade: For more than 13 years of independence, the share of Europe in our imports rose from almost 0 to 32% (or US\$841 mln) in 2003. This is nearly as much as for import with the CIS countries. Export share of Europe has also increased from an insignificant level to 66 % (or US\$1,701 mln), which is five times as much as our exports to the CIS region¹.

2. Technical assistance: It amounted to Euro 399 mln in 2004 (TACIS, humanitarian assistance in the form of food, housing and medicines for refugees, food safety programs, infrastructure investments)². At present, an Indicative Program for 2004-2006 is currently being implemented through TACIS³.

3. Infrastructure development in the field of transportation and communication: This involves well-known projects such as Silk Route-TRACECA, INOGATE, fiber-optic cable, etc. Totally, 39 technical assistance projects through TRACECA (Euro 57.7 mln) and 14 infrastructure projects (Euro 52.3 mln) have been implemented so far.

4. Oil projects: The leading role is played here by companies representing European countries: BP, Statoil, TotalFinaElf, Agip and Repsol.

5. Business projects in the non-oil sector: In 2002, investment by EU member-countries in the non-oil sector of the Azerbaijani economy exceeded US\$ 170 mln.

As we see, Azerbaijan is already on the way to integration into European economy. However, the European Neighborhood Policy is opening up new opportunities to our country, which go beyond the current frames of cooperation between Azerbaijan and the EU. According to the European Commission's Strategic Document of May 12, 2004, the European Neighborhood Policy provides with the following new opportunities to neighbor countries.

First of all, there are possibilities associated with the common market. The implementation of the European Neighborhood Policy is ensuring new opportunities for transition to integration, including partner countries' entry into the EU market, as noted in the Statement adopted in March 2003. After the EU enlargement, its population approached 455 mln people, while its combined GDP is equal to 27 % of the world's GDP (which is close to the US GDP). The EU common market reached about 19 % of the world trade in terms of goods and 24 % in terms of services.

The common market includes three main components:

- **Customs unification**, which refers to trade of all goods, bans import and export duties and any other related levies among member countries, as well as introduces a common customs fee for the non-member (third) countries. Customs within the EU were eliminated on January 1, 1993.

- **Elimination of all obstacles impeding competition and interaction** among the economies of member countries. There are necessary conditions of free movement of goods, services, capital, persons.

- **Common policies** in the fields of **agriculture, anti-monopoly, trade**, etc.

Therefore, the entry into the common market will depend on Azerbaijan's readiness to ensure the mentioned fundamental freedoms. The common market is a single business environment, where all goods meet common standards (particularly, those related to security and environment). The goods that are meeting those common standards can be sold in any of the 25 EU member-countries.

Second window of opportunities is that the European Neighborhood Policy will encourage reforms aimed at speeding up socio-economic development of the country, reducing poverty, creating jobs, meeting basic labor requirements, encouraging social dialogue, minimizing the disparity between regions, improving working conditions, improving the effectiveness of social benefits and advancing the national systems of social security. Harmonization of relevant legislation, the mutual openness of economies and the permanent lowering of trade barriers will stimulate investment and economic growth and thus reduce unemployment. It should be mentioned in this respect that the EU makes 46 % of direct foreign investment in the world economy and attracts 21 % of them.

Thirdly, the EC will suggest to all new neighbors introducing a new financial mechanism in 2007 - European neighborhood instrument - which will cover a number of specific fields of cooperation, namely, cooperation at borders. This will be an additional instrument to what has been already applied. As a part of this mechanism, all partners of the European Neighborhood Policy will have the right to receive support from the EU. Prior to that, in 2004-2006 certain neighborhood programs will be implemented in addition to bordering, regional and international cooperation.

The fourth window of opportunity is that recognizing the importance of the European Neighborhood Policy, the EC proposed a dramatic increase of financial assistance to new neighbors to be provided through existing or future funds.

Finally, the EC is considering a possibility of the gradually opening of the access to its certain programs, which will facilitate expansion of communication related to cultural, educational, environmental, scientific-technical issues.

New cooperation in the form of European Neighborhood Agreements will be developed based on the progress measured by the EC in the light of meeting priority objectives set forth in its action plans. It has to be acknowledged that the process of studying and assessing of the anticipated economic implications of the Azerbaijan's neighborhood with Europe by researches (both from state institutions and NGOs) has just recently started. For that reason, we have currently more emotions than information presented as figures, charts or forecasts.

