

**EMBASSY OF INDIA
YEREVAN (ARMENIA)**

MARKET SURVEY

**CUT AND POLISHED DIAMOND INDUSTRY
IN THE REPUBLIC OF ARMENIA**

APRIL 2005

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**Embassy of India
Yerevan**

Armenia – fact sheet

Official Name	Republic of Armenia, Hayastani Hanrapetutyun
Capital	Yerevan, Pop. 1.25 million; 900 – 2000 mt. above sea level
Currency	Armenian Dram (AMD), 1 USD = 450 AMD Apr 2004)
Location	South West of Asia; 48°N, 45°E; landlocked with Georgia in North (164 km); Iran (35 km) and Nakhichevan Exclave of Azerbaijan in South (211 km); Azerbaijan in East (566 km) and Turkey in West (268 km)
Area	29,743 sq. km (Forest 12.7 %, Water areas 5.6 %, Agricultural Lands 46.8 %, other lands 34.9 %)
Administrative & Territorial Division	(Total 11 Marzes or Regions) Yerevan, Aragatsotn, Ararat, Armaviv, Gegharkunik, Lory, Kotayk, Shirak, Syunik, Vajots Dzor, Tavush
Temperature	Average temperature January -6.8 ⁰ C July +20.8 ⁰ C
Population	3.2 million (as per 2001 census, March 2003 est. 3 mn), density 128 per square km; urban 66.7%, rural 33.3%, , Male 48 %, Female 52 % (3 adult males for every 4 females)
Religion	Predominantly Armenian Orthodox Apostolic Church (99%) based in Echmiadzin, headed by the Catholicos of All Armenians
Literacy	99%
Average Life Expectancy	73.5 years; Male (70), Female (76.1)
Government	President: Robert Kocharian Speaker, National Assembly: Artur Baghdasarin Prime Minister: Andranik Margarian Foreign Minister: Vartan Oskanian
Independence Day	September 21, 1991
Brief History	The process of evolution of Armenian civilisation dates back to the second millennium B.C. The Kingdom of Urartu (9th–7th c. B.C.) was the first major state formation. The Armenian plateau, located where Persia, Russia and Turkey have butted heads for centuries, has been invaded by Romans, Greeks, Turks, Persians, etc. By the 15th century, Armenia was part of the Ottoman Empire. Independent Republic of Armenia was proclaimed in August 1920, but in December 1920 became part of the Trans-Caucasian Soviet Socialist Republic. In 1991, Armenia declared independence and adopted its present Constitution in 1995.
Foreign Policy	Oriented towards Europe with strategic alliance with Russia. Seeks to maintain balance with USA. Blockade by Azerbaijan and Turkey over conflict in Nagorno Karabakh. The Organisation of Security and Cooperation in Europe (OSCE) - Minsk Group - active in finding solution. Member of the UN, CIS, Council of Europe, Black Sea Economic Co-operation and WTO. Seeks greater integration into the world economy. Has 'Observer' status in NAM. Foreign policy guided by reciprocal approach.

