



ARMENIA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

Armenia is located in Western Asia. The Government of Armenia (GOA) officially welcomes foreign investment and the country has received respectable rankings on some global indices measuring business climate. In January 2015 the Eurasian Economic Union trading bloc went into effect, creating a single economic market of 176 million people between Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. Armenia has a highly educated workforce and the high-tech and information technology (IT) sectors have attracted foreign investments – particularly from the United States. 2014 saw the initial steps towards a major U.S. investment in Armenia's energy generation sector that is expected to finalize in 2015. However, Armenia's investment climate can be difficult and poses several serious challenges: a population of less than three million; relative geographic isolation due to closed borders with Turkey and Azerbaijan; per capita gross national income (GNI) of about USD 3,800; and high levels of corruption in both official and commercial spheres.

Armenia has no limitations on the conversion and transfer of money or the repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management or technical service fees. The banking system in Armenia is sound and well-regulated, but Armenia's financial sector is not highly developed. Foreign individuals who do not hold special residence permits cannot own land, but may lease it; companies registered by foreigners in Armenia as Armenian businesses have the right to buy and own land. There are no restrictions on the rights of foreign nationals to acquire, establish or dispose of business interests in Armenia. The U.S.-Armenia Bilateral Investment Treaty (BIT) provides that if a dispute arises between an American investor and the Republic of Armenia, the investor may choose to seek remedy through binding international arbitration. Although Armenian legislation complies with the Trade Related Aspects of Intellectual Properties (TRIPS) Agreement and offers protection of intellectual property rights (IPR), enforcement efforts need to be improved.

The Armenian regulatory system lacks transparency. Major sectors of Armenia's economy are controlled by well-connected businessmen who enjoy government-protected market dominance. Corruption remains a significant obstacle: although the government has introduced a number of reforms over the last few years, and the overall investment climate seems to be improving incrementally, corruption remains a problem in critical areas such as the judiciary, tax and customs operations, health, education, and law enforcement. Tax and customs procedures, while having improved, still lack transparency. It is still not uncommon to see the use of the two-invoice system, where reference prices are used, instead of invoice prices during customs clearance and manipulation of the classification of goods increases costs. The court system lacks independence, making it an unreliable forum for resolution of disputes.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The GOA officially welcomes foreign investment; the country has received improved and respectable rankings on some global indices measuring the business climate. Armenia's investment and trade policy is relatively open; foreign companies are entitled by law to the same treatment as Armenian companies (national treatment). Armenia has strong human capital and a

well educated population, particularly in the sciences. The high-tech and information technology (IT) sectors have attracted foreign investment. International companies have established branches or subsidiaries in Armenia to take advantage of the country's pool of qualified specialists. However, Armenia's investment climate poses several challenges: a population of less than three million; relative geographic isolation due to closed borders with Turkey and Azerbaijan; per capita gross national income (GNI) of about USD 3,800; and high levels of corruption in both official and commercial spheres. Foreign businesses must frequently contend with tax and customs processes that lack transparency and add to costs; the application of reference prices and misclassification of imported goods during customs clearance prevents a level playing field for all businesses.

Major sectors of Armenia's economy are controlled by well-connected businessmen who enjoy government-protected market dominance; this creates barriers to new entrants. The Armenian government has also on occasion deployed government agencies, including the tax and customs services, for political motives.

Other Investment Policy Reviews

Armenia has not undergone Investment Policy Reviews by either the Organization of Economic Cooperation and Development (OECD) or U.N Conference on Trade and Development UNCTAD. The World Trade Organization (WTO) conducted a Trade Policy Review in 2010, which can be found at: http://www.wto.org/english/tratop_e/tpr_e/tp328_e.htm. Armenia is a member of the following major international organizations: International Monetary Fund, World Bank Group, World Trade Organization, Organization for Security and Cooperation in Europe, Council of Europe, United Nations, International Labor Organization, World Health Organization, World Intellectual Property Organization, INTERPOL, European Bank for Reconstruction and Development, the Asian Development Bank, World Tourism Organization, World Customs Organization, International Telecommunications Union, and Organization of the Black Sea Economic Cooperation.

Laws/Regulations of Foreign Direct Investment

Basic provisions regulating American investments are set by a bilateral investment treaty (BIT) in force since 1996, and by the 1994 Law on Foreign Investment. In addition to providing for national treatment and most-favored nation treatment, the BIT sets out guidelines for the settlement of disputes involving the governments of either party. Armenia's 1997 Law on Privatization (amended in 1999) states that foreign companies have the same rights to participate in privatization processes as Armenian firms.

