

Trade Policy of Azerbaijan



Summary

- **Established:** May 28, 1918
- **Independence:** October 18, 1991
- **Area:** 86.6 thousand km²
- **Population:** 9.37 million
- **National language:** Azerbaijani
- **Governance system:** Presidential Republic
- **Membership:** UN (nonpermanent member of the UN Security Council, 2012-2013), European Council, OSCE
- **Highlights:**
 - **First democratic republic in the Islamic world**
 - **First opera in the Islamic world**
 - **Female suffrage since 1918**
(Italy - 1946; Switzerland - 1971; France - 1944)
- **National currency:** Azerbaijani's New Manat (AZN):
AZN 1 = USD 1.27



Sustainable Economy

2012

| | |
|--------------------------------|--|
| GDP | <ul style="list-style-type: none">• Total: 69.2 million U.S. dollars• Per capita: 7,490 U.S. dollars• Growth rate: 2.2% |
| Non-oil GDP | <ul style="list-style-type: none">• Total: 36.6 billion U.S. dollars• Share of Total GDP: 52.9%• Growth rate: 9.7% |
| Investment | <ul style="list-style-type: none">• Total: 25.7 billion U.S. dollars• Domestic: 15.4 billion U.S. dollars• Foreign: 10.3 billion U.S. dollars |
| Trade | <ul style="list-style-type: none">• Trade volume: 43.8 billion U.S. dollars• Export: 34.2 billion U.S. dollars• Import: 9.6 billion U.S. dollars |
| Other macroeconomic indicators | <ul style="list-style-type: none">• Inflation: 1.1%• Strategic foreign exchange reserves: 46 billion U.S. dollars• Budget balance: +3.6% of GDP |
| Social statistics | <ul style="list-style-type: none">• Average monthly salary: 502 U.S. dollars• Unemployment rate: 5.2%• Population income growth: 13.8% |

Competitive Economy

The Global Competitiveness Report 2012-2013

| Economy | Rank |
|-------------------|-----------|
| Turkey | 43 |
| Barbados | 44 |
| Lithuania | 45 |
| Azerbaijan | 46 |
| Malta | 47 |
| Brazil | 48 |
| Kazakhstan | 51 |
| Iran | 66 |
| Russia | 67 |
| Georgia | 77 |
| Armenia | 82 |

The report assesses ability of countries to provide higher level of prosperity for their citizens. This, in turn, depends on efficient use of available resources by a country. Therefore, the Global Competitiveness Index measures the set of institutions, policies and factors that establish sustainable current and medium-term levels of economic prosperity.

Ranked 1st among the CIS countries (four times in a row) and 46th of 144 countries of the world

Other indicators (pillars):

Macroeconomic environment – ranked 18th

National budget balance – ranked 5th

Public debt – ranked 12th

Labor market efficiency – ranked 26th

Innovation – ranked 39th

Technological readiness – ranked 61st

Competitive Economy

Independent credit ratings

| Rating Agency | Period | Rating | Forecast |
|----------------------------------|--------------------------------|--------|-------------|
| STANDARD & POOR'S | Long-term - foreign currency | BBB- | Sustainable |
| | Short-term - foreign currency | A3 | |
| | Long-term - national currency | BBB- | |
| | Short-term - national currency | A3 | |
| FitchRatings | Long-term - foreign currency | BBB- | Sustainable |
| | Short-term - foreign currency | F3 | |
| | Long-term - national currency | BBB- | |
| MOODY'S | Long-term - foreign currency | Baa3 | Sustainable |
| | Long-term - national currency | Baa3 | |

Favorable Business Environment

Reformist business environment

Solid legal basis and continuous improvement of business laws

Top reformer of business regulation according to the Doing Business 2009

Reducing bureaucracy, simplifying business permits and the licensing system

Single Window for business registration

One of the simplest start-up procedures in the world

3 days to register a business

Online registration of individual entrepreneurs and local business entities

Competitive tax system

Electronic submission of documents and e-payment

Corporate tax – 20%;
VAT – 18%;
Simplified tax – 4% and 2%

No agricultural tax

Government e-services

417 e-services provided by 40 government agencies

Electronic portal for business permits and licenses
(www.icazeler.gov.az)

B2B Support
(www.b2b.az)

Favorable Business Environment

World Bank's Doing Business Report 2013

| Economy | Rank |
|-------------------|-----------|
| Georgia | 9 |
| Kazakhstan | 49 |
| Czech Republic | 65 |
| Bulgaria | 66 |
| Azerbaijan | 67 |
| Turkey | 71 |
| Romania | 72 |
| Italy | 73 |
| Serbia | 86 |
| Russia | 112 |
| Iran | 145 |

Ranked 67th out of 185 countries

Ranked 13th among 50 countries that are most successful in reducing the distance from the “cutting edge” over the period since 2005.