India -Armenia Relations	Historically warm and friendly. Huge goodwill for India. Dr S Radhakrishnan visited in September 1964 and Prime Minister Indira Gandhi in June 1976. After Armenia's independence, former President Levon Ter-Petrosyan visited India in December 1995. Treaty of Friendship and Co-operation and several other agreements and protocols. Institutionalised India-Armenia Inter-Governmental Commission and Foreign Office Consultations. Foreign Minister Vartan Oskanian visited India in December 2000. MOS (EA) visited Yerevan in July 2003 (first ever visit by Indian Minister). About 400 Indian students, mainly studying medicine. President Robert Kocharian visited in October 2003. We announced grant of US\$ 5 mn
Real GDP Growth (2004)	10.1 % (2003= 13.9%)
GDP (2004)	US\$ 3.8 bn
GDP per capita (2004)	US\$ 1,100 (app)
GDP (Per Capita PPP)	US\$ 3,500 (app)
GDP by main activity	Industry 28%, Agriculture 27%, Services 45%
Labour force by sector	Industry 25%, agriculture 45%. Services 30%
External Debt (net)	US\$ 988.8 mn (2004) 95% soft loans
Exports (FOB) 2004	US\$ 715 mn cut and polished diamonds, mineral products, foodstuffs, energy (Belgium 18.2%, UK 16.8%, Israel 15.7%, Russia 12.1%, Iran 7.9%, US 6.3%, Germany 5%)
Imports (CIF) 2004	US\$ 1,351 mn natural gas, petroleum, tobacco products, foodstuffs, raw diamonds (Belgium 11.6%, Russia 11.6%, Israel 11.3%, US 9.5%, Iran 8.8%, Germany 6.7%, UAE 5.4%, Italy 4.7%, Ukraine 4.6%)
Unemployment	9.3% officially (actually closer to 40%)
Foreign trade Jan 2005	US\$ 161 mn (Exp: US\$ 45 mn, Imp: US\$ 116 mn)
Inflation (2004)	7% (2003=8.6%)
Transportation	Railways 845km, highways 16,000 km
Industries	diamond-processing, metal-cutting machine tools, forging-pressing machines, electric motors, tires, knitted wear, hosiery, shoes, silk fabric, chemicals, trucks, instruments, microelectronics, jewellery manufacturing, software development, food processing, brandy
Armenia-India Trade:	US\$ 8.67 mn (2004) mainly Indian exports of foodstuffs (essentially meat), electrical equipment, optical equipment, plastics, pharmaceuticals and other chemical goods. New items since 2003 include rice, sugar, cut and polished diamonds, and cars. Armenia exports metal scrap and raw rubber. Some Indian products come through Dubai/ Moscow.
The future	To promote India-Armenia trade and investment, the Embassy, has a special programme called RAIP (Revive and Introduce Programme) which seeks to revive every year at least one Soviet era export and introduce at least one new product or service. In 2003, the Mission revived meat exports and introduced sugar. In 2004, it was cut and polished diamonds and motor vehicles. In 2005, the project is for pharma and stones (especially marble). The Embassy has adopted a non-exclusive "four plus one" policy. The four sectors in which Armenia seeks India's assistance are small and medium industries, information technology, agriculture and light engineering, while the "plus one" is to encourage Indian companies to invest in export-oriented sectors in Armenia.

Abstract

The Embassy of India has undertaken this survey to explore the diamond processing industry (cut and polished diamonds) in the Republic of Armenia (RA) and find out the investment opportunities for Indian businessmen. The objectives of the survey on cut and polished diamonds in Armenia are as follows:

- To define the role of the diamond industry in the general industrial setup of RA.
- To study the current state of the companies involved in the diamond processing in Armenia.
- To examine the present local diamond market and potentials, as well as its industry volumes and sources of import and export.
- To give statistical information on Armenia's external diamond transaction with other countries.
- Identification of the business environment and understanding the tax regime, foreign trade regulations, foreign investment regulations, as well as major disincentive information about business opportunities and legal imports.

The method used for this market survey is content analysis of secondary sources based on the review of reports from National Statistical Service of RA, Ministry of Trade and Economic Development of RA, Armenian Development Agency, information available through Internet, and news agencies.

Industry Background

The traditions of the jewelry industry have been established in Armenia since 1960s. During the Soviet era, the Soviet Union had exported rough diamonds by the turn of 60s until it decided to process raw materials within its territory. Taking into account Armenian's

traditions in jewelry, “Sapphire” plant was built in Armenia. So, since 1970s Armenia had one of seven diamond-cutting plants in the Former Soviet Union (FSU).

After the collapse of the USSR, operation of the diamond industry continued its development in Armenia. Since Armenia’s independence and free market reforms, the state lost its former monopoly in the jewelry and diamond processing sectors. Diamond processing has become one of the rapidly developing fields of Armenian industry, and Armenia has become tidbit for potential investors in diamond processing. Currently, Armenia has an advanced diamond cutting industry and is an active player in the world market.

