Agricultural Policy Monitoring in Armenia

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Content

- Overview of the Sector
- Key market development
- Agri-food trade and main trading partners
- Trade agreements and membership to international and/or regional organizations
- Indicator coverage
- Conclusions

GDP and agricultural and food production of Armenia

(including drinks and tobacco)

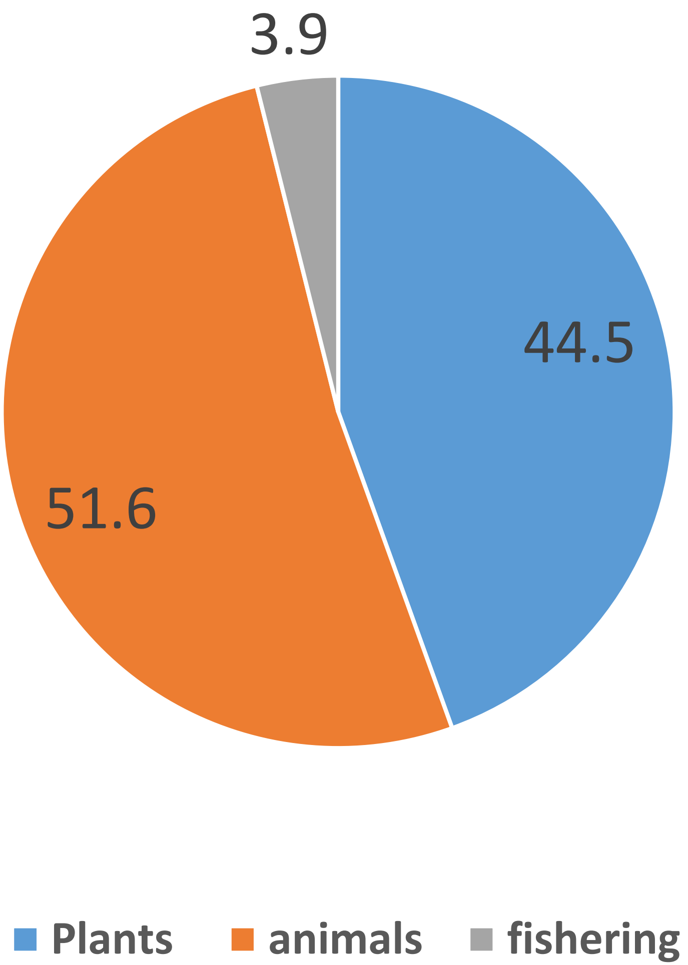
	GDP (mln $)	Growth of GDP (%)	a/c (mln $)	Share in GDP (%)	Foodstuff (mln $)	Share in GDP (%)
2018	12,428	5,2	1,918	15,4%	1,361	10,9%
2017	11,530	7,5	1,937	16,8%	1,252	10,9%
2016	10,491	0,2	1,934	18,4%	1,104	10,5%

Source: Calculated by Export based on data presented by the Statistical Committee of the Republic of Armenia

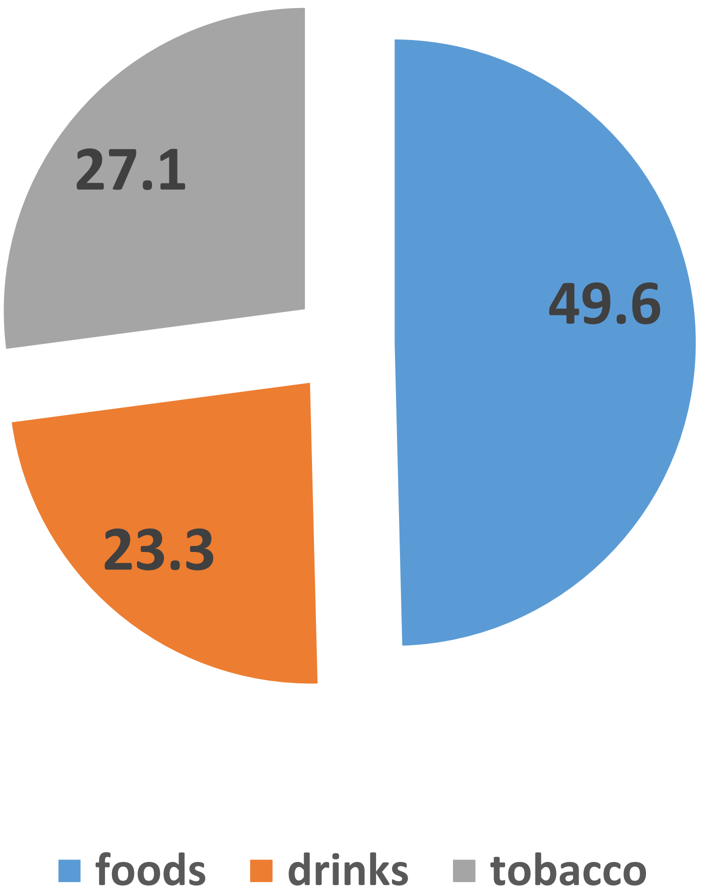
Overview of the Sector

- employs 34 percent of the country´s workforce
- a liberal and open economy without any pronounced market protection being based on subsistence farming.
- after membership to EAEU, adjustment to the rates of other EAEU countries.
- no officially approved agriculture sector strategy
- in 2019 joining the Ministry of Agriculture with the Ministry of Economy

Structure of a/c production in 2018



Structure of f/s production in 2018



Source: Calculated by Export based on data presented by the Statistical Committee of the Republic of Armenia

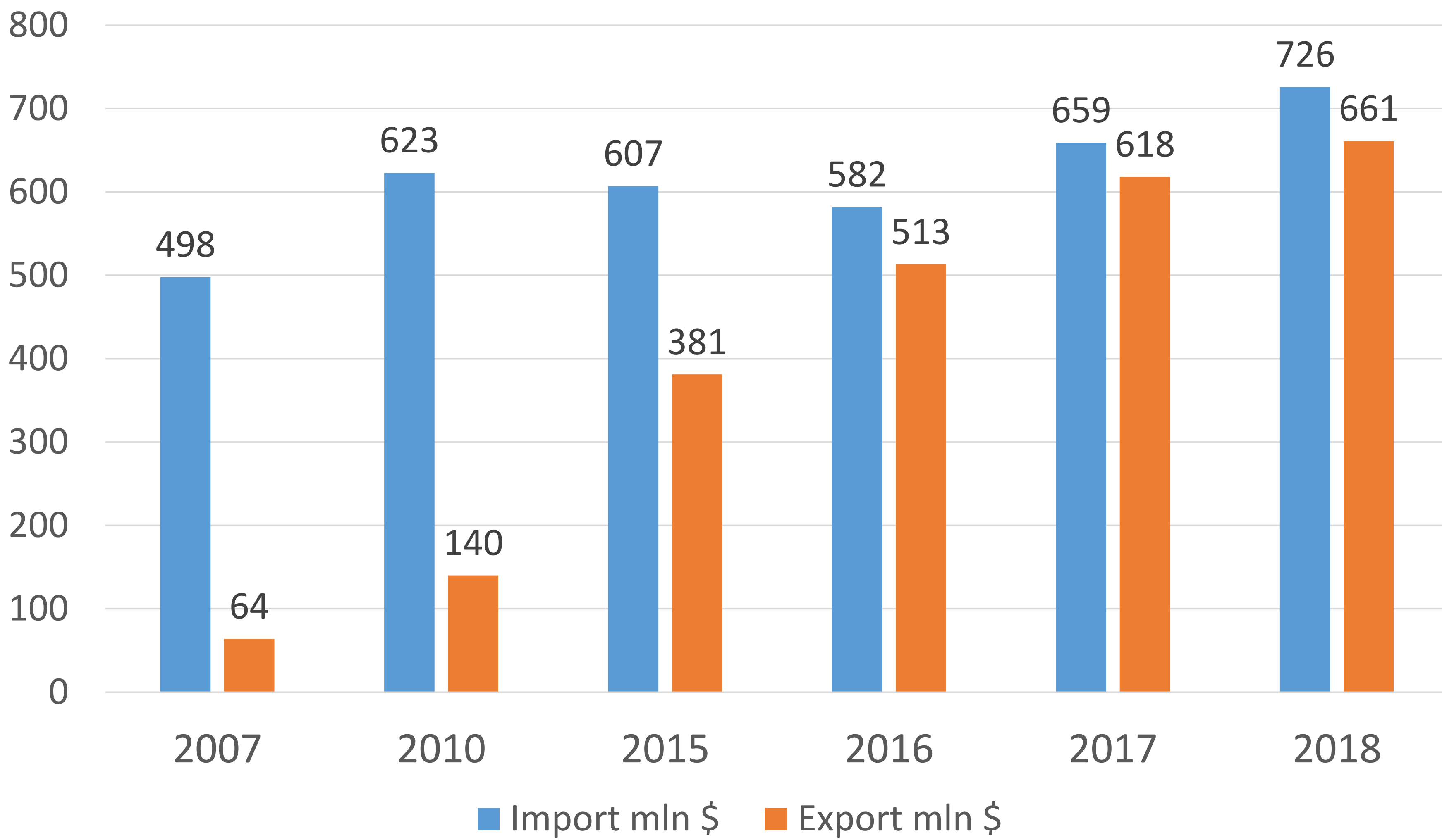
Index of Revealed Comparative Advantage of Armenia

HS Code	Index 2016	Index 2018
16	0.96	0.62
18	2.49	0.66
09	0.92	0.73
02	0.77	0.77
03	1.74	0.88
01	0.80	1.02
04	0.76	1.54
22	14.14	14.38
08	1.74	2.21
06	4.59	2.80
20	3.61	2.84
07	3.88	3.05
24	45.98	46.04

Source: Calculated by Export based on data presented in WITS

- **Overview of the Sector**

Total Export and Import Trends of Armenia for 01-24 HS Products Group



Source: Calculated by Export based on data presented by the Statistical Committee of the Republic of Armenia

❖ **Agri-food trade and main trading partners**

Export and Import Policy of Armenia 2018

- Replacement of the Country's Custom Code with the one of the EAEU
- EAEU is responsible for foreign trade of member states, including tariff regime, transit trade, unforeseen circumstances, technical regulations and SPS measures.
- harmonization of import tariffs with the rates of the single customs tariff but there is time exception almost for 1000 tariff lines till 2020 including certain types of:

  - meat and poultry,
  - dairy products,
  - fruits and vegetables,
  - tea,
  - cereals,
  - starches,
  - vegetable oils,
  - tobacco and
  - gelatin.