The seemingly open legislative framework and the government's visible effort to attract more foreign investment are complicated by instances of unfair tender processes and preferential treatment. The state's failure to ensure that a fair investigation is conducted into abuse and proper judicial review; have undermined the government's assurances of equal treatment and transparency. However, in 2011 the Republic of Armenia became the first country among the Commonwealth of Independent States (CIS) to accede to the WTO's Government Procurement Agreement (GPA 1994). Armenia is currently in the process of joining the GPA 2012 version. Over the past two years, in accordance with Armenia's WTO commitments on non-

discrimination, the Armenian Parliament has amended the Law on Excise Tax in an attempt to equalize duties and taxes on gasoline, alcohol, and tobacco for local producers and importers.

More about the legislation, procedures and registrations can be found at:

<http://www.ada.am/eng/for-investors/starting-a-business/steps-for-establishing-a-business/>

Industrial Promotion

The government adopted a new Industrial Strategy in December 2011 and developed action plans for the following priority industries: agribusiness, pharmaceuticals and biotechnology, architecture and engineering, information and communication, and textile, apparel, and sporting goods. The Government of Armenia offers foreign investors a one-stop-shop for assistance, the – Armenian Development Foundation, which was formed through the merger of the Armenian Development Agency, the Armenian National Competitiveness Foundation and the Industrial Development Foundation of Armenia. The Ministry of Economy also maintains a list of prospective investment projects which identify local businesses looking for foreign investors or partners.

Limits on Foreign Control

There are no limitations on foreign ownership and control of commercial enterprises. There are also no sector specific restrictions.

Privatization Program

Most of Armenia's state owned enterprises were privatized in the 1990s and early 2000s. Many of the privatization processes for Armenia's large assets were neither competitive nor transparent, and political considerations in some instances trumped Armenia's international obligations to hold fair tender processes.

The privatization of Yerevan's largest hotels, two historic brandy factories, the Zvartnots International (Yerevan) and Shirak (Gyumri) Airports, the telecommunications network, several mining assets, and much of the energy generation and distribution system account for the bulk of the foreign commercial presence in Armenia.

Screening of FDI

The Armenian government does not screen foreign direct investments.

Competition Law

The State Commission for the Protection of Economic Competition reviews transactions for competition related concerns. The law, regulations, commission decisions and more information can be found at <http://www.competition.am/?lng=2>

Investment Trends

Local experts believe that in real terms foreign direct investment in Armenia has declined over the past year. Such a decline is consistent with global trends and internal economic developments. However, the National Statistical Service changed the methodology for calculating FDI in 2014. As a consequence FDI figures have increased nominally, but are not comparable with previous years' statistics. A number of big investment projects begun in previous years have been mostly completed, and some major investment projects, which were anticipated, never materialized. The Armenian Government has created two free economic zones, and in an effort to attract additional investments, recently reduced the profit tax from 20 percent to 2 percent for new businesses whose annual exports will exceed USD 100 million.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	94 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	45 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	65 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 3,800	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, has produced scorecards for countries with a per capita gross national income (GNI) of USD 4,125 or less. In 2015 Armenia earned a "pass" grade in over half of the measured criteria; the four areas in most need of improvement were political rights, freedom of information, health expenditures, and primary education expenditures. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

2. Conversion and Transfer Policies

Foreign Exchange

Armenia has no limitations on the conversion and transfer of money or the repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management or technical

service fees. Most banks can transfer funds internationally within two to four days. Armenia maintains the Armenian dram (AMD) as a freely convertible currency under a managed float. The Central Bank of Armenia (CBA) sought to maintain the AMD through intervention in the foreign exchange market and through administrative measures in November– December 2014 to prevent market panic and drastic devaluation in the currency market. As a result, the Armenian dram's devaluation leveled off at around 18 percent against the dollar. This devaluation is roughly on par with the widespread decline of many currencies against the dollar over the same period. The AMD/USD exchange rate as of April 2015 fluctuated around 480 AMD to the USD.

According to the 2005 law on Currency Regulation and Currency Control, prices for all goods and services, property and wages must be set in AMD. There are exceptions in the law, however, for transactions between resident and non-resident businesses and for certain transactions involving goods traded at world market prices. The law requires that interest on foreign currency accounts be calculated in that currency, but be paid in AMD.

Remittance Policies

Armenia has no limitations on the conversion and transfer of money or the repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management or technical service fees.

3. Expropriation and Compensation

Under Armenian law, foreign investments cannot be nationalized. They also cannot be confiscated or expropriated except in extreme cases of natural or state emergency, upon obtaining an order from a domestic court. In all cases, proper and fair compensation is owed to the property owner. The U.S. Government is not aware of any confirmed cases of expropriation.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Armenia has a hybrid legal system that includes elements of both civil and common law. Although Armenia is developing an international commercial code, the laws regarding commercial and contractual matters currently are set forth in the civil code. Thus, because Armenia lacks a commercial court, all disputes involving contracts, ownership of property, or commercial matters are resolved by litigants in the courts of general jurisdiction, which handle both civil and criminal cases. However, the courts which handle civil matters are overwhelmed by the volume of cases before them and are seen by the public as corrupt. Despite the ability of courts to use the precedential authority of the Court of Cassation and the European Court of Human Rights, many judges do not do so, making civil court decisions unpredictable.

