

Armenia: Joining under the Gun

Armen Grigoryan

On September 3, 2013, Armenia's President Serzh Sargsyan held negotiations with Russian President Vladimir Putin in Moscow. Immediately afterwards, while still in Moscow, Sargsyan announced that Armenia would join the Customs Union instead of signing an Association Agreement with the European Union. As the EU-Armenia negotiations on the Association Agreement had just been finalized six weeks earlier, Armenia was planning to initial the agreement in November. Sargsyan's statement was rather unexpected, especially considering previous statements by Prime Minister Tigran Sargsyan and other high-level officials about the impossibility of joining the Customs Union.

After President Sargsyan's u-turn, he and other officials started explaining that the decision was made because of Russia's strategic role in Armenia's security policy as well as for economic reasons. However, a variety of sources provide more plausible explanations: Russian pressure on Armenia, including threats to cancel security guarantees and an increase of the gas price among other leverages.

Armenia's Policy towards the CIS and the CSTO

Throughout the post-Soviet period, most Armenian politicians and analysts have considered participation in Russia-led structures a crucial component of security. Already Levon Ter-Petrossian, Armenia's president from 1991 to 1998, suggested that Russia's benevolence and support were indispensable. He justified Armenia's eagerness to become a member of the Commonwealth of Independent States (CIS) and the Collective Security Treaty (later the CSTO) as a precondition for Russian political and military support during the conflict of the early 1990s. Ter-Petrossian claimed that due to his past policies aimed at

achieving friendly relations with Russia, Armenia could protect itself and act as a guarantor of Nagorno-Karabakh's self-determination, while Azerbaijan and Georgia, who failed to consider Russia's interests in the early 1990s, lost control over parts of their territory. Although there may be some reason for linking participation in Russia-centered organizations with military success, it is not a fully sufficient explanation, primarily because Russia was the main arms supplier to both Armenia and Azerbaijan.

After a cease-fire in Nagorno-Karabakh had been reached in 1994, Russian political influence and military presence in Armenia continued to grow. In 1995, Yerevan signed a treaty on Russian military bases in Armenia, followed by a treaty on friendship, cooperation, and mutual assistance in 1997. The latter included a clause on joint defense of borders with non-CIS member states—thus Russian border guards' control of Armenia's borders with Iran and Turkey was institutionalized. The border checkpoint in Yerevan's Zvartnots international airport also remained under Russian control. Both treaties' agreed term of validity was 25 years.

Russia was able to expand its influence in Armenia in 2010, when ratification of the Zurich Protocols between Turkey and Armenia failed and the Armenian-Turkish normalization process was halted. Russia persuaded Armenia to amend the treaty on Russian military bases, so the term of deployment would be 49 years instead of 25 years. The amendments were covered in an agreement signed during Russian President Dmitry Medvedev's visit to Armenia in August 2010, and ratified in 2011.

Currently, Russia is modernizing MIG-29 fighter planes deployed at its military base in Armenia. It is planned that the planes will become capable not only of intercepting airborne targets but also attacking targets on the ground. Besides, deployment of battle helicopters and airborne troops is also expected, so that the military base may obtain the capacity to engage not only in defensive but also in offensive operations, including the possibility to engage airborne troops within a range of 500 kilometers.

Finally, Russia has two additional tools within the CSTO framework: the right to veto the establishment of new foreign military bases in CSTO member states (limiting opportunities for cooperation with NATO, including the

possibility to organize cargo traffic by air or to provide storage facilities); and the possibility to intervene under a CSTO Rapid Reaction Force mandate in case of internal instability; so Russia may provide armed support for Armenian authorities should they be unable to suppress an opposition uprising.

Likely Effects of Customs Union Membership on the Armenian Economy

Some officials justified the decision to join the Customs Union by Armenia's export structure. For instance, soon after President Sargsyan's statement about the intention to join the Customs Union, National Security Council Secretary Arthur Baghdasaryan said at a press conference: "We took a long time to research and finally concluded that Armenia's economy is not compatible with that of the EU countries. The major part of our exports are to the Customs Union member countries and we could not have shut down a 300-million-person market." However, according to the official data, in 2012 Armenian exports to the EU amounted to \$511.6 million while the value of exports to Russia, Kazakhstan, and Belarus was \$289.8 million; in the first six months of 2013 goods worth \$250.6 million were exported to the EU while the share of the Customs Union was \$149.6 million.