- Electronic customs declarations and customs clearance procedures using the "single window" and the automatic release of goods before arrival, usually within four hours after registration to be completed by 2020.
- Net-importer of Food
- Increase of export of agricultural and food processing products

- **Agri-food trade and main trading partners**

Export and Import Policy of Armenia 2018

- Average tariff rate for agricultural products - 12.8%
- No tariff quotas and quantitative restrictions on imports
- The procedure for technical regulations within the EAEU is established by Council Decision No. 48. Development of standards is not within the competence of the EAEU
- Armenian industrial and agricultural companies will have about five years to bring their activities in line with the EAEU technical regulations
- EAEU members have developed a cooperation system to ensure timely notification to the WTO of all relevant technical regulations, TBT and SPS measures, as well as discussion and consideration of comments received from WTO members in accordance with Recommendation No. 8 of the Board of the Eurasian Economic Commission.

❖ **Agri-food trade and main trading partners**

Export and Import Policy of Armenia 2018

- ✓ All goods exported from Armenia outside the EAEU are subject to customs declaration.
- ✓ Armenia has no common borders with the EAEU and transportation is carried out through customs transit procedures.
- ✓ Each EAEU Member State establishes its own list of goods for export duties.
- ✓ During the reporting period, the applicable export duty rate in Armenia was zero.
- ✓ Armenia does not provide subsidies depending on export indicators.
- ✓ Currently there are three free economic zones.
- ✓ Quantitative export restrictions or export bans of the period in question were not applied.
- ✓ Profit tax is 10 times lower for exporters if the volume of export is more than 105 mln USD.

- ✓ Export insurance, pre-export financing insurance and multiple shipment insurance from the Export Insurance Agency of Armenia (ESAA) on a commercial basis.
- ✓ Chamber of Commerce and Industry of the Republic of Armenia, responsible for export promotion.

❖ **Agri-food trade and main trading partners**

Overview of Foreign Trade of A/P of Armenia

Export by main products

- ✓ Tobacco 39,9%
- ✓ Alcoholic and non-alcoholic drinks 34,3%

Import by main products

- ✓ tobacco (16,2%)
- ✓ Cereals (10,4%)
- ✓ Meat and products of thereof (8,5%)
- ✓ fat and oil (6,9%)
- ✓ Cocoa and products of thereof (5,9%)
- ✓ Dairy products, bird eggs, honey (5,8%)
- ✓ Alcoholic and non-alcoholic drinks(5,1%)

Source: Calculated by Export based on data presented by the Statistical Committee of the Republic of Armenia

Overview of Foreign Trade of A/P of Armenia

Export Structure by Countries

- Russia (50%)
- Syria (8,4%)
- Iraq (22,1%)
- UAE (5,3%)

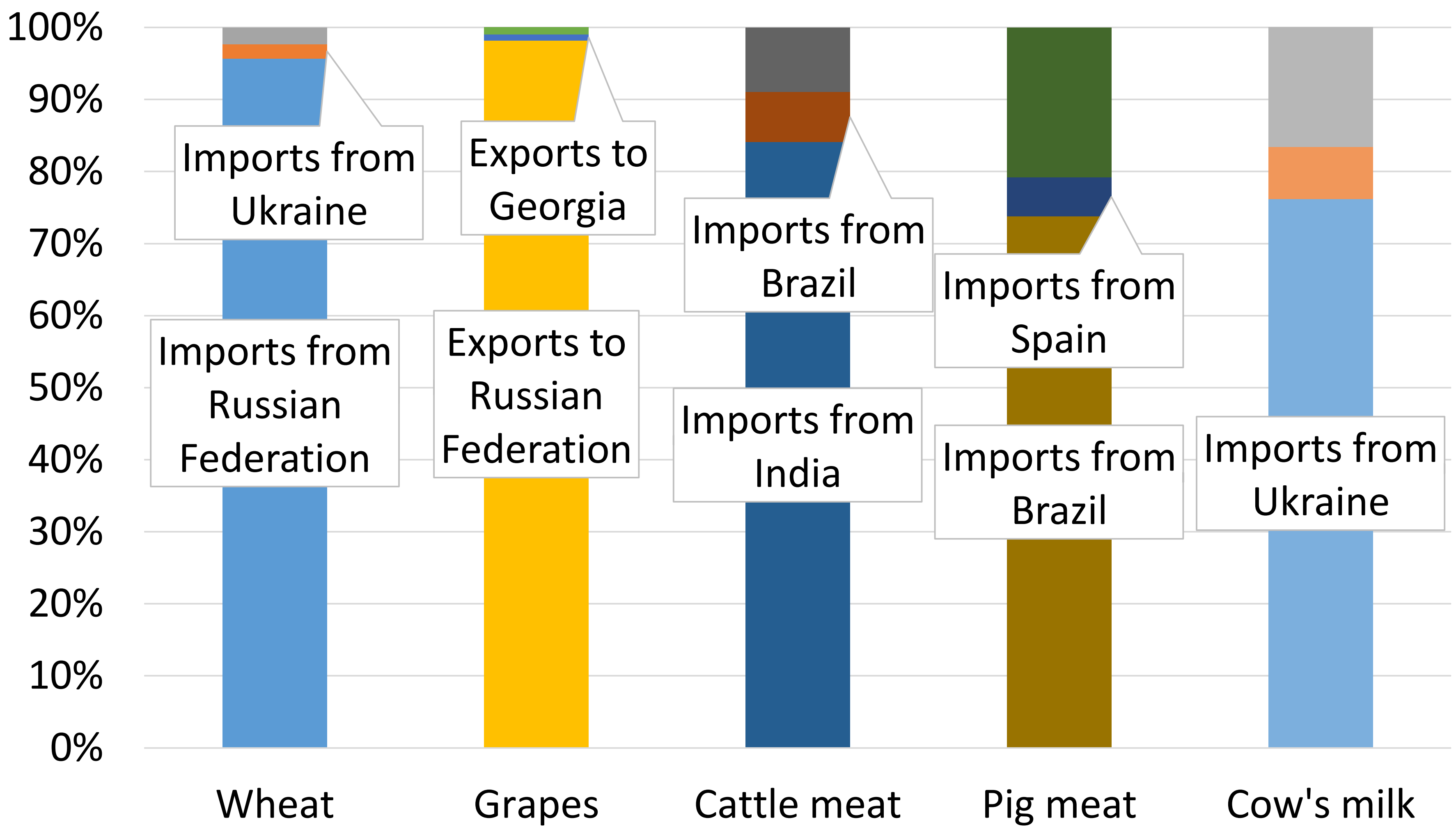
Import Structure by Country

- Russia (35,2%)
- Ukraine (10,9 %)
- Brazil (7,1 %)

Source: Calculated by Export based on data presented by the Statistical Committee of the Republic of Armenia

❖ **Agri-food trade and main trading partners**

Main trading partners of Armenia, 2012-2016



Source: FAO calculations using data from World Integrated Trade Solution (WITS).

Trade Agreements of Armenia

- **Black Sea Economic Cooperation**
- **WTO**
- **CIS**
- **EAEU**
  - ❖ Free trade agreement with **Vietnam**
  - ❖ agreement on trade and economic cooperation with **China**
  - ❖ Trade Agreement with **Iran** for creation of a free trade zone
  - ❖ Free trade agreement with Singapore.
- the Comprehensive and Enhanced Economic Partnership Agreement with the **European Union** which includes but not limited to Trade, Investments, Agriculture and Rural Development as well as Food Safety
- Preferential trade regime (**GSP +**) with the European Union GSP with partner countries **USA, Canada, Switzerland, Norway and Japan**

Changes in Domestic Agricultural Support Policies

- The agricultural policy is set out in the documents “Development Strategies of Armenia” and “Strategies for Sustainable Development of Rural Areas and Agriculture”
- The amount of sector support is quite low:

- 1% for Green Box Support Events

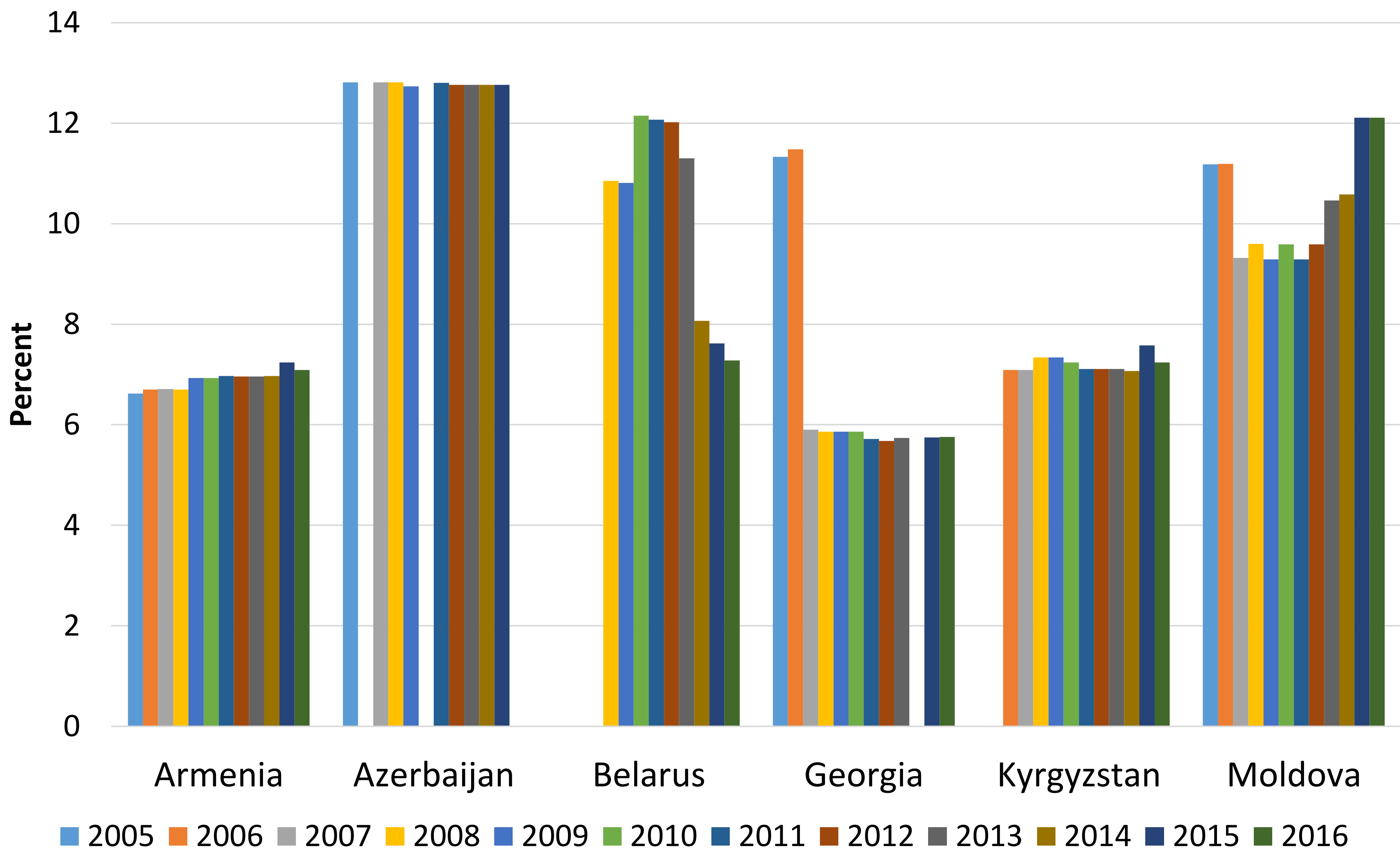
- 0.5% for “Amber Box” support events.

- Several state agencies have been launched. efficiency programs
- Sector financing by international organizations
- There are some tax breaks.

- exemption from VAT, especially exemption for import of equipment / components for greenhouse complexes

- income tax exemption

Average agricultural applied tariff rates, MFN simple average, 2005-2016



Source: World Integrated Trade Solution (accessed February 2019).

Aggregate nominal rates of protection by countries (percent), 2005-2016

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Arm	na	na	na	41%	36%	18%	29%	31%	19%	23%	29%	21%
Azer	-17%	19%	24%	43%	80%	69%	44%	55%	39%	54%	47%	-4%
Belar	-9%	na	na	0%	-13%	-14%	-26%	-5%	-18%	-7%	-8%	-10%
Geor	na	44%	7%	13%	44%	9%	8%	12%	6%	22%	13%	13%
Kyrg	na	na	na	na	na	48%	39%	44%	24%	48%	59%	53%
Mold	3%	-5%	-16%	-13%	-14%	-18%	-19%	-7%	-23%	-14%	-11%	-14%

In case of missing data aggregate NRPs could not be calculated.

Agricultural Policy Outline in Armenia

Agriculture sector support:
- in 2017 - **25 mln. USD,** 9% lower compared to 2016 support.
- in 2018 - **34 mln. USD**

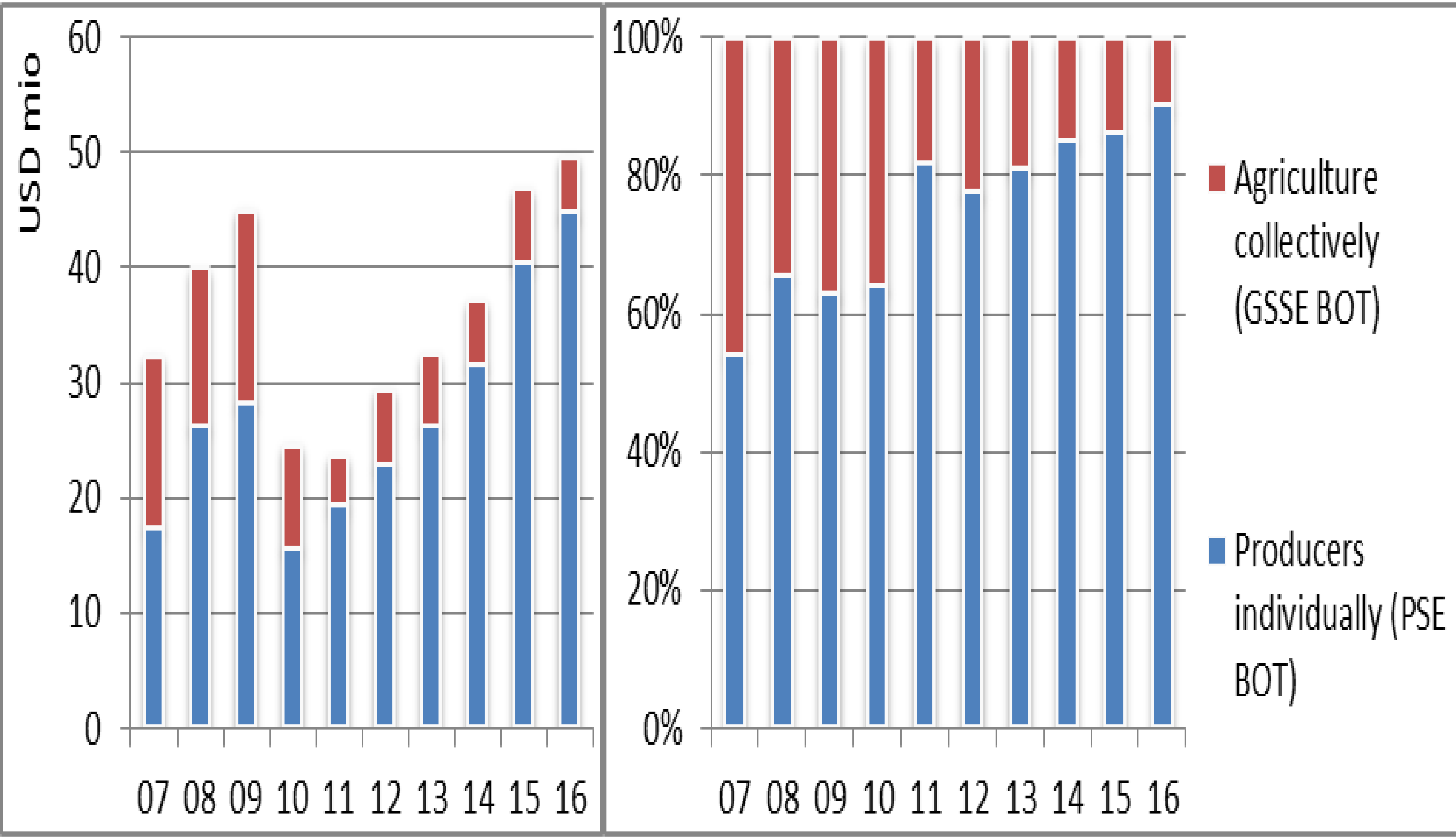
- ✓ **Largest share of support is aimed at producer subsidies** (some shift in the policy was made towards supporting small family farms)
- ✓ The majority of budgetary funds went on inspection and control
- ✓ In 2016, these two groups captured 78 percent and 19 percent of the total general support, respectively. The remaining 3 percent were earmarked for infrastructural services: improvement and maintenance of agricultural land.
- ✓ In the observed period, budgetary support to producers in Armenia represented about 1 percent of the total value of agricultural production, while the total budgetary support to agriculture was mostly below 2 percent.
- ✓ The budget allocation to agricultural is relatively low compared to its contribution to GDP.

Subsidized credit – as a result the following interest rates apply for borrowers:

- 3-5% for agricultural loans
- 2% leasing rate for agricultural machinery and equipment
- 2% on loans provided for installing drip irrigation and hail nets
- 3% on loans to processing plants for procurement
- Direct payments to farmers, around USD 125 per hectare (will start soon, pilot)

Consumer budgetary support is not implemented.