Many Armenian courts suffer from low levels of efficiency, independence, and professionalism, creating a need to strengthen the Armenian judiciary. Very often in cases when additional forensic expertise is requested during the judicial proceedings, the court may suspend the process until the forensic opinion is received, which may take up to a year. Litigants are wary of turning to Armenian courts for redress because of the lack of judicial independence. Judges at the court

of common jurisdiction are reluctant to make a decision without checking with their superiors at the appellate court. Thus, decisions may be influenced by factors other than the law and merits of the cases. In general, the government honors judgments from both arbitration and Armenian national courts.

Bankruptcy

According to the Law on Bankruptcy adopted in 2006, the creditors, equity and contract holders (including foreign entities) have the right to participate and defend their interests in the judicial proceedings of a bankruptcy case. Creditors have the right to access all materials relevant to the case, submit claims to the court in relation to the bankruptcy, participate in creditors' meeting, and nominate a candidate to administer the case. Monetary judgments are usually made in local currency. The Armenian Criminal code defines penalties for false and deliberate bankruptcy, for concealment of property or other assets of the bankrupt party, or for other illegal activities during the bankruptcy process. Armenia amended its bankruptcy law in 2012 to clarify procedures for appointing insolvency administrators, reducing the processing time for bankruptcy proceedings, and regulating asset sales by auction.

According to the World Bank's, 2015 Doing Business Index, resolving insolvency takes 1.9 years on average and costs 11 percent of the debtor's estate, with the most likely outcome being that the company will be sold in a piecemeal sale. The average recovery rate is 37.2 cents on the dollar. Globally, Armenia stands at 69 in the ranking of 189 economies on the ease of resolving insolvency in Doing Business 2015 (rankings at: <http://www.doingbusiness.org/rankings>).

Investment Disputes

According to the 1994 Foreign Investment Law, all disputes that arise between a foreign investor and the Republic of Armenia must be settled in Armenian courts. A new law on Commercial Arbitration was enacted in 2007, however, which provides investors with a wider range of options for resolving their commercial disputes. The U.S.-Armenia BIT provides that in the event of a dispute between an American investor and the Republic of Armenia, the investor may take the case to international arbitration. As an international treaty, the BIT supersedes Armenian law, a point which Armenia's constitution acknowledges and which holds in actual practice. While there have been a few investment disputes involving U.S. and other foreign investors, there is no evidence of a pattern of discrimination against foreign investors in these cases.

International Arbitration

Commercial disputes may be brought before an Armenian or any other competent court, as provided by law or in accordance to party agreement. Commercial disputes are heard in courts of general jurisdiction. The specialized administrative courts adjudicate cases brought against state entities. Final judgements may be appealed to the Court of Appeal and Court of Cassation, the highest judicial authority in Armenia.

The Law on Arbitration Courts and Arbitration Procedures provides rules governing the settlement of disputes by arbitration. Armenia is a member state to the International Centre for

Settlement of Investment Disputes (ICSID Convention) and convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention) The stipulations of the New York convention have been incorporated into Article 6 of the Armenian Constitution which requires domestic courts to recognize foreign arbitral awards.

Armenia has had plans to develop an alternative dispute resolution (ADR) mechanism that will include mediation and arbitration. ADR is expected to be used not only in commercial matters, including those involving mobile property and secured transactions, but also in cases involving family and labor disputes. Prior to budget cuts, the USAID-funded Enterprise Development and Market Competitiveness (EDMC) Project worked with the government to begin development of such a system. However, to date, no domestic ADR system is in place for those who seek alternatives to litigation.

ICSID Convention and New York Convention

Armenia is a state member to the International Centre for Settlement of Investment Disputes (ICSID convention) and a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards(1958 New York Convention)

Under Article 6 of the Armenian Constitution, The international treaties are a constituent part of the legal system of the Republic of Armenia. When an international treaty is ratified, if it stipulates norms other than those present in the domestic laws, the guidelines of the treaty shall prevail.”

Duration of Dispute Resolution

Depending on the nature and complexity of commercial and contractual issues and the caseload of the civil courts, matters involving investment/commercial disputes take months or years to work their way through the civil courts. In addition, because of the inherent inefficiencies and institutional corruption of the courts, matters are often delayed and outcomes are not predictable. Further, as one American investor recently experienced, some domestic litigants are willing to use illicit means to delay and undermine court proceedings, by manufacturing evidence or using law enforcement to bring charges such as tax evasion against the investors. While these charges sometimes are dismissed, some American investors caught in this web have simply cut their losses and abandoned their property. Others, however, have had success litigating their matters through the Armenian courts. Thus, even though the Armenian Constitution provides investors the tools to enforce awards and their property rights, there is little predictability in what a court may do.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Armenia has been a member of WTO since 5 February 2003. The GOA does not maintain any measures that are inconsistent with the WTO Trade Related Investment Measures (TRIMs) requirements.

