

# CONTENT

	Page
INTRODUCTION	2
1. OVERVIEW OF THE CUSTOMS SYSTEM AND THE STRUCTURE OF FOREIGN TRADE OF THE REPUBLIC OF ARMENIA	4
2. LEGISLATION REGULATING THE CUSTOMS SECTOR, TARIFF REGULATION OF FOREIGN TRADE	7
3. REVIEW OF MOST CONSIDERABLE PROBLEMS IN THE CUSTOMS SYSTEM	9
3.1 Accession to the World Trade Organization	9
3.2 Determination of Customs Value of Commodities	9
3.3 Determination of Country of Origin and Classification of Commodities	11
3.4 Customs Check-Up of Physical Entities	11
3.5 Elimination of Non-Tariff Regulation of Trade	12
3.6 Improving Customs Procedures	13
3.7 Personnel and Infrastructure in the Customs System	14
CONCLUSIONS AND RECOMMENDATIONS	15
LIST OF REVIEWED MATERIALS AND LITERATURE	19

## INTRODUCTION

A review of the economic development of countries in transition<sup>1</sup> over the last ten years indicates corruption as a main factor hindering the establishment of free market relations and the strengthening of democratic institutions in these countries. Proliferation of corruption may not only obstruct a country's progress towards a free market and free society, but also reverse achievements of the recent years.

Experience in post-communist countries has proven the inefficiency of conventional approaches on fighting corruption, as the abuse of official power for one's private benefit. Western countries have chosen the path of enhancing the struggle against crime and strengthening the rule of law to tackle this issue, but the application of this approach in transition countries will not be effective in terms of "redistributing" authority, increasing transparency of public administration, and bolstering long-term changes in behavior. Furthermore, there is a serious threat that an anti-corruption focus on predominantly legal methods and sanctions would bring added strength to entities that are most often considered the rather corrupt ones in the countries in question.

All of the aforementioned applies to Armenia, in which problems typical of economies in transition have been exacerbated by peculiar factors such as the existence of unresolved issues with the neighboring country of Azerbaijan, in connection with the Nagorno-Karabagh issue, the related economic blockade of Armenia by Azerbaijan and Turkey, and the unreliability of Georgian transit routes for regular transportation. Armenia's relative isolation from international markets, due to its geographic position and the unstable military-political situation in the region, intensifies the struggle for economic influence tools within the country, thereby creating a rather fertile soil for the growth of corruption. In the regard, the customs system is of utmost importance, because it plays a significant role in the development of free trade and the export of Armenian goods to international markets. Similar to a number of state agencies, Armenia's customs system has not been sterile from expressions of corruption. According to the results of a public opinion survey on "Perception of Corruption" carried out in Yerevan in 1999 by the Civil Society Development Union (an Armenian non-governmental organization), the customs system is one of the five most corrupted sectors in the country, further to the judiciary, the tax system, the police, and the healthcare sector; 68.4% of the respondents believe corruption in the customs system to be large-scale.

---

<sup>1</sup> Normally, the term "transition countries" is used in reference to former USSR countries and former socialist countries of Eastern Europe, which started their transition from a central planning socialist economic system to a free market in the very beginning of the 1990s.

Moreover, Armenia is not the only country in this situation. The importance of fighting corruption in the customs system is recognized by a number of states and various international organizations. A Declaration adopted by the Board of the World Customs Organization (WCO) on July 7 of 1993 in Arusha (Tanzania) emphasizes that corruption can be an obstacle to the efficient performance of any society and lessen the capacity of the customs system in performing its mission. The Arusha Declaration, which has now become the guideline for the 158 WCO-members in the fight against corruption, also mentions that a corrupted customs system not only is incapable of sustaining public revenue and efficiently tackling smuggling, but also hinders growth in international trade and perplexes economic development.

The purpose of this study is to analyze the problems that exist in the customs system of the republic of Armenia and to propose ways of improving legislation and organization schemes in order to foster the reduction and elimination of corruption, the development of free trade, and Armenia's accession to the World Customs Organization.

