



Doing Business In Azerbaijan: The 2010 Country Commercial Guide for U.S. Companies

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- [Chapter 1: Doing Business In ...](#)
- [Chapter 2: Political and Economic Environment](#)
- [Chapter 3: Selling U.S. Products and Services](#)
- [Chapter 4: Leading Sectors for U.S. Export and Investment](#)
- [Chapter 5: Trade Regulations and Standards](#)
- [Chapter 6: Investment Climate](#)
- [Chapter 7: Trade and Project Financing](#)
- [Chapter 8: Business Travel](#)
- [Chapter 9: Contacts, Market Research and Trade Events](#)
- [Chapter 10: Guide to Our Services](#)

Chapter 1: Doing Business In Azerbaijan

- [Market Overview](#)
- [Market Challenges](#)
- [Market Opportunities](#)
- [Market Entry Strategy](#)

Market Overview

[Return to top](#)

Azerbaijan's economy continues to develop, largely due to the expansion of its oil and gas resources. The Government of Azerbaijan is engaging in some reforms, opening new jobs and updating some business-related legislation. Even though signs of economic growth abound, and construction of new roads, bridges, luxury hotels, and shopping malls is ubiquitous, the country still suffers from corruption, lack of transparency, politically connected monopolies, and cronyism.

In 2009 Azerbaijan became the first participating country to achieve "fully compliant" status in the Extractive Industries Transparency Initiative (EITI), which it joined in 2004 to promote more transparent management of oil revenues. As part of its obligations under EITI, Azerbaijan issues annual and semi-annual reports; its 11th EITI report was released on December 14, 2009 and covered the period January -June 2009. Because of the volumes of money involved, the oil and gas sector is considered by many to be one of the greatest sources of corruption within the country, despite Azerbaijan being designated the first participating country to be fully compliant with the Extractive Industries Transparency Initiative's (EITI) principles and criteria in 2009.

Widespread corruption continues to plague Azerbaijan in every economic sector and is a serious impediment to the country's economic development. From schoolteachers to doctors to customs officials to ministers, it appears no strata of Azerbaijani society have been left untouched by the stain of corruption. In Transparency International's 2009 report on corruption perceptions worldwide, Azerbaijan ranked 143rd, while in 2008 it ranked 158th. The most corrupt spheres in Azerbaijan are considered to be law enforcement agencies, organs of the executive power (including customs and safety inspectors), medicine, and education.

Standard and Poor's confirmed Azerbaijan's long-term sovereign credit ratings at BB+ and its short term ratings at B. The forecast changed from "stable" to "positive". This change was explained by the strengthening of the external and fiscal balances due to surpluses in both the state budget and the current operations account of the balance of payments. While continued positive performance could support a rating upgrade within the near future; such an event is unlikely without significant improvements in the business climate, including meaningful structural reform and serious progress on economic diversification.

The national currency, the manat, remained stable throughout 2009. The Central Bank played a very active role in ensuring this stability. According to data from the Central Bank, the manat's strongest rate against the dollar in 2009 was 0.8017 (between January 5 and 11) while the weakest rate (on February 5) was 0.808.

Key parameters of Azerbaijan's economy – according to official government sources:

GDP growth: 9.3% in 2009 (10.8% in 2008)

Inflation: 1.5% in 2009 (20.8% in 2008)

Unemployment rate: approx. 6-7%

Poverty level: 11%

In spite of the global financial crisis, Azerbaijan's strategic currency reserves, held by the State Oil Fund and the Central Bank, increased to 19.1 billion USD during the year, exceeding the January 1, 2009 projection of 18.55 billion USD.

Cooperation with international financial institutions has been very important for Azerbaijan's economic development. Azerbaijan is a member of the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF) and the Asian Development Bank (ADB). Azerbaijan is not yet a member of the World Trade Organization; despite a stated interest in WTO membership, Azerbaijan has been making little effort leading to a serious negotiating

On 15 January 2010, Russian news agency ITAR-TASS reported that the 9 millionth citizen of Azerbaijan was born. ITAR-TASS reported that child was a boy and was named "Ilham" after President Ilham Aliyev, and that "the President presented the happy parents with an apartment in Baku and 20,000 manats (about \$25,000). Additionally, a bank account was opened in the child's name. He will have access to account when he becomes an adult."