The EU membership of the countries involved in the European Neighborhood Policy is possible. Everything depends on us and our efforts to bring our countries closer to the EU values based on so-called Copenhagen criteria:

- stability of the institutions ensuring democracy, protection of human rights, supremacy of the law and protection of minorities;
- true market economy and the ability to cope with the strong competition within the EU boundaries of the EU;
- adoption of common rules, standards and policies that form the basis of the EU legislation, including the commitment to political, economic and currency unification

A member of the EC and the EU enlargement commissioner Gunter Verheugen mentioned in one of his statements: "Our goal is to build special relations with our neighbors on the basis of common values and interests. The depth, quality and intensity of these relations will reflect the desire of both parties to contribute to the strengthening of these values and interests, as well as their interest and potential to meet the requirements of economic integration".

Are we ready for this?

Sabit Bagirov

Entrepreneurship Development Foundation

¹<http://www.azstat.org>

²http://europa.eu.int/comm/external_relations/azerbaidjan/intro/index.htm

³TACIS. Indicative Program for Azerbaijan. 2004-2006.

HOT-LINE



The Armenian Association of Freight Forwarders considers the following customs and tax-related issues to be critically important for improving freight forwarding and reducing its cost.

First, we are concerned about **the use of seals**. Our studies have demonstrated that the seals that are currently in use cannot resist dynamic blows and are therefore frequently damaged, which causes the freight sender or receiver to pay about 200,000 drams (about US\$400). This practice is at least unfair to those involved in trade. Particularly, there are specific concerns about direct sealing of containers in wagons, which is not practiced in other CIS countries.

Another problem is that **import documents** are often in **English or French**. The lack of translators at customs points makes freight forwarders to pay for translator's travel to the customs points. Thus, customs clearance, which would otherwise have taken one hour, lasts several hours, and freight forwarders also have to bear the costs of vehicle redundancy. Specifically, this is a common problem at the Meghri customs point.

Thirdly, there is a certain **fee** charged by respective authorities **for both individual and shared empty containers** brought to Armenian territory, which is the case only in Armenia. One must pay fees and produce documents even for importing into Armenia empty containers serving as a shield. Then, the next very important and urgent, from the standpoint of freight forwarders, issue is the necessity of **making "Karmir Blur" station a customs point**.

According to Article 23 of the Armenian Customs Code, it is the declarant who makes **a choice of the customs regime**, but, in fact, for all 14 regimes (except "importation for free circulation" regime) the permission of the customs point head or, in some cases, the Customs Committee Head is required. We have raised this issue with the Customs Committee of Armenia, but have not received a response yet.

Under Article 47.1 of the Law on Amendments and Additions to the Profit Tax Law, which became effective on April 1, 2004, **"minimum profit tax** shall be accrued and paid, at 1% interest rate, against the accrued sales revenue for the previous month."

This provision places freight forwarders in a trap, because their turnover is only 2-3%, and the remaining 97-98% is in fees paid to foreign freight forwarders. Armenia inherently has some of the highest import and export costs in the world running close to some African countries and Mongolia, which are in a much worse geographic position than our country. The introduction of that provision has increased what were already high transportation costs, and rendered Armenia-based freight forwarding companies less competitive than non-resident ones. The Association has raised all of these issues before the Tax Inspectorate of Armenia and the Ministry of Finance and Economy, but has been neglected by both.

It is also worthy mentioning the issues concerning the activities of Armenian freight forwarders outside of Armenia. Though a number of improvements have recently taken place in Georgia, there still remain various unresolved problems such as **the Georgian transit of goods subject to certification**. The Armenian Ministry of Agriculture normally provides a letter to the freight forwarding company, which has to get the approval of the Georgian Ministry of Agriculture. The approval is often delayed during delivery from the Ministry to the border point, due to whatever reasons, which meaninglessly renders the vehicle idle. Meanwhile, the goods (most of which have animal origin) are in a hermetically-sealed vehicle or container, and cannot inflict any harm to Georgia's environment. We suggest mitigating this procedure, or allowing a Georgian authorized institution to endorse the certificate at the customs point, or simply accepting the document issued by the Armenian counterpart institution.

All noted above are only some of the problems that Armenian freight forwarders encounter during their everyday activities.

Anna Danielyan

Secretary General
Armenian Association of Freight Forwarders

REFORMS AT GEORGIAN CUSTOMS



In order to insure progressive advancement in such priority directions of customs policy as customs revenue collection, support for the country's economic development and security of the population of Georgia, a number of radical changes were introduced during the fiscal year 2004.

The criterion for the assessment of effectiveness of the customs system functioning is the volume of the collected budget revenues. The overwhelming majority of the activities set out in the Customs Department strategy action plan for 2004 have been virtually completed. Below is a brief description of the last year priority activities.