Investment Incentives

Armenia currently offers incentives for exporters (no export duty, VAT refund on goods and services exported) and foreign investors (income tax holidays, the ability to carry forward losses indefinitely, and temporary import regimes for raw material imports without VAT and customs duties). The Government of Armenia amended the VAT law in 2005 to allow companies to delay VAT payments for one to two years on certain imported goods used in production and manufacturing. After the 2008 global financial crisis, the government made further amendments to the same law, and VAT payments for capital investment-related imports can now be delayed for three years if the amount exceeds AMD 300 million (USD 0.8 million), two years for AMD 70-300 million (USD 0.2-0.8 million) and one year if less than AMD 70 million (USD 0.2 million). As of January 1, 2014 the threshold for getting 3-year deferral was lowered to 200mln AMD (USD 0.45 million). Also, in accordance with the Law on Foreign Investment, several ad hoc incentives may be negotiated on a case-by-case basis for investments targeted at certain sectors of the economy and/or of strategic importance to the economy.

Research and Development

Foreign firms are able to participate in government financed research and development programs, but the opportunities for real participation are tenuous given concerns about transparency in local tenders.

Performance Requirements

The GOA has imposed performance requirements for investors as part of privatization agreements, especially for the privatization of large state-owned enterprises like mines or the telecommunications network. There are no performance requirements for investment, in terms of mandating local employment. The processes for obtaining visas, residence or work permits, etc., are quite simple. The GOA takes a considerable interest in economic activities in the disputed region of Nagorno-Karabakh, which has resulted in the GOA pushing some foreign companies to agree to operate in Nagorno-Karabakh or face termination of their operations in Armenia. There are no government imposed conditions on permission to invest, including tariff and non-tariff barriers.

Data Storage

Armenia does not follow any policy which would force foreign investors to use domestic content in goods and technology. There are no requirements for foreign IT providers to turn over source code or provide keys for encryption. There are also no requirements to store data within the country.

6. Right to Private Ownership and Establishment

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

establish or dispose of business interests in Armenia. Armenia's 1997 Law on Privatization (amended in 1999) states that foreign companies have the same rights to participate in privatization processes as Armenian firms.

7. Protection of Property Rights

Real Property

Armenian law protects secured interests in property, both personal and real. Armenian legislation provides a basic framework for secured lending, collateral and pledges, and provides a mechanism to support modern lending practices and title registration. In the World Bank's Doing Business 2015 report Armenia ranked 7th among 189 economies on the ease of registering property. Lack of clear title to land in Armenia is not an issue.

Intellectual Property Rights

Armenia has a strong IPR framework. Domestic legislation, including the 2006 Law on Copyright and Related Rights, provides for the protection of intellectual property rights (IPR) on literary, scientific and artistic works (including computer programs and databases), patents and other rights of invention, industrial design, know-how, trade secrets, trademarks, and service marks. The Intellectual Property Agency (IPA) in the Armenian Ministry of Economy is responsible for granting patents and for overseeing other IPR related matters. Armenia requires no state registration for copyright. The collective management organization Armauthor manages authors' economic rights. Trademarks and patents require state registration by the IPA. There is no special trade secret law in Armenia, but protection of trade secrets is partially covered by patent registration. Formal registration is easy and transparent, the database of IPR registrations is public, and applications to register intellectual property are published online for two months for comments by third parties.

Armenia's legislation is in compliance with the Trade Related Aspects of Intellectual Properties (TRIPS) Agreement. In 2005 Armenia created an IPR Enforcement Unit in the Organized Crime Department of the Armenian Police, which does not, however, have ex-officio rights and acts only based on complaints from right holders.

Despite the existence of relevant legislation and executive government structures, the concept of IPR remains unrecognized by a large part of the local population. The onus for IPR complaints remains with the offended party. The police assert the number of cases involving IPR violations increased in 2014 compared to previous years and note that the majority of cases are settled through out-of-court proceedings. While the GOA has made some progress on IPR issues, including the requirement that as of April 2013 all licensed products for sale within Armenia are required to be marked with a special hologram, strengthening enforcement mechanisms remains necessary.

A new Law on Copyright is currently being drafted. It includes provisions from new international agreements and provides additional detail on many of the provisions in the current law. Copyright contract rights are better defined and examples of contracts between the user and the right-holder are included. Phonogram producers' rights are harmonized with copyright

holders' rights and are extended to 70 years. The new legislation also includes specific provisions from the Beijing Treaty regulating the rights of disabled artists and orphan works. The Eurasian Economic Union, which Armenia joined in January 2015, is currently negotiating an IPR agreement related to "blank tape" customs duties and the finalizing of Armenia's new Law on Copyright is pending the outcome of this process. The IPA has also proposed changes to the Civil Code and Criminal Code to improve IPR protections by specifying in more detail what information the court should take into consideration when determining compensation, fair remuneration, and calculating damages.