Of the country's 9,000,000 citizens, approximately 700,000 of them are refugees or internally displaced persons (IDPs) as a result of the two-decade long frozen conflict with neighboring Armenia.

Azerbaijan's main trading partners are Turkey, Russia, Italy, Georgia, Ukraine, Germany and the United Kingdom. See below:

Exports

Country	Value (USD in millions)	% of total exports
Italy	3,425.03	26.02
USA	1,592.34	12.09
France	1,103.22	8.38
Israel	1,015.09	7.71
Russia	686.03	5.21
Taiwan	680.39	5.17
Canada	507.08	3.85
Indonesia	505.82	3.84
Malaysia	387.56	2.94
Georgia	364.02	2.76

Imports

Country	Value (USD in millions)	% of total imports
Russia	966.06	17.73
Turkey	791.3	14.52

Germany	501.69	9.21
Ukraine	469.41	8.62
China	410.75	7.54
G. Britain	247.75	4.55
USA	232.26	4.26
Japan	137.87	2.53
Italy	122.21	2.24
Belarus	115.67	2.12

In short, Azerbaijan is a challenging economy in which to work, and Americans considering doing business here are advised to conduct due diligence with care. At the same time, Azerbaijan is a rapidly growing emerging market with much to offer American investors, and many companies report that the opportunities can and do justify the challenges.

Market Challenges

[Return to top](#)

Rule of law:

- Weak respect for contracts
- Court system is weak, inconsistent and unreliable
- Enforcement of judgments is extremely difficult
- Alternative dispute resolution (arbitration) is a new and undeveloped concept
- System is not transparent; decisions appear to be made on the basis of political power more often than on the basis of law

Public and private sector corruption:

- Azerbaijan ranked 143 out of 180 countries in the 2009 Transparency International Corruption Perceptions Index
- Due diligence as part of any deal is extremely important
- Competition in some sectors is not tolerated if interests of well-connected elites are threatened
- Personal relationships remain critical in business
- Private sector is widely monopolized in many spheres

Government services:

- Bureaucracy is often difficult to navigate and at times arbitrary
- Working through this bureaucracy can take significant time
- Many firms experience misunderstandings with the Tax Ministry; the State Customs Service; the State Border Service; the Ministry of Emergency Situations; the Ministry of Health; the State Committee on Standardization, Metrology, and Patents; the State Migration Service; and the Ministry of Agriculture
- Persistence and transparency are critical to success
- Decision-making can be slow

Competition from other foreign firms:

- Turkish, Russian, Iranian, Chinese, Korean, and European firms are very active in the market and provide a low-cost alternative to U.S. products;

Market Opportunities

[Return to top](#)

Telecommunications:

- The telecommunications sector is a stated growth area for Azerbaijan; the Government has finished a feasibility study to create a Regional Innovation Zone (RIZ) to boost telecommunications development in Azerbaijan and with the goal of becoming a regional telecommunications hub.
- The mobile telephone market is presently the most active sub-sector of the industry, and has received considerable foreign investment since 1994. In December 2009, Azerfon-Vodafone GSM provider received a license to provide 3G services in Azerbaijan.
- There are three GSM operators in Azerbaijan, as well as one CDMA operator.
- Continued tight control by the Ministry will slow overall development of the sector and decrease some opportunities for U.S. telecom equipment providers.
- U.S. firms may also be interested in internet and broadband services, including fiber optic networks and wireless networking.

Health care and medicine

- The medical sector is poised for significant growth driven by oil revenue inflows.
- This sector is dominated by state-run clinics and hospitals, and has historically been an extremely corrupt sector of the economy.
- Azerbaijan does not produce medical equipment domestically and consequently there is a demand for high quality U.S. or European equipment.
- Government entities use intermediary companies to procure medical equipment, tools, consumables, vaccines, reagents, etc.
- Private clinics, catering mainly to wealthy Azerbaijanis and expatriates, provide a market for top-quality U.S.-sourced equipment.

Construction

- The crisis is forecast to be very long in this sector, prices for housing decreased approximately 20% (especially for high-rise buildings). After the 2 year break, the Central Bank of Azerbaijan intends to return to the centralized mortgage lending system again;
- Virtually all high-quality building materials are imported.
- Potential opportunities: flooring, tile, paints, drywall, plumbing fixtures, doors and windows, and heating and cooling systems.
- U.S. imports have a reputation for better quality than Turkish, Chinese, or Russian competitors, and there are Azerbaijani consumers in a position to pay.
- Sector still operates largely on a “cash and carry” basis.
- Distributor arrangements with experienced local firms are a good way to enter the market.
- Small- and medium-sized production is on the rise with a potential for U.S. equipment.