Structural Reform: The initial phase of the structural reform started in March 2004. It covered both the central government level and regional customs structures. This phase included the disbanding of "Energetika" mixed type regional customs house, while another customs house, "Railroad", was disbanding during the second phase. In the meantime, Customs Departments of autonomous republics (Abkhazia and Adjara) were disbanding in August 2, 2004, and only 4 regional customs houses remained ("East", "West", "North", "South").

By January 5, 2005, Georgia kept only 2 regional customs houses, "East" and "West". In parallel, 3 new structural units were established: customs checkpoints "Mamisoni" and "Gori" and Department of Excisable Goods, whereas Central Accounting Office, Human Resource Division and Logistics Department were consolidated into one administrative unit. All functions that involve customs control and clearance have been delegated to regional Customs, whereas the Customs Department within the Ministry of Finance currently performs purely supervisory functions.

Personnel Reform: By early 2004, a total number of employees of the Customs Department of the Ministry of Finance comprised 1,787 officers. However, during the initial phase of the personnel reform this amount was cut down by 641, followed by downsizing by 118 employees during the second phase. At present, the total number of the customs staff is 1,028.

Fiscal Improvements: Reforms and activities aimed at significant reduction of illegal commodity turnover and implemented last year have positively affected budget revenues. The 2004 customs revenue forecast (498.2 million GL in the beginning of the year) have doubled by the end of the year pursuant to the amendments made to the Law on State Budget. In August, 2004, there were 557.3 mln GL collected and later revenues reached 614 mln GL. In fact, collected revenues in 2004 exceeded the forecast and amounted to 630.4 mln GL, which is twice as much as the forecast for the previous year.

Revenues from tobacco imports have grown twice, while 80% revenue growth was recorded for imports of oil products and legalization of imported goods. The recorded volume of imports from Russia was increased by 1,000% and, in some cases, even by 3,000%. Analytical studies conducted for several months have detected violations with costs of nearly 2 mln GL. The construction of "Krasniy Most" ("Red Bridge") customs checkpoint in conformity with modern standards and infrastructure

development activities are on the final stage. Upgrades have been made to technical control schemes in Tbilisi Airport and "Sarpi" customs checkpoint. Gradual increase in remuneration has also been recorded in the current year. Classification of public service positions was made in conformity with relevant categories, whereas salary rates have been made appropriate to the scope and complexity of functions performed. While complete remuneration constituted 6-7% of total salary, and the remainder was paid in the form of bonuses, the rates of which were constantly changing, today, in accordance with the new remuneration system, these amounts constitute the complete fixed wage base. This improvement will guarantee stable monthly revenue for customs employees, which will improve their living conditions.

Priorities of 2005: The year of 2005 must be the year of continuing reforms. In addition to ensuring the stability of budget revenues, we have identified the following priorities: customs infrastructure development and completion of personnel reform (personnel selection process).

Levan Jarkava
Customs Department
Ministry of Finance of Georgia

TRADE STATISTICS

Azerbaijan and Armenia are Georgia's neighbors and trade partners. In recent years, the trade turnover between Georgia and Azerbaijan, as well as between Georgia and Armenia, was characterized by sustainable growth rates that doubled for each country in 2004 as compared to 2000. In 2004, 10% of Georgia's foreign trade turnover fell to the share of those countries. In 2004, the growth of Georgian imports from Azerbaijan has gone up by 69% since last year. Meanwhile, imports from Armenia have been gradually decreased, amounting to only US\$ 4.5 mln in 2004. Negative balance of Georgia's trade with Azerbaijan is growing year after year, amounting to US\$133,9 mln in 2004, whereas the trade balance between Georgia and Armenia is positive and characterized by growth trends, reaching last year US\$ 50,8 mln (see below in US\$ mln.).

Georgia- Azerbaijan

	2000	2001	2002	2003	2004
Foreign trade turnover	78,3	85,3	104,8	109,8	186,9
Export	21,3	10,6	25,2	14,9	26,5
Import	57,0	74,7	79,6	94,9	160,4
Balance	-35,7	-64,1	-54,4	-80,0	-133,9

Georgia- Armenia

	2000	2001	2002	2003	2004
Foreign trade turnover	27,2	17,2	29,1	48,9	59,8
Export	13,8	12,5	21,6	42,5	55,3
Import	13,4	4,7	7,5	6,4	4,5
Balance	0,4	7,8	14,1	36,1	50,8

Source: Tax Department of the Ministry of Finance of Georgia

The analysis of trade statistics shows that the following main categories of products from the Foreign Trade Classification are imported and exported between the South Caucasus countries:

Georgia - Azerbaijan (import):

- mineral fuels, mineral oils and products of their distillation, bituminous substances, mineral waxes;
- polymers, plastics and articles thereof;
- ferrous metals;
- organic chemicals;
- animal fats and oils and their cleavage products.