The Armenian customs authorities track and report statistics related to the seizure of counterfeit goods. The relevant information can be found at:

<http://www.customs.am/Content.aspx?itn=csVLInvestigationDivision> and the descriptions of smuggling cases can be found at (in Armenian):

<http://www.customs.am/Content.aspx?itn=csVLDepFightAgainstSmug>

Armenia is not listed in USTR's Special 301 Report or the Notorious Markets Report.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

Contact at Mission:

Elizabeth Hanny,
Economic Officer
+374-10-49-44-02
hannyee@state.gov

The American Chamber of Commerce in Armenia can be contacted at info@amcham.am. A list of local lawyers can be found at U.S. Embassy Yerevan's web-page at: <http://armenia.usembassy.gov/legal.html>

8. Transparency of the Regulatory System

The Armenian regulatory system is still not implemented in a sufficiently transparent manner. A small cadre of businesses dominates particular sectors and suppresses full competition. The inconsistent application of tax, customs, (especially with respect to valuation and classification) and regulatory rules (especially in the area of trade) undermines fair competition and adds uncertainty for less politically-connected businesses, particularly small- and medium-sized businesses and new market entrants. Armenia's legislation and mandate of its competition authority are not compatible with international standards. Furthermore, the legislation does not clearly define violations of fair competition, dominant role, or prevention of competition violations. The efforts of the State Commission for the Protection of Economic Competition (SCPEC) have not been effective in ensuring a level playing field. Banking supervision is relatively well developed and largely consistent with the Basel Core Principles. In early 2006,

the CBA became the primary regulator for all segments of the financial sector, including banking, securities, insurance and pensions.

Safety and health requirements, most of them holdovers from the Soviet period, generally do not impede investment activities. Bureaucratic procedures can nevertheless be burdensome, and discretionary decisions by individual officials still provide opportunities for petty corruption. Despite persistent problems with corrupt officials, both local and foreign businesses assert that a sound knowledge of tax and customs law and regulations enables business owners to deflect the majority of unlawful bribe requests. No unified or standard procedure exists for soliciting a wide range of public comments on proposed draft legislation.

9. Efficient Capital Markets and Portfolio Investment

The banking system in Armenia is sound and well-regulated, but Armenia's financial sector is not highly developed. IMF estimates suggest that banking sector assets account for about 90 percent of total financial sector assets. Financial intermediation is poor. Because Armenian banks charge service and other fees, the actual interest rate paid by the customer may be higher than the nominal interest rate quoted by the banks. Nearly all banks require collateral located in Armenia, and large collateral requirements often prevent potential borrowers from entering the market. This remains the main barrier for SMEs and start-up companies.

The GOA has a welcoming attitude towards foreign portfolio investments and there is a system and legal framework for investments in place. However, Armenia's securities market is not well developed and has only minimal trading activity (NASDAQ-OMS exchange). Liquidity for the transfer of large sums can be difficult due to the small size of Armenia's financial market and overall economy. The GOA is hoping that as a result of the 2014 pension reform, which brought two international asset managers (Amundi and C-Quadrat) to Armenia, the capital market will play a more prominent role in the financial sector of the country. Armenia respects IMF Article VIII by refraining from restrictions on payments and transfers for current international transactions. Credit is allocated on market terms and foreign investors are able to access credit locally.

Money and Banking System, Hostile Takeovers

The banking sector is healthy; non-performing loans are less than 10 percent which is within acceptable international standards. The top three Armenian banks by assets are Ameriabank - 399.7bln AMD (USD 0.83billion), VTB Bank Armenia – 376.9bln AMD – (USD 0.78 billion), and Ardshinbank – 369bln AMD (USD 0.77billion). The Central Bank of Armenia recently announced an effort to consolidate the banking system. By 2017, minimum capital requirements for the banks will increase from the current 5bln AMD to 30bln AMD. This is intended to allow the banks to issue bigger loans at lower interest rates and will further strengthen the Armenian banking system. There are no restrictions for foreigners to open bank accounts.

10. Competition from State-Owned Enterprises

Most of Armenia's state owned enterprises (SOEs) were privatized in the 1990s and early 2000s; yet SOEs are still active in geodesy/cartography and the energy sector. SOEs in Armenia operate

as state-owned closed joint stock companies that are managed by the Department of State Property of the Armenian Government and state non-commercial organizations (schools, universities, forest enterprises). There are no laws or rules that ensure a primary or leading role for SOEs in any specific industry. SOEs in Armenia are subjected to the same tax regime as their private competitors. A public list of state-owned closed joint stock companies can be found at:

(<http://spm.am/am/projects/%D4%B8%D5%B6%D5%AF%D5%A5%D6%80%D5%B8%D6%82%D5%A9%D5%B5%D5%B8%D6%82%D5%B6%D5%B6%D5%A5%D6%80/>).