Estimate of the distance from the “cutting edge” gives an idea of the extent to which a country is lagging behind the best result achieved by any country for each of the Doing Business indicators since 2005.

Some sub-indicators:

Property registration – ranked 9th

Business start-up – ranked 18th

Contract enforcement – ranked 25th

Access to credit – ranked 53rd

Global Competitiveness Index 2012-2013 (rank/144):

Hiring and firing practices – ranked 4th

Government services for improved business performance – ranked 17th

Burden of government regulation – ranked 29th

Extent and effect of taxation – ranked 49th

Liberal Investment Environment

Open door policy

National treatment for foreign investors

No restriction for any type of foreign investment

Incentive for foreign investors

Safeguards

Safeguards against adverse changes in the legislation, nationalization and requisition

No discrimination policy

Indemnity and repatriation of profits

Comprehensive legal framework

Investment Law and the Foreign Investment Protection Law

New York (1958) and Washington (1965) Conventions

46 bilateral investment treaties
44 double tax treaties

Government Institutional Support

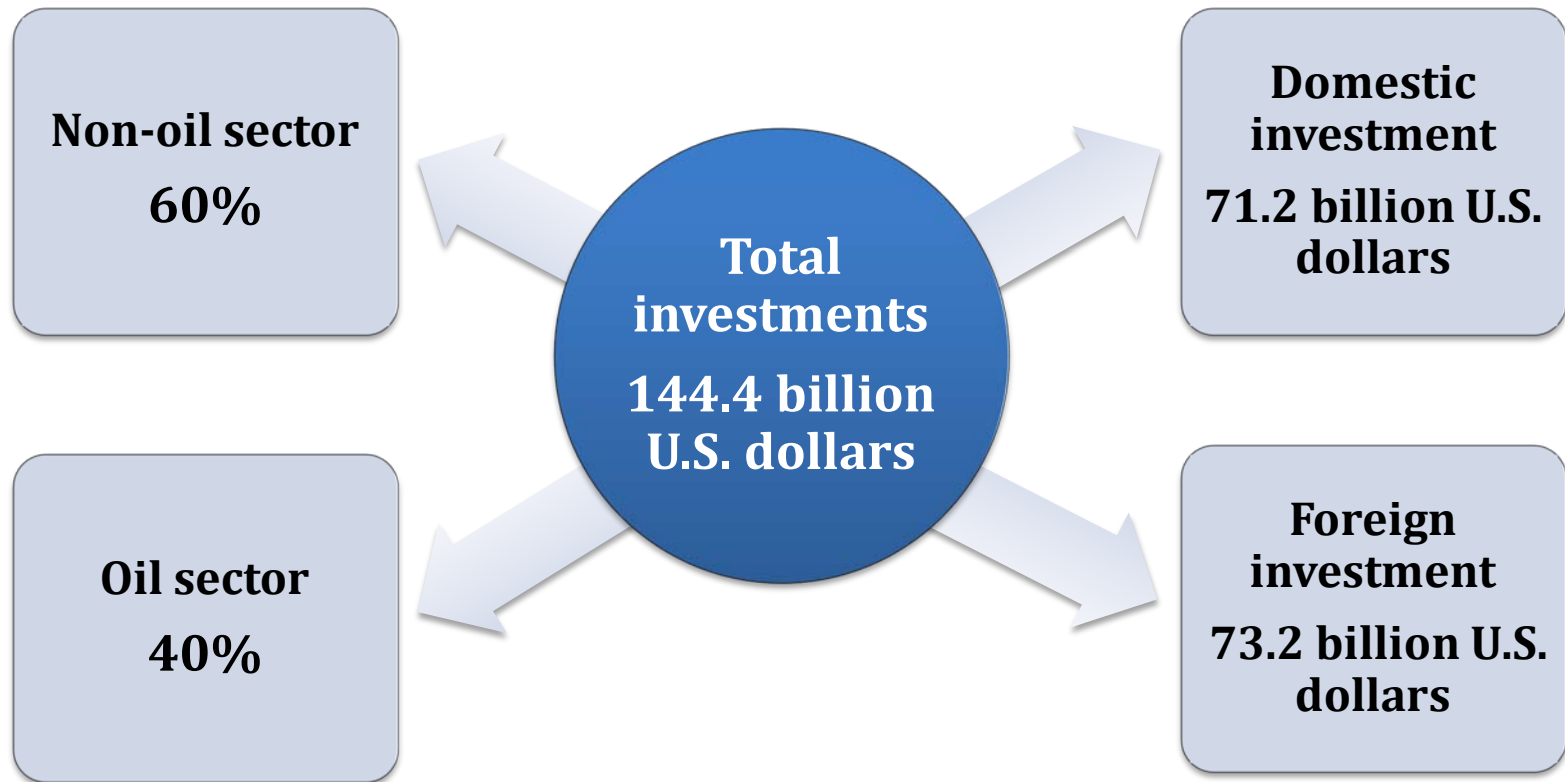
Fund for the promotion of exports and investment in Azerbaijan (AZPROMO)

