-Azerbaijan-

last updated on 2003-07-10

Table of Contents

GENERAL FEATURES OF TRADE POLICY

According to the IMF, Azerbaijan's macroeconomic growth remains strong, reaching a real GDP growth of 11 percent in 2001. Azerbaijan was admitted to membership of the Council of Europe on 25 January 2001 (along with Armenia). Azerbaijan started its process for accession to the WTO in 1997. The EU is giving assistance to help prepare for WTO membership under the Tacis Programme.

The economy is heavily biased to the oil sector which generates about 50% of government revenues.

Over 70% of the population lives under the poverty line and the country has to support close to one million refugees and internally displaced people.

Due to the unstable domestic situation in 1991-1995, Azerbaijan embarked on economic reforms later than most other CIS countries. Significant progress has been achieved since 1996 in privatisation and land reform; however, corruption remains a major problem.
Natural resources are: petroleum, natural gas, iron ore, non-ferrous metals, alumina.
Azerbaijan is less developed industrially than either Armenia or Georgia, the other Caucasian states. It resembles the Central Asian states in its majority Muslim population, high structural unemployment, and low standard of living. The economy's most prominent products are oil, cotton, and natural gas.
Trade with Russia and the other former Soviet republics is declining in importance while trade is building up with Turkey, Iran, UAE, and the EU.
Azerbaijan's main import partners are Turkey, Russia, Ukraine, UAE, Iran
Azerbaijan is the EU's largest trading partner in the Caucasus although this primarily relates to cotton, oil and gas. Since 1993 total trade with the EU has grown steadily. In contrast trade with the CIS states has fallen over the past 7 years with the result that exports are 32 % of levels in 1992 and imports 66%. Large scale privatisation is required and further economic diversification is essential. Azerbaijan holds a strategic location between the EU and Central Asia. Development of the TRACECA trade route will provide a cornerstone for future economic growth. The EU helped prepare the multilateral transport agreement which was signed at the Baku Summit in September 1998.
Important transport links with Russia, including one of Azerbaijan's two main oil export pipelines, have been periodically cut off due to the war in Chechnya. The impact of the 1998 Russian financial crisis was not as serious for Azerbaijan as it was for most members of the Commonwealth of Independent States (CIS), since the oil market provided a ready source of hard currency other than rubles.

Agriculture, now about 90 percent privatized, represents 22 percent of GDP and accounts for 34 percent of employment. While cotton is the leading cash crop, production of wine grapes, tobacco, and a range of grains, fruits, and vegetables is also significant. Virtually all small businesses have been privatized. Trade in textiles is covered by a specific agreement which is currently being renegotiated.

The following table is an overview of the tradeflow between the European Union and Azerbaijan

Section	Year	Import(Euro)	Export(Euro)
Animals & animal products	1996	190,680	11,650,880
	1997	252,590	8,309,200
	1998	245,410	5,192,310
	1999	264,410	4,138,340
	2000	131,260	4,829,090
	2001	3,320	4,406,540
	2002	0	4,491,840
	2003	0	7,906,150
Vegetable products	1996	539,430	12,613,580
	1997	4,647,240	8,420,750
	1998	4,854,770	3,060,060
	1999	9,244,220	830,760
	2000	15,649,180	1,624,010
	2001	6,293,280	3,576,430
	2002	10,292,900	1,884,710
	2003	8,064,990	1,821,660
Animal or vegetable fats	1996	0	1,708,260
	1997	0	1,452,560
	1998	0	1,410,020
	1999	0	415,150
	2000	0	833,280
	2001	0	484,220
	2002	0	302,190
	2003	14,150	1,883,530
Prepared foodstuffs	1996	269,250	19,921,820
	1997	522,420	20,588,180
	1998	1,241,220	28,456,940
	1999	732,550	13,679,440
	2000	553,110	12,515,500
	2001	414,170	19,253,720
	2002	553,660	12,265,670
	2003	1,092,040	11,357,210
Mineral products	1996	7,295,480	2,167,410
	1997	21,189,700	3,209,910
	1998	18,611,410	2,271,770
	1999	410,071,030	1,703,360
	2000	932,778,050	2,881,060
	2001	1,130,339,300	3,804,600
	2002	1,094,597,850	4,868,100
	2003	990,770,160	7,341,570
Chemical products	1996	83,500	12,559,740
	1997	1,148,440	14,153,710
	1998	58,020	20,217,830
	1999	2,169,660	18,248,650
	2000	1,929,670	25,018,650
	2001	1,907,390	27,086,510
	2002	4,109,510	30,939,710
	2003	6,825,510	40,995,630
Plastics & rubber	1996	23,580	2,367,580
	1997	200,900	3,844,180
	1998	914,350	6,388,540
	1999	170,010	2,951,660
	2000	1,159,480	6,858,860
	2001	958,000	8,600,410
	2002	863,410	9,700,490
	2003	657,600	21,182,400
	1996	0	114,500
	1997	43,770	649,950