Negotiations on the EU-Armenia Association Agreement and the Deep and Comprehensive Free Trade Agreement (DCFTA) went on for almost three years. A Dutch consulting company, commissioned by the European Commission, provided detailed research on the expected effects of the DCFTA for different sectors of the Armenian economy and trade with the EU. A 200-page Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and the Republic of Armenia was published soon after finalizing the negotiations on the DCFTA. By contrast, there has been no comprehensive analysis of the likely impact of Customs Union membership. State officials, economists, and representatives of business groups have only made estimations concerning the application of different import duties, as well as estimations for some sectors of the economy. The report estimated a likely increase of Armenian exports and imports by 15.2 percent and 8.2 percent respectively, and a 2.3 percent increase in gross domestic product (GDP). By contrast, there has been no comprehensive analysis of the likely impact of

Customs Union membership, as a roadmap on Customs Union membership was prepared in less than four months.

According to Deputy Minister of Economy Garegin Melkonyan, Armenia imports about 11,500 types of goods, while the Customs Union's import tariffs for about 60 percent of goods are higher than current Armenian tariff rates. The government attempted to negotiate with the Eurasian Economic Commission a list of exemptions including about 850 goods. However, the negotiations have not reached any result yet. Applying Customs Union tariffs will also require re-negotiating Armenia's import duty schedule with the World Trade Organization, and an appropriate notification had yet to be sent to the WTO as this book went to press.

The Chairman of the Republican Union of Employers of Armenia (RUEA), Gagik Makaryan, stated that the majority of Armenian businessmen prefer the Customs Union to the DCFTA with the EU, citing "the same industrial culture, prolonged collaboration using the same standards and norms, and lack of language barriers." However, he also noted that the EU is Armenia's largest trade partner with 27.3 percent of the total trade volume; Russia is the second largest with 21.7 percent; followed by China with 6.6 percent, Iran with 5.4 percent, and Ukraine with 4 percent. Belarus's and Kazakhstan's shares are, respectively, 0.8 and 0.2 percent.

More recently, Mr. Makaryan also warned that after joining the Customs Union, consumer prices for basic foodstuffs (meat, dairy products, wheat, cooking oil, sugar, potatoes, etc.) may increase by up to 15 percent.

Prices for medicines are also expected to increase significantly. Currently, about 4.2 percent of medicines are imported from Russia and Belarus, while the largest amount originates from Germany, followed by Switzerland, France, Great Britain, Hungary, and Italy, and no customs duties are applied. After joining the Customs Union, duties amounting on average to 8-10 percent must be applied.

After joining the Customs Union, the structure of car imports is expected to change radically. In 2013, only about five percent of nearly 40,000 imported cars were made in Russia, while 70 percent were second-hand cars re-exported from Georgia, and Armenia has been one of the ten largest trade partners for Georgia

thanks to the car trade. The head of the Car Importers' Union, Tigran Hovhannissian, as well as some economists have warned that higher import duties applied by the Customs Union will result in a sharp price increase and will destroy small businesses, leaving the market to monopolies, while retail prices of non-Russian cars will go up by at least 50 percent, and consumers will be forced to buy mostly Russian cars. Damage to Georgia's economy may also be quite significant.

The Evolution of the Government's Position on the Customs Union

The Armenian government's attitude towards the choice between the Customs Union and the possibility to develop cooperation with the EU has often been formulated as a preference for mutually non-exclusive involvement in both frameworks. However, such an attitude was developed in 2013, a few months before President Sargsyan's announcement about joining the Customs Union, as pressure from Russia was mounting, and some officials expressed a similar attitude later on as well, but this had not been the case before.

In April 2012, soon after the beginning of the DCFTA negotiations with the EU, Prime Minister Sargsyan ruled out the possibility of joining the Customs Union in an interview to the Russian newspaper *Kommersant*:

In global practice there is no example of a country joining a customs union without having a common border. [...] We would only get into trouble with higher tariffs and taxes. It is not reasonable from the economic point of view. [...] The Customs Union does not provide any functional instruments for our economic players. Therefore, it is of no use.

