



## TOWARDS TRADE FACILITATION in the South

### MESSAGE FROM PARTNERS

Dear Friends and Colleagues,

Welcome to the third, last issue of the regional bulletin "Towards Trade Facilitation in the South Caucasus".

The regional bulletins were published within the joint project implemented by three South Caucasus NGOs, with support of the South Caucasus Cooperation Program of the Eurasia Foundation and the OSCE Offices in Baku, Tbilisi and Yerevan.

Bulletins presented information concerning current customs reforms in all three countries of the region (including appropriate legislative changes), updated readers with respect to events of regional importance, as well as introduced factors hindering trade development across the South Caucasus. There were several regional (bi- and trilateral) meetings organized with participation of respective state officials, experts and businessmen.

We, partner organizations, also provided with free "on-line" consultations for companies and individuals in regard with procedures regulating import and export of goods and vehicles in Armenia, Azerbaijan and Georgia.

Four years of our joint efforts were accompanied both with successful cooperation and certain difficulties routed in existing disagreements and conflicts across the region. Nevertheless, we have overcome all difficulties due to our acknowledgement of importance of such collaboration and willingness to work together.

Coming to the end of our current joint project, we hope that collaboration will be continued not only among three of us, but also among other NGOs from the region, with the aim of contributing to the better understanding

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# Caucasus

among people of the South Caucasus states and thus promoting economic cooperation and political dialogue between our countries.

**Association of Young Economists of Georgia**

**Center for Regional Development/  
Transparency International Armenia**

**Entrepreneurship Development  
Foundation of Azerbaijan**

### REGIONAL NEWS

#### THE WORLD CUSTOMS EXHIBITION AND FORUM IN BAKU

On May 19-21, Baku first happened to host an event of global significance the World



Customs Exhibition and Forum. The exhibition was held in the Sports and Exhibition Center after Heydar Aliyev, under the auspices of the World Customs Organization (WCO), State Customs Committee of the Republic of Azerbaijan and the Interpol. The event was organized, upon the initiative of the Azeri State Customs Committee and WCO, by ITE Group PLC, a British exhibition company and its exclusive partner in the Caucasus "Iteca Caspian" company.

Following the success of the first World Customs Exhibition and Forum that were held



in Budapest, Hungary, in September of 2003, WCO again decided to bring together senior Customs executives, top business leaders and industry experts from all around the World. This time Azerbaijan was selected as the host country. Organization of such an important forum in Baku, which will include exchange of ideas, discussions of new recommendations and demonstrations of modern technologies, underscores Azerbaijan's role in the international arena and reflects the growing interest of international organizations and foreign companies to the country.

The official opening ceremony was preceded by a press conference that featured the Chairman of the State Customs Committee of the Republic of Azerbaijan Kyamaladdin Heydarov, the Secretary General of the World Customs Organization Michel Danet, the Director of the Interpol's Bio-Terrorism Program John Abbot, the Secretary General of the Organization for Economic Cooperation Askhat Orazbay, and more than 60 journalists, photographers and operators.

In his presentation at the press conference, Mr. Michel Danet, the WCO Secretary General, said, "Customs is at the front door of the State. Many different people and products pass through these doors, and some dangerous products, too. Having this in mind, we mobilize all services and deploy them in the struggle. In this respect I wish to highly evaluate the Interpol's activities. I must say that their interests are close to the WCO interests. All Customs officers and other people involved in similar enforcement activities have one single goal, which is the consolidation of efforts directed against crime and terrorism. To achieve this, we must use modern technologies. At the exhibition, you will be able to see the most recent achievements, products and services in the area of international trade security, presented by 50 large companies from all around the world".

The exhibition featured 50 large companies from 12 countries that displayed surveillance systems, testing and detection systems, document readers, access control and management systems, alarm systems, detectors and examination equipment, special safety equipment, security services, consulting and insurance. Among participants were globally known companies such as ALPVISION (Switzerland), AS&E (USA), BEIJING

HUALIXING (China), COTECNA (Switzerland), CROWN AGENTS (Great Britain), DNA TODAY (USA), FM-ONE MANAGEMENT SERVICES (Germany), L3 SECURITY & DETECTION SYSTEMS (Great Britain), NUCTECH COMPANY (China), POLIMASTER (Belarus), RAPISCAN SECURITY TECHNOLOGIES (Great Britain), SAIC (USA), SGS (Switzerland), SMITHS DETECTION (France), TARGET SYSTEMELECTRONIC (Germany). The exhibition also featured a number of local companies, such as INTERMEDSERVICE, KC & SS, MARCO COMPUTER, MURPHY, SINAM, SS-SECURITY SYSTEMS and AZER-JANUB. The participation of leading companies conveyed a strong impulse to the improvement of security standards in Azerbaijan, in fighting both international and domestic crime.

The Forum entitled "Customs and Law-Enforcement Services and International Trade Security" was held within the framework of the exhibition on May 20-21. It took place at Grand Hotel Europe and involved more than 200 delegates. The Forum hosted delegations from 37 countries that included Afghanistan, Angola, Austria, Azerbaijan, Belgium, Belarus, Brazil, China, Cote d'Ivoire, France, Georgia, Germany, Haiti, Iceland, Iran, Italy, Japan, Kazakhstan, Kyrgyzstan, Malaysia, Moldova, Mongolia, Nigeria, Norway, Pakistan, Ghana, Russia, Switzerland, Tajikistan, Thailand, Turkey, Turkmenistan, UAE, Great Britain, USA, Uzbekistan, as well as 10 international organizations, like WCO, Interpol, European Union, World Postal Union, TRACECA, International Atomic Energy Agency, United Nation Environment Program, Organization for Economic Cooperation.