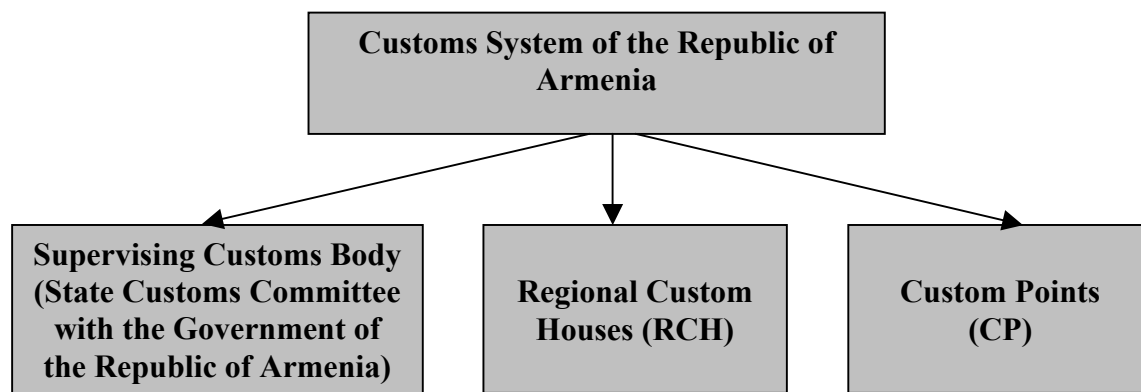
The study has been carried out by the "Association for Foreign Investment and Cooperation" (AFIC) in the framework of the project supported by the Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber of Commerce in Washington D. C.

The "Association for Foreign Investment & Cooperation" and the Project team members would like to express their gratitude and appreciation to the Center for International Private Enterprise (CIPE) of the U.S. Chamber of Commerce for the support and assistance. We would like to express our thanks also to all those who gave of their time for our interviews, round-table discussions, seminars and consultations, and supported directly or indirectly to carry out the study (our special thanks to international customs experts Mr. Arthur Dunlop of the British Know How Fund and Mr. Alan Morley from the USAID Tax, Fiscal & Customs Project in Armenia (Barents Group, KPMG Consulting) for their assistance and advises).

# 1. OVERVIEW OF THE CUSTOMS SYSTEM AND THE STRUCTURE OF FOREIGN TRADE OF THE REPUBLIC OF ARMENIA

The customs system of the Republic of Armenia was created on January 4 of 1992. It has the following principal structure:

**Chart 1**



Currently, six customs houses and ten customs points operate in Armenia:

1. "Araratian" Regional Customs House;
  - 1.1 Markara customs point
  - 1.2 Specialized customs point in Nor-Hachen;
2. Gugark Regional Customs House
  - 2.1 Bagratashen customs point
  - 2.2 Jeeleeza customs point
  - 2.3 Ayroom customs point
  - 2.4 Gogavan customs point
  - 2.5 Privolnoye customs point
3. Shirak Regional Customs House
  - 3.1 Bavra customs point
  - 3.2 Customs point in "Shirak" Airport
  - 3.3 Akhoorik customs point;
4. Syunik Regional Customs House
  - 4.1 Meghri customs point
5. "Zvartnotz" Customs House of Yerevan; and
6. Regional Customs House of TIR.

About 700 people are employed in the customs system of Armenia; the bulk of these employees (about 400) work in customs points. About 250 people work for the customs houses, and the rest are in the headquarters (State Customs Committee (hereinafter, the SCC) with the Government of the Republic of Armenia).

The average salaries are between 16,500 drams (ordinary inspectors) and 35,000 drams (heads of customs houses or department heads in the SCC). In addition to the salaries, employees of the customs system receive monthly bonuses (about twice the monthly salary), which is paid out of a reserve fund created with customs fees.

The following is a brief overview of the volume of work in the customs system. about 50,000-55,000 cargo declarations are processed each year, 40% of which is submitted by natural persons. A significant part of the overall work (about 40%) is dealt with by the Ararat Regional Customs House, which is also the equivalent of about two thirds of the cargo declarations submitted by legal persons.

**Table 1**

**Volumes of Armenia's Foreign Trade in 2000-2001**

(USD 000's)

	2000	2001	Change (Increase +, Decrease -)
Export	183.836	258.155	+40%
Import	582.882	643.981	+10%
Balance	- 399.046	- 385.826	-3.3%

**Table 2**

**Distribution of Foreign Trade by Custom Houses, 2001**

(USD 000's)

NN	Customs House	Export	Import
1	"Araratian" RCH and "Zvartnots" Customs House	216.165	578.203
2	Shirak RCH	1.022	18.242
3	Syunik RCH	22.993	36.777
4	Gugark RCH	17.975	10.759
	<b>Total</b>	258.155	643.981

**Table 3****Distribution of Foreign Trade by Regions, 2001**

(USD 000's)

	2000	2001	Change (Increase +, Decrease -)
<b>CIS Countries (Commonwealth of Independent States)</b>			
Export	71.407	84.578	+18%
Import	87.475	154.220	+76%
Balance	- 16.068	- 69.642	+4.3 times
<b>Other Countries</b>			
Export	112.428	173.577	+54%
Import	495.407	489.761	-1%
Balance	- 382.979	- 316.184	-17%

## **2. LEGISLATION REGULATING THE CUSTOMS SECTOR: TARIFF REGULATION OF FOREIGN TRADE**

### **Legislation**

Currently, the basic piece of legislation regulating the customs sector is the Customs Code of the Republic of Armenia, which came into force on January 1 of 2001.