Diamond Processing in Armenia

In Armenia, the first post-independence operation started in 1991. It was around 1994 when changes in legislation made foreign investments more attractive. In general, jewelry, and, particularly, diamond processing is considered a very attractive field for the foreign investments in Armenia. This fact is explained by the existence of several factors such as:

- Skillful diamond cutters,
- Competitive wage rates,
- Modern equipment,
- Tax privileges on diamond processing in Armenia (there are no taxes on the import of raw materials and on the export of finished products).

Economic concentration is not high in diamond processing in Armenia: about 50 companies are engaged in diamond processing and production in Armenia, among which there are both local companies and foreign owned ones. In general, there are no barriers to entry into the market of diamond processing.

Over the past six to eight years, Armenia has become a sparkling participant in the diamond industry. In that billion-dollar business, there is even a finishing method known as “the Armenian cut”. Currently Armenia specializes in diamond cutting and polishing.

According to the report of the Armenian Development Agency (ADA), Armenian's leading exports in 2003 consisted of precious and semi-precious stones where a large proportion of these exports were polished diamonds (Armenia, Country Investment Profile, p.17). Polished diamonds are imported into Armenia in their rough state for finishing. In Armenia, the cutting of one-carat raw diamond costs \$25-30, while it is \$100 in the United States (US) and \$60-80 in Belgium or Israel (<http://www.armeniadiaspora.com/js/031126india.html>).

In Armenia, there are emerging investment and partnership opportunities in gold mining and diamond processing. A number of essential measures and transactions have been undertaken for the diamond processing sector development with the aim to create additional work places in the republic and to increase export volumes. The international exhibition "Jewelry and Gemstones 2002" was organized in Yerevan, and the participation of the sector's companies in several important international exhibitions abroad was provided. The year of 2002 was marked by participation of the Armenian government in "Kimberley Process" initiated by the Government of South African Republic in 2000 with the aim to prevent the illegal circulation of conflict diamonds. Without such participation the Republic of Armenia would have been deprived of the chance to realize diamond trade with 55 participant countries starting from January 1, 2003. Today it is impossible to imagine the Armenian economy without diamond cutting and polishing industry, which represents one fifth of the country's export.

The government of Armenia has approved a three-year development program for the country's gem industry aimed at increasing Armenia's polished diamond output and exports up to US \$400 million by 2006. According to Karen Chshmaritian, the minister of Trade and Economic Development, the aim of the program is to increase jewelry output to USD 500 million, thus effectively doubling current levels for combined diamond/jewelry output

(http://www.tacyltd.com/Research_Materials_Full.asp?id=53159). And the optimal conditions for foreign investments and joint ventures give occasion to think so.

Till 2003, the Government of the Russian Federation allocated quotas on rough diamonds to Armenia at special prices. In 1999, Russia supplied Armenia with 30,000 carats of rough gem diamonds and 1 million carats of industrial diamonds for processing. In 2001, this figure reached 300,000 carats. The gems were sent by “Alrosa”, Russia’s largest producer and exporter of rough diamonds. The industrial diamonds were supplied by Yakutia State Committee for Precious Metals and Gemstones, via “Almazyvelirexport” trade company.

Armenia having an aim to increase the output of cut and polished diamonds signed an intergovernmental agreement with Russia “on the natural diamond to be provided by the Russian Federation to the Republic of Armenia in 2002-2006” on April 5, 2002 by which Russia would supply Armenia with rough diamonds for 400,000 carats annual quota with an increase to 450,000 carats in 2006. The quotas for buying rough diamonds were distributed among the diamond processing companies operating in Armenia. Under the terms of that agreement, Armenia cannot reexport rough diamonds purchased from Russia. The diamonds supplied by Russia have comprised approximately half of Armenia's manufacturing requirements, with the remainder being sourced from Israel and Belgium. The other western suppliers of rough diamonds to Armenia are “Arslanyan Cutting Works” (Belgium, UK) and “Tashe” Company (Israel).