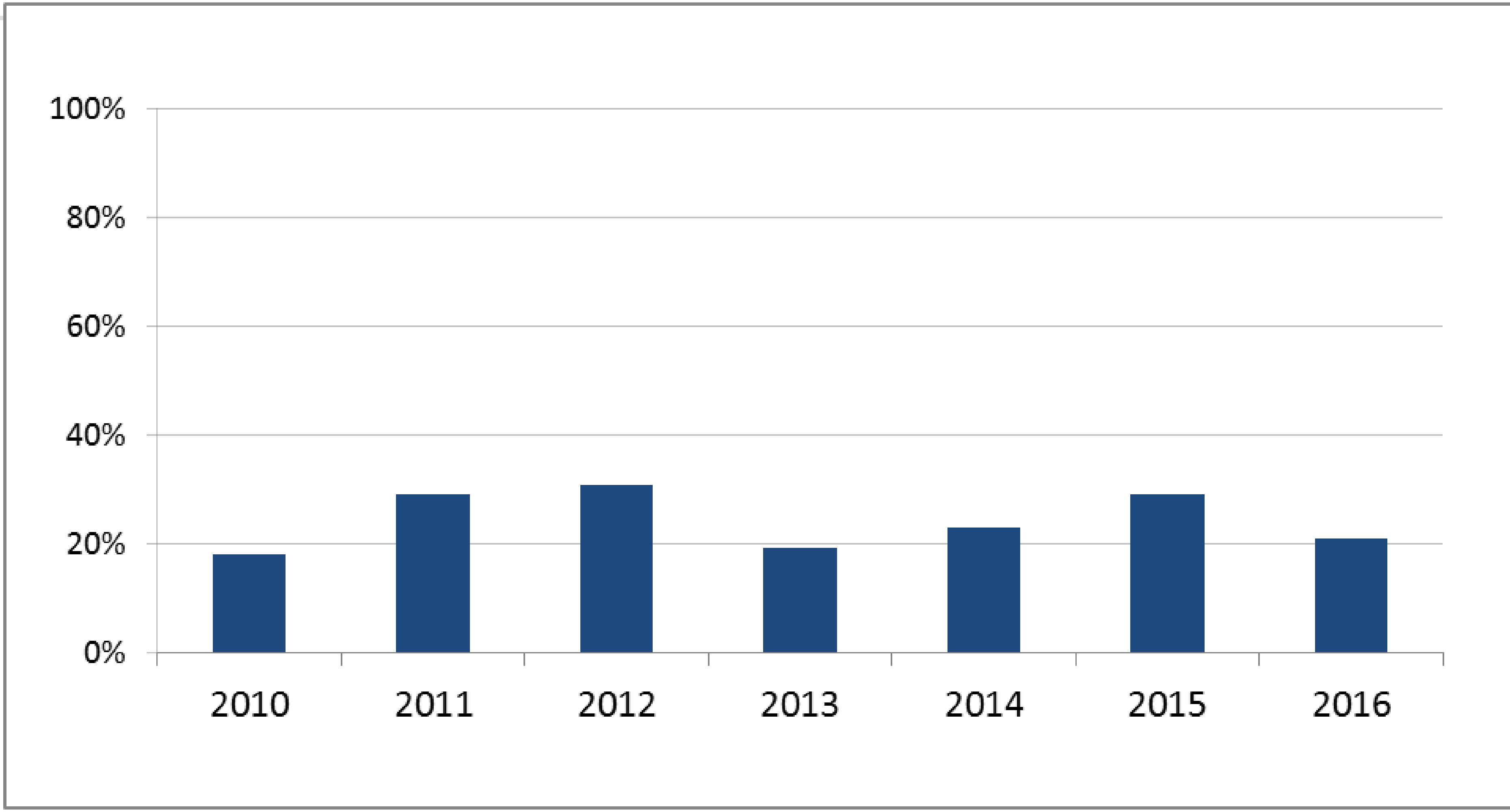
Budgetary transfers to agriculture by economic group to which the transfer is provided 2007-2016



Source: Calculation based on pilot study datasets.

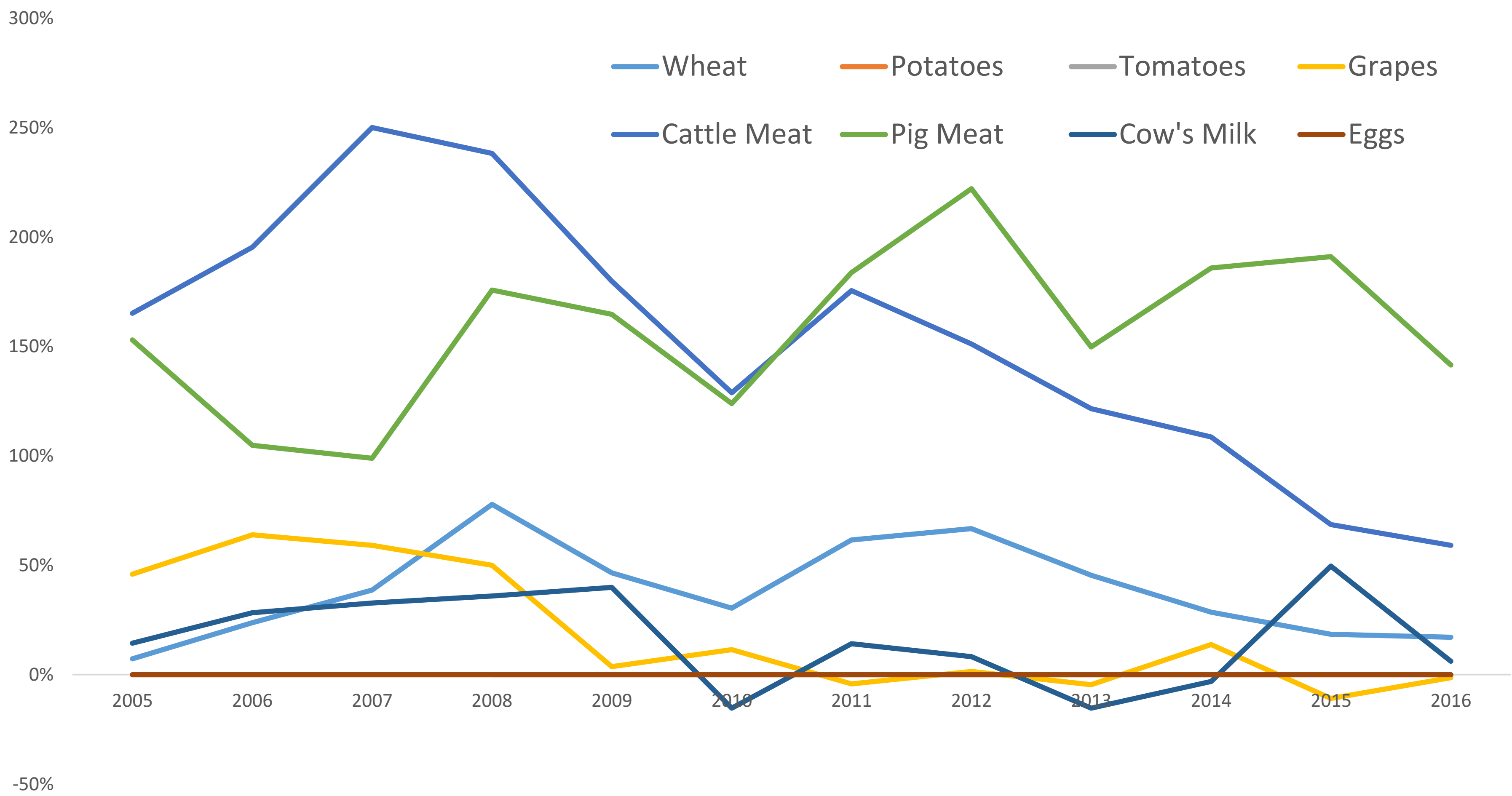
Average aggregate nominal rate of protection at farm gate (percent)*

2010-2016 Armenia

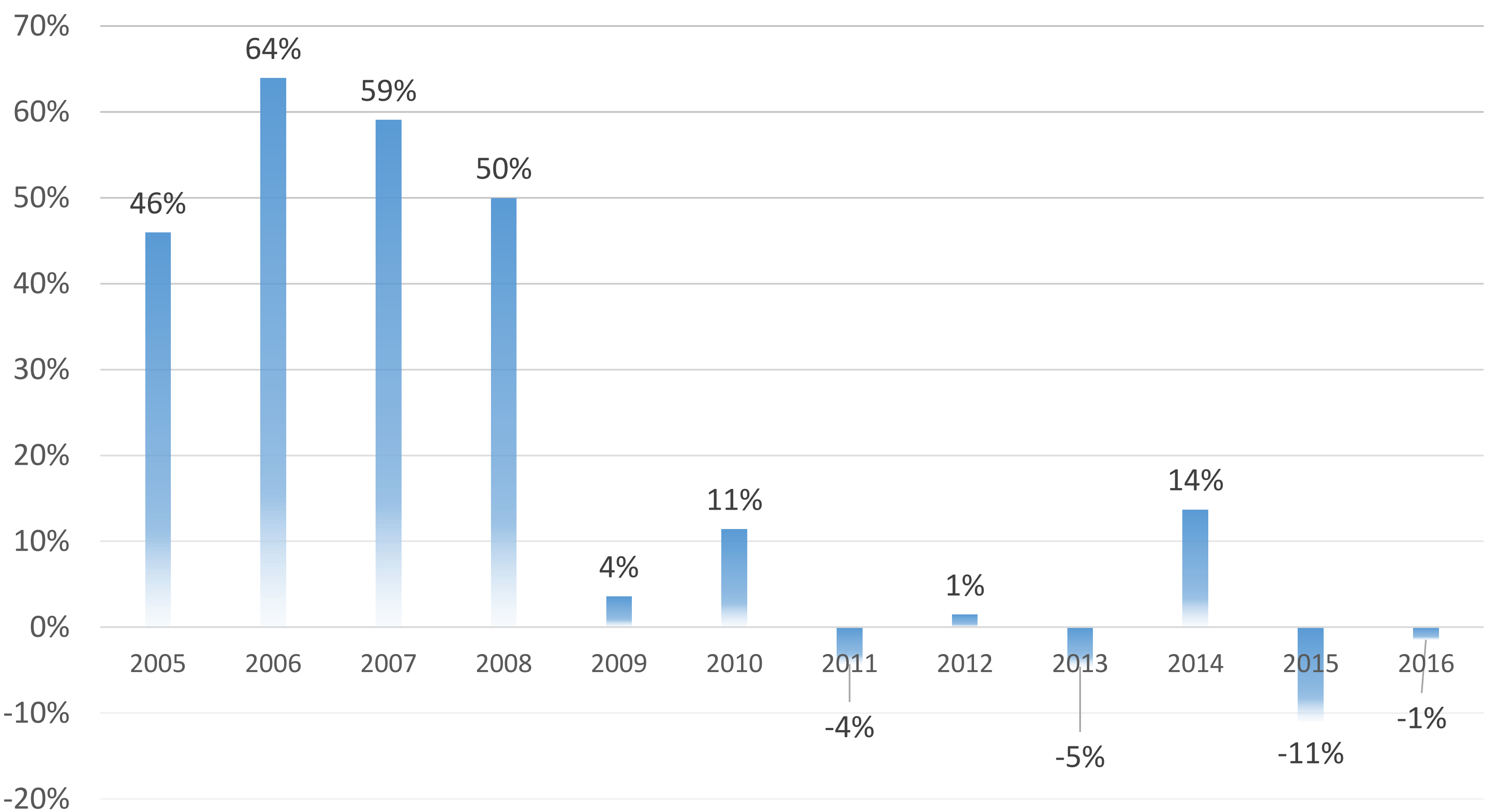


At the aggregate level, the results indicate considerable price incentives for agricultural producers in Armenia. The results are positive throughout the analysed period 2010-16, fluctuating around 20-30 percent