Azerbaijan Investment Company

National Business Development Fund

Liberal Investment Environment

1995-2012



Institutional Framework

- The Ministry of Economic Development of the Republic of Azerbaijan defines and implements the trade policy of the state

Key trade policy priorities according to the *Azerbaijan 2020 Development Concept*

- Transformation of the country into the regional trade center
- Improvement of the legal framework in the area of trade policy and structural diversification of foreign trade
- Simplification and refinement of foreign trade procedures along with removal of non-tariff barriers to trade
- Incentives to improve export capacity of small and medium-sized businesses
- Protection of the domestic market from unfair competition through the use of anti-dumping and other protective measures
- Accession to the WTO

Legal and Regulatory Framework

Main pieces of legislation on trade policy

- Customs Code;
- - Law on Customs Tariff;
- - Decree of the President of the Republic of Azerbaijan on further foreign trade liberalization in the Republic of Azerbaijan, No.609 dd. 24.06.97;
- - Decree of the President of the Republic of Azerbaijan on the rules of issuing special permits (licenses) for selected activities in the Republic of Azerbaijan;
- - Resolution of the Cabinet of Ministers of the Republic of Azerbaijan on duty rates for export and import transactions and the customs clearance fee, No.80 dd. 04.12.01;
- - Resolution of the Cabinet of Ministers of the Republic of Azerbaijan on approval of the country-of-origin identification rules, No.190 dd. 11.29.07;
- - Resolution of the Cabinet of Ministers of the Republic of Azerbaijan on the rules of application of the system of customs valuation of goods imported into, and exported from, the customs area of the Republic of Azerbaijan No.7 dd. 01.12.98;
- - Decree of the President of the Republic of Azerbaijan on application of the single window principle for inspection of goods and vehicles moved across the border;
- - The Law on Export Control No.772-IIQ dd. 10.26.04.

Moreover, the Government of the Republic of Azerbaijan has signed more than 60 bilateral economic agreements, including 10 free trade agreements with the CIS members and Georgia, as well as one agreement on establishment of a free trade area between GUAM member-countries.

Trade Regime

- The "**Single Window**" principle is applied for inspection of goods and vehicles crossing the national border in the country since January 1, 2009 (Decree of the President of the Republic of Azerbaijan No.12 dd. 11.11.2008).
- A number of documents required for import and export have been cancelled: certificate of substantiation of export and import prices, information on the financing of imports (Decree of the President of the Republic of Azerbaijan No.260 of 05/14/2010).
- **New Customs Code** has become effective as of January 1, 2012: electronic declaration, customs audit, export support system, risk management systems, electronic models of customs procedures, authorized economic operator, etc.

Trade Regime

- **Tariffication**
- Import quotas are replaced by tariff quotas for *wine products (amendment to the Law on cultivation of grapes and wine dated 10.28.2008) and tobacco products (amendment to the Law on Tobacco and Tobacco Products dated 09.30.2009)*. In fact, *Azerbaijan has not been applying quotas on imports since 2002.*
- **Trade restrictions**
- One restriction has been imposed on exports since 2001 (Decree of the President of the Republic of Azerbaijan on suspension of export of waste and scrap of ferrous and non-ferrous metals). The Government is now considering removal of this restriction.