As required under the Customs Code of the Republic of Armenia, about 50 various legal acts have been adopted, including decrees and orders of the Government, covering detailed regulation and instructions enshrined in parts of the Customs Code.

The Law on Value-Added Tax, the Law on Excise Tax, the Law on Taxes, the Law on Road Tax, and a number of other laws of the Republic of Armenia are directly linked with customs legislation and regulate the size of customs payments (VAT, excise tax, road and environment fees, presumptive payments) and their accrual and collections schemes.

In general, the customs legislation of Armenia is currently under development. Taking into account that the customs system of Armenia has functioned about a year in accordance with the new Customs Code, the SCC has been circulating with relevant ministries a legislative package proposing a number of significant amendments to the Customs Code.

The main issues in legislative development have to do with the performance quality of ministries and other government agencies, and the development of their professional skills. While legislative work at the level of the National Assembly and the Government is, with some reservations, consistent with the current standards, the aforementioned problems exist in the drafting of sub-legislation, with a heavy impact on the performance of the customs system in the reality of Armenia. This is determined by the fact that the practice in Armenia during the recent years is such that customs inspectors, when interpreting a questionable matter, prefer instructions of their superiors or provisions in sub-legislation to the relevant provisions of a law or a Government decree.

### **Tariff Regulation of Foreign Trade**

An important requirement for accession to the World Trade Organization (WTO) is the application of a policy of tariff regulation in foreign trade (for accrual and collection of all customs payments).

The current scale of customs duties in Armenia is based on the CN FEA\*. The rate is either 0% or 10%. Exports are most liberalized: only a 0% customs rate applies to all commodities. In case of imports, depending on the type of commodity, a 0% or 10% customs rate shall be applied. A 10% import duty applies mostly to foodstuffs and other finished products that have their equivalents manufactured inside the Republic of Armenia. Notwithstanding that customs rates are clearly defined in the current law and are not harsh in comparison to international standards, the customs bodies often practice an approach whereby the customs inspectors doing the paperwork or their unit heads artificially inflate the customs value of commodities without any justification, which leads to a higher customs payment by the importers, in contravention to the laws in place. This issue is addressed in greater detail in the chapters that follow.

---

\* **CN FEA** The coding of commodities in foreign trade of Armenia is based on the **Harmonized Commodity Description and Coding System (hereinafter, the HS)**, adopted in accordance with the **International Convention on the Harmonized Commodity Description and Coding System** dated June 14 of 1984, and has been officially recognized in over 150 countries of the world, starting January 1 of 1988. Under the Harmonized System (the HS), physically mobile commodities are coded in 21 sections. On the basis of the HS, European Economic Cooperation countries have developed a **Combinized Nomenclature of EC-CN** (hereinafter, the CN). On the basis of the CN, the **Commodity Nomenclature of Foreign Economic Activity** (CN FEA) of CIS countries was adopted on November 11 of 1995. Armenia officially acceded to the CN FEA in 2000.

### **3. REVIEW OF MOST IMPORTANT PROBLEMS IN THE CUSTOMS SYSTEM**

#### ***3.1 Accession to the World Trade Organization***

The World Trade Organization (WTO) was created in 1995. Before the WTO was established, the General Agreement on Trade and Tariffs (GATT), signed by 23 countries in 1947, had been in place. The purpose of GATT was to regulate and liberalize international trade, and to remove trade barriers through negotiations. Parallel to the expansion of international trade integration, the number of signatories to the GATT increased. During the lifetime of GATT, eight rounds of multilateral negotiations were held, resulting in significant liberalization of international trade and economic relations in the area of world trade. Nevertheless, the GATT treaty did not provide for sufficient regulation of tariff barriers, namely the licensing system, the application of unjustified quality standards, and delays in customs procedures. These factors led to the Eight Round of Negotiations in Uruguay (1986-1993), aimed at not only reducing the current level of customs duties, but also clearly regulating non-tariff barriers to trade. As a result, the World Trade Agreement (WTO) founding agreement was signed in Marrakech in 1994.