Individual commodity NRPs for Armenia, 2005-16

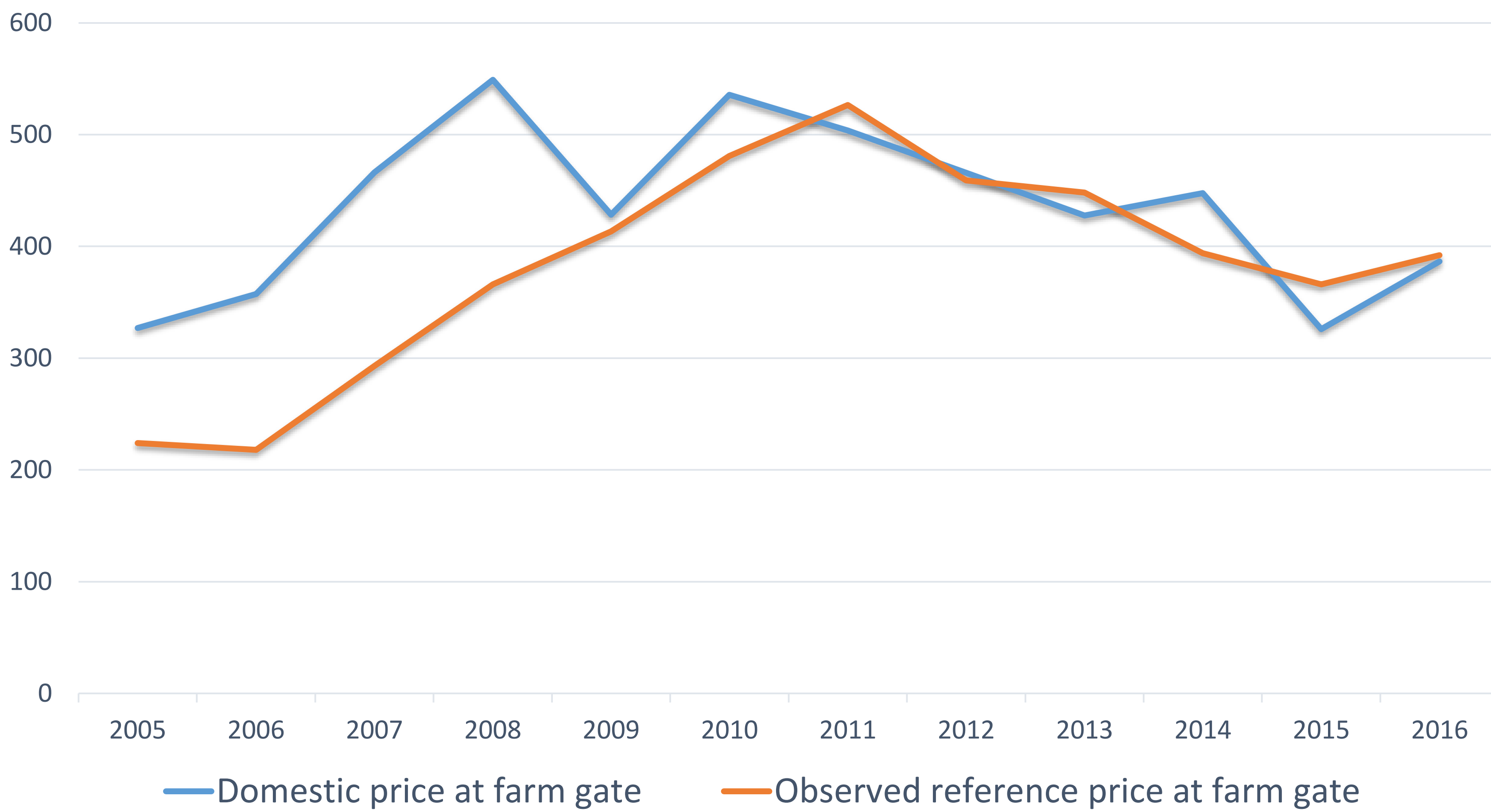


Observed NRP at farm gate for grape, 2005-2016 (%)



- Grapes production used to be a large sector in Armenia, before land privatisation and farm fragmentation caused an increase in cultivation expenses, exacerbated by an unregulated market and energy crises. This led to mass cutting of vineyards. FAO is contributing to expand the vineyard areas again, with a project focusing on improved and modernized grape production (FAO, 2016).

Domestic price vs. observed reference prices at farm gate for grape, 2005-2016 (USD/ton)



Access costs for technical grapes

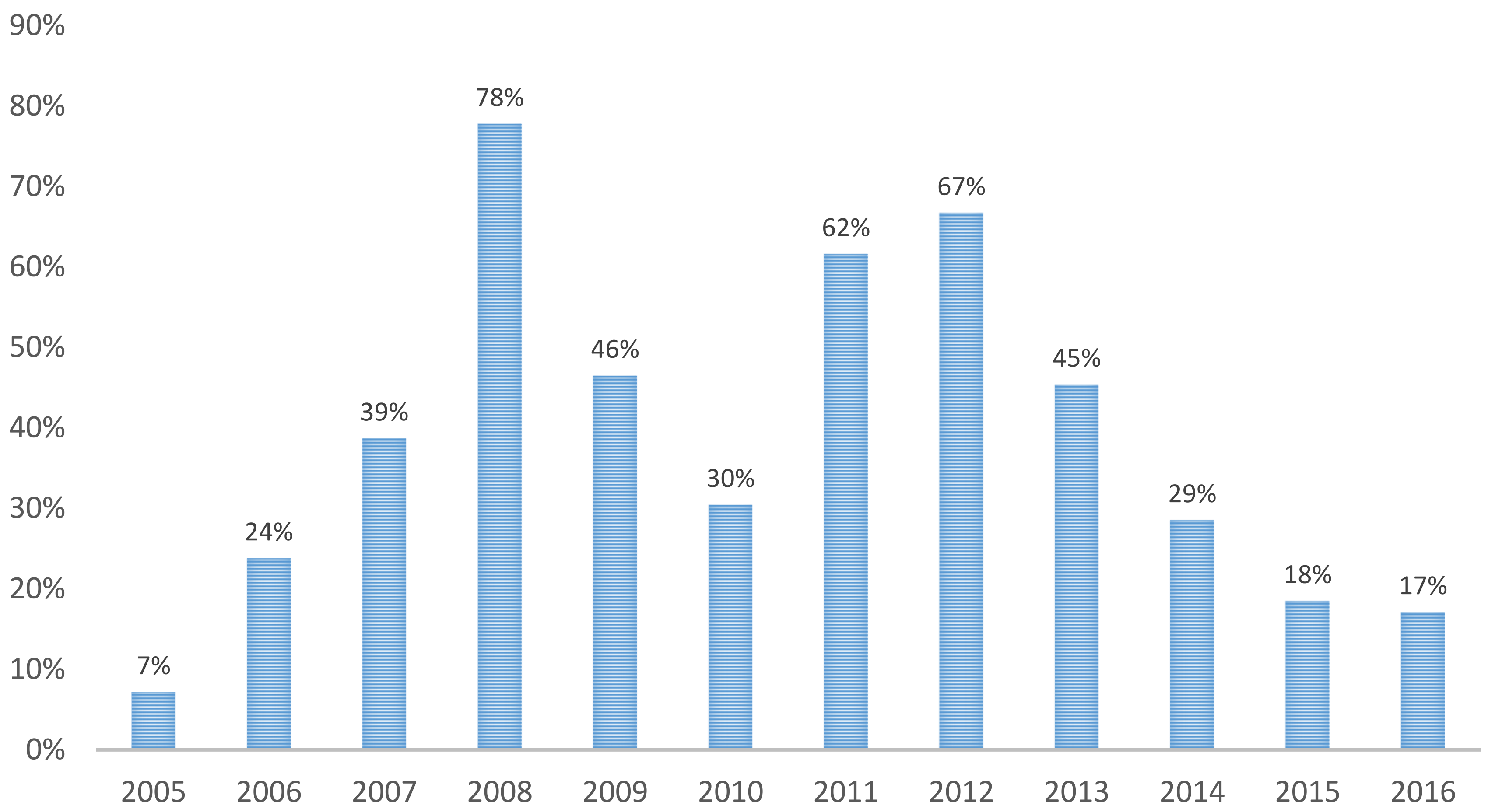
Usually the transportation is implemented by the farmers and would cost about 18,75 USD/ton

Technical varieties
(used in wine and brandy making)

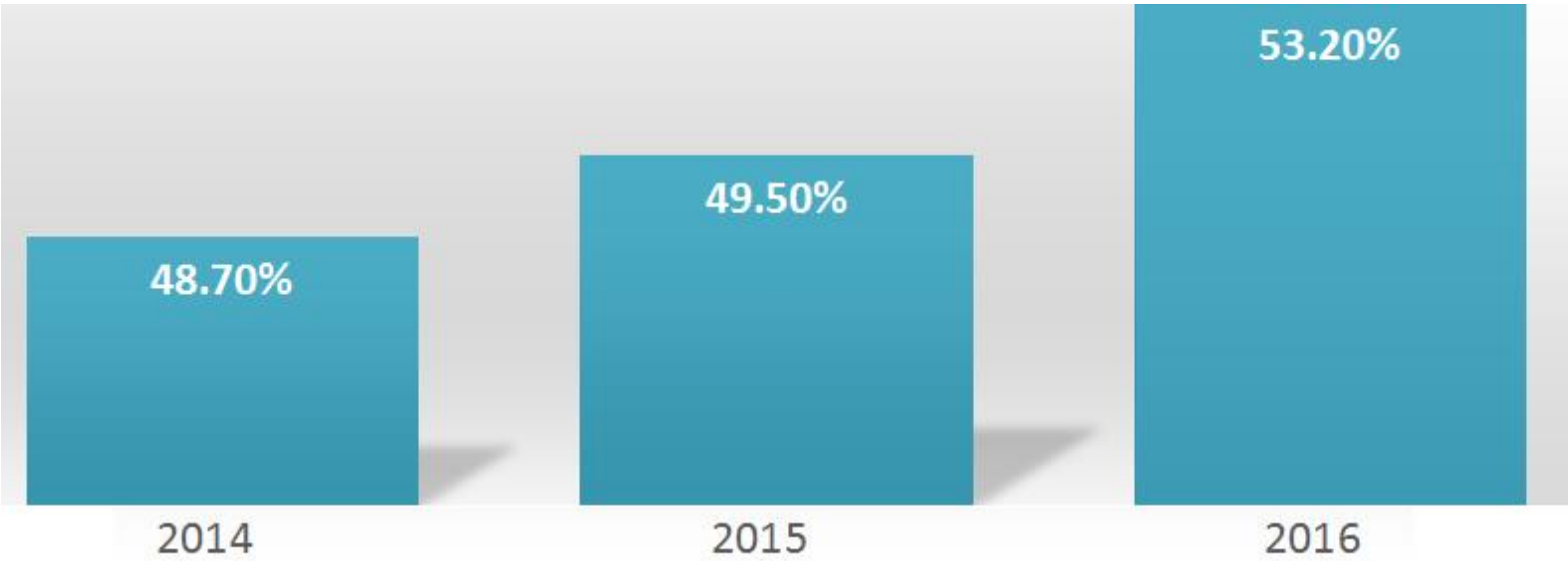
Processing

In case of import the transportation cost from the border to the retail points for fresh grape will be 40 USD/ton and storage expenses will be 19 USD/ton.