Hides & skins	1998	102,930	1,631,560
	1999	87,220	1,056,830
	2000	157,190	1,276,090
	2001	324,080	2,023,220
	2002	193,210	1,778,950
	2003	153,140	2,053,580
Wood & wood products	1996	22,500	210,740
	1997	608,170	671,700
	1998	115,540	574,170
	1999	461,850	469,800
	2000	2,189,140	1,985,940
	2001	1,623,420	1,182,130
	2002	1,516,230	1,628,110
	2003	2,229,330	1,564,580
Wood pulp products	1996	7,680	2,211,060
	1997	13,740	3,619,860
	1998	46,560	2,551,160
	1999	20,320	1,238,080
	2000	8,500	7,256,430
	2001	18,070	8,426,430
	2002	46,680	10,495,180
	2003	34,820	5,717,440
Textiles & textile articles	1996	11,149,110	2,715,580
	1997	19,811,860	6,857,710
	1998	7,997,030	8,401,520
	1999	6,160,130	5,640,200
	2000	6,075,810	9,822,000
	2001	3,899,220	11,907,860
	2002	3,050,240	13,712,590
	2003	2,568,800	12,569,910
Footwear, headgear	1996	0	1,147,530
	1997	310	3,068,150
	1998	0	4,317,020
	1999	49,690	3,017,330
	2000	5,100	2,631,330
	2001	3,580	3,202,890
	2002	9,680	3,171,430
	2003	30	3,387,020
Articles of stone, plaster, cement, asbestos	1996	0	1,093,990
	1997	0	2,604,410
	1998	0	3,785,740
	1999	40,860	3,120,300
	2000	1,280	2,822,130
	2001	57,920	5,764,060
	2002	4,900	4,575,940
	2003	10,780	7,179,200
Pearls, (semi-)precious stones, metals	1996	4,090	3,300
	1997	4,374,410	3,145,870
	1998	877,270	1,012,790
	1999	0	80,820
	2000	27,650	800,980
	2001	5,231,520	1,364,030
	2002	33,270	1,779,220
	2003	1,405,790	2,437,440
Base metals & articles thereof	1996	4,598,460	11,186,670
	1997	1,175,490	28,804,490
	1998	1,126,840	25,751,780
	1999	1,184,780	14,625,520
	2000	3,530,020	27,788,800
	2001	2,320,950	45,746,130
	2002	1,840,780	140,014,600