However, following price “liberalization” by Alrosa in 2003, Russian rough diamonds are no longer sold to Armenia at special prices. This has created severe raw material constraints in the Armenian cutting and polishing industry and its downstream jewellery manufacturing industry. In 2003, for example, Armenia bought only 133,000 carats of rough

diamonds instead of 400,000 carats annual quota from Russia. It is explained by the absence of the economic interest from the Armenian side owing to open market prices now charged by Russia. Russia is no longer the main exporter of rough diamonds into Armenia, now it is Israel, according to Gagik Mkrtchyan, the head of the precious stones and jewelry department in the Ministry of Trade and Economic Development of RA.

During the Armenian-Indian business forum, which took place in autumn 2003 in New Delhi within the framework of the state visit of Mr. Robert Kocharyan, President of RA, to India, Mr. Kocharyan called on Indian businessmen to make investments in Armenia. He pointed out that the large Indian investments made in Armenia in gold mining and diamond processing sector had been fully justified, and the enterprises set up with the help of the Indian capital were successfully operating and developing. Mr. Kocharyan told, “Armenia’s liberal legislation and the intellectual resources, together with the highly educated labor force, create a favorable climate for investments... The fields of information technologies, jewelry, diamond processing ... are dynamically developing in Armenia” (Armenian Business Review, p. 7).

After the business forum, Mr. Harshad Mehta, the representative of Indian “Rosy Blue” Corporation, declared in Yerevan in late November of 2003 that “Rosy Blue” made a decision to invest \$5 million in Armenia’s jewelry industry. This action has shown that “there is a favorable atmosphere for business, a conscientious labor force and good traditions in the jewelry are in your country”, Mr. Harshad Mehta noted (Armenian Business Review, p. 7). “Rosy Blue” has been cooperating with two Armenian diamond cutting companies, “Lori” and “Diamond Tech”, with an annual turnover of about \$60 million (Armenian Business Review, p. 7).

Among other measures, Armenia is also searching for strategic country partners, including Russia, to achieve the growth by \$500 million in 2006. Allocations of diamond raw materials had created favorable conditions for the development of the diamond processing business in Armenia. Flexible and targeted legal framework, affordable quality mastership, and liberalized internal markets made Armenia an interesting spot in the world diamond cutting and polishing industry.

Diamond Processing Plants in Armenia

Currently, some 100 businesses have licenses for cutting and polishing diamonds out of which 50 are operating at full capacity and provide 2500 people with a job (http://www.agbu.org/agbunews/display.asp?A_ID=126). Since 1993, when Russia stopped its supplies of uncut diamonds to Armenia, diamond-cutting plants have begun to purchase rough diamonds from the West. At the same time, western companies and investors have expressed interest in the Armenian diamond-cutting and diamond-polishing industry. As a result of this interest, new diamond processing plants have been established in Armenia. Names of significance in the diamond trade, such as “Lev Leviev” (Israel), “Tashe” (Israel), “Rosy Blue” (Belgium), “Arslanian Brothers” (Belgium), are among companies whose diamonds are sent to Armenia for processing. The largest diamond processing companies of Armenia are as follows:

- Yerevan Jewelry Plant (2000 employees),
- Sapphire Plant (520 employees),
- Lori Company (420 employees),
- Shoghakn Plant (408 employees),
- Diamond Company of Armenia (350 employees).

“Yerevan Jewelry Plant” (YJP) was established in 1950. The demand for products made by YJP is high. The main markets for YJP’s products are USA, Commonwealth of Independent States (CIS), and the Middle East. During last years YJP was completely renovated. Moreover, a modern diamond processing facility was established, which enabled to increase production.

“Sapphire” was established in 1973 in Nor Hajn area (near Yerevan) taking into account the Armenian traditions in jewelry manufacturing. This company processed a significant amount of raw diamonds coming from Goskhran, the USSR’s exclusive state-owned supplier. Peak output reached \$50 million only in 1986. However, Moscow retained full control over product sales. At the beginning of 1990s when political transition hit the USSR, “Sapphire” experienced serious difficulties due to repeated delays and interrupted deliveries resulting in its output shrinkage to \$20 million.