Observed NRP at farm gate for wheat, 2005-2016 (%)



Wheat self-sufficiency (%)



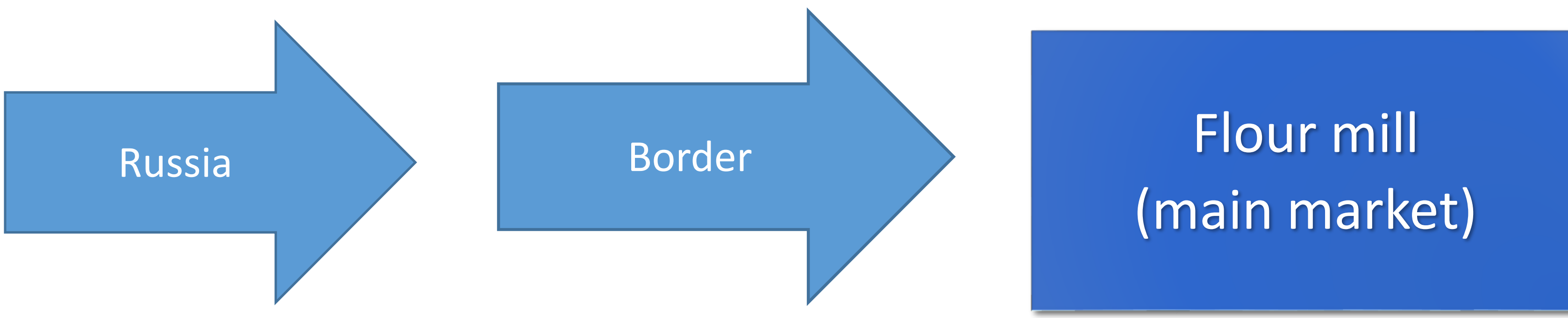
- Each year Armenia is importing about 280-310k tons of wheat
- Armenia is producing about 350k tons of wheat annually, 2017 harvest was only 176k tons.

Access costs of imported wheat

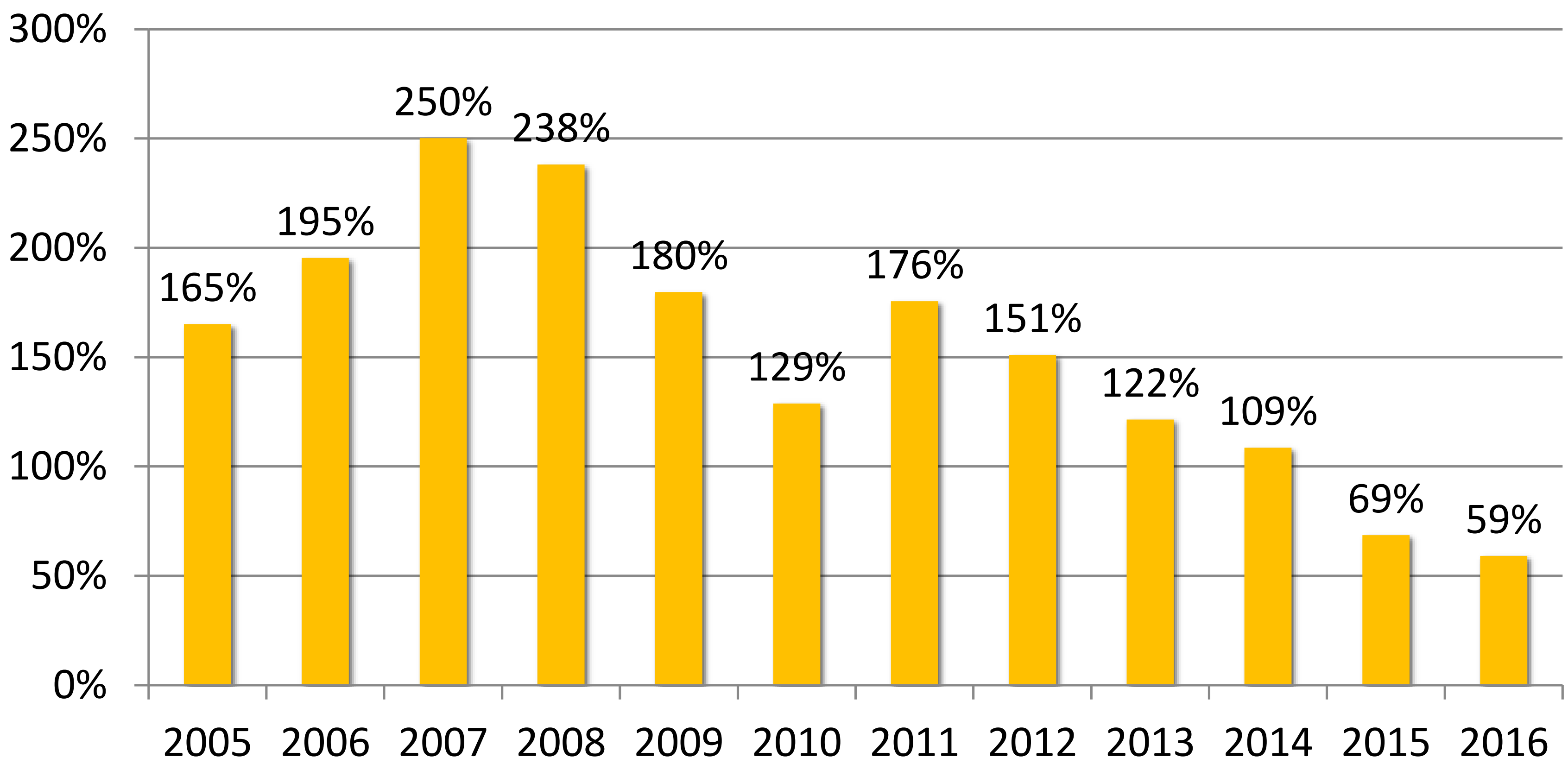
Transportation via train
6,2 – 8,3 USD/ton

177 – 197 USD/tone
VAT – 20% (to be paid at the border

Transportation via trucks
12.5 – 14.6 USD/ton

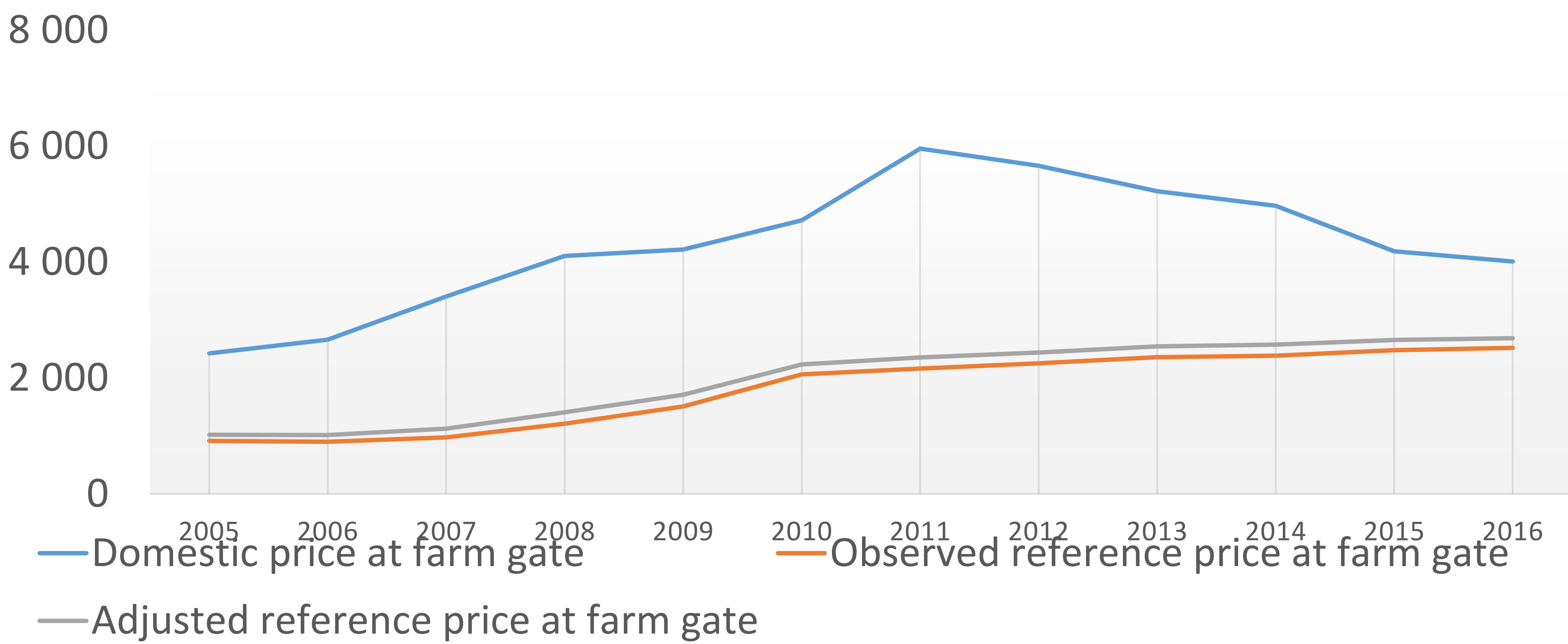


Observed NRP at farm gate for cattle meat, 2005-2016 (%)