	2003	2,723,830	156,532,370	
Machinery & mechanical applicances	1996	1,182,310	48,074,030	
	1997	2,359,720	63,254,850	
	1998	4,074,220	101,975,930	
	1999	5,508,700	91,333,460	
	2000	3,948,450	103,900,580	
	2001	5,692,390	115,562,210	
	2002	8,753,650	159,436,770	
	2003	7,868,700	287,057,300	
Transportation equipment	1996	11,560	7,582,820	
	1997	47,230	19,623,560	
	1998	49,490	22,804,580	
	1999	20,430	9,768,000	
	2000	1,053,820	21,319,480	
	2001	5,870,590	24,065,810	
	2002	22,250	28,758,050	
	2003	15,890	31,520,770	
Instruments - measuring, musical	1996	472,770	4,014,510	
	1997	4,738,330	18,326,670	
	1998	2,620,140	18,953,570	
	1999	2,194,300	9,911,800	
	2000	1,721,510	21,941,430	
	2001	3,620,550	10,670,630	
	2002	4,664,300	15,948,540	
	2003	8,309,670	30,863,460	
Arms & ammunition	1997	0	7,880	
	1998	0	82,660	
	1999	9,360	40,060	
	2000	223,830	2,660	
	2001	143,320	243,790	
	2002	997,670	97,570	
	2003	877,510	26,200	
	Miscellaneous	1996	148,680	2,706,870
1997		174,510	6,032,490	
1998		264,860	15,362,970	
1999		207,070	8,569,490	
2000		54,420	6,911,570	
2001		13,660	12,309,420	
2002		103,640	12,626,230	
2003		248,330	25,031,280	
Works of art	1996	117,360	78,730	
	1997	89,570	0	
	1998	8,920	58,770	
	1999	131,830	45,160	
	2000	238,460	12,640	
	2001	118,990	2,090	
	2002	101,120	6,400	
	2003	123,550	114,710	
Other	1996	440,890	1,027,320	
	1997	2,002,440	5,939,030	
	1998	2,597,010	3,396,610	
	1999	672,470	2,162,460	
	2000	894,570	3,613,920	
	2001	961,950	1,743,180	
	2002	1,499,190	3,402,300	
	2003	1,300,080	1,227,320	

Agriculture and Fisheries
last updated on 2002-08-07

Azerbaijan, located at the crossroads of Russia, Europe, and the Middle East, boasts rich agricultural potential, low production costs, and proximity to major consumer markets. Azerbaijan used to export fresh and canned fruit and vegetables to all the ex-USSR

republics.
Agriculture is the second-most important activity sector in the country after energy, and the largest employer at 34%. Agricultural production went up 6% in 1999, and 12.1% in 2000 mainly due to the best grain harvest in a decade.
Further development of agribusiness is essential to creating employment opportunities and increasing family income. In 2000 the agricultural sector accounted for 18.1 percent of GDP.
The sector presents potentially profitable business opportunities, but the country's regulatory system must become more transparent and less arbitrary if Azerbaijan is to attract significant foreign investment to the sector. Corruption, particularly in cash businesses, has been reported.
Azerbaijan has at least six agro-climatic zones varying from temperate to sub-tropical that can support the production of various crops. Irrigation is required to obtain commercial yields on much of Azerbaijan's agricultural lands. The irrigation network that supported the former collective/state farm system has been poorly maintained for the past 10 years and is in need of significant repair and improvements.
Small and medium size farms, ranging from one or two hectares to several hundred hectares, produce nuts, fruits, vegetables, dairy products, meat, and some poultry under labor intensive conditions.
Many small producers operate at a subsistence level. Imports of meat, edible oils, milk, and sugar vary from 30 to almost a 100 percent, respectively, of the county's consumption of these products.
Agricultural enterprises of all sizes lack credit. Many international assistance organizations have micro-credit and small business loan programs. Azerbaijan's banking system does not provide adequate credit to the agricultural and other sectors.

As regards fisheries, the Caspian sea is a unique reservoir with low salinity, providing habitats for 124 species fishes (17 families, 53 sorts), many of which belong to endemics. The fish of Caspian resources have a great importance for the economy of all coastal countries.
In the mid-70s catch made up to about 27000 tons. During recent years there was a sharp decrease of catch, approximately down to 5 thousand tons. According to the experts poaching three times exceeds the official data.
Decline of stocks and catches of the Caspian sturgeons, which was accelerated over the past decade since the break-up of the Soviet Union, is caused by a combination of environmental factors, particularly the loss of breeding grounds, and economic factors, like rapid industrialisation causing construction of huge dams in the Kura and Volga rivers, and mainly due to over-fishing. But presently poaching is one of the greatest concern. Widespread and large scale of poaching is a fact. Current stocks are largely the result of artificial reproduction.
Poaching only affects local economies and is very seasonal.
However, there is evident urgent need for appropriate management measures to all living resources of the Caspian sea, especially for valuable species such as sturgeons.
The TACIS programme of the European Union is participating in the funding of the proposed Caspian Fisheries Management Scheme of the Caspian Environment Programme (CEP).