The first foreign company, which enters the Armenian market, was **“Arslanian Cutting Work”** (ACW), owned by the Diaspora Armenians from Belgium. In 1992, ACW established **“Lori” Ltd.**, the first private diamond-cutting plant in Armenia. ACW imports rough diamonds from Belgium and US for polishing and exports goods mostly to Europe, Japan, and USA. It operates based on the agreement between “Lori” and ACW. According to it, ACW supplies uncut materials and “Lori” returns processed diamonds to the supplier for further distribution in international markets. “Lori” imports rough diamonds from Belgium and Russia for polishing and then exports worldwide. “Lori” ascribes its success to a skilled workforce and a well-developed diamond processing industry already in place from the Soviet era.

In July 2000, **“Shoghakn”** diamond processing company was bought by the Israeli “Lev Leviev Diamond” Ltd. for US\$370,000. It has planed to process 30,000 carats each month. Shoghakn produces excellent 3 class diamonds. It has launched a new line of top-

ranked emerald, princess and fantasy diamonds that previously have never been produced in Armenia.

“Diamond Company of Armenia” (DCA), another diamond processing company, was acquired by “Ferfano Corporation” (United Kingdom) for USD 5.5 million in 1998. The company has had rapid growth since then, cutting and exporting diamonds worth US\$32 million in 1999. DCA is one of the biggest refiners of precious stones in Armenia. The company consists of seven enterprises in various provinces, employing about 1,000 workers and producing 12-15,000 polished carats per month.

The following companies were exploited: *“Arevakn”* diamond producing plant with 350 work places established in the town of Nor-Hachn by Israeli “Tashe” company; *“Diamond Tech”* diamond processing plant was established in Talin by “Rosy Blue” company, which had an aim to have about 1500 workplaces in 2003.

All diamond processing firms want to expand their activities, including the possibility of foreign investments. The main markets for the cut and polished diamonds are USA, Europe, Japan, CIS and the Middle East. Major part of end users of cut and polished diamonds is abroad as the Armenian local market is too small to match the product demand. Thus, the product supply for cut and polished diamonds is export-oriented.

Armenian Investment Policy

The Government of Armenia considers the investment policy as one of the key aspects of its economic development course. Armenia has declared an "Open Door" investment policy, and this liberal approach was incorporated into legislation by adoption of "Foreign Investment Law" in 1994 and in other relevant provisions of economic laws pertaining to investment. According to the ministry of Trade and Economic Development, advantages for investing in Armenia are as follows;

- Investment oriented legislation,
- Fast growing economy,
- Well educated and skilled work force,
- Stable banking system and local currency,
- Worldwide Diaspora,
- Membership in the World Trade Organization,
- Continuous support by international donor community to reforms in Armenia,
- Easy access to CIS and Middle East Markets,
- Strong government involvement in economic and structural reforms
(www.minted.am).

Armenia's legislature has created a friendly environment for the diamond trade, with laws that are the most liberal among CIS and Eastern European countries. Neither custom duty nor VAT are collected from both imported rough diamonds and exported cut and polished products. To encourage cooperation within the country, the internal trade is exempted from VAT as well. The Armenian government adopted the Law on Foreign Investment on July 31, 1994. Due to this law, Armenia with an economy that largely depends on foreign trade has an investment and trade policy which is the most open one in the CIS. Besides, the foreign investment law stipulates that an enterprise pays no profit tax for three years if foreign investment in a company exceeds 500 million drams¹. Current policies do not restrict the flow of capital resources in product and factor markets.

So, it should be repeated that neither custom duty nor value-added-tax is applied to imported rough diamonds or the finished exported diamonds. To attract foreign investment to the Armenian market, investment programs have been defined for priority areas of industrial development. The priority investment portfolio is made up of metallurgy, chemical industry, radio-electronics, jewelry (including diamond processing), construction materials industry.

The reasons and rationale to invest in Armenia include liberal laws and tax regulations, special regimes and incentives for investors and businesses, government commitment to continued private sector development reform, easy access to CIS and Middle East markets,

¹ The exchange rate for 1 USD is 470 AMD in March 2005.

highly qualified labor force with specialized scientific skills, and support of the Worldwide Diaspora.

Statistics

Diamond cutting and polishing contributes one fifth of Armenian exports (<http://www.ficci.com/ficci/international/countries/reupblicofarmenia/armenia-commercialrelations.htm>).