Currently, Armenia's accession to the WTO is being considered. In this context, and in terms of analyzing possible abuse in the customs system and overcoming it, there are a number of so-called "high-risk" sectors. They are mostly related to the determination of the country of origin of commodities, their classification, determination of customs value, and elimination of non-tariff regulation of trade. Another serious challenge is the recruitment, professional qualification, and remuneration of employees in the customs system.

#### ***3.2 Determination of Customs Value of Commodities***

By definition, the customs value of a commodity is the sum of all costs a buyer has incurred or will incur directly or indirectly to deliver the commodity to the customs border of the Republic of Armenia. The customs value of a commodity is the base for accruing the customs payments (with the exception of commodities subject to presumptive payments).

In many countries of the world, the determination of customs value causes tension in the relationship between businesses and customs bodies. In practice, customs bodies try to inflate the customs value, while businesses try to reduce it. Many countries formally or informally use so-called "minimum control prices". More developed countries have got tools to determine or check the customs value.

For Armenia, checking the validity of the real customs value would take too much time and resources, especially because the majority of foreign trade transactions are in cash, without the involvement of the banking sector.

According to the customs legislation of Armenia, customs value is calculated and declared by the businesses. Article 87 of the Customs Code of Armenia provides a list of all the documents that need to be submitted for customs bodies to accept the customs value calculated by the business submitting the declaration using the transaction price methodology; however, due to the aforementioned reasons, the documents cannot maintain protection of the customs bodies from possible fraud. Therefore, this provision of the Customs Code of the Republic of Armenia is in principle contradiction with the requirements of the WTO, because accepting the customs value declared by the business should not depend on the presentation of any given document, especially because at times, it is objectively impossible to submit some of the required documents. Furthermore, the time allotted for customs procedures is not sufficient to check the trustworthiness of the submitted documents and other information.

Thus, the aforementioned issues objectively create fertile grounds for potential abuse by customs bodies and the creation of obstacles on the way of business and free trade development. In this situation, a business may find itself dependant on the decision of a customs body or an official thereof, which causes a situation in which two organizations transporting the same or similar commodities might be subject to the application of two varying customs values, leading to the emergence of unequal conditions for competition. Moreover, if discrepancies arise in declaring the customs value, delays in customs paperwork take place, which may last as long as ten days and more. Consequently, businesses have to incur additional costs in paying transportation companies for redundant stand-by of vehicles, storage of commodities in customs warehouses, and possible, fines and penalties for not making customs payments in time. This is a direct incentive for businesses to make the customs paperwork quick and non-costly, in all possible ways, including abuse. This is furthered by the fact that many businesses are not aware of either their rights under customs legislation or the provisions of such legislation. In this connection, another pitfall in the customs system is that customs bodies do not duly perform their functions in increasing awareness and consultation, which are basic duties for customs bodies of any country. In general, customs bodies are not transparent in determining the customs value. They are obliged to use the press and other awareness tools to make the public, and most importantly, importers and exporters aware of the sources and methodology they apply in determining customs values of commodities.

### ***3.3. Determination of Country of Origin and Classification of Commodities***

The Republic of Armenia has concluded international agreements on free trade with a number of other countries, which grant specific privileges to imports originating in these countries<sup>\*\*</sup>. Problems arise when importers lie about the country of origin (naming, for example, the Russian Federation as the country of origin, while the goods actually originate somewhere else) to avoid declaring the right country of origin and to enjoy customs privileges.

In the frameworks of the CIS (under the current rules), a commodity is considered to have originated in a member-state of the CIS if it is imported to a CIS country from the territory of the member-state that is the country of origin. Nevertheless, one can find actual cases in which goods that originated in the Russian Federation are imported to the customs territory of Armenia from countries other than Russia, but still enjoying customs privileges as if they had been imported from the Russian Federation. This is a case of mere abuse.

Another area of high risk comprises issues related to the classification of commodities under the CN FEA<sup>\*</sup>. Due to the current level of scientific progress, with continuously upgraded production technology and the emergence of substituting, as well as a number of complicated and multi-functional commodities, it is often very difficult to determine the real code of a commodity. There are a number of commodities that can receive two or more codes in their classification. Quite often, one of the codes is subject to a 10% import duty, while the other one is subject to 0%: in this case, it is very difficult to determine the real code for the commodity at first sight. Proper classification raises the need for determining the chemical composition of a commodity or the type of technological processing used in producing the commodity.