Services - Energy
last updated on 2002-09-16

In the past decade, the Caspian Sea has become one of the world's most promising new regions for petroleum investment and development. Azerbaijan has attracted international interest in its rich oil and natural gas reserves. Foreign investors are helping Azerbaijan to develop its oil and gas reserves in the Caspian Sea basin, and construction of new pipelines may make the country a significant energy exporter in a near future.

Petroleum represents 90% of exports, 60% of foreign direct investments and almost 1/3 of the state's budgetary benefits. The spill over effect generated by this industry is fostering the development of a variety of services - banks, hotels and commercial facilities - reshaping Baku into a dynamic modern economy. But it has to be underlined that these developments do not benefit to the whole population neither to all sectors of the economy. Outside Bakou, life has a tendency to remain rather undeveloped with for example only one or two hours of electricity per day.

Azerbaijan's hope for future economic growth rests with successful development of its vast oil and gas resources in the Caspian Sea region. Crude oil and oil product exports make up over 70% of Azerbaijan's exports, and oil-related revenue makes up nearly 50% of budget revenues

In December 1999, the government issued a decree creating a State Oil Fund which will use money obtained from oil-related foreign investment into Azerbaijan. However, the unresolved Nagorno-Karabakh conflict remains an obstacle to economic progress, and the country still faces several years of tight finances, as Azerbaijan's oil revenues are likely to remain limited for the next five years or so.
Most of Azerbaijan's infrastructure, built during the Soviet period, is in poor condition, and there has been inadequate public investment and maintenance of infrastructure since independence. The power generation and distribution system is deteriorating, and gas, water, electricity, and oil product shortages are common in the capital of Baku. In 2000, Azerbaijan switched its power-generating facilities from fuel oil to gas in an effort to free up more oil for export, but problems with gas supplies to power plants at the beginning of 2001 caused electricity shortages, forcing state oil company SOCAR to use more oil domestically. In April 2001, in an effort to boost foreign investment in the energy sector, Azerbaijan established the Fuel and Energy Ministry to oversee the country's fuel and energy sector.

OIL AND GAS

The Caspian Sea region, including the Sea and the littoral states surrounding it, is important to world energy markets because it holds large reserves of undeveloped oil and natural gas. The Caspian Sea's mineral wealth has resulted in disagreements between the five countries over ownership of the resources, and the region's huge energy potential has sparked fierce competition--between producers as well as consumers--over the final export routes for this oil and natural gas.
Since the breakup of the Soviet Union in 1991, the Caspian Sea--as well as the region surrounding it--has became the focus of much international attention due to its huge oil and natural gas reserves. The Sea, which is 700 miles long, contains six separate hydrocarbon basins, although most of its oil and natural gas reserves have not been developed yet. Although the littoral states of the Caspian Sea already are major energy producers, many areas of the Sea and the surrounding area remain unexplored.

Natural gas reserves in the Caspian Sea region are even larger than the region's oil reserves. Overall, proven natural gas reserves in the Caspian region are estimated at 177-182 Tcf. Possible natural gas reserves in the Caspian region are even larger than the region's proven natural gas reserves, and could yield another 293 trillion cubic feet (Tcf) of natural gas if proven.

Since they became independent in 1991, Azerbaijan, Kazakhstan, and Turkmenistan have sought to develop their national oil and natural gas industries.

In order for the Caspian Sea region to realize its full energy potential, however, the littoral states must first agree on the legal status of the Sea.
Despite the lack of a multilateral agreement on the Sea, several countries are undertaking active exploration and development programs in what is generally considered to be their sector of the Caspian Sea. In particular, Azerbaijan and Kazakhstan have made substantial progress in developing their offshore oil reserves. Azerbaijan has signed a number of production-sharing agreements--both onshore and offshore--in order to develop its oil and natural gas industries. Most of Azerbaijan's oil is produced offshore in the Caspian Sea,

with a significant percentage coming from the shallow-water section of the Gunashli field, located 60 miles off the Azeri coast.

As increasing exploration and development in the Caspian Sea region leads to increased production, the countries of the region will have additional oil and natural gas supplies available for export.