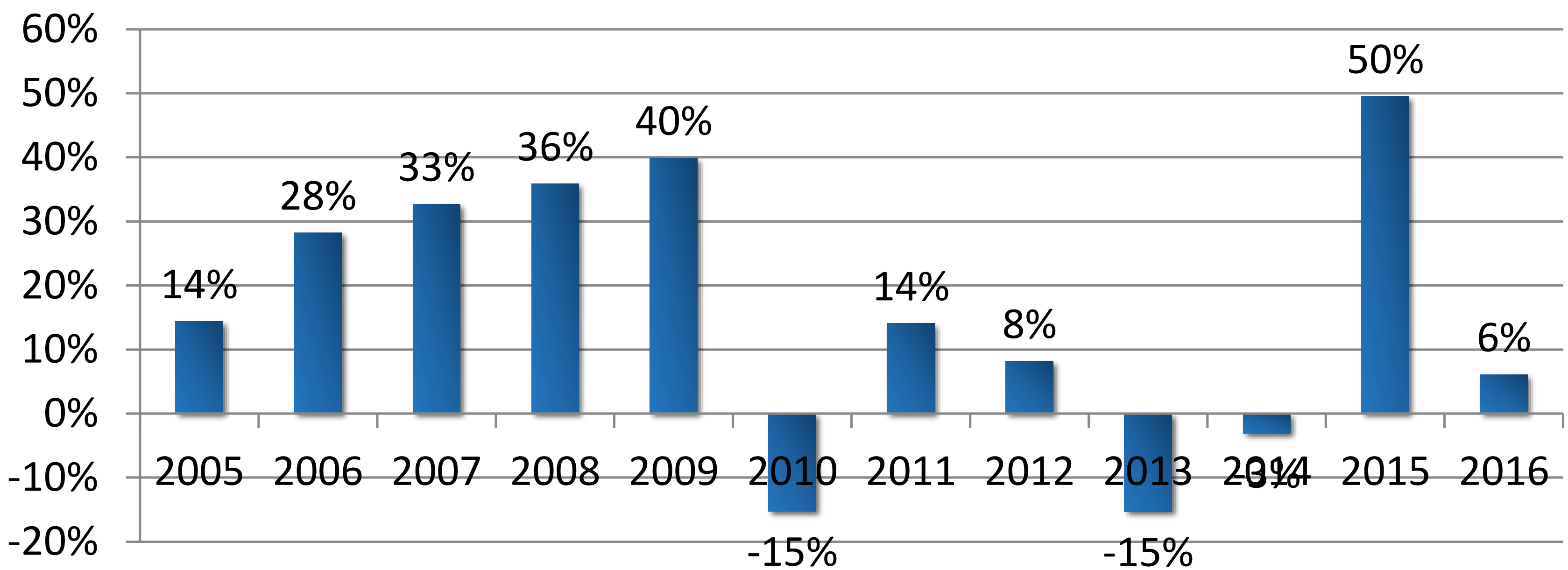
- Small farmers
- High feeding costs
- Data collection issues
- High Infrastructure Costs

Domestic price vs. observed reference prices at farm gate for cattle meet, 2005-2016 (USD/ton)

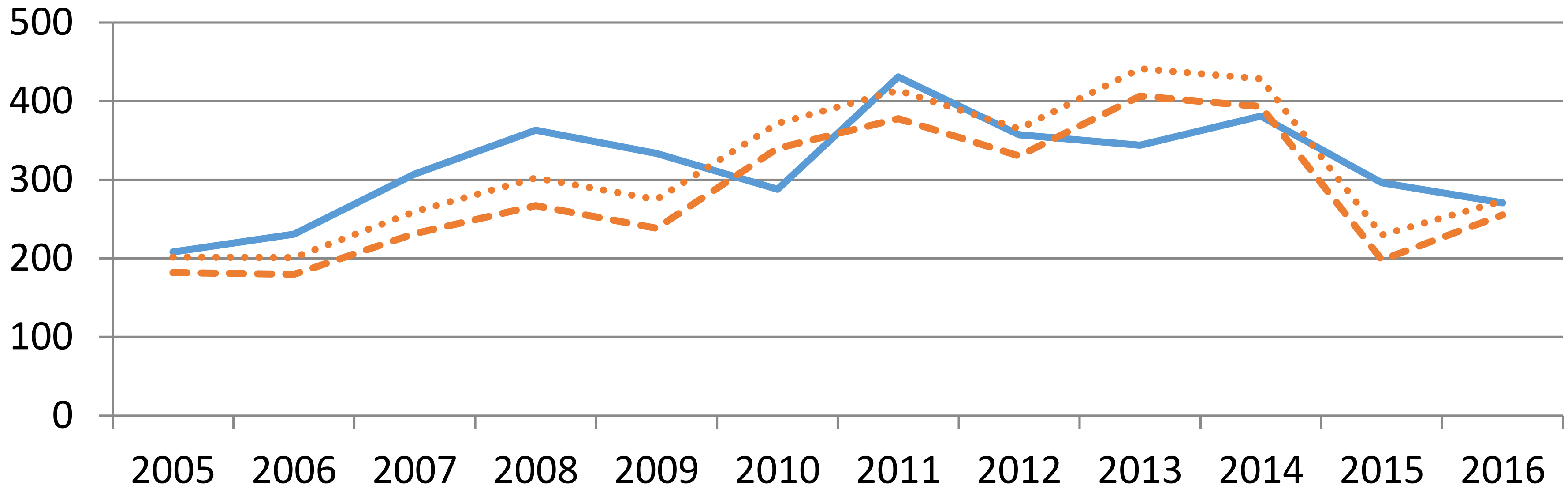


It is difficult to compare the imported meat with that produced locally, due to big differences in meat quality. The meat produced locally is of a very high quality, often with animals that graze and feed in wild, while the imported meat has lower quality characteristics and is not normally purchased by the households. The value chain, thus, is as follows: the importer deliveres the meat either directly to the processor (in most of the cases), or to the small warehouse where the meat gets picked up by smaller processors). The VAT- 20% on the import price is paid by the processor within about a month from the import date.

Observed NRP at farm gate for milk, 2005-2016 (%)



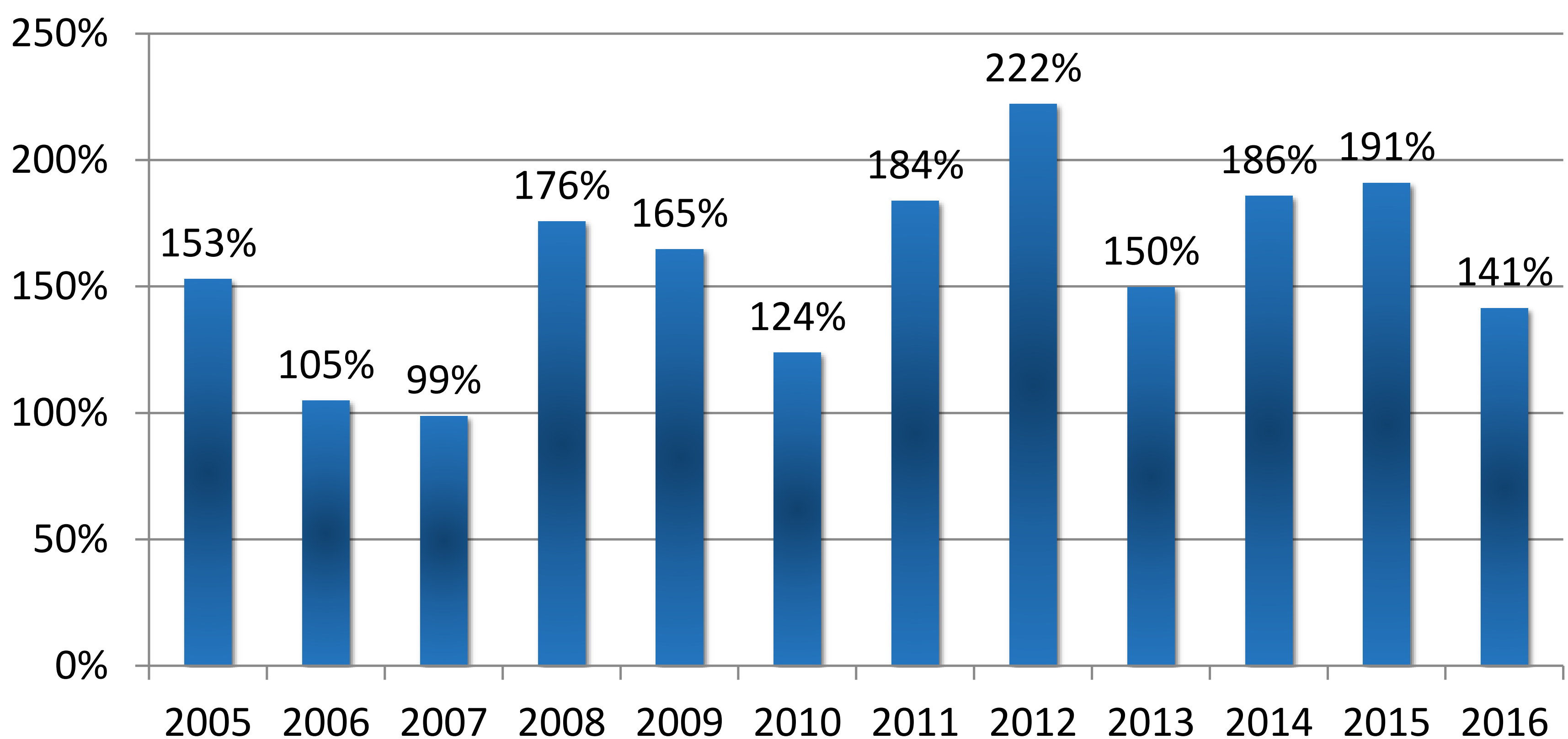
Domestic price vs. observed reference prices at farm gate for milk, 2005-2016 (USD/ton)