### ***3.4 Customs Check-Up of Physical Entities***

Another area of high risk is the system of privileges granted to physical entities (persons) moving commodities across the customs borders of the Republic of Armenia. As a complicated system that depends on several uncontrollable criteria, this system is not free of potential abuse, either. The existing system of privileges contemplates that a person may bring along his/her personal things free of customs duties, while in reality, it is rather difficult to define what personal things are and to cap their maximum volume.

---

<sup>\*\*</sup> The country of origin is the country in which a commodity was completely manufactured or last underwent sufficient processing, as determined by criteria on sufficient processing.

<sup>\*</sup> Commodity Nomenclature of Foreign Economic Activity.

Currently, the Customs Code of the Republic of Armenia defines as personal the things that do not have factory packaging and labeling, and are in the escorted luggage, or goods that persons carry on them at the time of crossing the customs border of Armenia. Obviously, the application of these criteria creates much opportunity for subjectivity and abuse on both sides.

### ***3.5 Elimination of Non-Tariff Regulation of Trade***

A basic pre-condition for Armenia's accession to the WTO is to harmonize the customs legislation of the Republic of Armenia with WTO criteria. An important criterion is the elimination of non-tariff regulation of foreign trade to the extent possible, and the resulting liberalization of foreign trade.

The notion of "non-tariff regulation of foreign trade" covers any means that do not have a direct effect on the size of customs payments, but limit the transportation of commodities across a customs border. Non-tariff regulation tools include licenses, conclusions and permits, certificates, and other papers issued by certain government agencies at the time of exports or imports.

In recognition of commitment to WTO principles, Armenia has made significant progress in liberalizing its foreign trade starting 1995. Currently, a license is required only for transporting textiles from Armenia to member-states of the European Economic Cooperation. This license is granted by the Republic of Armenia Ministry of Trade and Economic Development, based on quotas granted by the European Economic Cooperation (EEC) annually, in accordance with a treaty on trading textiles between the Republic of Armenia and EEC countries. Special permissions are required for imports and exports of medicaments and drugs, chemicals designated for preservation of plants, and animals recorded in the Red Book of the Republic of Armenia.

Another means of non-tariff regulation is mandatory certification of certain commodities. In the Republic of Armenia, a list of commodities subject to mandatory certification is established. It also applies to those commodities imported to the customs territory of Armenia, which are covered under the list approved by the Government of Armenia, and are imported under the customs regime "imports for free circulation". The aforementioned certificate is issued by the Standardization, Measurements, and Certification Department with the Government of Armenia.

The procedures of applying the aforementioned means of non-tariff regulation were adopted several years ago and are currently in dire need of review. Obtaining all of the required permissions would require undergoing a variety of procedures with different agencies.

In each case, the forms and maturity of permissions or conclusions differ (a 10-15 day average maturity). In many instances, the law does not stipulate clear procedures for appealing the decisions of the body entitled to grant permissions, which leaves room for abuse in this area.

### ***3.6 Improving Customs Procedures***

Starting in 1996, customs procedures in regional customs houses of Armenia (and in customs points starting in 2000) are carried out with the use of software, the so-called “automated system of declarations”. Nevertheless, the efficiency of customs procedures and the time spent on such procedures are still far from being satisfactory.

Starting in 1999, the largest customs house in Armenia, the Ararat Regional Customs House has had a sampling system based on an analysis of risk criteria: under this system, the automated system of declarations, based on the information concerning the declared commodities (submitted by the importer/exporter), automatically determines whether the commodities and the accompanying paperwork shall be subject to a detailed or partial inspection, or released without inspection. However, this type of a sampling system does not yet function in the other customs houses and points of Armenia. Under the current system of declarations, the importers/exporters do not play an adequate role, as they often have to spend several hours in a queue to merely register their declaration. In this situation, the subjective decisions of bureaucrats, and sometimes their inaction depends the length and future of the customs procedures, including declaration.

The institution of customs brokers (intermediary organizations) is not yet fully operational. Businesses should be enabled to choose the option of beginning the customs procedure of declaration for their commodities in customs points, by means of creating necessary infrastructures (and first of all, an integrated computer network) in the customs points, as well.

Major improvement is needed in the process of making customs payments by businesses, because currently, cash payments are predominant in this process, which take place immediately at the time of completing the customs procedures or paperwork. More flexible schemes for making customs payments should be introduced, which will allow businesses to have their goods released to them once certain guarantees of future performance of the payment obligation are provided to the customs bodies.

In general, streamlining is necessary in the whole customs procedure for both imports and exports.