The EU has sponsored the Interstate Oil and Gas Transport to Europe (INOGATE) program, which appraises oil and natural gas exports routes from Central Asia and the Caspian, and routes for shipping energy to Europe. INOGATE is run through the EU's Technical Assistance to the Commonwealth of Independent States (TACIS) programme.

GAS

Azerbaijan has imported natural gas from Russia, Turkmenistan, and Iran in the past to meet domestic demand. Azerigaz has announced that it does not intend to import any more gas, and plans to instead develop new gasfields in the Caspian Sea to meet domestic demand. Increased domestic usage of natural gas could also free up additional oil for export to world markets, which is desirable because Azerbaijan currently can get its oil to world markets, but has no natural gas export pipelines. In addition, there is no infrastructure to deliver gas from offshore fields - the source of most of its production - to consumers in Azerbaijan, and consequently gas is being flared instead of piped to markets.

OIL

Azerbaijan's oil industry, which experienced a boom at the beginning of the 20th century, is looking to grow rapidly again at the start of the 21st century.

Azeri crude oil is refined domestically at two refineries: the Azneftyag (Baku) refinery, with a capacity of 230,000 bbl/d, and the Azneftyanajag (New Baku) refinery, which has a capacity of 200,000 bbl/d. With domestic production topping out at 280,000 bbl/d in 2000, Azerbaijan's refineries have been running well below capacity, with overall refinery utilization rates as low as 40%. Both refineries are in need of modernization, which Azerbaijan estimates will cost between $600 million and $700 million. The U.S. Trade and Development Agency is financing a $500,000-feasibility study for upgrading the Azneftyag refinery, and is providing $400,000 for a feasibility study to upgrade the petrochemical complex in Sumgait. Azerbaijan is contemplating merging the two refineries in order to increase their performance.

Azerbaijan had net oil exports of 155,000 bbl/d in 2000. Currently, Azerbaijan's only export routes are the Baku-Novorossiisk pipeline ("northern route"), which sends oil to the Russian Black Sea, and the Baku-Supsa pipeline ("western route"), which mainly carries Azerbaijan's "early oil" from ACG to Georgia's Black Sea coast. Oil products such as lubricants also are exported by rail in tank wagons to Georgia's Black Sea ports.

ELECTRICITY

Built during the Soviet era, Azerbaijan's power infrastructure is in generally poor condition, with minimal to no public investment or maintenance since independence. Difficult economic conditions, prices set below the market rate, and non-payment by customers have left the power sector without sufficient capital to upgrade aging power-generation facilities desperately in need of repair. Azerbaijan's power sector has a generating capacity of about 4.7 gigawatts (GW), consisting of seven thermal plants (which supply over 85% of generating capacity) and six hydroelectric plants. In 1999, Azerbaijan produced 16.4 billion kilowatt-hours (Bkwh) of electricity and consumed only 15.4 Bkwh, but because energy losses via the the inefficient distribution network amount to around 20%, the country is forced to import electricity.

back to top

TARIFFS AND DUTIES

For several years, Azerbaijan has maintained a stable, five-tier scale of ad valorem customs tariffs for most imported goods: zero, three, five, ten and fifteen percent.
The following kinds of customs duties are applied in the Azerbaijan Republic:
- ad valorem, estimated as percentage to customs cost of gods;
- specific, estimated against established cost of unit of commodities;
- combination of the above two kinds.

back to top

TRADE DEFENCE INSTRUMENTS

Azerbaijan's Working Party for accession to the WTO was established on 16 July 1997. Azerbaijan submitted a Memorandum on its Foreign Trade Regime in April 1999.

back to top

NON TARIFF BARRIERS

Agriculture and Fisheries

Sanitary and phytosanitary measures

040082-*Azerbaijan- Live bovines, bovine products and derivates* [2004-10-01]

Import ban on live bovine, bovine meat and meat products, including embryos because of BSE.