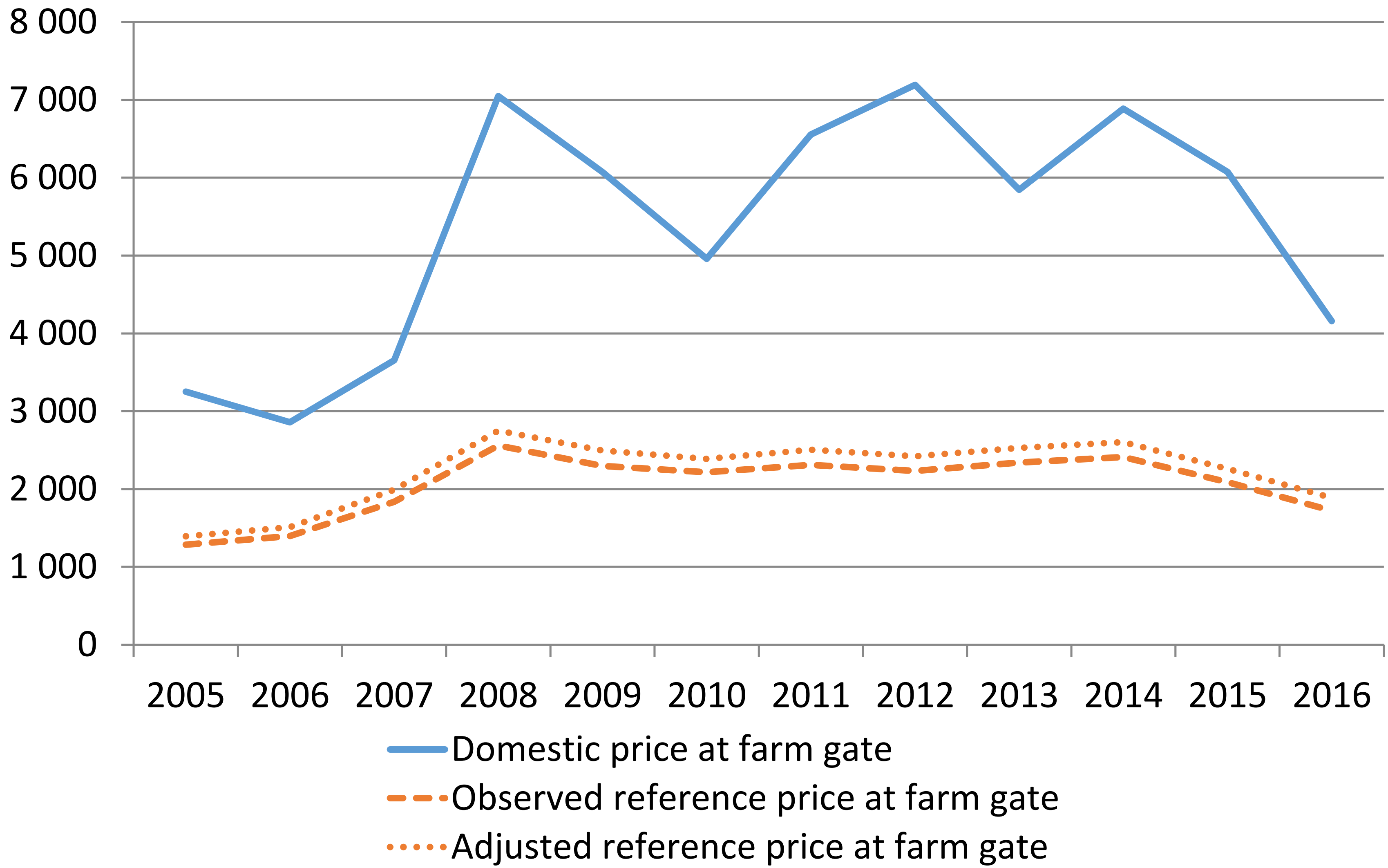
The specifics of Armenian dairy sector

- large number of small milk producers (about 92-95% of milk is produced by the small farms that have less than 7 cows).
- farmer usually does not transport the milk to the market.
- Imported fluid milk makes up about 0.1% of all milk imported, remains are the imported milk powder in milk equivalent mainly from Ukraine and Belarus. Depending on the fat content in milk powder the price varies from 1.1 to 1.5 mln AMD per tonne of milk plus 20% VAT. The transportation of the milk powder from the border to processing plants (mainly located not far from Yerevan), is about 8000 for one tonne of milk, making the price equal to between 1,328,000 - 1,808,000 depending on the country of origin. The delivery price of the final goods from processors to retail is exactly the same as above – about 7,000 AMD for one tonne.

Observed NRP at farm gate for pig, 2005-2016 (%)



Domestic price vs. observed reference prices at farm gate for pig, 2005-2016 (USD/ton)



Membership to EAEU

The full customs duties by 2022 will have to be:

- ❑ Wheat – 5%
- ❑ Milk – 15%
- ❑ Pork – 65%
- ❑ Beef – 50%
- ❑ Potato – 10%
- ❑ Grape – 5%
- ❑ Tomato – 10%
- ❑ Egg – 15%

This will result in increased trade within the EEU starting from 2018

Conclusions

- Armenia was a predominantly net importer of the analyzed commodities, except of fresh table grapes.
- Three of the analysed commodities, tomatoes, potatoes and eggs were estimated to be non-tradable (minimal trade intensity) NRPs=0 implying absence of agricultural price distortions.
- For the remaining commodities, wheat, cattle meat, pig meat and cow's milk, domestic producer prices are substantially above the comparable reference prices in international markets and the calculated NRPs thus predominantly positive. It could be explained by domestic currency, small fragmented farms with high production costs and which are weakly integrated into markets. Also, in case of wheat, pig and cattle meat (especially organic meat), the quality composition was difficult to measure, therefore possibly not accurately accounted for, and may contribute to the formation of the domestic prices at farm gate.
- Armenia sets both volume and self-sufficiency ratio targets by 2020, e.g. 100 percent for sheep meat, 80 percent for beef and pork.
- A 20 percent VAT on the import price for meat (pig meat and cattle meat) is paid by the processor.
- Looking at the causes for price distortions of individual commodities, wheat attracts a 20 percent VAT when it is imported, mainly from the Russian Federation. While local producers cannot compete with the imported wheat (that is often said to be of better quality), often the mills match the price paid to local farmers with that of imported wheat delivered to their door.

Conclusiones

- In the case of milk, 92-95 percent of milk is produced by small farms that have less than seven cows. Imported is mainly milk powder from Ukraine and Belarus. The customs duty for milk from non-EAEU countries will be 15 percent under EAEU regulation and the VAT is 20 percent. However, by 2016 , 15 percent were not effective yet.
- Grapes production used to be a large sector in Armenia, before land privatisation and farm fragmentation caused an increase in cultivation expenses, exacerbated by an unregulated market and energy crises. This led to mass cutting of vineyards. FAO is contributing to expand the vineyard areas again, with a project focusing on improved and modernized grape production (FAO, 2016).
- The effects of recent tariff increases for meat and milk due to Armenia's alignment of its tariff schedule with the EAEU are not yet reflected in the NRPs.
- Data collection issues

Thanks for your attention!

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Q U E S T I O N S ?

Martiros Saryan, a prominent **master of color** – Gifts of Autumn

HS codes/aggregates, used in the calculation of net trade status and trade intensity

Crops	Armenia
Wheat	Calculated for code 1001
Potatoes	Calculated for code 0701
~~Sunflower~~	
Tomatoes	Calculated for code 070200
~~Hazelnuts~~	
Grapes	Calculated for code 080610
Livestock:	
Cattle meat	Calculated for codes 0201 and 0202 together
Pigmeat	Calculated for code 0203
Cow's milk	Calculated for code 0402
Eggs	Calculated for code 0407

HS codes/aggregates*, used in the calculation of unit export/import values

Crops:	Armenia
Wheat	2005-2011: Calculated for code 100190; 2012-2016: 100199**
Potatoes	Calculated for code 070190
Tomatoes	Calculated for code 070200
Grapes	Calculated for code 080610
Livestock:	Armenia
Cattle meat	Calculated for codes 0201 and 0202 together
Pigmeat	Calculated for code 0203
Cow's milk	Calculated for code 0402
Eggs	Calculated for code 0407

Alternative reference prices at farm gate

Crops:	
Wheat	Wheat*
Potatoes	Potatoes; domestic price at f. g.=reference price at f. g.[1]
Tomatoes	Tomatoes; domestic price at f. g.=reference price at f. g.[1]
Grapes	Grapes; Moldovan reference price at farm gate[3]
Livestock:	
Cattle meat	Cattle meat
Pig meat	Pig meat
Cow's milk	Cow's milk
Eggs	Eggs; domestic price at f. g.=reference price at f. g.[1]

Overview of key agricultural commodities

Crops:	
	Wheat
	Potatoes
	Tomatoes
	Grapes
Livestock:	
	Cattle meat
	Pig meat
	Cow's milk
	Eggs
Total no. of commodities	8
Actual representativeness of VP (%; average 2012-2016)	50%

Sources of Date for Period 2005 - 2016

Sources of foreign trade data and HS tariff code level

Country:	Source of data:	HS tariff code level
Armenia	UN Comtrade	6-digit

Sources of data on domestic producer prices of key commodities, on production volumes of key commodities, on inflation rates, on value of agricultural production

Country:	Source of data:
Armenia	Statistical Committee of the Republic of Armenia

Sources of data on exchange rates

Country:	Source of data:
Armenia	Central Bank of the Republic of Armenia

Sources of data on budgetary and other transfers

Country:	Source of data:
Armenia	Ministry of Agriculture of the Republic of Armenia

As well as WB, FAO.