Armenia is the ninth country on the list according to output of cut diamonds in the world. In 2002, Armenian companies produced US \$180 million worth diamonds. According to Gagik Mkrtchyan, Armenia's diamond processing and jewelry production was worth some US \$200 million during the first 10 months of 2003, which was 40.3 percent above the comparable period of 2002. Mkrtchian said that production by "Lori" Company was up by 78 percent, "Soghakn" by 41 percent, and "Dimotech" by 40 percent. One fifth of Armenia's export in 1998, worth US \$47 million, was cut diamonds. A large proportion of these exports have been polished diamonds, imported into Armenia in their rough state for finishing, taking advantage of Armenia's low wage costs and skilled jewelers.

In the first half of 2004, Armenia reduced cut and polished diamond output in value by 17% year-on-year to 63.1 billion dram, Mr. Karen Chshmaritian said. During 2004 Armenia imported 70,000 carats of uncut diamonds from Russia under a government-to-government agreement in the half. According to Chshmaritian, Armenia may import up to 400,000 carats of uncut diamonds under the deal this year as a whole. Armenia currently processes about 70,000 - 80,000 carats of gem-quality rough diamonds per month (<http://www.gov.nt.ca/RWED/diamond/industry.htm#armenia>). Now, Armenian diamond cutting and polishing plants are not operating at their full capacity. They operate only at 30-40% of their capacity, as they do not buy and process diamonds as many as they can. It is

explained by the lack of interest from the Armenian side to buy rough diamonds at their international price level.

According to the report of the Ministry of Trade and Economic Development, *Analysis of the main indexes characterizing the economic development of RA up to 9 months of 2003*, “The volume of jewelry production made 15.6 billion drams, the growth rate as compared to the 9 months of the previous year was 138.7% (the specific weight - 7%). The growth rates by regions, mainly at the expense of diamonds, are as follows: in the city of Yerevan - 131.2%, in the region of Aragatsotn - 183.7%” (www.minted.am).

According to the Statistical Handbook, Foreign Trade of RA 2002, foreign trade of RA by diamonds, not mounted or set, was 300,401 karats with weight of 0.1 ton and US \$198,209,900 value for the export, and 1,080,417 karats with weight of 0.2 ton and US \$186,077,100 value for the import.

Over the past two years, the International Business Center (a conglomerate of Russian and Armenian businessmen) has invested \$12 million and created 1,000 jobs in three artificial diamond synthesis and two electronics plants in Armenia. Such production plants have become a prerequisite for development of diamond electronics (a process whereby diamond dust is used to make cutting tools).

Investment Opportunities for Indian Businessmen

In Armenia, the diamond cutting and polishing industry was considered a very attractive field for foreign investments. However, in 2004, the industry went into decline owing to raw material constraints. Several units are operating at half capacity, some are shut and several are for sale. Besides, India, China and Thailand are fast emerging as alternative

centers for processing large diamonds. The much vaunted “Armenian cut” might soon lose its exclusivity.

In general, there is a scope to sell Indian cut and polished diamonds to Armenia. As it is explained by the executive director of Armenian Association of Jewelers and Diamond-Cutters, Arthur Gyulnazaryan, as there is not rough material of diamonds for processing in Armenia, Armenian jewelers are interested to buy cut and polished diamonds from India. They can use cut and polished diamonds from India for making jewelry. In Armenia, the best selling is small size diamonds, and if Indian businessmen will provide Armenia with cut and polished diamonds of small size then they will be sold. So, India can be cut and polished diamond exporter to Armenia market.

Conclusion

Diamond processing was a rapidly developing field of Armenian industry, and was considered one of the priority fields to develop for Armenian government. Currently, Armenia has an advanced diamond cutting industry and is an active player in the world market. Armenia’s advantages are:

- Highly qualified diamond cutters and polishers with competitive wage rates,
- Modern equipment at the existing diamond processing plants,
- Tax privileges (no taxes on imported rough diamonds and exported cut and polished diamonds),
- Government support to diamond processing aimed to facilitate new investments.