- General statement on BSE to all Third Countries on the XXIXth and XXXth SPS Committee (March and June 2004).

back to top

INVESTMENT RELATED BARRIERS

The business community, perceiving Azerbaijani banks as potentially unreliable, conducts a large share of transactions on a cash basis. The country has attracted significant foreign investment, more than three-quarters of it oil-related, since the mid-1990s, and is starting to benefit from oil production increases that this investment has facilitated, especially since the recent run-up in oil prices. However, Azerbaijan's infrastructure, with respect to the petroleum industry as well as the public sector, still largely dates from the Soviet era and requires extensive repair or in many cases replacement. Utility outages are commonplace and transport infrastructure is in need of repair.
For geopolitical as well as economic reasons, Azerbaijan is striving to diversify both incoming foreign investment flows and export markets, but the assumption of continuing dependence on the oil industry is an integral component of any realistic development strategy. A planned-but politically sensitive and, as yet, not fully financed-oil pipeline is to originate in Baku, pass through the Republic of Georgia, and terminate at Ceyhan, Turkey.

back to top

IPR

Azerbaijan is a member to the World Geneva Convention "On copyright" and Bern Convention "On protection of art and eternal works".
In 1993 the Patent and Licence Department was established under the State Committee for Science and Technology (SCST) in order to bear state policy on protection of industrial property (inventions, useful

models, industrial pattern, trademarks and geographical signs). The Patent Licence Department (PLD) bears responsibility of establishment of normative-legal base for protection of industrial property, issuance of documentation insuring protection for industrial property, registration of agreements and licenses, publication of official bulletin on industrial property etc. This organization also makes contacts with similar organizations in CIS and other foreign countries and represents Azerbaijan in international organizations within frames of its responsibilities.

Azerbaijan State Copyright Agency (ASCA) is the state central body regulating the state policy on copyrights and cooperate rights. The Agency is directly answering to the government of Azerbaijan for its activity.

The Copyright Agency carries out the following responsibilities basing on legislation on copyrights and authorities granted by the President:

- state regulation of the policy in copyright and cooperate rights;
- prepares proposals concerning improvement of the legislation on copyright and cooperate rights;
- control over efficient compliance with the legislation on copyright and cooperate rights;
- represent Azerbaijan in international organizations and bears cooperation in this sphere;
- bears registration of scientific, literature and art works;
- bears registration of state registered organizations and controls over their activity in terms of collective regulation of property rights;
- other responsibilities foreseen by the legislation.

The Copyright Agency cooperates with Ministry of Culture, Ministry of Justice, Ministry of Foreign Affairs, Ministry of Internal Affairs, Customs Committee, State Committee for Science and Technology, Ministry of Education, Academy of Science and other government bodies.

In accordance with Article 36 of the Law of Azerbaijan on 'Trademarks and geographical signs', if not foreseen otherwise by international agreements that Azerbaijan is a part to, concerning trademarks and geographical signs, foreign natural persons and legal entities enjoy equal rights with citizens of Azerbaijan.

Article 7 of the law of Azerbaijan "On unfair competition" provides prohibition of following actions: illegal receiving, using and disclosing of the information on the scientific-technical, industrial or commercial activity of the market subject, including the commercial secrets; affecting by the illegal methods the acceptance and implementation of the economical decisions of competitor with the purpose of gaining unjustified advantage over him; sale of commodity with the forced additional assortment.

In accordance with Article 2 of the law of Azerbaijan "On copyright and cooperate rights", if other rules than those included in the original Law are provided by the International Agreement, in which Azerbaijan participates, then the rules of the international agreement are applied.

The main areas of violations of IPRs are recognised to be:

Copyright : There is a high level of video, music and software piracy (in 2001 between 75 and 80%).

Trademarks: sale of counterfeit products like pharmaceuticals, coffe/tea, shampoos, detergents, tobacco, soft drinks, mineral water, tooth paste, bleach, etc.

Those violations of IPRs are mainly destined for the domestic market.

The main problems have to do with the insufficient implementation of the TRIPs requirements, with a deficient enforcement of the domestic IPR regulations, but also with a lack of resources (human and material), corruption and the absence of contacts or dialogue between the government and the private sector. It should be noted however, that efforts are being made in this direction as some recent court decisions in favour of right-holders victime of counterfeit were taken.

It has to be stressed that the authorities justify music piracy by stating that the cheap prices of pirated products give consumers access to cultural values.