
Soaring Trade Boosts Russian-Armenian Economic Ties

By Emil Danielyan
Eurasia Daily Monitor, DC - 30/10/2007

Armenia's trade with Russia has increased dramatically this year, paralleling the growing Russian economic presence in the country, which has sparked concerns about Armenia's economic independence and even national security. The almost 62% year-on-year rise in Russian-Armenian trade registered in the first eight months of 2007 comes despite Russia's continuing transport blockade of Georgia, Armenia's main commercial conduit to the outside world.

According to the most recent data posted by Armenia's National Statistical Service (NSS) on its website, www.armstat.am, the volume of bilateral trade totaled \$404 million in January-August 2007, up from \$250 million registered during the same period last year. Much of the gain resulted from an almost 100% surge in Armenian exports to Russia, most of them alcoholic beverages and prepared foodstuffs.

Even so, Armenian imports of Russian commodities and goods (notably natural gas) continued to account for most of the bilateral commercial exchange, rising by 50% to about \$280 million.

Consequently, Russia saw its share in Armenia's external trade grow from 13.1% to 15.2%, solidifying its status as the South Caucasus state's single largest trading partner. The NSS reported similarly strong gains in Armenia's trade with Georgia, Ukraine, and Kazakhstan. As a result, the share of non-Baltic former Soviet republics in its trade reached 32.6%, up from 28.4% recorded in January-August 2006. The European Union, by comparison, accounted for 38.2% of the January-August 2007 turnover.

Officials in Moscow and Yerevan have welcomed the growing commercial ties between their countries, which they say will reach a new high of \$700 million in the full year 2007. Speaking after talks in Moscow on September 25, the Russian and Armenian prime ministers said they would try to ensure that Russian-Armenian trade hits \$1 billion next year (Armenian Public Television, September 25). Armenian Prime Minister Serge Sarkisian instructed his ministers to closely work with their Russian counterparts to meet this target (Statement by the Armenian government, September 27). Nikolai Ryzhkov, a Russian lawmaker co-chairing a Russian-Armenian inter-parliamentary commission, came up with a more conservative estimate during a mid-October visit to Yerevan, predicting bilateral trade will likely pass \$1 billion mark only in 2009 (Interfax, October 19).

Russia-Armenian trade is growing strongly despite Russia's decision in June 2006 to close its main border crossing with Georgia. Moscow cited the need to conduct repairs on Russian border guard and customs facilities. The move, whatever its real motives, hit hard Armenian companies that heavily relied on the Upper Lars crossing in shipping goods to Russia and other parts of the former Soviet Union. Armenian government officials and lawmakers have since been lobbying their Russian counterparts to reopen Upper Lars. According the Armenian ambassador in Moscow, Armen Smbatian, the Russians have promised to do that some time in 2008 (RFE/RL Armenia Report, September 28).

Armenian exporters, meanwhile, appear to have quickly adapted to the new situation through an even greater reliance on a rail-ferry link between the Georgian Black Sea port of Poti and Ukraine's Ilyichevsk.

A similar ferry service, designed to primarily cater to Armenia, was launched in April 2007 between Poti and the Russian port of Port-Kavkaz. However, the

service has yet to become regular and frequent enough to process substantial amounts of freight. Sarkisian reportedly raised the issue with his Russian counterpart, Viktor Zubkov, during their Moscow meeting.

Zubkov told journalists after the talks that Russian companies would invest \$1.5 billion in Armenia "in the near future." He gave no details, saying only that much of those investments will be channeled into the construction of an oil refinery in southeastern Armenia that will process crude from neighboring Iran. The ambitious project featured prominently during Iranian President Mahmoud Ahmadinejad's October 22 visit to Armenia. Speaking at a joint news conference with Ahmadinejad, Armenian President Robert Kocharian said Yerevan and Tehran agreed to press ahead with the project's implementation.

Another top Russian official, Transport Minister Igor Levitin, said in Yerevan on September 14 that Russian investments in the Armenian economy will reach a record-high level of \$500 million in 2007 (Azg, September 15). He did not specify whether the figure includes \$430 million that the Russian telecommunications operator MTS paid to purchase Armenia's largest mobile phone network, VivaCell, from a Lebanese-owned firm. The deal, officially announced in Yerevan on September 14, came almost a year after the \$500 million acquisition of Armenia's national telephone company and its wireless network by another Russian telecom operator, Vimpelcom.

The Armenian government is believed to have played a key role in both takeovers that left another sector of Armenia's economy under Russian ownership. It has also been instrumental in Russian control of the Armenian energy sector. That control has become near total since the signing of a controversial April 2006 agreement that enabled Armenia to avoid a doubling of the price of Russian gas until January 2009 in return for handing over more energy assets to Russia. It was officially confirmed on September 12 that those assets include the entire Armenian section of an under-construction gas pipeline from Iran (Haykakan Zhamanak, September 13). It will now be owned by the Armenian national gas company in which Russia's Gazprom conglomerate has a controlling stake.

The tightening of Russia's economic grip on Armenia is widely attributed to Kocharian's and his preferred successor Sarkisian's obvious desire to ensure the Kremlin's continued support for their regime. The two men, who single-handedly make all key decisions affecting the nation, are poised to cede more industries to Russian companies ahead of next spring's Armenian presidential election.

Those include Armenia's rail network and largest gold mining company.