Agriculture:

- The agriculture sector is Azerbaijan's second-largest sector and its largest employer.
- Rural development is a top priority for Azerbaijan's government and continued growth and demand for agricultural inputs is expected.
- Substantial infrastructure investments are needed to sustain growth.
- Agricultural processing is a growth area, with many processed foods to be exported.
- Tractors, fertilizers, and other agricultural equipment present good opportunities for U.S. firms.
- Ministry of Agriculture is closely cooperating with international organizations such as FAO, USAID, GTZ, WB, ADB, etc.

Market Entry Strategy

[Return to top](#)

For companies interested in establishing a presence in the Azerbaijani market:

- Relationships are key. Plan to spend a significant amount of time, perhaps over several visits, building trust and understanding with your partner.
- Relationships are essential when making sales as well. Establishing trust with a client can take some time, but is critical to seal the deal.
- Establish trust, but properly document the legal responsibilities of all parties.
- When establishing terms of a contract, be careful to structure the terms of payment so that you do not deliver all your goods or services up-front and then trust that the other party will then honor all its payment obligations.
- There are important advantages in having a local presence in Azerbaijan, particularly in terms of building relationships – an ear on the ground will win you business that could otherwise go to someone else.
- A local presence can also manage important relationships with government, minimizing risk from government interference or delays.
- A local presence can also be important due to language conflicts. In-country staff with local language skills will make contacting and negotiations easier for government bodies.
- Persistence and transparency are valued highly in certain economic sectors and within the government.

[Return to table of contents](#)

Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/2909.htm>

[Return to table of contents](#)

Chapter 3: Selling U.S. Products and Services

- [Using an Agent or Distributor](#)
- [Establishing an Office](#)
- [Franchising](#)
- [Direct Marketing](#)
- [Joint Ventures/Licensing](#)
- [Selling to the Government](#)
- [Distribution and Sales Channels](#)
- [Selling Factors/Techniques](#)
- [Electronic Commerce](#)
- [Trade Promotion and Advertising](#)
- [Pricing](#)
- [Sales Service/Customer Support](#)
- [Protecting Your Intellectual Property](#)
- [Due Diligence](#)
- [Local Professional Services](#)

Using an Agent or Distributor

[Return to top](#)

Western entrepreneurs act as agents for U.S. companies in Azerbaijan, and an increasing number of Azerbaijani trading firms have established solid track records as partners with Western firms. For U.S. firms not willing to commit resources to the relatively small market of Azerbaijan, an agent or representative may be the best initial approach. In many instances, using a local agent is better, especially if the U.S. good or service is new to the market. For more competitive and developed market segments, a distributor provides the best option for business development. Verifying the financial bona fides of prospective partners can be difficult. Given this challenge, potential exporters should plan to visit Azerbaijan to build personal relationships, set up local sales networks, or establish partnerships with local agents or distributors. Not-for-profit trade chambers, such as the American Chamber of Commerce in Azerbaijan (Baku), the U.S. – Azerbaijan Chamber of Commerce (Washington, DC), and AZPROMO (Azerbaijan Trade and Investment Promotion Foundation in Baku) may provide good market insights and help locate well-established local partners.

Establishing an Office

[Return to top](#)

According to the Law on Protection of Foreign Investments, foreign investors may establish the following legal entities:

- Enterprise with participation of foreign investors on a shared basis (joint ventures);
- Wholly foreign-owned enterprise (foreign enterprises);
- Representative office.