The objective of the Forum was to establish a favorable atmosphere for discussions on security and Customs Service improvements. The importance of hosting such an event in Azerbaijan is determined by its geopolitical location on the Great Silk Road and availability of transportation corridors "North-South" and "East-West". Azerbaijan has favorable conditions for the intensive economic development and increase of business activities among local and foreign businessmen. That is why Azerbaijan is considered to be one of the most attractive countries in Eastern Europe in terms of business development.

Organizers hope that the World Customs Exhibition and Forum will provide more opportunities for discussions of some urgent



issues that are common throughout the world, will become a unique forum for the exchange of ideas and experience between experts and relevant government authorities of different countries, and will support the achievement of the objective to have safe international trade through use of modern technologies. There is no doubt in that the security equipment and technologies displayed at the exhibition will be more broadly applied in Azerbaijan and in many other countries, which will help the latter to become sound links in the chain of international trade, as well as to set up an effective mechanism of prevention of smuggling and terrorism on the highest levels and facilitate the process of integration of these countries into the world economy and trade.

#### **ARMENIA TODAY: EXPO 2005" IN TBILISI**

Nearly 40 Armenian companies were represented at the exhibition of Armenian products and services entitled "Armenia Today: Expo-2005" that was held in "EXPO-Georgia" exhibition center in Tbilisi in April 21-23, 2005. The exhibition was arranged by "Logos"



Armenian exhibition center with the support of the Ministry of Trade and Economic Development of Armenia, Ministry of Foreign Affairs and the Armenian Union of Manufacturers and Businessmen (Employers).

At the opening ceremony of the exhibition, the Armenian Ambassador to Georgia Georgi Khosroyev said "The initiative of holding this exhibition in Georgia's capital Tbilisi is yet another evidence of traditional friendship, brotherly relations as well as extension and development of economic ties between our countries and people. Economic ties between the two countries are well behind their

political relations. This exhibition aims at presenting a part of Armenia's export potential to the Georgian public and business community. We highly appreciate the links between the two societies and business communities, and, therefore, this exhibition will become a good tradition both in Yerevan and Tbilisi". The Ambassador also mentioned the elimination of road fees, traffic police and renovation of the road to Armenia by the Georgian Government during the last year. The Ambassador conveyed to the organizers and participants of the exhibition the welcoming speech of the Prime Minister of Armenia Andranik Margaryan.

"This exhibition is a first step to a very good tradition and is yet another opportunity to know more about our brotherly countries", said Zourab Chiaberashvili, the Mayor of Tbilisi, in his welcoming speech. The Mayor underlined the importance of supplementing political will with cooperation between the private sectors of the two countries. He said, "We have been good friends throughout centuries, but we still have a way to go in knowing more about each other. This exhibition will become a base for the establishment of closer ties between the Armenian and Georgian businessmen. Today, both Armenia and Georgia are expressing political will for friendship". He said that the Tbilisi municipality was highly interested in water meters and street lighting of Armenian origin displayed at the exhibition, which are a lot more affordable than the equivalent Turkish products and may enter the Georgian market due to their high quality. The Mayor thanked the organizers of the exhibition, saying that he will be looking forward to holding a similar exhibition in Yerevan.

The exhibition was visited by a representative from the Center for Regional Development/Transparency International Armenia, who conducted a series of interviews with the Armenian participants and businessmen, covering the current situation of Armenian-Georgian economic relations, perspectives for their development and existing barriers to the latter. A summary of the key issues mentioned by the interviewed participants of the exhibition is presented below.

The representative of the Armenian Porcelain Company believes that the customs-related problems most often take shape of



bureaucratic protractions. The company was represented with only a few product samples and naturally didn't encounter any serious problems at the border. However, red-tape requirements are so burdensome that it is often more reasonable and easier to "give a few drams (the Armenian currency)" rather than to waste time, nerves and have that sense of guilt. According to that representative, the company is ready to set up a tile production plant (2 million pieces yearly) in Tbilisi within some eight months. This may be contributed by the fact that the tradition to tile the roofs is still alive in Tbilisi, as opposed to Yerevan, and that Georgia has clay, which exceeds the Armenian clay by its physical and chemical properties. But before it happens, the company will continue to export the Armenian tiles to Tbilisi.

Armenia-based "Tosp" company managed to find interested businessmen and took a decision to set up its own shop in Tbilisi, as its products raised a rather lively interest during the three days of the exhibition, mainly due to their quality. The representative of "Elola" cheese producing company noted, "Of course, it's a lot easier to cross the customs border illegally, but we prefer legal ways, as it makes us feel safer and more protected, and we don't have to play with the reputation of our company".

According to a Georgian businessman, who is importing the Armenian cheese to Georgia, initial consignments are usually good, while further shipments often contain low-quality cheese mixed up with good. As the cheese production technology is not always correctly followed, some shipments perish in the warehouse causing financial damage to the importer. Some serious problems arise in relation to the Armenian Customs Service, while the Georgian Customs have undergone significant improvements during the last couple of years. Another problem is being caused by illegal importers, who present low customs values and pay duties for only half of the actually imported volumes, which makes their cheese 20-30% cheaper. The businessman says that the continuation of this trend, depreciation of USD with respect to the Armenian Dram and his determination to remain a law-abiding taxpayer will lead him to bankruptcy unless he quits his business with Armenia. He finds trading with Turkey much easier, as their customs procedures are more

streamlined compared to the Armenian ones. The Armenian Customs, for example, requests a completion of 5 different forms and a payment of 60 USD in the case of a passenger car, which is several times higher than the Turkish fees, whereas the Georgian Customs only fills in some documents and charges 5 USD as a service fee.