### ***3.7 Personnel and Infrastructure in the Customs System***

The “personnel risk” factor has long been a main concern in the customs system. It implies a set of issues comprising the recruitment, training, professional improvement, and remuneration of personnel in the customs system. Taking into account the peculiarities of the customs system, in which the subjective decisions or inaction of officials may cause significant financial and moral damage to businesses, it is fair to say that the aforementioned concerns are currently not being addressed in an appropriate manner.

The selection, recruitment, and dismissal of customs system personnel is a non-transparent process, where many subjective factors often have a pervasive impact.

Many inspectors do not master customs inspection or hidden compartment discovery techniques, and the level of moral, psychological, and ethical preparation amongst inspectors is low. Furthermore, there is no proper focus on regular upgrading of the professional knowledge and skills of inspectors and, especially, management. The sub-legislation, including ministerial acts, are not delivered adequately. Staff issues exacerbate, because the customs system of Armenia has been inflated in size, and quite often, several officials end up performing the same function without much efficiency.

Currently, the average monthly salary of customs officers is about 20,000 drams. In addition to this, every month, depending on the overall performance of the system, bonus remuneration is paid, which is about twice or three-times the monthly salary (about 40,000-60,000 drams). On the one hand, this type of commission is comparatively beneficial for the staff, if compared to a number of other public agencies, but on the other hand, it does not create a sufficient incentive to guarantee preclusion of abuse.

In addition to the foregoing, the customs bodies of the Republic of Armenia are not sufficiently equipped with technical means; many customs bodies, and most notably, the customs points on the borders lack infrastructure necessary to conduct proper customs inspection.

## CONCLUSIONS AND RECOMMENDATIONS

There are few public agencies in which the classic preconditions for institutional corruption are so conveniently presented as in a Customs administration. The potent mixture of administrative monopoly coupled with the exercise of wide discretion, particularly in a work environment that may lack proper systems of control and accountability, can easily lead to corruption. A Customs administration infected with corruption is going to be seriously dysfunctional and the impact of the corruption will be felt throughout the society. We hope that the following recommendations can serve as a basis for identifying new priorities in dealing with corruption in Customs system.

The Customs system of Armenia is a relatively young institution with a history of about 10 years and drawbacks and particularities that are typical of an establishment and development phase. The Customs system mirrors the overall difficulties of social and economic development in the country, as well as problems and discrepancies characteristic of the public administration system of Armenia.

1. A crucial problem comprises the shortcomings of legislation, resulting in a situation in which either the existing laws are not enforced, or their enforcement does not necessarily bring to inevitable punishment. In general, the main provisions of the customs legislation of Armenia are consistent with the international rules and the requirements of a number of international conventions and the WTO. Nevertheless, officials and businesses are quite often not fully aware of the legislation, which leads to both sides violating or ignoring the laws.

2. The bulk of problems related to the customs system arise in connection with imports; a rather acute problem is the determination of the customs value of commodities. Article 87 of the Customs Code of Armenia, which regulates this matter, needs to be reviewed, because it is in principle contradiction with the WTO requirements (according to the WTO requirements, accepting the customs value declared by the business should not depend on the presentation of any given document, especially because at times, it is objectively impossible to submit some of the required documents. Furthermore, the time allotted for customs procedures is not sufficient to check the trustworthiness of the submitted documents and other information). Parallel to acceptance and acknowledgement of the declared customs value, it is necessary to develop the system of post-import control.

3. The next pitfall conducive of potential abuse in the operation of the customs system is related to the determination of the country of origin for imported commodities. To prevent or preclude such abuse of official power, it is necessary to intensify the cooperation between customs bodies and relevant certification agencies by means of speeding up the sharing of information.

4. A basic pre-condition for Armenia's accession to the WTO is the elimination of non-tariff regulation of foreign trade. In this respect, the customs practices in Armenia have serious problems. An example of such problems is the application of so-called "minimum threshold customs values" in calculating the customs value of commodities. The described approach is fundamental contradiction with the basic principles of the WTO and the WTO rules on determination of customs value of commodities. Reduction of non-tariff regulation of trade could strongly benefit from the introduction of a uniform standard form for all possible permissions and licenses required for exports, and the streamlining of the procedure for obtaining this form. It is further necessary to define the maximum time for granting permission, to provide for transparency and monitoring in the process, and to define clear schemes for appealing decisions of the body granting permission.

5. Notwithstanding that exports from Armenia are legislatively rather liberalized, there still remain some "unwritten laws", according to which customs officers may always require the written permission of their superior customs body for exports of any machinery and equipment, any foreign commodity, and even the personal use items of natural persons. This practice not only is in direct violation of the law, but also represents a harsh means of non-tariff regulation of trade.