Georgia - Azerbaijan (export):

- sugars and sugar confectionery;
- beverages, spirits and vinegar;
- fertilizers;
- polymers, plastics and articles thereof;
- dairy produce, birds' eggs.

Georgia - Armenia (Import):

- salt, sulphur, earths and stone, lime and cement;
- land vehicles;
- glass and glassware;
- dairy produce.

Georgia - Armenia (export):

- cereals;
- mineral fuels, mineral oils and products of their distillation, bituminous substances, mineral waxes;
- fertilizers.

QUESTIONS AND ANSWERS

Where and how shall the vehicles of personal use imported into the Republic of Armenia be processed?

Depending on their further use in Armenia, vehicles imported into the Armenian customs territory may be processed:

1) under the customs regime of "temporary import", through which vehicles registered in other countries and temporarily imported to Armenia shall be subject to processing under this customs regime.

Vehicles imported under this customs regime shall be completely processed at the customs border point of entry. Importation term for vehicles imported under the customs regime of "temporary import" may be extended by not more than one year on the basis of application filed to the State Customs Committee under the Armenian Government. At the customs point, a customs declaration shall be filled out for the vehicle and the following payments shall be made:

- in the case of vehicles registered in other countries, road user fee is charged for using Armenian roads, which is 10,000 AMD for each single entry of a passenger vehicle and for each 15 days of its stay in Armenia,
- environment protection fee is charged against the emission of harmful substances into the environment, which is 2,500 AMD for passenger vehicles,

- customs user fee is charged against services provided by Customs, which is approximately 9,000 AMD.

2) under the customs regime of "import for free circulation", which is applied to vehicles that are not registered in other countries and are subject to final use in Armenia.

In this case, an internal transit document (i.e. the transit manifest) shall be filled out at the customs border point, and the entire documentation related to that vehicle shall be packed and sealed in special envelopes. The second copy of the transit manifest shall be issued to the importer. The latter shall, within 10 days, arrive at the specialized vehicle clearance customs point located in Yerevan, 10, Admiral Isakov Str., for further customs processing. At the customs point, a customs declaration shall be also filled out and the following payments shall be made:

- customs duty, which is 10% of the amount of customs value of the imported vehicle,
- value added tax, which is 20% of the amount of customs value, and customs duty paid for the imported vehicle,
- customs user fee is charged against services provided by Customs, which is approximately 9,000 AMD.

What is the importation term specified for goods imported under the customs regime of "temporary import"? What fines may be imposed for violating the specified deadlines?

Answers to these questions may be found in Article 37 of the Armenian Customs Code, which says that the release of goods under the customs regime of "temporary import" shall be permitted for a term requested by the declarant, which, however, shall not exceed one year, and if the initially requested term is shorter than that, the State Customs Committee under the Armenian Government may, on the basis of application filed by the declarant, extend it by a period not exceeding one year from the day of importation, with the exception of goods and vehicles belonging to foreign diplomatic and consular missions, international organizations, representations of foreign states under international organizations and their personnel, in which case Customs authorities may, on the basis of application filed by the declarant, extend the term of temporary importation by a period requested by the declarant.

The Government of the Republic of Armenia may authorize the release of goods declared under the customs regime of "temporary import" or the extension of importation term by more than one year for goods, to which the customs regime of "temporary import" was applied.

Pursuant to Article 199 of the Armenian Customs Code, failure to re-export the goods and vehicles imported into the Republic of Armenia on condition of further re-exportation within the specified timeframe, or failure to re-import the goods and vehicles exported from the country on condition of further re-importation within the specified timeframe, shall result in a penalty in the amount of 10% of customs value of the goods and vehicles under question.

The same violation, if combined with alienation of the goods or vehicles, shall result in a penalty in the amount of the customs value of the alienated goods and vehicles.

How may a customs declaration be amended or cancelled?

This issue is regulated by Article 135 of the latest edition of the Armenian Customs Code, which says that a customs declaration may be amended only prior to its acceptance by Customs. Inaccuracies and/or mistakes found in the customs declaration after its acceptance may be corrected only after its cancellation and submission of a new customs declaration.

If inaccuracies and/or mistakes are found in the customs declaration after its acceptance, then:

- where there are grounds for launching an investigation on violation of customs rules, customs authorities shall launch an investigation. Customs official who makes the decision on imposition of an administrative penalty based on the results of the investigation shall, on the day following the day of the decision, file to the head of the customs authority a petition on cancellation of the customs declaration,
- where there are no grounds for launching an investigation on violation of customs rules, the declaration shall be cancelled, in accordance with the procedure laid down below.