Trade Regime

Taxation and exemption from VAT

- Adjustment of differentiated *excise taxes on domestic and imported goods is now contemplated by the government.*
- There is a List of VAT-exempt goods imported into Azerbaijan (Resolution of the Cabinet of Ministers No.11 dd. 01.31.2005). The latest amendments to the list were made in 2012 (goods, materials and equipment imported for the construction of cement factories until 01.01.2014, as well as wheat and olives, wheat flour or meslin (wheat and rye mix) flour until 09.24.2013).

Tariffs

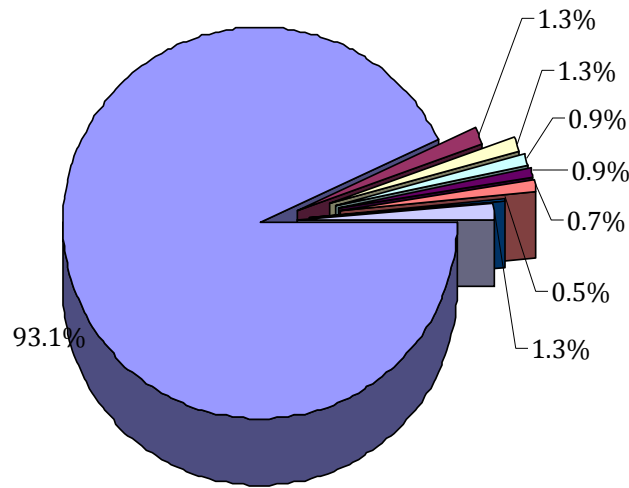
- **Maximum tariff rate – 15%**
- **6-tier group of rates – 0%, 0.5%, 3%, 5%, 10%, 15%**
- 0-5% (40% of headings), 10.5% (6%), 10-15% (54%)
- **Average rate applied: 9.0%** - lower than in developing countries. **Average rate applied to agricultural products: 14%** - lower than in the developed and developing countries. **Average rate applied to non-agricultural products: 8.3%** - lower than in developing countries and LDCs.
- Ad valorem and specific customs duties are applied.

Trade Regime

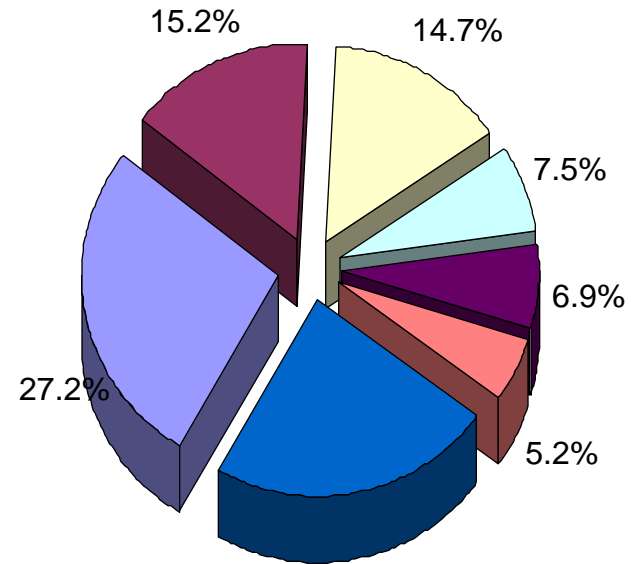
Regulation of imports and exports (required documents)

- Contract
- Cargo Customs Declaration
- Invoice
- Road transport documents (import)
- Certificate of origin
- Phytosanitary or veterinary certificate
- Certificate of conformity of the goods (import)
- Health and safety certificate (import)
- Registration certificate for import of pharmaceuticals and agrochemicals (import)
- Quality certificates for food products exported from the Republic of Azerbaijan to the European Union
- Where required by the rules, endorsement by the Ministry of Economic Development (export)

Import and Export Structure in 2012



- Oil and petroleum products
- Vegetable products
- Ready-made meals, alcoholic and non-alcoholic beverages, tobacco and tobacco substitutes
- Animal fats and vegetable oils
- Base metals and articles thereof
- Chemical products
- Plastics and articles thereof
- Other