OECD Guidelines on Corporate Governance of SOEs

Armenian state owned enterprises adhere to the OECD Guidelines on Corporate Governance for SOEs. The enterprises owned by the state are providing public services, like geodesy or nuclear power generation, and hence do not impact the competitive environment in the country.

Sovereign Wealth Funds

Armenia does not have a sovereign wealth fund.

11. Corporate Social Responsibility

There is not a widespread understanding of corporate social responsibility (CSR) in Armenia, but several larger companies with foreign ownership or management are introducing the concept. It is rare to see examples of Armenian companies that contribute to their local community through charity, employee service days, or other similar programs, but those CSR programs which do exist are viewed favorably. There are no NGOs that actively promote or monitor responsible business conduct.

Domestic laws related to labor, employment rights, consumer protection, and environmental protection are not always enforced effectively. These laws and regulations cannot be waived to attract foreign investments.

OECD Guidelines for Multinational Enterprises

Armenia does not adhere to the OECD Guidelines for MNEs or the UN Guiding Principles for Business and Human Rights, which address generally accepted CSR principles.

12. Political Violence

Political rallies in the aftermath of the 2008 presidential elections turned violent, as clashes between government security forces and opposition demonstrators resulted in dozens of casualties and 10 fatalities. Since then, political demonstrations have occurred mostly without incidents of violence, with a few exceptions of skirmishes between demonstrators and the police. In the fall of 2014 and early 2015, increased violence against civic and political activists resulted in detentions and injuries. None of these incidents caused any damage to projects or installations nor did they impede the functioning of businesses in the country. The GOA has been known to use tax audits, money laundering investigations, and other official mechanisms to retaliate

against business people who support the political opposition. At the same time, the GOA has used economic and administrative resources to reward political loyalists, provide them with political protection, and keep them above the law. This, in turn, has led to monopolies in many areas and a strong interconnection between the political and business spheres.

A cease-fire with Azerbaijan has been in effect since 1994 for the conflict surrounding the disputed region of Nagorno-Karabakh. However, intermittent gunfire along the cease-fire line and along the border with Azerbaijan continues, often resulting in injuries and/or deaths. The tensions escalated noticeably in the summer of 2014 and the beginning of 2015. There have been no threats to commercial enterprises from skirmishes in the border areas. It is unlikely that civil disturbances, should they occur, would be directed against U.S. businesses or the U.S. community. Because of the existing state of hostilities, consular services are not available to U.S. citizens in Nagorno-Karabakh.

13. Corruption

Corruption remains a significant obstacle to U.S. investment in Armenia. The government introduced a number of reforms over the last few years, including the simplification of licensing procedures, civil service reform, a new criminal procedure code, and the introduction of new anti-corruption laws and regulations. Nevertheless, corruption remains a problem in critical areas such as the judiciary, tax and customs operations, health, education, and law enforcement. The Special Investigative Service is responsible for investigating corruption, and the prosecutor general is responsible for prosecuting it. Both large scale and petty corruption are widespread. Priorities set by the latest anti-corruption strategy approved in May 2014 included improvement of legislation and infrastructure to combat money laundering, an increase of transparency in the public sector, and enhancement of accountability. The government chose education, healthcare, state revenues, and police as pilot sectors for the implementation of the strategy. In July 2012, the President also approved a new strategy and action plan for Justice Sector Reforms for 2012-2016, which addresses most of the problems in the judiciary, prosecutors' office, and civil, criminal, and administrative legislation.

In January 2012, pursuant to the law on Public Service adopted in 2011, an Ethics Commission for High-Ranking Officials was established. The Commission collects and monitors the asset declarations of high-level officials. However, currently there are no criminal penalties for noncompliance or filing of false declarations. The Commission is currently working with the Ministry of Justice on developing legislation which provides for administrative penalties for those who file false declarations or fail to comply with the filing rules and deadlines. There is no estimate as to when the new legislation will be approved by the Parliament. In February 2015 a new Anti-Corruption Council was created by government decree. The members of the Council include the Prime Minister, Minister of Justice, Minister of Finance, Government Chief of Staff, Prosecutor General, as well as representatives from civil society and the Ethics Commission.

Under the current law on high level officials' declarations, adult family members living with the official also have to file a declaration. This loophole has allowed officials to register and/or transfer their property to a minor child or a relative who does not live in the same household, in order to avoid reporting requirements. Furthermore, according to current laws, income or assets

from undisclosed sources are not considered evidence of corruption, nor do they represent sufficient grounds for launching an investigation.

The Law on Civil Service, in force since 2002, prohibits participation of civil servants in commercial activities. However, powerful officials at the federal, district, or local levels often acquire direct, partial, or indirect control over private firms. Such control is exercised through a hidden partner or through majority ownership of fully private parent companies. This involvement can also be indirect, e.g., through close relatives and friends. These practices promote protectionism, encourage the creation of monopolies or oligopolies, hinder competition, and undermine the image of the government as a facilitator of private sector growth. Because of the strong interconnectedness of political and economic spheres, Armenia is unable to differentiate between the two and introduce legislation to encourage strict ethical codes of conduct and the prevention of bribery in the business field.