The declarant may submit his application for cancellation of the accepted customs declaration to the customs authority that accepted the declaration.

On the day following the day of submission of the application on cancellation of the customs declaration, if no investigation on violation of customs rules is launched, the head of the customs authority shall make a decision on cancellation of the declaration, but where the review of the declaration does not reveal any grounds for cancellation of the customs declaration, the application shall be rejected, with rejection grounds presented to the applicant in writing.

The accepted customs declaration may be cancelled if it contains an inaccuracy or a mistake, or if the declared goods and/or vehicles have not been actually transported through the customs border of the Republic of Armenia and this circumstance involves or may involve a violation of customs rules if the declaration is not cancelled. Customs declaration may be cancelled by the customs authority or by a court decision, if it is mutually agreed between the declarant and the customs authority.

Cancelled declarations shall be withdrawn from circulation and customs database in accordance with the procedure specified by the higher customs authority. If the cancelled customs declaration was submitted to customs authorities for goods and/or vehicles actually transported through the customs border of the Republic of Armenia or for the purpose of changing the customs regime previously applied to these goods and vehicles, the declarant shall submit a new declaration for these goods and/or vehicles within the next ten days following the day

of cancellation of the customs declaration.

Goods and/or vehicles declared in the cancelled customs declaration shall remain under customs control before their release based on the new customs declaration.

What exemptions do persons arriving in the Republic of Armenia for permanent residence qualify for?

Personal belongings of natural persons arriving in the Republic of Armenia for permanent residence shall be exempt from customs duties. Pursuant to the amendment to the RA Customs Code, this exemption may be used by the same person only once in five years.

Are foreign persons (individuals and legal entities) entitled to import goods into the customs territory of the Republic of Armenia?

In order to authorize the release of commercial quantities¹ of goods declared by foreign persons under the customs regimes of "import for free circulation", "temporary import for processing", "temporary import" and "re-import", customs authorities shall request of them:

- to produce the supply contract signed with the person of the Republic of Armenia, while the declaration itself shall be made by the Armenian party to the supply contract,
- to register in the Republic of Armenia as a business, in accordance with the procedure laid down in the legislation.

LEGISLATIVE UPDATE - ARMENIA

1. Law HO-138-N on Amendment to the Customs Code, effective from July 1, 2005.

This amendment is concerned with Article 20 of the Armenian Customs Code, which provides that import and export restrictions and non-tariff regulation measures do not apply to foreign currency and currency valuables.

2. Law HCH-176-N on Import and Export of Cultural Values, effective from January 1, 2005.

This law regulates import and exportation of cultural values and repeals the appropriate law adopted in 1994.

3. Law HO-178-N on Amendment to the Customs Code, effective from January 1, 2005.

In the table of Article 102(1) of the Armenian Customs Code, the number "10" in the "Import" column of line 97 of the Commodity Classification Code was replaced with the number "0," which means that the duty for cultural values imported to Armenia has been reduced from 10 to 0 percent.

4. Law HO-25-N on Amendments to the Customs Code, effective from February 1, 2005.

These amendments are related to several articles in the Customs Code, which have been modified mainly to eliminate some weak points in the Customs Code, particularly, concerning customs regimes, and to clarify

the procedure of collecting non-accrued customs fees in cases, when goods, cleared under an exemption scheme, were used for a different purpose, and specify the rates of fines ordered in cases of failure to pay the customs fees during the required timeframe.

5. Government Decision 1149-N, from July 29, 2004, on Mandatory Conformity Certification in the Republic of Armenia and on Repealing the Government Decision 239 from May 12, 2000,

This Government decision approved a new list of goods subject to mandatory certification and repealed the previous list.

6. Government Decision 1228-N, from August 19, 2004, on Approving the Procedure of State Veterinary Surveillance of International Shipments of Livestock Products”.

This Government decision clearly defines the procedure of veterinary surveillance of livestock product shipments at the customs border of Armenia.

7. Government Decision 1377-N, from September 23, 2004, on Purchasing the 2005 Excise Stamps for the State Customs Committee of Armenia.

8. Government Decree 1506-N, from October 29, 2004, on Approving the Procedure of Importing and Handling Goods Subject to Mandatory Certification in the Republic of Armenia, and on Repealing Government Decision 15, from January 16, 1998.

This Government decision defines the procedure of importing to Armenia goods subject to mandatory certification and the process of issuing such certificates.

9. Government Decision 1629-N, from December 2, 2004, on Releasing the 2005 Excise Stamps for Some Excisable Goods in the Republic of Armenia.