Once a U.S. firm has decided to open an office in Azerbaijan, it needs to choose between establishment of a limited presence, a joint venture or a wholly foreign-owned enterprise for entrepreneurial activity. A limited presence is possible in the form of a representative office or a branch. A representative office and a branch that are subdivisions of a foreign legal entity are not considered to be an Azerbaijani legal entity, but both are still subject to taxation. A full legal presence as an Azerbaijani legal entity may be achieved through establishing the following forms of legal entities:

- Joint Stock Company
- General Partnership
- Limited Partnership
- Limited Liability Company
- Additional Liability Company
- Cooperatives

Under the new “single window” principle, the Ministry of Taxes of the Azerbaijan Republic is authorized to register all types of commercial legal entities and must do so with three business days. The following documents should be submitted to the Ministry of Taxes to register a branch or a representative office:

1. Application for registration as a commercial (for-profit) legal entity.
2. Charter of the legal entity (2 notarized copies).
3. Original or a notarized copy of the company letter establishing the local entity and appointing the head of the local legal entity or their legal representative.
4. Notarized copies of the original incorporation papers from the United States. The documents must be certified by the consular section of the Azerbaijani Embassy in the United States and then presented to the Ministry of Taxes.
5. A copy of a lease agreement or other document certifying the entity’s legal address in Azerbaijan.
6. Other documents depending on the type of business and/or the tax regime.

To register a commercial entity with foreign capital, the foreign legal entity (further referred to as “FLE”), in addition to items 1, 2, 4, 5, and 6 mentioned above, needs also to submit the following documents:

1. A resolution from the FLE’s authorized body stating its intent to open an office in Azerbaijan and approving the charter of the local entity.
2. Additional information and identification on all shareholders with copies of identification documents for individual shareholders.
3. If a shareholder is a foreigner or a person without citizenship, they must submit appropriate documents from the U.S. verifying the person’s character and entrepreneurial activity.
4. Resolution by the founders identifying the Supervisory Board, the Executive Board and other company principals, as well as their identification information and copies of documents.
5. If required by type of business, copies of documents indicating contributions towards charter capital.

The registration fee for a branch office is 220 Azerbaijani manats (approximately USD 275) to the accounts noted here: <http://taxes.gov.az/1/info/rusum.shtml>.

U.S. firms should remember that all documents from the FLE must be notarized and legalized in the United States. It is also important to know that according to the constitution and the Law on the State Language, Azerbaijani is the official language of administration, legislation, and record keeping in all state bodies, enterprises and organizations in Azerbaijan. Therefore it is compulsory to accompany any document written in English with its notarized translation into the Azerbaijani language.

The above information is provided solely as general advice. Laws and regulations including registration are subject to change. For detailed registration, legal, and tax counseling, U.S. firms are advised to contact tax and legal professionals resident in Azerbaijan to receive expert advice (see Chapter 11 below). U.S. firms that experience registration problems should contact the U.S. Embassy in Baku (see contact information in Chapter 9).

Franchising

[Return to top](#)

Franchising has become a leading retail model in Azerbaijan. McDonald's has directly owned and operated a growing network of restaurants in Baku since November 1999. The supermarket chain Ramstore (Turkey) and local bakery Chudo-Peshka each have several outlets in Baku. In June 2009, a Malaysia-based fast food chain, Marraybrown, opened in Baku. The Azerbaijan Franchise Association (AFA) was established in 2007 and is working to join the World Franchise Council. In February 2008, the AFA submitted its program of development of entrepreneurship and the non-oil sector to the Azerbaijani government.

In recent years, franchises of leading Turkish and European brands have begun to flourish in Azerbaijan, and U.S. brands are encouraged to consider this opportunity as well.

Direct Marketing

[Return to top](#)

In Baku, business to business fax and e-marketing to potential customers is common but not necessarily effective. One of the most popular types of marketing in Azerbaijan is direct marketing via mobile phones. For instance, the largest mobile operator Azercell Telecom JV sends text messages advertising discounts for cooperative clients, sales at certain shops, etc. By contrast, person-to-person direct marketing works well (e.g. with health and beauty products). Other direct marketing channels (catalogs, e-commerce and regular mail) are still in their infancy. Many shippers are reluctant to send goods without prepayment. The number of plastic card transactions is steadily on the rise, but e-commerce is still almost non-existent due to a lack of relevant legislation.

Joint Ventures/Licensing

[Return to top](#)

Given weak shareholder rights, an underdeveloped legal system, and poor understanding of Western business practices, U.S. firms considering joint ventures (JVs) should consider the deal structure very carefully before committing to a JV. This is particularly true in the non-energy sector, which is unprotected by the PSAs that shield the longer-term oil and gas sector investments. While U.S. firms will be encouraged to take on a local partner on the front end of the deal, experience has shown that a number of these transactions find problems later in the life of the JV. Should a JV be considered optimal in its proposed deal structure, U.S. firms should ensure tight management control, clear capital increase and cash call provisions, iron-clad confirmation of share increases and decreases, clear procedures for calling shareholder meetings, and an exit strategy should that become necessary.

