NEWLY INDEPENDENT STATES OF THE FORMER SOVIET UNION

In 1996, the U.S. trade surplus with all of the Newly Independent States (NIS), except Russia, was $505 million, an increase of $502 million from the U.S. trade surplus of $3 million in 1995. U.S. merchandise exports to the NIS were $1.4 billion, an increase of $714 million (101.6 percent) from the level of U.S. exports to the NIS in 1995. U.S. imports from the NIS were $912 million in 1996, an increase of $212 million (30.3 percent) from the level of imports in 1995.

Overview

The countries reviewed in this section are: Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. In 1996, they continued their efforts to create stable political and economic structures. These countries are in transition to market economies, although the pace of economic transformation varies greatly from country to country. Most economic reforms were aimed at stabilization, liberalization, privatization, and improvement of the investment climate, including issues such as banking and bankruptcy.

A primary objective of U.S. trade policy has been to create a legal framework for productive trade, investment, and protection of intellectual property between the U.S. and the NIS; this policy encompasses trade agreements, including most-favored-nation status (MFN) and intellectual property provisions, and bilateral investment treaties (BITs). The United States has bilateral trade agreements with all the countries of the NIS. As of February 1997, the United States had BITs in force with six of the NIS -- Armenia, Georgia, Moldova, Kazakstan, Kyrgyzstan, and Ukraine. Belarus and Uzbekistan have also signed BITs with the United States. The BIT with Belarus is awaiting an exchange of the instrument of ratification; the Uzbekistan BIT has been ratified by the Uzbek Parliament and awaits approval by the U.S. Senate.

Armenia, Belarus, Georgia, Kazakstan, Kyrgyzstan, Moldova, Ukraine, and Uzbekistan have applied to join to the World Trade Organization. Turkmenistan and Tajikistan are exploring the option of applying.

Trade with the NIS has been growing from a small base, but is restricted due to the limited infrastructure, income and foreign exchange resources in these countries. In addition to changing legal structures and banking systems, the NIS are struggling with currency convertibility problems, inflation, and unemployment. Many of these countries also lack adequate road systems, power supplies, and communication structures. However, despite difficult commercial environments, U.S. companies are pursuing business opportunities.

Russia, Belarus, and Kazakstan formed a customs union in January 1995. In most cases, the non-Russian members of the customs union are raising their tariffs and value-added tax (VAT) to match the Russian levels. Most of the countries of the NIS that apply value-added or excise taxes on imports do not assess those taxes on imports from other NIS countries, with the understanding that the other NIS country will assess its own VAT and excise taxes on its exports within the NIS. However, in the past two years Russia and Ukraine began to collect taxes on each other's exports. Kazakstan, Kyrgyzstan, and Uzbekistan have formed a Central Asian Customs Union.

ARMENIA

Import Policies: Armenia's import tariff consists of two rates, zero or 10 percent. The 10-percent duty is levied mainly on consumer goods or luxury items. Armenia also charges an ad valorem custom processing fee of 0.3 percent. Armenia charges a higher excise tax on imported alcoholic beverages and automobiles than it does on domestic products.

Standards, Testing, Labeling, and Certification: Armenia inherited the Soviet standards system and is now working to develop its own norms. It joined the International Standards Association in 1994 and is planning to join the IEC. Beginning in 1997, Armenia now is requiring quality/safety certification for a range of products. Armenia has and indicated that U.S. certification for food products is acceptable, while for other products, manufacturer certification is acceptable. Imports of pharmaceuticals require registration by the Drug and Medical Technology Agency.

Lack of Intellectual Property Protection: In 1991, Armenia joined the Paris Convention, the Madrid Agreement, and the Patent Cooperation Treaty. Armenia implemented a law on patents in 1993 and a law on trademarks is currently under consideration in the Armenian Parliament. However, pirated copies of U.S. video, audio, software, and books are widely available.

Other Barriers: General instability and tensions in the region stemming from the long-lasting dispute between Armenia and Azerbaijan over the Armenian-populated enclave of Nagorno-Karabakh have resulted in the imposition of Azeri and Turkish embargoes of Armenia's most important land transportation routes. The resulting transportation difficulties and high costs are additional factors that avert many potential investors from the region in general and Armenia in particular.

AZERBAIJAN

Import Policies: In Azerbaijan, a presidential decree on foreign trade issued in January 1997 allows the Ministry of Foreign Economic Relations to set minimum and maximum price levels for imported goods. Azerbaijan imposes different excise tax rates for goods imported from NIS vs. non-NIS countries. In accordance with IMF guidance, import tariffs were equalized to 15 percent, irrespective of the country of origin, as of January 1, 1997.