The 2001 law on NGOs covers all aspects of the relationship between the GOA and non-governmental organizations. No specific law on NGOs dealing with anti-corruption investigation exists. The government has proposed new legislation that would give NGOs the right to engage in economic activity; it is still under public discussion at this time.

Western companies who look to invest in Armenia are typically large enough that they do not, to our knowledge, need to get involved in corruption or bribe officials to facilitate their business. They follow the rule of law and are transparent in their dealings and demand the same of the government. However, according to the Transparency International (TI) 2014 Corruption Perception Index (CPI) report, Armenia with a score of 37 out of 100, ranked 94th among 175 countries. Global Corruption Barometer 2013, a worldwide public opinion survey, identified the Armenian judiciary as the most corrupt, followed by public officials and civil servants, and police. The same survey showed that 16 percent of the responders had paid bribes to the registry and permit services, 18 percent to the judiciary, and 9 percent to the tax revenue services.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Armenia is a member of the UN Anticorruption Convention. While not a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, Armenia is, however, a member of the OECD Anti-Corruption Network for Eastern Europe and Central Asia, and has signed the Istanbul Action Plan. Armenia was included in the third round monitoring mission in 2014 and the report that came out in 2015 highlighted the absence of a truly independent body responsible for anti-corruption policy implementation with the power to prosecute. The report also analyzed recent developments and provided new recommendations in three areas: anticorruption policy and institutions, criminalization, and prevention of corruption. Armenia has also joined the global Open Government Partnership initiative and will conclude its second round by 2016.

Resources to Report Corruption

For investigating corruption:

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For prosecuting corruption:

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For financial and asset declarations of high level officials:

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Watchdog organization:

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14. Bilateral Investment Agreements

Armenia has shared a bilateral investment treaty (BIT) with the United States since 1996, which sets forth conditions for investors of each party to be no less favorable than for national investors

(national treatment) or for investors from any third state (most favored nation), as well as providing the option of international arbitration in the case of investment disputes. Armenia has BITs in force with 36 countries: the U.S., Argentina, Austria, Belarus, Belgium, Bulgaria, Canada, China, Cyprus, Egypt, Finland, France, Georgia, Germany, Greece, India, Iran, Italy, Israel, Kuwait, Kyrgyzstan, Latvia, Lebanon, Lithuania, The Netherlands, Luxembourg, Romania, Russia, Spain, Sweden, Switzerland, Syria, Ukraine, the United Kingdom, Uruguay and Vietnam. According to the U.N. Conference on Trade and Development (UNCTAD), Armenia has also signed BITs with Iraq, Kazakhstan, Qatar, Tajikistan and Turkmenistan, but these agreements have not yet entered into force. Armenia is a signatory of the CIS Multilateral Convention on the Protection of Investor Rights.

Armenia became a member of the Russia-led Eurasian Economic Union in January 2015, together with Russia, Belarus and Kazakhstan which previously formed the Eurasian Customs Union.

There is no free trade agreement between the U.S and Armenia. However, the U.S. includes Armenia in its Generalized System of Preferences program. Also, in May 2015, Armenia signed a Trade and Investment Framework Agreement (TIFA) with the United States. The TIFA establishes a United States-Armenia Council on Trade and Investment to discuss bilateral trade and investment and related issues and examine ways to strengthen the trade and investment relationship between the two countries.

Bilateral Taxation Treaties

Tax Treaty: Armenia does not issue foreign tax credits and does not recognize the existing 1973 double taxation treaty signed by the Union of Soviet Socialist Republics (USSR) and the United States. The United States considers Armenia a party to this treaty by virtue of state succession to treaties, and Armenia's declaration of its commitment to fulfill the international treaty obligations of the former U.S.S.R. as expressed in the Alma Ata Declaration of 1991. The GOA has expressed interest in negotiating a new double taxation treaty with the United States, but there is no evidence at this time of a U.S. company being subject to double-taxation.

15. OPIC and Other Investment Insurance Programs

Since 1992, Armenia has had in place an agreement with the Overseas Private Investment Corporation (OPIC). OPIC mobilizes private capital to help solve critical development challenges, providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds. OPIC is currently involved in three projects in Armenia: one for the expansion of the Yerevan Marriott and another involving FINCA Universal Credit Organization which is part of a multi-country, seven-year USD 45 million loan to FINCA Microfinance Holding for micro-lending. Armenia is also a member of the World Bank Group's Multilateral Investment Guarantee Agency (MIGA).