6. A sampling inspection system for cargo has been introduced in the largest regional customs house of Armenia, the Ararat Regional Customs House; however, the system is not yet operational in other customs houses and points of Armenia. Introducing sampling in customs houses and points is a good step forward, however, the process needs to be intensified and seriously improved. First of all, it needs to cover the whole customs system. Then, it is very important to increase the percentage of commodities that are declared under the "green corridor" procedure. Parallel to this, it is necessary to develop the system of post-import control by customs bodies. On the one hand, this would allow for minimum time losses in declaration and delivery of commodities to their destination (the premises of the company in question), and on the other, it would enable a trustworthiness check on the quantity, code, real customs value, country of origin, and much other information related to the declared commodities. In case of discovering discrepancies, harsh punishment could be applied.

7. It is necessary to encourage the activities of customs brokers in the system to the extent possible. This would bring about a significant reduction of direct contacts between the owners of commodities and the customs officers, and therefore, reduce the potential of abuse. Customs brokers should be allowed to carry out the process of so-called “preliminary declaration of commodities”, which is the preliminary entry of data into the automated declaration system in customs houses before the computer sampling.

8. It is necessary to give businesses the option of beginning the process of declaring commodities in the customs points on the border, by means of creating necessary infrastructures (and first of all, an integrated computer network) in the customs points, as well.

9. Major improvement is needed in the process of making customs payments by businesses; the current situation, in which cash payments are predominant in this process, should be replaced with a more civilized process of making the payments. This would allow businesses to have their goods released to them once certain guarantees of future performance of the payment obligation are provided to the customs bodies. In this connection, the further development of the banking system should play a major role. The implementation of the aforementioned actions will significantly reduce the amount of time; bureaucratic red tape, and potential abuse related to customs procedures. In general, streamlining is necessary in the whole customs procedure; customs control and customs procedures should be consolidated.

10. Finally, it is necessary to make significant improvement in the transparency of activities of customs bodies. They should utilize the mass media and other awareness tools more actively than they currently do, not only to inform the public on prevented or discovered smuggling cases, but also to raise awareness on new customs methods and practices, so that import and export businesses receive periodic information on these and other issues of concern, to enhance the atmosphere of mutual trust and to bring about elimination of abuse.

The more difficult, but clearly important problem is to go further in trying to relate the specific administrative reforms to actual customs performance. More detailed micro simulation and projection of customs duties could provide a way of identifying and estimating these effects.

The implementation of the above-described elements does not provide a guarantee that corruption will be eliminated, however, it does provide a range of practical initiatives, which, if introduced in a structured and coordinated manner, should ensure the incidence and impact of corruption is reduced.

## LIST OF REVIEWED MATERIALS AND LITERATURE

1. Customs Code of the Republic of Armenia
2. Administrative Code of the Republic of Armenia
3. Other RoA Laws and Government Decrees
4. Anti-Corruption in Transition Countries (The Experience of Coalition 2000), Emil Tsenkov, Ph.D., “Center for the Study of Democracy”, Sofia, 2000
5. Revisiting Anti-Corruption Strategies: Tilt Toward Incentive – Driven Approaches, Daniel Kauffman
6. Corruption and Anti-Corruption Strategies: Issues and Case Studies From Developing Countries, Alan Doig & Stephen Riley
7. Helping Countries Build and Develop Effective Anti-Corruption Strategies
8. Corruption and the Global Economy, Susan Rose-Ackerman
9. Cross-Border Corruption: Points of Vulnerability and Challenges for Reform, Michael Johnston
10. Report of a Diagnostic Workshop Conducted with the Customs Administration of The Republic of Armenia, Prepared on April 7, 2000 by Barents Group (Alan Morley, Manuel Henriques, Michael Lane)
11. Institutional Obstacles for Doing Business: Data Description and Methodology of a Worldwide Private Sector Survey, Aymo Brunetti, Gregory Kisunko and Beatrice Weder
12. OECD Actions to Fight Bribery in International Business Transactions, Caron Ervin
13. Different Perspectives of International Development Organizations in the Fight Against Corruption, Pauline Tamesis
14. Strengthening Domestic Institutions Against Corruption: A Public Ethics Checklist, Alexandra Mills
15. The Arusha Declaration: Customs Co-Operation Council Concerning Integrity in Customs, Made at Arusha, Tanzania on the 7th day of July, 1993 (81st/82nd Council Sessions)
16. WORLD CUSTOMS ORGANIZATION: Strategic Plan 1999-2000
17. USAID: A Strategy for Combating Corruption
18. Bolivian Customs Reform: A Case Study of Consolidating Democratic Institutions, Anthony Lanyi, Walter Guevara, Sarah Bell, November 2000, Working Paper No. 247
19. Customs Risk Assessment and Selective Inspections, Phase II, Final Report, February 2001.