Standards, Testing, Labeling, and Certification: The State Veterinary Committee of Azerbaijan has agreed to accept temporarily U.S. Department of Agriculture (USDA) export certification for meat and poultry products pending official discussions with USDA Food Safety Inspection Service officials.

Export Subsidies: In January 1997, the Government of Azerbaijan published a decree eliminating export taxes for all exported goods. At the same time, the government reduced excise rates for certain kinds of locally manufactured alcoholic products, to make them compatible with those of Russia, the principal destination of Azeri alcohol exports.

Lack of Intellectual Property Protection: In late 1996, the Parliament of Azerbaijan approved a new law to protect patents and copyrights, although no effective enforcement mechanisms are in place. Azerbaijan is a signatory of the Paris Convention, as well as the Berne and Universal Copyright Conventions, and is a member of the World Intellectual Property Organization (WIPO).

Investment Barriers: More than 60 U.S. companies are resident in Azerbaijan. Two U.S. companies together hold a 55.5 percent stake in a $2 billion oil production sharing agreement signed with the Government of Azerbaijan in December 1996.

BELARUS

Import Policies: In 1995, tariffs in Belarus were raised 5 to 10 percentage points to between 20 and 40 percent. In addition, a VAT of 20 percent was instituted on imports to bring Belarusian import policies in line with Russia's (although Belarus has not fully conformed its tariff schedule to Russia's). U.S. firms report that Belarus customs authorities have on occasion arbitrarily changed tariff classifications on imported items. Bureaucracy, lack of infrastructure, and a variety of complexities arising from the customs union often result in burdensome customs procedures.

Government Procurement: Belarusian law requires open tenders for government procurement, but permits preferential treatment for Belarusian suppliers, which may be awarded a contract if their bid is within 20 percent of foreign competition.

Lack of Intellectual Property Protection: Belarus is a member of WIPO, and in May 1996 passed a law on intellectual property. However, pirated products are widely available and enforcement efforts have been limited.

Investment Barriers: Significant informal barriers to investment exist, notably an unstable, unpredictable business climate. Some U.S. firms report serious and increasing difficulties in converting Belarusian rubles into hard currency. The constitution adopted following a 1996 referendum concentrates power in the executive branch, leaving investors few legislative or judicial options for securing favorable investment conditions or resolving any problems that might occur. One U.S. company has filed a claim with the Overseas Private Investment Corporation (OPIC) alleging expropriation of its munitions recycling project in Belarus. U.S. investment in Belarus is limited. Foreign financial firms may hold no more than 49 percent of the shares of a Belarusian bank or other financial firm.

GEORGIA

Import Policies: Georgia has an open trade regime with a relatively low average tariff. An inadequate legal framework has been an impediment to doing business in Georgia, although a new civil code and a new civil procedures code are being prepared.

Standards, Testing, Labeling, and Certification: Georgia does not recognize U.S. phytosanitary standards on agricultural produces, including seed.

Lack of Intellectual Property Protection: Georgia has a body of law to protect intellectual property and is a member of the Paris Convention and WIPO. However, enforcement actions against IPR infringements are virtually non-existent.

Investment Barriers: In Georgia, the law on foreign investments identifies certain sectors in which foreign investment needs prior approval. These include banking, pharmaceuticals, insurance, and natural resources. The law also gives the president the authority to identify sectors in which foreign investments may be limited. Another serious barrier has been the slow pace of land privatization. Nonetheless, U.S. business interest in Georgia has increased, in part due to Georgia's successful macroecomic stabilization program.

KAZAKSTAN

Export Subsidies: In an effort to stimulate exports, in the summer of 1996 the Kazakstani Government removed all export tariffs.

Lack of Intellectual Property Protection: In 1992, Kazakstan acceded to the Geneva and Paris Conventions and joined WIPO. In June 1996, a law on copyrights and related rights was approved. The new law includes sanctions for copyright infringement.

Investment Barriers: Over 80 American firms have established offices in Almaty, Kazakstan. In December 1996, the $2 billion Caspian Pipeline Consortium Agreement was signed. The construction of this pipeline (completion of which is expected in 1999) will allow Kazakstan to significantly increase production at the huge Tengiz oil field and pump 67 million tons of crude annually to world markets by the year 2000. In December 1996, the U.S.-Kazakstan Avoidance of Double Taxation Treaty entered into force.

KYRGYZSTAN

Import Policies: In 1996 Kyrgyzstan signed but did not ratify a customs union agreement with Russia, Belarus, and Kazakstan. Kyrgyzstan has not increased its tariffs or VAT to Russian levels. The Agreement on Deepening Economic Integration with the customs union countries was ratified in December 1996.