- Machinery, equipment and mechanical appliances; electrical equipment and components
- Base metals and articles thereof
- Vehicles, aircraft, vessels
- Ready-made meals, alcoholic and non-alcoholic beverages, tobacco and tobacco substitutes
- Chemical products
- Vegetable products
- Other

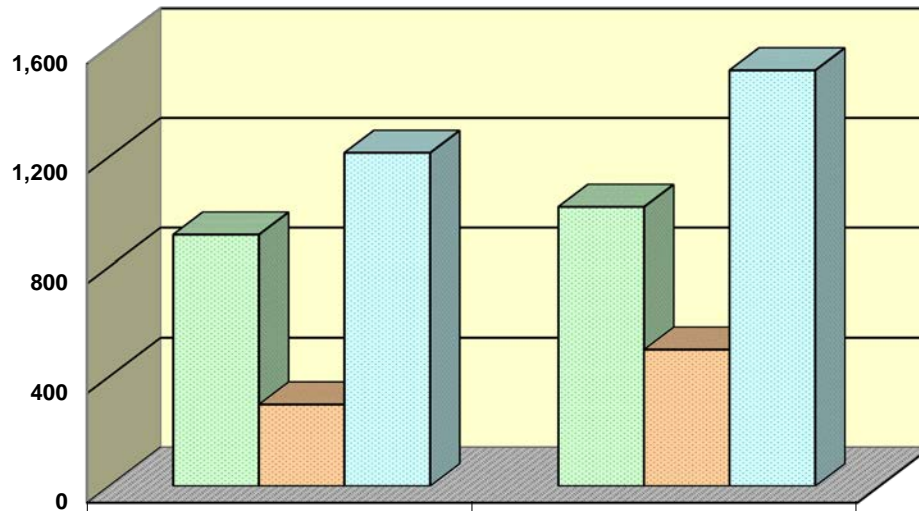
Key Trade Partners in 2012

| Export | | | Import | |
|-----------------|----------|-----------|-----------------|----------|
| Countries | Share, % | No. | Countries | Share, % |
| Italy | 23.21 | 1 | Turkey | 15.75 |
| India | 7.91 | 2 | Russia | 14.28 |
| France | 7.43 | 3 | Germany | 8.08 |
| Indonesia | 7.35 | 4 | USA | 7.41 |
| Israel | 6.97 | 5 | China | 6.55 |
| USA | 6.70 | 6 | Ukraine | 5.58 |
| Germany | 4.04 | 7 | Great Britain | 5.14 |
| Russia | 4.01 | 8 | Kazakhstan | 3.53 |
| Greece | 3.49 | 9 | Italy | 2.71 |
| Taiwan | 2.72 | 10 | Japan | 2.52 |
| Other countries | 26.17 | | Other countries | 28.45 |
| All countries | 100.00 | | All countries | 100.00 |

Trade Relations with CAREC Members

Share of CAREC countries in the volume of trade – 4.5%, including 10.5% of imports, and 2.1% of exports. In 2012, volume of trade increased 24.8%, exports increased 67.1%, and imports increased 11%.

Trade Relations with CAREC Members
(million U.S. dollars)



| | 2011 | 2012 |
|-----------------|----------|----------|
| Import | 915.84 | 1,016.91 |
| Export | 298.13 | 498.27 |
| Volume of trade | 1,213.97 | 1,515.18 |

Structure of exports in 2012

Mineral products – 58.7%

Chemical products – 19%

Ready-made meals, alcoholic and non-alcoholic beverages, tobacco products – 10.5%

Other – 11.8%

Structure of imports in 2012

Machinery and mechanical appliances, electrical equipment, hardware, parts thereof – 36.8%