As Georgia doesn't have its own yeast industry, there are good opportunities for the export of yeast produced in Yeghvard yeast factory. The manager of that Armenian enterprise has a preliminary agreement with nearly 20 Georgian bakery plants on supply of yeast. The produce of the factory was exported to Georgia 5 years ago, but the shipments were too small to satisfy the existing demand and thus suppliers lost the Georgian market. Continuous appreciation in the value of the Armenian Dram is also a serious problem both for the Armenian producers and exporters. They say that the appreciation is not predictable and they can't even make up their annual plans, which significantly damages their businesses.

A representative from juice importing Georgian-Thai Trading Company was planning to visit Yerevan in May to explore opportunities for export of the Armenian juices to Georgia. He believed in the perspective of that business, as shipping time here would be incomparably shorter (shipping from Thailand would usually take 1-1,5 months). Low export duties for the Armenian products is also a positive factor. He said they had experienced customs experts, who would never encounter any problem with the Customs unless they made clerical errors. Expressing his regret for the fact that Jermouk mineral water bottlers were not represented at the exhibition, the businessman announced about his wish for establishing a Jermouk distribution network in Georgia, noting that not only Georgian Armenians in Tbilisi would buy it.

The representative of "Bako" Georgian company that produces tea, soft drinks and juices hoped to find partners to set up joint production of tea (to produce it in Georgia and then package it in Armenia) and iced tea concentrate. He said that the Armenian packers could offer plastic pet-capsules on better terms than Georgians' Turkish partners. The businessman wanted to buy some ready produce first and then set up a production line



of plastic bottles and other containers in Tbilisi.

The only Armenian enterprise that didn't have any export experience was "Mankan" toy producing company, which had no problems the Armenian Customs while bringing its production to the exhibition but was requested by the Georgian Customs to submit the complete and accurate package of documents. The representative of the company said that there was not a single Armenian company at the border office that was aware of the Georgian Customs procedures and regulations to provide consultations on how to complete the required documentation. The Georgian Customs simply refused to give details of what should be done, insisting that the available documents were inaccurate. The exhibition appeared to be problematic for a number of Armenian food producers, too. The certificates issued by the Ministry of Agriculture of Armenia to food exporting participants were in Armenian, and the latter had to miss the opening ceremony while trying to replace them. Some other company didn't have any problems with exporting its produce for the exhibition due to their "good personal relations". But they also said that in the case of bigger shipments they would be basing exclusively on the law, and not on those personal relations.

The observation of the representative of the Center for Regional Development/Transparency International Armenia in the "Armenia today: Expo-2005" exhibition has again demonstrated the need of the Armenian exporters for consultations and advice on the entire scope of export procedures. To that end, the organization distributed to the participants and visitors copies of the second issue of "Regional Bulletin" in Armenian, Georgian and English published as part of the joint project "Towards Trade facilitation in the South Caucasus" funded by Eurasia Foundation's South Caucasus Cooperation program and OSCE Offices in participating countries.

## ANALYTICAL THOUGHTS

Georgia maintains rather active trade relations with the countries of South Caucasus, which reflects on its exports, imports and transit. These relations are determined by territorial proximity and common borders and Georgia's geographical location. Access to the Black Sea (and ultimately, to the ocean) awards Georgia a

status of a transit country. Transit routes that run through the Georgian territory are used, above all, by Armenia and Azerbaijan, since none of them has any access to the ocean, which is one of the main conditions for the development of international trade relations of any country.

In order to achieve sound international trade relations between the three countries of South Caucasus (Georgia, Armenia and Azerbaijan) and, in the meantime, ensure effective coordination of customs affairs, Georgia has signed bilateral agreements with both of its neighbors covering free trade, cooperation and assistance in the area of monetary and export control, principles of trade and economic cooperation, establishment of new checkpoints on common borders, coordination of transit operations, railroad transportation, international road transportation, anti-smuggling and Customs enforcement, illegal turnover of narcotics and psychotropic substances, principles of indirect taxation of exports and imports (of goods and services), etc.

In addition, Georgia, along with Armenia and Azerbaijan, is eligible to sign a number of international multilateral agreements that cover the uniform Goods Nomenclature of Foreign Economic Activity of CIS countries, the mechanism of coordination of transportation fees, rules of origin, free transit, container transportation, etc.

Last year, nearly 10% of Georgia's foreign trade turnover fell at Armenia and Azerbaijan. It is particularly important to note the growth of the Georgian imports from Azerbaijan in 2004, which increased by 70% compared to the last year's rates. Georgia and Azerbaijan are trading mineral fuel, petroleum and petroleum products, fertilizers, lubricants, sugar and confectionary made thereof, as well as alcoholic and soft drinks. The subjects of trade between Georgia and Armenia are foodstuffs, lubricants, crushed stone and cement, fertilizers, glass and articles made thereof, dairy produce and wheat.

Terms provided for in bilateral and multilateral agreements combined with well-developed trade relations between these three countries provide more opportunities to improve their economic relations and minimize the movement of illegal or infringing goods between these countries, which is still a big problem for Georgia.

## Association of Young Economists of Georgia



## HOT- LINE

Taking into consideration the developed trade relations of Georgia with its neighbors in the South Caucasus - Armenia and Azerbaijan - it is very important to study the trade of those relations, as well as customs and border crossing procedures applied in the countries of the region to minimize the administrative barriers and import of goods accompanied by the customs offences.

Though negative aspects of foreign trade, customs and border crossing procedures of these countries have always been in place, yet the Georgian Government doesn't have a single approach to the detailed research of what causes them and how to eliminate the causes. The share of unregistered produce in the country's markets is high; there is a circle of manufacturers, who are displeased with the existing barriers to business development. Besides, there are differences between the export/import indices of the "mirror statistics" of the trade with the neighboring countries.