LEGISLATIVE UPDATE - AZERBAIJAN

1. Decision 11 of the Cabinet of Ministers, from January 31, 2005, on the List of Some Repealed Decisions of the Cabinet of Ministers.

This Decision repeals the Decision of the Cabinet of Ministers 124, from July 13, 2000 (except for Provision 4) on the List of VAT Exempted Goods Imported into the Territory of the Republic of Azerbaijan. Pursuant to the repeal of this Decision, the below listed Decisions of the Cabinet of Ministers adopted in 2000-2004 shall be deemed ineffective:

- Decision 101, from May 25, 2001;
- Decision 6, from January 14, 2002;
- Decision 95, from June 12, 2002;
- Decision 6, from January 15, 2003;
- Decision 155, from December 4, 2003;
- Decision 163, from December 26, 2003;
- Decision 36, from March 31, 2004;
- Decision 66, from May 12, 2004;
- Decision 107, from August 3, 2004.

2. Decision 11 of the Cabinet of Ministers, from January 31, 2005, on the List of Some Repealed Decisions of the Cabinet of Ministers.

By this Decision, some categories of goods imported into the territory of the Republic of Azerbaijan, shall be exempted from VAT:

- property imported as an investment to be made by a foreign investor in the capital funds of a joint venture or for the establishment of an enterprise entirely controlled by a foreign investor;
- property imported into the Republic of Azerbaijan by employees of enterprises operating on foreign investments for their personal use;
- goods imported as humanitarian aid by humanitarian organizations legally registered in the Republic of Azerbaijan, as well as by other legal and natural persons under authorization of the State Committee on International Humanitarian Assistance;
- free aid, including technical assistance and goods imported for charity purposes by other states, governments and international organizations;
- goods imported into the territory of the Republic of Azerbaijan by natural persons for non-commercial purposes, their total value being US\$ 1,000 and weight being below 50 kg, except for all types of vehicles covered by the Goods Nomenclature of Foreign Economic Activity;
- special equipment, apparatus, instruments, components, spares, accessories and other materiel designed for emergency management and imported based on the authorization approved by the State Commission for Emergencies of the Republic of Azerbaijan for the establishment of a logistics system and a base where seismic survey points and rescue teams will be settled;
- equipment, articles, accessories and materials imported for the personalization of blanks for civil passports and identification documents of the Republic of Azerbaijan, installation and operation of "Entry - Exit" automatic data search system and identification finger-prints;
- goods designed for the establishment of manufacturing enterprises within the scope of the investment program concerned with implementation of the approved agreements on management of state-owned enterprises in conformity with legislation;
- special equipment designed for verification of excise stamps applied to excisable goods (hand detectors and lamps), blanks issued to foreign citizens for entering and leaving the country by embassies, consulates and other diplomatic missions of the Republic of Azerbaijan, equipment, articles, accessories and materials designed for their application and use.

3. Decision 11 of the Cabinet of Ministers, from January 31, 2005, on the List of Some Repealed Decrees of the Cabinet of Ministers

This Decision exempts from VAT the importation of the following goods (by product groups): 01, 04, 06, 07, 10, 12, 19, 27, 28, 29, 30, 31, 36, 37, 38, 39, 40, 45, 47, 48, 49, 50, 71, 72, 73, 74, 84, 85, 86, 87, 88, 89, 90, 93 and 97.

4. Decision 12 of the Cabinet of Ministers, from January 31, 2005, on Customs Duty Rates for Export-Import Activities in the Republic of Azerbaijan.

This Decision amends the Decision of the Cabinet of Ministers 91, from April 22, 1998.

The following legislative acts and decrees were also adopted in the second half of 2004 and the beginning of 2005:

- Order 056 of the Head the State Customs Committee of the Republic of Azerbaijan, from June 11, 2004, on the Rules for Customs Control and Customs Clearance for Exhibitions.
- Decree 167 of the President of the Republic of Azerbaijan, from December 29, 2994, on the Enforcement of the Law of the Republic of Azerbaijan on Control on Exports.
- Directive 468 of the President of the Republic of Azerbaijan, from October 23, 2004, on Additional Measures for the Introduction of Leasing Practices in Agricultural Sector.
- Directive 605 of the President of the Republic of Azerbaijan, from January 28, 2005, on Rewarding a Group of Officers of the State Customs Committee of the Republic of Azerbaijan.
- Directive 604 of the President of the Republic of Azerbaijan, from January 28, 2005, on Conferment of Highest Special Ranks on the Officers of the State Customs Committee of the Republic of Azerbaijan.
- Directive 621 of the President of the Republic of Azerbaijan, from February 7, 2005, on Ratification of Partnership and Cooperation Agreement in the Sphere of Customs between the State Customs Committee of the Republic of Azerbaijan and the Committee on Revenues under the Ministry of Finance of Kyrgyz Republic (The Agreement was signed in Baku on December 3, 2004).