Herbal products – 26%

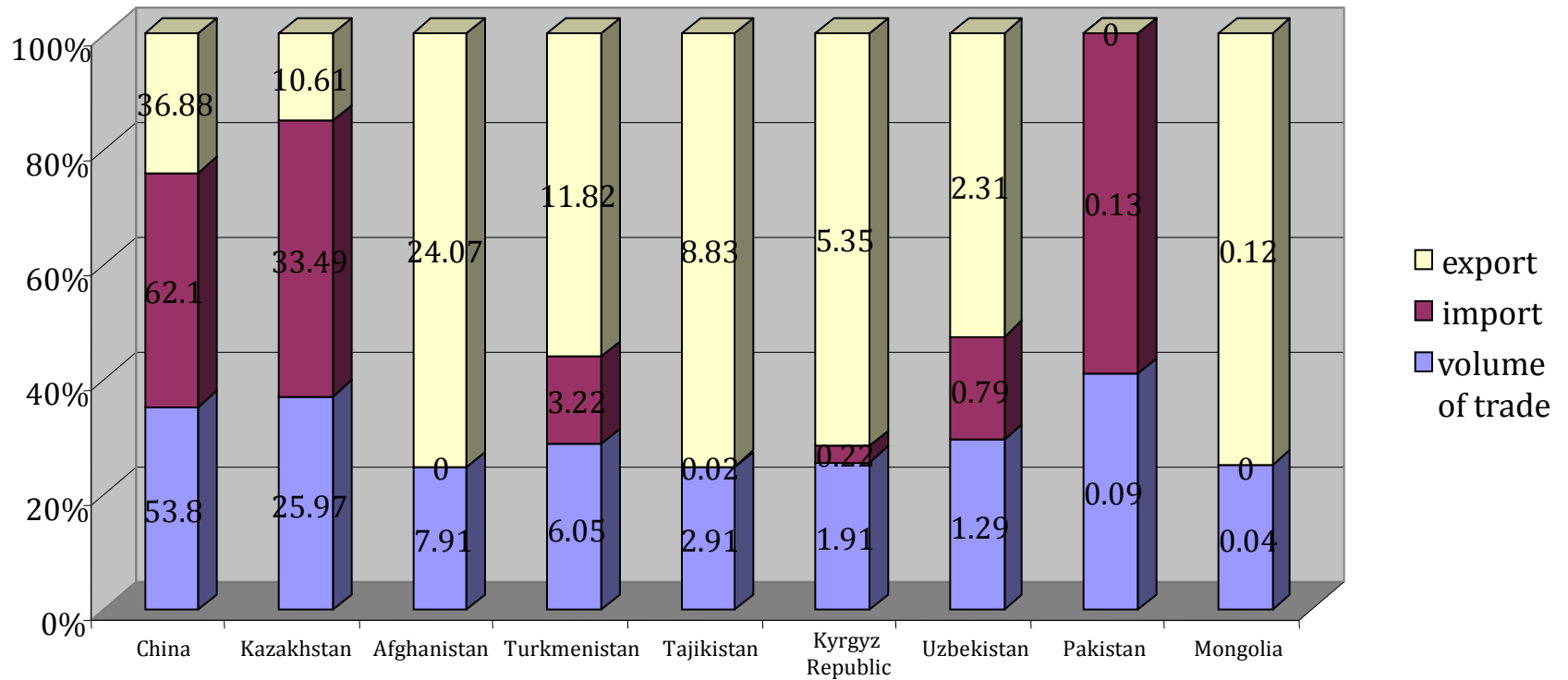
Base metals and articles thereof – 11.4%

Ground transport vehicles – 10.9%

Other – 14.9%

Share of countries in the volume of trade of Azerbaijan with CAREC Members, by Countries , %

Share of countries in the volume of trade of Azerbaijan with CAREC Members, by Countries , %



WTO Accession Process

- Azerbaijan has applied for accession to the WTO in June 1997
- The Working Party on the accession of Azerbaijan was established in July 1997

Multilateral negotiations:

- 37 countries in the Working Party.
- The Working Party has held ten meetings so far. The last meeting was held in December 2012 in Geneva: The commitment was made to eliminate trade restrictions (on temporary suspension of exports of ferrous and non-ferrous metals), equalize excise tax rates and harmonize sanitary, phytosanitary measures and technical regulations in line with the international standards, as well as to adopt relevant legislation.

Bilateral negotiations:

- Negotiations with 12 countries are under way: negotiations with 8 of these countries are related to goods and services: U.S., EU, Japan, Canada, South Korea, India, Taipei (China), Norway.
- Negotiations with the other 4 countries are related to goods only: Switzerland, Ecuador, Brazil, Sri Lanka.
- Bilateral protocols have been signed with five countries: Turkey (2007), Oman and the United Arab Emirates (2008), Georgia (2010), Kyrgyz Republic (2012)
- The latest bilateral negotiations were held on June 3-7, 2013. They covered goods and services, as well as agriculture.



Thank you!

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