The above-mentioned is being researched by the Association of Young Economists of Georgia. Similar issues (depending on their nature) are of interest of the Federation of Businessmen of Georgia. On one hand, a detailed study of those issues has a significant role in the development of business in the country. On the other hand, it is also critical for minimizing the problems of the so-called "black market". The promotion of business development and minimization of "black market" will stipulate the increase in the country's budget revenues and the growth of the gross domestic product.

As shown by the Association's current studies, compliance with the requirements of international agreements and developed trade provides more opportunities to the South Caucasus countries for further improvement of foreign trade and economic relations, which will guarantee both the growth of regional trade and bringing down to the minimum the volumes of goods transported through the borders of these countries with the customs offences.

I believe that the points referred above and other measures alike are the bases of the development of Georgia's foreign trade, which may also have positive results for the country's development.

### Georgi Isakadze

Executive Director  
Federation of Businessmen of Georgia

## REFORMS AT ARMENIAN CUSTOMS

On January 8, 2005, President of Armenia Robert Kocharyan met with the leadership of the State Customs Committee. The agenda of the meeting contained the issue of the Customs Service reforms in Armenia. The President urged to make the Customs Service more civilized and streamlined and in the meantime not to allow stringent legal provisions to become barriers to business development.

Today, measures to improve the Customs Service include recent legal amendments aimed at filling the existing gaps in the process of collecting environmental and road fees. Goods imported under the customs regimes "the customs warehouse", "free customs warehouse" and "free trade zone" were exempt from all kinds of the customs payments, including environmental and road fees (except the customs user fee). But, the Armenian roads were used and environment was affected. Thus it was decided to apply the above-mentioned fees to those categories of imports. Currently, environmental fee is also applied to the customs regime of "destruction", since destruction of goods by the importer's consent may cause significant harmful effect on the environment.

The issue of responsibility arising during transportation of goods subject to the customs clearance from the Customs Point of entry to the Customs House of Clearance has also become a subject of legal regulation. The person, who is actually transporting the goods, is now made responsible for the timely delivery of goods to the destination point during the entire process of transportation of the goods based on the transit manifest.

The scope of opportunities for foreign citizens (representatives of diplomatic and consular missions in Armenia, international organizations and other citizens) to import commercial quantities of goods has also been narrowed. If previously importation of commercial quantities of goods was forbidden only under the customs regimes of "import for free circulation" and "re-import", now this includes also "temporary import" and "temporary import for processing". This issue has undergone yet another change: now when commercial quantities of goods are imported under the supply contract signed with a citizen of Armenia, the right of declaration is exercised by the Armenian party to the contract.



Another legislative amendment aimed at preventing foreign citizens from abusing the use of provided exemptions envisaged by the Armenian legislation and international agreements is that any goods imported by foreigners and sold within 3 years of their importation shall become subject to the customs payments.

Another legislative amendment clarified some issues related to "temporary import and export of goods for processing purposes" and identification of those goods. Previously, goods exported under this regime were re-imported as more expensive, value-added goods, which is no longer valid. At the same time, terms initially specified for the customs regimes of "temporary import for processing" and "temporary export for processing" may now be extended, based on the respective Government Decision, for a period of more than one year.

The rate of the customs user fee collected for the customs control and review of goods transported through power transmission lines and pipelines is currently 500,000 AMD per month. But the question was whether this fee had to be collected on a monthly basis from goods transported through all transmission lines and pipelines or goods transported through each single line or pipeline. And where the same line or pipeline was used during a given month both for import and export, then had the customs user fee to be collected separately or for both operations together. A legislative amendment made it clear that the specified rate should be applied to goods transported one way within one month under the same contract. Yet, another legislative amendment states that the specified rate will double if customs clearance (or other related formalities) is carried out in locations other than those specified by the Customs legislation and beyond working hours.

Under another amendment, the amount of penalty imposed for failing to pay the Customs Duty in due timeframe was reduced from 0,2% daily to 0,15% daily, but only for a period of up to 365 days. The same provision covers the customs user fees. The term for payment of partly paid or unpaid customs duty (2 years) and customs user fee (1 year) was extended to 3 years.

There were cases of smuggling and other

customs offences most often registered on belt roads around "Bavra" and "Bagratashen" Customs Points. Those belt roads were mainly used for illegal importation of tobacco produce and food, and even attempts were made to bring in automobiles. On the initiative of the Armenian State Customs Committee, ditches were dug along these roads to help prevent smuggling and hamper free movement of vehicles.

In order to improve the effectiveness of customs control over goods transported through the Armenian customs border by natural persons traveling by international rail transportation, the Government Decree of May 15, 2005, approved the new procedure for customs control and clearance of such goods. Under this procedure, goods imported through "Ayum" Customs Point undergo preliminary control: if previously the passenger train had a 1 hour stop there, which was not sufficient for effective customs control and clearance, now a team of the Customs officers convoys the train until all formalities are carried out and clearance is complete.

Another Government Decree regulated the trade activities in "Bagratashen" border market, where overcrowding and disorder caused by a huge number of illegal commercial stalls allowed traders to throw their good over the fences thus evading the customs control and payment of respective duties. In order to eliminate the practice of free movement across the border and illegal importation without payment of duties, the newly approved plan of the market prohibited the sale of excisable goods on its territory and the authority to dispose of the shares of the company that runs the market was delegated to the State Customs Committee. To regulate the functioning of the market, all commercial stalls located within the territory of customs control have been removed to areas designated for commercial activities.

Article 105 of the Armenian Customs Code states "natural persons may, without payment of customs duties, transport goods through the Armenian Customs Border as accompanying luggage, where the import duty rate for such goods is not 0%, their total weight doesn't exceed 50 kg and total customs value is up to AMD equivalent of 300 USD". Thus, to evade the customs payments the purchased goods were previously divided into smaller pieces and taken out of the market by carriers.