In August 2012, after negotiations between the Armenian and Russian presidents, a statement about the creation of a joint commission was made. The commission's goal was to find possibilities of cooperation between Armenia and Customs Union member states taking into account the absence of a common border. In December 2012, President Sargsyan said in an interview that Armenia had always supported integration processes in the post-Soviet area, noting however the issue of having no common border, and besides, that WTO rules present another obstacle. In April 2013, a cooperation memorandum was signed by Prime Minister Sargsyan and the Head of the Eurasian Economic Commission, Viktor Khristenko.

Less than two weeks before President Sargsyan's visit to Moscow and the announcement of the decision to join the Customs Union, Deputy Minister of Foreign Affairs Shavarsh Kocharyan excluded the possibility of joining the Customs Union, saying that it would mean "losing sovereignty." Galust Sahakyan, head of the ruling Republican Party of Armenia (RPA) parliamentary faction, also excluded such a possibility shortly before the president's statement on September 3. Apparently, the president made his decision unilaterally after negotiations with Vladimir Putin, without even consulting the government or the parliamentary majority.

Despite the attitudes shown at the time, in recent months the same officials have become staunch supporters of Customs Union membership. While negotiations concerning the DCFTA with the EU had taken nearly two years, a roadmap on the planned Customs Union membership was prepared in less than four months. Replying to a question about the reasons for such a hurry at a press conference during a visit to Prague in January 2014, President Sargsyan stated: "Any commenced deal has to be accomplished quickly and with devotion. Since we decided to join the Customs Union, we have to do that as quickly as possible, why should we wait? As our decision is based on national interests, it must be implemented at the earliest occasion."

Ironically, Shavarsh Kocharyan has also become one of the main advocates for the Customs Union. When asked about the unprecedented hurry, he stated that a new treaty on the establishment of the Eurasian Union was being prepared, so the Eurasian Union should be in effect from January 1, 2015, and it would absorb the Customs Union. Therefore, a delay would result in becoming a member of an already non-existing organization. He also added that the Russians "are amused because Armenia accelerates the process of becoming a member of the Customs Union."

Quite characteristically, not a single official expressed disagreement with the decision to join the Customs Union, and no resignations took place. Since the RPA and its satellite, the Rule of Law Party, have a majority of votes, and most of the opposition MPs are also reluctant to displease the Russians, there is practically no doubt that the president's decisions will be rubber-stamped by the National Assembly.

Opinions about the Customs Union

There is little reliable data on the opinion of the general public. An opinion poll conducted in 2012 at the request of the Eurasian Development Bank based in St. Petersburg, Russia, showed that 61 percent of respondents in Armenia had a positive attitude towards the Customs Union of Russia, Belarus, and Kazakhstan; however, that poll did not inquire about the attitude towards Armenia's possible membership. Opinion polls conducted after the decision to join the Customs Union show large differences in results and may be biased. Yet, even though the results in general may be not reliable as far as approval level is concerned, they demonstrate a low level of awareness about the Customs Union and the possible consequences of membership.

For instance, two of three polls conducted in October and early November showed a high level of support for membership. The Armenian Marketing Association's poll showed a 64 percent support rate while 26 percent of the respondents expected a decline in consumer prices as an outcome of membership. A poll by the non-governmental organization Integration and Development showed a figure of 86 percent positive responses, but only 10 percent of the respondents said they were aware about the fundamental nature of the Customs Union. By contrast, a poll by the Union for National Self-Determination showed a 20 percent level of support for membership.

The expert community has in general been cautious in its approach towards the Customs Union as far as economic consequences of membership are concerned. While *Rossotrudnichestvo* (the Russian Federal Agency for the Commonwealth of Independent States, Compatriots Living Abroad, and International Humanitarian Cooperation) engaged in a widespread advocacy campaign in favor of Armenia's membership, Armenian economists and policy analysts have mostly been skeptical because of the anticipated growth of prices and unclear perspectives for further cooperation with neighboring Georgia and Iran, as well as other non-CU member states.