LEGISLATIVE UPDATE - GEORGIA

1. Order 736 of the Minister of Finance, from November 9, 2004, on Approval of the Procedure for Determination of Customs Value of Goods.

Pursuant to this Order, customs value of goods declared (for further importation) under the customs regime of import for free circulation shall be determined by the following methods:

- transaction price of goods (1st method),
- transaction price of identical goods (2nd method),
- transaction price of similar goods (3rd method),
- price per unit of goods (4th method),
- combined value of goods (5th method),
- reserve method (6th method).

Each consecutive method shall be applied only in the case of inapplicability of the previous method.

The Order also stipulates that customs authority has the right to doubt the validity of the declared customs value. Before making the final decision, customs authority shall notify the declarant (orally or in writing) of its valid suspicions and concerns about the submitted documents. In this case, customs authority may, in accordance with the General Administrative Code of Georgia, request that the declarant submits additional evidence and documents. The decision taken on the determination

(adjustment) of customs value of the declared goods shall be deemed an administrative act and shall be issued to the declarant in writing.

Where there is a need for a delay in taking the final decision on the determination of customs value of the imported goods, the declarant may remove the goods from the customs territory upon provision of guarantees, surety bonds, deposits or any other guarantees that include the amount of customs payments calculated based on the maximum value of the goods. Maximum customs value of the goods shall be determined by the customs authority in accordance with the procedure laid down in the legislation and based on statistical data.

All this is aimed at reducing the number of subjective decisions related to the determination of customs value.

2. Order 735 of the Minister of Finance, from November 9, 2004, on the Procedure for Registration of and Customs Control over Goods and/or Vehicles Transited Through the Customs Territory of Georgia.

According to this order, vehicles transiting the customs territory of Georgia and transporting goods subject to customs control shall be registered in the following registration offices (depending on their route):

- Fartzkhanakhani village, 243rd kilometer of Senaki Tbilisi highway;
- Misaktzieli village, 9th kilometer of Mtskheta Kazbeki Lars highway;
- Khashouri town.

3. New Tax Code, adopted on December 22, 2004.

Pursuant to the new Georgian Tax Code, most imports, as well as the taxable turnover, shall become subject to VAT taxation at the rate of 18% starting from July 1, 2005. From January 1 to July 1, 2005, the VAT rate shall be 20%. Some specific categories of services and imports shall be exempt from VAT, subject to the provisions of Article 230 of the Tax Code.

According to the new Code, the excise tax rate on goods imported into Georgia, as well as on goods manufactured in Georgia, has been increased from January 1, 2005, to stimulate boost in prices of excisable goods. Excise tax payers are persons, who manufacture excisable goods in Georgia, import excisable goods into Georgia, and are involved in export of ferrous and/or base metals. The actual rate of excise tax is two-fold: specific (fixed) and ad valorem (percentage). Export of excisable goods shall be subject to "0" rate.

With the adoption of the new Tax Code, the tax on the entry of vehicles registered abroad into Georgia and their excessive load that was collected upon their entry into the customs checkpoint was repealed on January 1, 2005. This amendment is aimed to ensure free access into the Georgian territory of vehicles registered abroad to facilitate export, import and transit trade.

4. Amendments to the Tax Code, adopted on December 29, 2004.

These amendments to the new Tax Code provide that the application for authorization to operate a customs warehouse shall be accompanied with either an insurance policy or a bank guarantee to the amount of at least 100,000 GL (except for the operation of specialized customs warehouses designed for storage of light, middle and heavy oil distillates). For storage of light, middle and heavy oil distillates in specialized customs warehouses, Customs shall be provided with either a bank guarantee or financial risk insurance policy, or a cash deposit or mortgage bond to the amount that would have been paid if the goods were to be processed under the regime of import for free circulation.

Also, entry into and/or transit transportation through the customs territory of Georgia of tobacco products subject to excise marking without the appropriate stamps applied shall be prohibited until January 1, 2006 (including transit transportation of tobacco products without excise stamps of the country of destination applied. Where application of excise stamps in the country of destination is not required, the tobacco products in question shall be conveyed by Customs to the respective customs checkpoint). This provision does not cover tobacco products imported under the customs regime of "duty-free trade".

5. Amendments to the Law on Customs Tariffs and Payments, effective from January 1, 2005.

These amendments make the following goods exempt from customs payments:

- newsprint, in rolls or sheets, HS code 4801 00;
- uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, HS code 4802 52 200;
- light-weight coated paper, HS code 4810 21 000.