In order to stop this practice, a special carrier service consisting of 18 uniformed workers was set up. Today, the purchaser of goods has to declare the goods first, pay all the duties and fees and only then he/she is allowed to take them out of the market using the special carrier service. Besides, not only the carriers are required to be registered, but the barrows used are to be numbered and registered as well.

Another step towards the improvement of the Customs administration is establishment, before the end of this year, of examination sites (or examination warehouses) within all Regional Customs Houses. For example, at present, goods cleared at the Customs Points of Shirak Regional Customs House ("Bavra" and "Shirak Airport") have to be transported to Yerevan for examination. To avoid this in future, two Customs examination warehouses are now being built under the Regional Customs House in Gyumri, where two big special cargo scales with electronic memory will be installed. A number of x-ray scanners specially designed for examination of cargo and luggage were put into operation earlier this year at "Shirak Airport" Customs Point, under the US Export Control and Border Security Project. The Customs facility at the airport currently operates a two-channel system (Green and Red). Similar scanners were provided by the same project and set up in the Cargo Terminal of "Zvartnots Airport", which is the biggest in the country.

For further improvement of the Customs Service, a Department of Post-Import Audit was established within the State Customs Committee of Armenia, which shall implement control over commercial importations for a period of up to three years. The installation of cable and satellite communication network that connected together all the Customs offices throughout the country was completed in 2004. It enables the Armenian Customs to review the entire process of the customs clearance of goods and vehicles transported through the Customs Border, including their declaration and customs control, thus significantly improving the effectiveness of the latter. The new electronic system functioning in the State Customs Committee will enable the traders to complete declarations and submit them to Regional Customs Houses from their own offices. For doing so, traders are provided with a password that ensures the confidentiality of records.

On May 3, 2005, with a view to improve the Armenian Customs Administration, as well as to ensure awareness of persons, who cross the Customs Border, and receive a direct feedback from them, the Chairman of the State Customs Committee issued an Order pursuant to which special boxes for complaints and recommendations addressed to the Chairman were placed in all Customs Houses and Customs Points. These boxes may only be unsealed by particular officials from Customs Headquarters, and all complaints and recommendation are to be reviewed and discussed every 15 days, together with the Heads of Customs Houses and Customs Points. Appropriate legal experts in Regional Customs Houses shall advise the persons, who cross the Customs Border on their rights and obligations. Special offices have already been set up for that purpose.

**"Republic of Armenia" daily,**

11, 19, 20, 22, 25 of January;  
2, 3, 15, 17, 22 of February;  
17 of March; 24 of May;  
16, 18 of June; and  
23 of July 2005.

**"Iravounk" weekly,** 10 12 of May 2005.

**"Hayots Ashkhar" daily,** 17 of June 2005.

## REFORMS AT AZERI CUSTOMS

Today, reforms that are being successfully implemented at the Azeri Customs are still in progress. Taking into account last year's budget revenue forecast and revenues collected during the first quarter of this year, one may say that the indices specified for the State Customs Committee for 2004 increased by 22,8% as compared with the previous year. Despite the high share of exemptions applied to imports with 30% duty rate, the forecasted revenue collection was exceeded.

The forecast for the first quarter of this year was exceeded by 107.3%. Based on the IMF recommendations and according to the action plan, which is to be implemented in four phases starting from 2002, the Cabinet of Ministers issued decisions, which replaced specific duties applied to certain product categories with 15% ad-valorem duties, by which the average customs duty rate was reduced from 8.3% to 5.7%.

In the light of Azerbaijan's ratification of the International Convention on the Simplification



and Harmonization of Customs Procedures (Kyoto Convention), certain measures are taken for harmonization of Azerbaijan's Customs Legislation with the provisions of the Convention. The customs tariff regulation improvements are introduced in order to stimulate the development of local industries, and tariff exemptions option is examined as an important incentive for the importation of raw materials and equipment.

A number of other Customs-related legislative acts have been adopted in line with the Customs Code and the Customs Tariff Law. Important steps have been also taken towards the integration of the Azeri Customs in the international experience.

Taking into account the importance of accurate customs valuation of goods for the purpose of general administration of customs revenues, the State Customs Committee has established an appropriate legal basis and product categories that contain risks in that area have been identified by setting up a reference database (including price-related and other relevant information).

As refers to enforcement mechanisms and sanctions applied in Azerbaijan, it's worth mentioning that an automated system of Customs data entry and processing is now being experimentally applied in 20 Customs offices around the country. This automated system significantly reduces time loss and ensures effective control over information. New enforcement methods have been introduced in the sphere of anti-smuggling and prevention of Customs offences, which are regularly updated and improved by means of a unified database. Besides, currency control is also implemented in accordance with the current legislation.

Specialized Energy Customs Department and a number of Customs Points have been established for customs processing of energy resources. In case of customs clearance of goods imported under the Net Interest Production Contract, duties are collected on preferential terms according to the established rate.

New modern methods aimed at ensuring transparency of customs formalities are being introduced, such as computer networks in the Customs checkpoints. At present, 36 Customs offices are functioning in "on-line" regime

There is also a significant progress in Azerbaijan's accession negotiations with the World Trade Organization.

### **Information Service of the Azeri Customs Committee**

## **QUESTIONS AND ANSWERS**

### **What Customs payments are provided by the Azeri legislation?**

The following Customs payments shall be paid in cases specified in the Customs Code and other laws and regulations of the Republic of Azerbaijan:

- Customs duty;
- Value added tax;
- Excise duty;
- Fees for licenses issued by the Customs body of Azerbaijan and fees for renewal of licenses;
- Fees for issuing qualification certificates to the Customs brokers and fees for renewal of these certificates;
- Customs user fees;
- Customs fees for storage of goods;
- Customs fees for customs convoy of the goods;
- Advice and consultation fee;
- Fee for preliminary decisions;
- Fee for participation in the Customs auctions;
- Other customs payments.