20. Egypt and the GATT/WTO: Customs Valuation Agreement, Prepared for The Ministry of Finance and The Ministry of Economy and Foreign Trade, Economic Growth/Sector Policy, Cairo, Egypt, April 2000
21. How Best to define National Policy to Improve Transparency and Accountability, Alan Doig, Wilton Park Conference Presentation, 16 October 2001.
22. Promoting Export-Oriented Foreign Direct Investment in Developing Countries: Tax and Customs Issues, Glenn P. Jenkins, Chun-Yan Kuo, May 2000
23. Fighting Global Corruption Business Risk Management, Information for Global Businesses Organizations on Navigating the International Anticorruption Environment, 2001– 2003, Released May 2001 (Second Edition)
24. Global Corruption Report 2001, Edited by Robin Hodess with Jessie Banfield and Toby Wolfe, Transparency International
25. New Frontiers in Diagnosing and Combating Corruption, world Bank, October, 1998
26. Report on the Fight against Corruption in Slovakia, October 2001
27. The Guidelines for the National Anti-Corruption Program of Georgia
28. Trade Liberalization and Customs Revenues: Does trade liberalization lead to lower customs revenues? The case of Kenya African Economic Policy July 2000 Graham Glenday, John F. Kennedy School of Government, Harvard University
29. A Strategy for Combating Corruption, Office of Democracy and Governance, The E&E Bureau Anti-Corruption Working Group, January 2001
30. No longer Business as Usual, Fighting Bribery and Corruption, OECD, 2000
31. How Best to Define National Policy to Improve Transparency and Accountability, Alan Doig, 2001, Wiltonpark Conference, UK
32. Perception of Corruption in Yerevan (Public opinion Survey), Civil Society Development Union, Yerevan 1999
33. Transparency International Corruption Perceptions Index 2001
34. Corruption and the EU Enlargement Process, Quentin Reed, Wiltonpark Conference- 2001
35. SPAI (Stability Pact Anti-Corruption Initiative) Newsletter, October 2001, Vol 2, #12
36. Corruption and Organized Crime in South Eastern Europe, O. Minchev, 2001
37. Whistleblowing: Anew Perspective, Guy Dehn, 2001
38. Charlick, R. “Corruption in Political Transition: a Governance Perspective.” Corruption and Reform, Vol. 7, No. 3, 1993
39. “Good Government and Sustainable Anti-Corruption Strategies: a Role for Independent Anti-Corruption Agencies?” Public Administration and Development, Doig, R. A., Vol.15, No.2, 1995.

40. Goudie, A. and Stasavage “Corruption: the Issues,” OECD Development Centre Technical Paper, No. 122, 1997.
  41. Muganda, A. A. “The War Against Corruption in Tanzania: Overview of the report of the Presidential Commission on Corruption.” UNDP-PACT & OECD Development Centre Workshop on Corruption and Integrity Improvement Initiatives in the Context of Developing Economies. Paris, 1997.
  42. Riley, S. P. “Post-Independence Anti-corruption Strategies and the Contemporary Effects of Democratization.” Corruption and Reform, Vol. 7, No. 3, 1993.
  43. International Monetary Fund. “A Guideline on Governance Issues, ” IMF Newsbrief No. 97/15, August 4, 1997.
  44. Helping Countries Control Corruption: The Role of the World Bank, World Bank, Washington, D.C., 1997.
  45. Corruption As a Problem for the Bulgarian Business, Vitoshka Research, Sofia. Bulgaria, 2000.
  46. Corruption and Trafficking: Monitoring and Prevention, Center for the Study of Democracy, Sofia, Bulgaria, 2000.
- 

*“The Association for Foreign Investment & Cooperation” - (AFIC) is a non-profit, non-governmental organization devoted to the promotion of foreign investment, development of international economic cooperation and private entrepreneurship. The main objective of the organization is to enhance the formation and development of market economy, favorable business and investment environment in Armenia and to support the implementation of policies, which are oriented at democratic reform in the economy and strengthening the business associations.*

4 Tigran Mesti Ave., Yerevan, Armenia  
Tel: (374 1) 525 082; 560 194  
Fax: (374 1) 562 400  
E-mail: [afic@arminco.com](mailto:afic@arminco.com)  
Website: [www.afic.am](http://www.afic.am)