Licensing presents obstacles for some firms in Azerbaijan. However, a September 2002 Presidential decree, "Activities Requiring Special Permission (Licenses)," reduced the number of activities subject to licensing from 270 to 30 with the term of all licenses increased to five years. This step was welcomed by the business community, and led to some improvements in the process of entering the market. However, subsequent amendments to the Decree from 2003 through 2009 have since increased the number of licensable activities from 30 to 57.

The following is a non-exhaustive list of activities subject to licensing (current as of August 2009) based on the authority responsible for issuing the license:

Chamber of Auditors

- Auditing activities

City and region executive organs (with the exception of city districts)

- Sale of ethyl alcohol and strong drinks
- Sale of tobacco goods

Ministry of Agriculture

- Production and import of ethyl alcohol and strong drinks
- Production and import of tobacco goods
- Private veterinary activity
- Sale and production of veterinary medications

Ministry of Communications and Information Technology

- Communication services (telephone, cellular - including 3G mobile communication services, paging, radio relay, installation and operation of cable television, express postal service)

Ministry of Ecology and Natural Resources

- Storage and disposal of radioactive and ionized waste
- Utilization and neutralization of toxic waste

Ministry of Economic Development

- Purchase, processing and sale of non-ferrous metals and industrial waste including precious metals and stones
- Activities of labor exchange

Ministry of Education

- Activities of educational institutions (pre-school, secondary, vocational, and higher education institutions, as well as religious education institutions)

Ministry of Emergency Situations

- Engineering and inspection works at buildings and structures of the Responsibility Level I and II
- Fire Protection Service (production and purchase of fire extinguishing equipment, testing; installation of fire protection systems and facilities, their repair and maintenance)

Ministry of Energy and Industry

- Sale of oil products
- Sale of gas products

Ministry of Finance

- Activities of non-governmental social funds
- Insurance activities
- Production of controlled accounting forms

Ministry of Health

- Medical activities
- Pharmaceutical activities
- Creation of biometric technologies and provision of services to such technologies

Ministry of Internal Affairs

- Production of various seals and stamps

Ministry of Labor and Social Protection of People

- Assistance for Azerbaijani citizens to identify employment in foreign countries

Ministry of National Security

- The use, production, sale, purchase, import and export of technical means for illegal intercepts of information by juridical and natural persons not authorized for the execution of investigatory activities;
- Activities in the field of design and production of data protection facilities

Ministry of Transportation

- Transportation of passengers and goods by sea
- Transportation of passengers and goods by air
- Passenger and cargo transportation by road
- Transportation of hazardous cargo

Ministry of Tourism and Culture

- Tourist activities
- Activities of hotels and hotel-type enterprises

National Bank of Azerbaijan

- Banking activities
- Non-bank credit institutions

National TV and Radio Broadcasting Council

- TV and radio broadcasting

State Committee for Construction and Architecture

- Design of buildings and structures of the Responsibility Level I and II

State Committee for Land and Cartography

- Cartographic activities

State Committee for Securities

- Activities of stock exchanges
- Activities of investment funds
- Activities of professional participants in the equity market (brokerage, dealer, securities management, determination of mutual obligations (clearing), deposit, registration of holders of securities, organization of trades in the equity market)
- Activities on production and sale of all types of security forms

Nakhchivan Autonomous Republic

- Medical activities
- Pharmaceutical activities
- Assistance for Azerbaijani citizens to identify employment in foreign countries
- Production of various seals and stamps
- Tourist activities

Selling to the Government

[Return to top](#)

Selling directly to the central Government or to state enterprises is difficult because of non-transparent government procurement processes. Major infrastructure projects are often funded through World Bank or other multilateral

development bank financing and are thus more transparent. Going forward, the Government is expected to invest more into public infrastructure projects, as outlined in the 2007-2011 State Public Investment Program. Companies selling to the Azerbaijani Government should be particularly careful to specify beforehand how the 17 percent VAT will be levied. (Value Added Tax was lowered from 18% to 17% in Azerbaijan effective January 1, 2010.) In short, absent external financing such as tenders backed by development bank financing, selling to the Government should be approached with extreme caution and deliberate maximization of transparency.