### **What are "Free Customs Zone" and "Free Customs Warehouse"? How "Free Customs Warehouse" is established?**

"Free Customs Zone" and "Free Customs Warehouse" are the Customs regimes, under which goods are placed and used within determined territorial limits or buildings (places) without payment of Customs duties and taxes, as well as without any application of economic policy measures with respect to such goods. Azeri goods are placed and used on terms applied to export of goods under the Customs regime of Export, under the procedure specified in the Customs Code of the Republic of Azerbaijan.

"Free Customs Zone" is established under the procedure specified in Legislation of the Republic of Azerbaijan. The authorized state body of the Republic of Azerbaijan may cancel a Decision on establishment of "Free Customs



Zone", where the operation of such a zone does not comply with the requirements specified in the Customs Code or other Laws and Regulations of the Republic of Azerbaijan pertaining to such zones.

"Free Customs Warehouse" may be established based on a license issued by the authorized state body (Customs) of the Republic of Azerbaijan. The competent state body (Customs) shall issue the license for establishing a free warehouse and specify its validity term based on regulations specified by the relevant state body of the Republic of Azerbaijan. The rate of the license fee for establishing a free warehouse shall be specified by the relevant authorized state body of the Republic of Azerbaijan.

The license issuing body may cancel, withdraw or suspend the license. The license shall be cancelled if the information that substantiated its issuance was discovered to be false or if licensing did not meet the specified requirements. The license shall be withdrawn if the owner of the free warehouse does not follow the requirements, or if the designation of the warehouse no longer conforms to the economic policy of the Republic of Azerbaijan.

The license may be suspended for a period of up to three months or cancelled provided that there sufficient grounds to suspect that the owner of the warehouse abuses his rights. Fees paid for the issuance of a cancelled or a withdrawn license shall not be subject to refund.

#### **What are the arrangements for transit transportation through the territory of Azerbaijan?**

"Transit of Goods" is a Customs Regime, under which goods are transported under the Customs control from one Customs Point of the Republic of Azerbaijan to another, including transportation through territories of other states, without payment of Customs duties, taxes and application of economic policy measures.

"Transit of goods" is carried out based on the authorization of the Customs Body of the Republic of Azerbaijan, unless the superior authorized state executive body of the Republic of Azerbaijan sets transit restrictions as a countermeasure against discriminatory or other impairing actions performed with

respect to the Azeri citizens by foreign states and their alliances.

Where compliance with the Customs legislation of the Republic of Azerbaijan cannot be guaranteed by measures provided by Article 35 of the Customs Code of the Republic of Azerbaijan, Customs bodies of Azerbaijan may authorize the transit of goods only on condition of making all Customs payments due or providing appropriate guarantees.

#### **What customs duties and taxes are applied to vehicles imported by natural persons?**

Vehicles imported by natural persons from countries that don't have a Free Trade Agreement with Azerbaijan, shall be cleared in accordance with the Procedure for Non-Industrial and Non-Commercial Importations by Natural Persons through the Customs Border of the Republic of Azerbaijan approved by the Decree 105 of the Cabinet of Ministers from May 31, 2001. Pursuant to Point 2.14.3 of the Procedure, each cubic meter of the vehicle's engine, for which the period from manufacture to importation is less than a year, shall be subject to a customs duty equivalent to 0.4 USD. According to Point 2.14.4 of the Procedure, each cubic meter of the vehicle's engine, for which the period from manufacture to importation is longer than a year, shall be subject to a customs duty equivalent to 0.7 USD.

Such vehicles shall also be subject to a customs user fee that constitutes 0,15% of the customs value of the vehicle, a 20 USD fee for issuing a registration certificate for the imported vehicle, and a value added tax, which is 18% of the customs value of the vehicle and all customs payments due.

#### **What are the rules for transit transportation of vehicles through the territory of the Republic of Azerbaijan?**

Means of transportation transited by natural persons through the territory of the Republic of Azerbaijan shall be declared in the Customs Point of entry with the appropriate official notification of the Customs Point of entry. The Customs Point of entry shall keep the vehicle under control by making appropriate records in the relevant register. The term of delivery of the transited vehicle to the Customs Point of exit shall not exceed 48 hours.



The Customs Point of entry shall be officially notified of the clearance of the transited vehicle in the Customs Point of exit and the vehicle under question shall be relieved of control by making appropriate notes in the relevant register in the Customs Point of entry. Information on all vehicles recorded in the registers in the Customs Points of entry and exit shall be added to the border control database.

In the case of failure to deliver the transited vehicle to the Customs Point of exit within the period of registration (when the Customs Point of entry doesn't receive the official release notification), the structural units of the Customs Point of entry shall take appropriate measures provided for in the legislation.

## **LEGISLATIVE UPDATE - ARMENIA**

### **1. Government Decision 100, from February 10, 2005, on Amending the Government Decision 230 from April 19, 1999.**

The Decision amended the procedure for payment of VAT, excise tax, customs duty, and environmental fees for goods imported into the Customs Territory of Armenia.

This Decision specified the procedure for issuing the certificate for import and export of cultural values and the form of the certificate the Customs Territory of Armenia.

### **2. Government Decision 346 from March 24, 2005, on Approval of the Procedure for Licensing of Import to or Export from the Republic of Armenia of Nuclear Materials, the Form of the License and the Application.**

This Decision specifies the procedure for licensing of import to or that of export from the Republic of Armenia of nuclear materials, as well as the standard forms of licenses and applications.