Lack of Intellectual Property Protection: The Kyrgyz regulatory agencies responsible for intellectual property matters have promulgated a number of transitional intellectual property regulations, including the Temporary Provisions on Industrial Property. It is the policy of the Government of Kyrgyzstan to put into place a system of intellectual property protection modeled on the systems found in developed market economy countries, and a draft copyright law is currently before the Parliament. Kyrgyzstan is a member of WIPO, the Paris Convention, and the Madrid Agreement.

MOLDOVA

Lack of Intellectual Property Protection: More than 39 U.S. companies established local representatives in Moldova in 1996. Most U.S. firms have limited their presence to exporting through local representatives, although a few firms have invested in Moldova. Moldova passed a copyright law in 1995, and trademark and patent laws in 1996. Moldova is a member of WIPO, the Paris Convention, and the Madrid Agreement.

TAJIKISTAN

Import Policies: In preparation for joining the customs union formed by Russia, Belarus, and Kazakstan, in 1996 Tajikistan adopted a new customs code that raised tariff rates to match the union members' level. A 20 percent VAT, 3 percent "special tax," and excise taxes were also imposed on imported goods in 1996. There are no quantitative restrictions on imports, but there is a list of commodities which can only be imported after the Ministry of Economy and Foreign Economic Relations has examined the contract. There is also a list of commodities which require government permission to be imported.

Government Procurement: The Government of Tajikistan took some measures aimed at abolishing a system of compulsory state orders in 1996, and establishing a system of purchasing based on competition for contracts. There were also decrees to liberalize prices of cotton and grain, although the practical effect of these decrees has been small so far.

Lack of Intellectual Property Protection: Tajikistan has adhered to the Paris Convention and the Universal Copyright Convention and is a member of WIPO. Draft copyright and patent laws have been submitted to Parliament. Enforcement efforts are limited.

TURKMENISTAN

Import Policies: In Turkmenistan, all foreign trade transactions (except those involving crude oil, natural gas and electricity) valued at more the 3.5 million manats must be registered with the Commodity and Raw Materials Exchange (CRME). The CRME charges a service fee of 0.2 percent of the value of contracts it registers. The Government of Turkmenistan maintains separate lists of goods that may not be exported and goods that may not be imported without special permission from the President or the Cabinet of Ministers. Consumer goods imported into Turkmenistan must be certified by the State Standards Committee, which issues a release document. This procedure can be time-consuming and, as a result, importation of perishable goods is considered risky.

Lack of Intellectual Property Protection: Turkmenistan is a member of WIPO, and in December 1991 joined the Paris Convention in 1994. The Government of Turkmenistan has adopted a copyright law and a patent law.

UKRAINE

Import Policies: Most MFN tariffs in Ukraine range from zero to 30 percent, although tariffs on some items are 40-50 percent. Alcoholic beverages must pay a high unit tariff. In November 1996, Ukraine raised its tariffs on a number of agricultural products. Imports are also assessed a 20 percent VAT and, in some instances, an excise tax.

Lack of Intellectual Property Protection: Ukraine is a member of WIPO and has acceded to the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Berne Convention, and the Convention for the Protection of New Varieties of Plants, and is a signatory to the Trademark Law Treaty. With the help of appropriate international bodies and comment from U.S. officials, Ukraine has implemented over the last two years a set of intellectual property laws, including laws covering patents, industrial designs, trademarks, plant varieties, and copyrights. Enforcement remains sporadic and inadequate, however.

Investment Barriers: Ukraine passed a law on foreign investment in 1996 which provides certain protections, including general guarantees against expropriations, unhindered transfer of profits and post-tax revenues, and a ten-year guarantee against changes in legislation that affect companies operating in Ukraine. As of December 1996, there were more than 300 U.S. companies in Ukraine.

UZBEKISTAN

Import Policies: U.S. exports to Uzbekistan more than doubled from 1995 to 1996. However, in October 1996, Uzbekistan sharply curtailed convertibility of local currency into foreign exchange, making it very difficult for many U.S. companies to receive payment for exports or pay local expenses denominated in dollars. A number of firms that had supplied products to Uzbekistan have not been paid, and other firms have reduced or ceased importing because they can not be certain they will obtain foreign exchange to honor their obligations. The IMF suspended its program with Uzbekistan in late 1996.

Lack of Intellectual Property Protection: Uzbekistan has adopted a trademarks law, a patent law covering inventions and industrial designs, a law covering protection of computer software and data bases, and a copyright law. Uzbekistan is a signatory to the Paris Convention, Patent Co-operation Treaty, and the Madrid Agreement, as well as a member of WIPO, and is in the process of acceding to the Berne and Geneva Conventions. Piracy of Western copyrighted materials remains common on a small scale.