Import of tobacco products and non-manufactured tobacco (other than of "Trabzon" type), natural gas and electrical energy shall be also exempt from customs payments from January 1, 2005 to December 31, 2005.

6. Order of the Minister of Finance 768, from November 29, 2004, on Formation of Territorial Bodies of Customs Department and Determination of Zones of their Operating

These changes are part of reorganization and staff optimization initiative within the structural organization of the Ministry of Finance of Georgia. According to them, customs offices are now distributed as shown below:

- "East" regional customs house: Tbilisi, Roustavi, regions of Gardabani, Marleouli, Bolnisi, Tetriztkaro, Dmanisi, Tzalka, Sagaredjo, Gourджаани, Telavi, Akhmeta, Lagodekhi, Kvareli, Dedoplistztkaro, Sikhnakh, Mtzkheta, Kazbeki, Dushet, Tianet, Akhlagori, Khashouri, Gori, Kareli, Kaspi, Kornj, Djava, Tzkhinvali, Akhaltzikh, Borjomi, Adigeni, Aspinda, Ninotzminda, Akhalkalaki;
- "West" regional customs house: Batumi, Poti, Kutaisi, regions of Batoumi, Khelvachauri, Kobuleti, Khuloi, Kedi,

Ozourgeti, Chokhatauri, Lanchkhouti, Senaki, Abashi, Khoba, Martvili, Tzkhaltubo, Oni, Ambrolaouri, Tzagera, Lentekhi, Tkibuli, Khon, Terdjoli, Van, Bakhdati, Sachkheri, Chiatura, Zestafoni, Kharagaouli, Samtredia, Zougdidj, Chkhorotz, Tzalendjikh, Mestia.

Customs checkpoints located on Georgian borders with Azerbaijan, Turkey, Russia and Armenia, as well as at the international airports of Georgia and open seaports, shall, starting from January 5, 2005, report to the following regional offices:

- "East" regional customs house: "Tbilisi Airport" customs point, "Krasni Most", "Sadakhlo", "Gardabani", "Akhkerpi", "Guguti", "Mtkvari", "Lagodekhi", "Samtatzkaro", "Udabno", "Sabatlo", "Vashlovani", "Kazbeki", "Gori", "Vale" and "Ninotzminda" customs checkpoints.
- "West" regional customs house: "Batumi Seaport" and "Poti Seaport" customs points, "Sarpi", "Batumi Airport", "Kutaisi Airport" and "Senaki Airport" customs checkpoints.

7. Order of the Minister of Finance 3, from January 10, 2005, on Instructions on Registration of Crude Oil and Products of its Distillation, Compounds, Solvents, Hydrocarbons, Liquid Gas and Lubricants (not Including Crude Oil Transported through Pipelines or Transited), Preliminary Operations and Issuance of Payment Receipts for Excisable Goods.

These instructions prohibit the transportation of excisable goods through the Georgian territory failing to produce the payment receipt issued by the tax administration to excise tax payers and the special customs declaration certified by the Customs Department of Georgia. This type of customs processing shall be undertaken by the customs office nearest to the customs border or by the customs office that accepts the goods registered on the working territory, based on the request submitted by the authorized person or person accompanying the goods and the Customs Department.

ANNOUNCEMENT

Starting from March 1 till July 15, 2005, Center for Regional Development / Transparency International Armenia, Entrepreneurship Development Foundation of Azerbaijan and Association of Young Economists of Georgia are providing free on-line consultations on import and export related customs procedures in Armenia, Azerbaijan and Georgia within the project entitled "Trade Facilitation in the South Caucasus" and funded by the South Caucasus Cooperation Program of the Eurasia Foundation and OSCE Offices in Yerevan and Baku.

All interested entrepreneurs and companies can:

ARMENIA - visit www.transparency.am (online consultations) or call (3741) 585578 on Monday, Wednesday and Friday from 4.00pm to 6.00pm.

AZERBAIJAN - visit www.edf-az.org/consultations or call (99412) 4931438 on Monday, Wednesday and Friday from 4.00 pm to 6.00pm.

GEORGIA - visit www.conference.ge or www.economists.ge (for additional information) and send questions to niko@economists.ge

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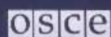
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OSCE Yerevan Office



ENTREPRENEURSHIP
DEVELOPMENT FOUNDATION
OF AZERBAIJAN



ASSOCIATION OF
YOUNG ECONOMISTS
OF GEORGIA



Center for Regional Development /
Transparency International Armenia



5, Nalbandyan Street, #35, Yerevan, 375010, Armenia

Ph +374 1 526914, F +374 1 585578

E-mail: crd@transparency.am

www.transparency.am