### **3. Government Decision 375 from March 24, 2005, on Approval of the Procedure for Licensing of Import to or Export from the Republic of Armenia of Radioactive Wastes, the Form of the License and the Application".**

The Decision regulates the procedure for licensing of import to or that of export from the Republic of Armenia of radioactive wastes, as well as the standard forms of licenses and applications.

### **4. Government Decision 376 from March 24, 2005, on Approval of the Procedure for Licensing of Import to or Export from the Republic of Armenia of Special Materials or Special Equipment or Special Technologies, the Form of the License and the Application.**

This Decision specifies the procedure for licensing of import to or that of export from the Republic of Armenia of special materials, special equipment or special technologies, as well as the standard forms of licenses and applications.

### **5. Government Decision 582 from April 14, 2005, on Amending the Government Decision 662 from October 26, 1999.**

The Decree approved the new procedure for application of new excise stamps on certain excisable products imported to Armenia.

### **6. Government Decision 602-A from May 19, 2005 "On Approval of the Lists of Positions Involved in Operational-Investigation Activities, for which Candidates are Designated without Competition, upon Appointment by the Head of the Highest Customs Body.**

This Decision specified lists of positions, for which candidates are designated without any competition, directly by the Head of the Highest Customs Body.

### **7. Government Decision 865 from June 9, 2005, on Approval of Locations of Customs Offices and Operational Areas of Customs Houses.**

The Decision specifies the locations of Customs Offices and operational areas of Customs Houses.

### **8. Law 97 on "Amending the Law of the Republic of Armenia on Import and Export of Cultural Values", effective from June 14, 2005.**

This Law has a new provision, whereby works of artists who died within the last 50 years may be exported only based on the certificate for export or temporary export of cultural values.

### **9. Law 107 on "Amending the Law on the Republic of Armenia on Road Fee", effective from June 26, 2005.**

The Law concerns the rates of road fees collected from trucks registered in Armenia for using automobile roads.



**10. Government Decision 981 from June 23, 2005, on Approval of the Procedure for Issuing the Certificate for Import and Export of Cultural Values and the Form of the Certificate.**

This Decision specified the procedure for issuing the certificate for import and export of cultural values and the form of the certificate.

**LEGISLATIVE UPDATE - AZERBAIJAN**

**1. Law 844-IQ from March 4, 2005, on Ratifying the Agreement on Cooperation and Mutual Assistance in the Area of Customs Activities between the Government of the Azerbaijani Republic and the Government of Romania.**

This Law approved the agreement signed by the Government of the Azerbaijani Republic and the Government of Romania in Bucharest on October 11, 2004.

**2. Law 851-HDQ from March 4, 2005, on Introducing Changes to the Regulations on Service in Customs Bodies.**

The Law added Point 8 "Rewarding with a Breastplate" to Article 66 of Regulations "On Service in Customs Bodies", previously approved by the Law 768-IQ of the Azerbaijani Republic from December 7, 1999.

**3. Presidential Decree 780 from April 27, 2005, on Applying the Law on Introducing Changes to the Regulations on Service in Customs Bodies.**

This Decree authorized the Cabinet of Ministers to be responsible for solving all questions arising from the abovementioned Law of the Azerbaijani Republic on Introducing Changes to the Regulations on Service in Customs Bodies.

**LEGISLATIVE UPDATE - GEORGIA**

**1. Order 58 of the Minister of Finance of Georgia from February 4, 2004, on Improvement of the Customs Control over Excisable Goods Transported through the Georgian Customs Territory under the Customs Regime of Transit.**

This Order is aimed at continuous improvement of the Customs Control over excisable

goods transported through the Georgian Customs Territory under the Customs Regime of Transit. Pursuant to it, transit transportation of excisable goods shall be permitted only through the following Customs Checkpoints:

- "Kazbegi" Customs Checkpoint
- "Krasni Most" Customs Checkpoint
- "Sadakhlo" Customs Checkpoint
- "Gardabani" Customs Checkpoint
- "Sarpi" Customs Checkpoint
- "Vale" Customs Checkpoint
- "Poti Port" Customs Checkpoint
- "Batoumi Port" Customs Checkpoint
- "Tbilisi Airport" Customs Checkpoint

**2. Order 125 of the President of Georgia from March 8, 2005, on Measures of Simplification of Mandatory Registration Procedures, Customs Processing of Vehicles and Tax Revenue Performance on the territory of Georgia.**

The Order regulates the assignment of the Ministry of Finance and the Ministry of Internal Affairs of Georgia to take appropriate measures aimed at the unification of the state bodies in charge of the customs and tax registration of vehicles. These measures is aimed at achieving simplification and effective application of registration procedures of the customs processing of vehicles, tax revenue performance, as well as to ensure road safety. To ensure the implementation of the above-mentioned measures, the leadership of the two Ministries was assigned to draft and issue a joint order within 3 months from the day of adoption of the Order.

**3. Order 153 of the Minister of Finance of Georgia from March 21, 2005, on Regulations on the Customs Regime of Processing of Goods on the Customs Territory of Georgia.**

This Order regulates customs processing of goods, which means the use of imported goods for processing on the Customs Territory of Georgia in conformity with the approved procedure without any application of economic policy measures, on conditions that the processed goods shall be exported from the Customs Territory of Georgia under "export" customs regime.

Goods that are prohibited for import to the Customs Territory of Georgia or goods that are impossible to identify (including electrical, thermal or other forms of energy unless they can be identified as goods, as well as goods that have electrical, thermal or other forms of



energy as products of their processing) shall not be processed under this regime.