Concerning the attitudes of the parliamentary opposition, only the smallest faction, Heritage, is clearly against membership in the union. The Prosperous Armenia party and the Armenian Revolutionary Federation – Dashnaktsutyun express a positive or even openly pro-Russian attitude, and the media outlets controlled by Prosperous Armenia's founder and sponsor, Gagik Tsarukyan,

vilified the government before President Sargsyan's decision to join the Customs Union and have been vilifying the opponents of that decision afterwards. The Armenian National Congress, led by former President Levon Ter-Petrossian, has been closely cooperating with the Prosperous Armenia party in the recent period and also avoids criticism of the Customs Union and Russian policies in general. At the same time, Ter-Petrossian has been criticizing President Sargsyan and the government whose policies, in his opinion, led to a situation whereby Armenia is going to join the union not as an equal partner but as a voiceless subordinate.

The views of supporters of European integration were more or less summarized by Ambassador David Shahnazaryan, director of the Yerevan-based think-tank Center for Political and Legal Studies "Concord." In an interview in May 2013, Shahnazaryan argued that "the Association Agreement [...] is an unprecedented opportunity for Armenia to switch from a criminal oligarchic country to a developing state. [...] If we miss this opportunity, Armenia will be set back, and morals, which exist in Russia, will take root – persecutions of opposition and civil society." He also noted that Russia's drastic increase in gas prices soon after the 2013 presidential elections put "political pressure on Armenia, which aims at preventing [...] the signing of the EU Association Agreement. [...] these pressures exerted by Russia will be continuous and will not be confined to the use of gas levers."

Russian Pressure on Armenia

Armenia's vulnerability as a consequence of its heavy dependence on Russia, particularly in relation to energy supplies, was also acknowledged by foreign experts. As a publication by the Warsaw-based Center for Eastern Studies noted,

Moscow has demonstrated its ability to influence Yerevan by announcing an extreme, almost 70 percent, gas price rise [...] It cannot be ruled out that the intention behind Russia's pressure on Armenia is aimed at impeding its dialogue with the EU [...] Initialling the Association Agreement contradicts the plans of Armenia's accession to the Customs Union and Moscow has been seeking this for a long time now.

Other tools used by Russia in order to persuade Armenia to join the Customs Union have included as follows: threats to ban Armenian exports to Russia, to block private money transfers to Armenia via Russian banks, and to deport Armenian migrant workers; offering or halting supplies of offensive weapons to Azerbaijan, Russian officials' statements about the possible resumption of large-scale war in Nagorno-Karabakh, as well as statements that Russia would not be able to fulfill security guarantees for Armenia in case of signing the EU Association Agreement; and threats to destabilize the situation in Armenia and to support regime change.

Probably the most significant threat was voiced in August 2013, a few days before President Sargsyan's visit to Moscow, by the first secretary of the Russian Embassy, Alexandr Vassilyev, who made public statements about economic, mental and psychological problems awaiting in case Armenia signed the EU Association Agreement, as well as hinting at the possibility of a "hot autumn" (understood by most Armenian observers as an expression of Russia's readiness to support the opposition with a likely regime change). Threats were made not only by Russian officials but also by ideologues of "Eurasianism" and a number of other influential public figures such as Moscow State University Professor Alexander Dugin. The latter ranted against the opponents of Customs Union membership in a February 2014 interview, expressing a summary of ideas shared by the majority of Russian emissaries visiting Armenia in recent months: "Any anti-Russian sentiments in the post-Soviet area will sooner or later result in an outcome similar to Georgia's and Ukraine's. [...] there is an alternative for Armenia: Customs Union membership or bloodshed and disappearance from the map."

Pressure applied by Russia has been acknowledged by European policymakers. Elmar Brok, chairman of the European Parliament's Foreign Affairs Committee, noted: "We know that Armenia is under incredible pressure from Russia because of the difficult situation towards Azerbaijan and Nagorno-Karabakh. [...] A small country like Armenia was blackmailed to make such a decision." Another member of the European Parliament's Foreign Affairs Committee, Polish MEP Jacek Saryusz-Wolski stated: "It is the general context which is so worrying. This pressure concerns all the four countries (including Armenia) on the road to association. It's part of the wider picture." Further

developments in Ukraine and the abrupt deterioration of Ukraine's relations with Russia have demonstrated that these concerns had solid ground.