Transactions within Armenia are generally required to be designated and paid in local currency, the Armenian dram. There are no limitations on the conversion or transfer of money. Post is not aware of any convertibility risks caused by the Government of Armenia blocking convertibility or transfer of funds. During several days of panic on the foreign exchange market in December

2014 when the Armenian dram was being significantly devaluated on a daily basis, some private commercial banks began to restrict the sale of USD. The Central Bank launched 16 administrative proceedings against the commercial banks accused of limiting the sale of dollars, and issued a number of warnings to private exchange operators. The government was able to restore stability on the local foreign exchange market and ensure the dram's depreciation was in line with global trends.

The Mission has to follow specific regulations to convert USD into local currency, but there are no difficulties and the exchange rate for the Mission is almost the same as in the local foreign exchange market.

16. Labor

Armenia's human capital is one of its strongest resources. The labor force is generally well educated, particularly in the sciences. Almost one hundred percent of Armenia's population is literate. Enrollment in secondary school is over 90 percent, and enrollment in senior school (essentially equivalent to American high school) is about 85 percent. The official unemployment level is about 17 percent, but according to various expert estimations, the real unemployment level is closer to 30 percent.

Much of the new foreign investment in Armenia has occurred in the high-tech sector. High-tech companies have established branches or subsidiaries in Armenia to take advantage of the country's pool of qualified specialists in electrical and computer engineering, optical engineering, and software design. There is a shortage of workers with vocational educations qualified in professions like welders and plumbers. About 20 percent of the non-agricultural workforce is employed in the informal economy, primarily in the services sector. Armenian law protects the rights of workers, except for personnel of the armed forces and law enforcement agencies, to form and to join independent unions. The law also provides for the right to strike, with the same exceptions, and permits collective bargaining. The law stipulates that workers' rights cannot be restricted because of membership in a union. Labor organizations remain weak because of employer resistance, high unemployment, and poor economic conditions. Labor unions are generally inactive with the exception of those connected with the mining and chemical industries. Unions are tied closely to the government.

The amended Labor Code came into force in June 2005, and is considered to be largely consistent with international standards. The law sets a standard 40-hour work week, with 20 days of mandatory annual paid leave. However, some private sector employees, particularly in the service sector, are unable to obtain paid leave and are required to work more than eight hours a day without additional compensation. Treatment of labor in free economic zones is no different than elsewhere in the country. Employers are generally able to adjust employment in light of fluctuating market conditions. Severance in general does not exceed 60 working days.

Individual labor disputes can usually be resolved through courts; however, the courts are often overburdened causing delays. Collective labor disputes should be resolved through collective bargaining. The State Health Inspectorate at the Ministry of Health monitors health and occupational safety issues, but the enforcement is not always effective.

The current legal minimum wage established by the 2015 budget is AMD 50,000 (USD 104) per month. Most companies also pay an unofficial extra-month bonus for the New Year's holiday. Entry-level skilled professionals (such as software engineers) command wages of about USD 500-600 per month. Wages in the public sector are often significantly lower than those in the private sector and, while all wages must be paid in AMD, many private sector companies continue to use a fixed exchange rate to denominate employee salaries.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

In June 2011, Armenia adopted a Law on Free Economic Zones (FEZ), and developed several key regulations at the end of 2011 to attract foreign investments into FEZs: exemptions from VAT (value added tax), corporate income/profit tax, customs duties, export tax and property tax. The “Alliance” FEZ was opened in August 2013, and currently has five businesses taking advantage of its facilities. The focus of “Alliance” FEZ is on high-tech industries which include information and communication technologies, electronics, pharmaceuticals and biotechnology, architecture and engineering, industrial design and alternative energy. In 2014 the government expanded operations in the Alliance FEZ to include industrial production as long as there is no similar production already occurring in Armenia. The investment programs for these companies must still be approved by government.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$B USD)	2014	11	2014	11	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2014	165	2013	1	
Host country's FDI in the United States (\$M USD, stock positions)	n/a	No data	2013	1	http://bea.gov/international/factsheet/factsheet.cfm?Area=334
Total inbound stock of FDI as % host GDP	2013	46%	2013	51.7%	UNCTAD statistics

*National Statistical Service of the Republic of Armenia www.armstat.am. Central Bank of the Republic of Armenia www.cba.am (http://www.mineconomy.am/uploads/1_hamaxarn_hosqer,_maqur_pasharner_eng.pdf).

U.S. Bureau of Economic Analysis reports USD 1 million U.S. FDI stock in Armenia and USD 1 million Armenian FDI stock in the United States for 2013, while Armenian statistical service reports USD 165 million stock of U.S. FDI in Armenia (no data for Armenian FDI in the U.S.).

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	5,091	100%	Total Outward	154	100%
Russia	2,061	50%	Latvia	56	37%
France	341	7%	Bulgaria	36	24%
United States	258	5%	n/a	n/a	n/a
Argentina	255	5%	n/a	n/a	n/a
Cyprus	219	4%	n/a	n/a	n/a

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey, 2013

Table 4: Sources of Portfolio Investment

IMF data on portfolio investments for Armenia is not available

19. Contact for More Information

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