Processing of goods under the regime of processing shall be authorized based on a one-time permit issued by the Customs Department of Georgia, provided that:

- the products of processing of imported goods are possible to identify, except for the cases provided for in the Regulations;
- processing employs the industrial facilities of Georgia and provides opportunities for export of the products of processing;
- a record certifying the payment of taxes, a cash deposit, a bank guarantee or a financial risk insurance policy are submitted; besides, the Georgian products used for processing shall not be subject to any taxes and do not require any guarantees;
- grounds are provided for the import of goods to the Customs Territory with the purpose of subsequent processing thereof and export of products of processing (e.g. a contract or some other document on the supply of goods);
- all requirements of Customs and Tax legislation are met.

Upon the expiration of the permit, the remainder of unprocessed and finished products shall be subject to re-declaration under a different Customs regime within a 10-day period.

#### **4. Order 218 of the Minister of Finance of Georgia from April 4, 2005, on the Procedure for completion of Form 2 of the Customs Declaration.**

The Order ratified the Form 2 of the Customs Declaration (see p.14), which shall be used for declaration of goods belonging to a natural person during their import in/export from the Customs Territory and the Procedure for the completion thereof. Goods that are imported or exported under "import or export for free circulation" customs regimes, with their Customs Value not exceeding 700 Lari (Product Group), shall be subject to declaration under that procedure. This provision shall not cover excisable goods and certain product categories.

According to this Order, one declaration may include 10 product items. The declaration form itself shall consist of 2 pages each having a different color (yellow and green) and shall be distributed in the following manner:

- the first pages shall be kept by the

Regional Customs Offices and sent to the Statistics Division of the Customs Department on a weekly basis;

- the second pages shall be given back the importer/exporter of the goods.

The Order repealed the previous version of Form 2 of the Customs Declaration, which was ratified by Order 87 of the Minister of Tax Revenues of Georgia from May 25, 2000.

#### **5. Order 221 of the Minister of Finance of Georgia from April 5, 2005, on Natural Person's Customs Declaration.**

The Order ratified the new document form for declaration of personal effects, currency and securities transported by natural persons (see p.14). The declaration shall be distinctly completed in Georgian, Russian or English, whichever is preferable for the declarant. Inaccurately completed, crossed out or erased declarations shall not be accepted by Customs.

This Order repealed the previous version of Natural Person's Customs Declaration, ratified by Order 86 of the Minister of Tax Revenues of Georgia from May 25, 2000.

#### **6. Order 244 of the Minister of Finance of Georgia from April 21, 2005, on the Procedure for the Customs Service in the Georgian Customs Bodies.**

The Order regulates the Procedure for the Customs Service in the Georgian Customs Bodies: the process of designation to a position specified in the staffing list in the Customs Department of the Ministry of Finance of Georgia, rights and obligations of the Customs Officers, their social guarantees and other relations involved in the Public Service in a specific position.

The following issues are regulated by this Order:

- attestation within the Customs Body;
- procedure for employment in the Customs Body and applicable limitations;
- service rearrangements of the Customs Officers;
- special ranks for the Customs Officers;
- discipline in the Customs Body (disciplinary violations and incentives);
- rights and obligations of the Customs Officers;
- conditions for retirements from the Customs Service;
- benefits and rewards for the retired Customs Officers.



## Form 2 of the Customs Declaration

1. Family Name		# 000000/000000	
2. First Name		13. Customs Regime    40    10	
3. Passport Number			
4. Identification Number			
5. Issuing Country			
		14. Customs Checkpoint Name:                      Code:	
		15. Vehicle Brand:                      Plate No.:	
6. Exporting Country			
7. Importing Country			
16. Calculation of Customs Payments			
8. Description of the Goods		Currency 000    Added	
Name of the Product	Quantity	Value of the Goods	Customs Value
	Quantity of the Goods under GNFEA		Customs Payments
			Customs Duty
			VAT
			Total
9. Total		17. Ref. No. of the document that verifies the payment	
10. Date of Completion _____, _____, 200__		18. Special Notes	
11. Signature _____		19. Customs Notes:	
12. Notes		Date of Clearance: _____, _____, 200__	

### Natural Person's Customs Declaration

Note: indication of inaccurate data or presentation of false information to Customs shall entail responsibility under the Georgian legislation

#### 1. Personal Data:

- a) \_\_\_\_\_  
First Name                      Family Name                      Date of Birth
- b) \_\_\_\_\_  
Place of Residence (Country, Address)
- c) \_\_\_\_\_  
Type and Number of the Identification Document, Personal Number,  
Nationality
- d) \_\_\_\_\_  
Country of Departure
- e) \_\_\_\_\_  
Country of Destination
- f) Purpose of the Trip:    Business ☐    Personal ☐    Tourism ☐    Other ☐

#### 2. On my body, in my hand and heavy luggage, I have the following items subject to declaration:

##### a) Georgian and other currency and securities

Currency	Amount	
	In numbers	In words

- b) Valuables (precious metals, stones and items made thereof), antiques and works of art (icons, paintings, sculptures, etc.), firearms, bullets, flammable substances, narcotics, psychoactive, strong and poisonous substances, radioactive substances, high frequency radio-electronic equipment, communication equipment, live animals, live birds, plants

Yes ☐    No ☐

Names of the items, short description, cross-border transportation permit	Unit of Measurement	Quantity		Customs Notes
		In numbers	In words	

- g) Imported goods (up to 300 Lari in value) exceeding the exemption limit (incl. excisable goods)

Yes ☐    No ☐

- h) Imported goods of one type, over 20 kg

Yes ☐    No ☐

- i) Imported miscellaneous goods, over 50 kg

Yes ☐    No ☐

#### 3. I have read the notes and completed the declaration personally, which I certify with my signature:

\_\_\_\_\_  
Signature                      Date

4. Signature of the Customs Officer \_\_\_\_\_ seal



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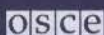
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