As a result of this pressure, Russia also persuaded the Armenian government to sell the remaining 20 percent of shares of Armenia's gas distribution network to Gazprom. In addition, the agreement signed during President Putin's visit to Armenia on December 2, 2013, guaranteed Gazprom's monopoly for 30 years, while reduced gas prices were set for five years. During the parliamentary debates following the signing of the agreement, misuse of funds by the government was discovered; however, the agreement was ratified by the parliamentary majority.

Concluding Remarks

Armenian officials have stated on several occasions that Armenia would be interested in signing the political part of the EU Association Agreement separately from the DCFTA with its provisions contradicting the Customs Union's economic policies; most critics of the decision to join the Customs Union also hoped that relations with the EU would be kept on that level. However, the EU showed little interest for such an arrangement. Moreover, the Armenian government demonstrated a loyal attitude towards Russia's aggression against Ukraine and its annexation of Crimea, causing a strong negative reaction. One of the main advocates for the Eastern Partnership, Swedish Minister of Foreign Affairs Carl Bildt, simply ruled out the possibility to sign the political part of the Association Agreement with Armenia as it had been signed with Ukraine: "I think they are in a different league. The Association Agreement also signals a sort of political affinity that is there in a number of areas. We saw, for example, the Armenians now coming out in support of policies versus Ukraine. So I don't think they would qualify to be in the same league in terms of political affinity any longer."

Besides making further development of cooperation with the EU unlikely, the Armenian government has compromised the Nagorno-Karabakh conflict resolution process by drawing a parallel between Nagorno-Karabakh and Crimea. Furthermore, Armenia's stance on the Crimea issue may lead to deeper international isolation and stronger dependence on Russia. Indeed, President Sargsyan and the Armenian Ministry of Foreign Affairs welcomed the

“referendum” held at gunpoint in the Crimea in March 2014, and Armenia voted against a UN General Assembly resolution declaring the Moscow-backed referendum invalid. The degradation of the Armenian regime over several years is quite visible as far as the change of attitudes is considered: after the Russo-Georgian war in 2008, Armenia refused Russia’s appeal to recognize the independence of Abkhazia and South Ossetia, and a few months later President Sargsyan welcomed Georgian President Mikheil Saakashvili and decorated him with the Medal of Honor despite Moscow’s disapproval. Yet, by 2013, Armenia had lost the capacity to act independently from Russia, and has irrevocably damaged its international image by unequivocally supporting Russia’s recent actions.

Many observers explained the hurried preparation of a roadmap on Customs Union membership on account of the government’s wish to become a founding member of the Eurasian Union, as such a status would suggest some form of privileged position. However, President Sargsyan did not sign the Eurasian Union treaty on May 29, 2014, in Astana, Kazakhstan. Moreover, in what was a significant embarrassment, Kazakhstani President Nursultan Nazarbayev during a televised session announced a precondition agreed with the other signatories in advance. In fact, already beginning in October 2013, official representatives of Belarus and Kazakhstan had been warning about such a precondition based on Azerbaijan’s objection to Armenia’s possible membership without establishing customs control posts on the border between Armenia and Nagorno-Karabakh. As a result, Armenia’s signing of the Eurasian Union treaty was postponed until October 10, 2014. There have been several suggestions that Belarus and Kazakhstan may again veto Armenia’s membership as they are essentially not interested in admitting a member fully loyal to Russia.

The expansion of Russian political influence and military presence in Armenia has been under way since President Sargsyan’s decision to join the Customs Union. As Armenia’s international isolation and economic woes worsen, further exertion of Russian pressure in the South Caucasus region may be expected, especially as Russia’s aggression against Ukraine has led to symbolic rather than severe sanctions. As a result of a chain of bad policy decisions and the inability of its policymakers to realize the scope and the unintended

consequences of such decisions, Armenia has essentially become a tool of Russian policy and may involuntarily contribute to regional destabilization. Armenia faces the risk of being excluded from the Eurasian Union, has had to deal with recent heavy clashes on the line of contact followed by Russia's overt intention to further compromise the mediation efforts of the OSCE Minsk Group and to gain unilateral control over the Nagorno-Karabakh resolution process, and is affected by Russia's deepening international isolation, which will also affect Armenia's economy. It remains to be seen whether this will induce Armenian policymakers to attempt to develop relations with the EU and other partners.