Distribution and Sales Channels

[Return to top](#)

In many cases, local companies are distributors for products of different brands. Chinese, Turkish, Iranian, and Russian products tend to dominate this price-sensitive market. Several well-established Azerbaijani firms have successfully sold and represented U.S. and European brands in Azerbaijan. Due diligence should be done on any potential Azerbaijani distributor before concluding an agreement or shipment given the risks inherent in doing business in Azerbaijan.

U.S. firms looking for opportunities in Azerbaijan should focus on private Azerbaijani firms with a proven track record and good financial standing. State enterprises are unlikely candidates for performing distribution and sales activities on behalf of U.S. firms; these enterprises lack the resources to cover the costs of maintaining U.S. product inventory for the local market. Azerbaijani firms generally have poor cash flow, given the lack of affordable credit and other structural disincentives. Training and flexible stock/inventory options will help U.S. goods and services penetrate the Azerbaijani market. Given Baku's dominance of the market, it is best to work with a Baku-based firm for onward distribution throughout the country.

Selling Factors/Techniques

[Return to top](#)

Azerbaijan is primarily a trading country with retail business becoming increasingly regulated and moving off the "street" into shops and retail outlets. There are three primary market segments: (1) the largest share of the population earning the average monthly wage of \$350 or less; (2) a small but growing middle class with occasional disposable income; and (3) "new Azerbaijanis" noted for conspicuous consumption of top-priced items. The first two segments primarily focus on the large and relatively unregulated markets (bazaars) such as the Bina or Sadarak bazaars for cheap Chinese, Turkish, Iranian, and Russian goods. We recommend that U.S. consumer products firms focus on the higher end of the market through retail outlets in Baku given the relatively small but growing number of consumers with money to spend and interest in higher quality goods and services. Azerbaijani shoppers are price-sensitive but extremely brand conscious. U.S. goods and services are lesser known than their Turkish or European competitors but are generally well regarded and thought to be reliable – a key factor in the Azerbaijani shopping mentality. Counterfeiting of consumer goods is a problem. Well-heeled Azerbaijani shoppers are known for their impatience and desire to buy immediately and in cash rather than wait weeks for shipments from warehouses in nearby countries.

Electronic Commerce

[Return to top](#)

Electronic commerce is in its infancy in Azerbaijan. Wide availability of ATMs has introduced some measure of e-commerce to the market, but even the use of plastic card payments is limited. A 2005 presidential decree mandated the rolling introduction of point of sale (POS) terminals in all shops beginning January 1, 2006 over a two-year period. While the Ministry of Taxes has pushed retail businesses to install POS devices, the economy is predominantly cash-based. Until relevant legislation and infrastructure is more developed, e-commerce will be a limited market for U.S. firms.

Trade Promotion and Advertising

[Return to top](#)

Advertising is growing in sophistication in Azerbaijan, but is still largely confined to television, radio, newspapers, and billboards. Outdoor billboards are widely used in Baku for advertising and trade promotions, though outdoor advertising for tobacco and alcohol products is prohibited. Newspapers in Azerbaijani and Russian are published daily, except Sunday. English-language papers are published weekly. Newspapers are widely sold and read and represent a good channel to reach Azerbaijani consumers who have disposable income. Television advertising is possible on state-run and private national TV networks. There are a number of popular private FM radio stations as well. A number of Baku-based trade shows also provide an excellent opportunity to market U.S. goods and services. Please see Chapters 11 and 12 for a listing of major Azerbaijani newspapers, business journals, TV and FM programs, and trade events.

Pricing

[Return to top](#)

Prices in Azerbaijan must be quoted in Azerbaijani manats. Azerbaijanis expect to bargain over prices. With the exception of goods such as gasoline and certain other products, the government does not set retail prices. Retail prices include the 17 percent value added tax (VAT).

Sales Service/Customer Support

[Return to top](#)

While systemized customer service is still only developing, more local firms are developing a Western-style customer service approach. Cellular operators and information technologies firms in Azerbaijan are known for their high-quality service and customer support. Product guarantees are generally still rare, but are becoming more common. That said, implementation is still a problem as local distributors do not always uphold parent company guarantees.

Protecting Your Intellectual Property

[Return to top](#)

Azerbaijani law protects copyrights, patents, trademarks, and industrial designs. The U.S.-Azerbaijan bilateral trade treaty also covers intellectual property rights (IPR). Azerbaijan belongs to the World Intellectual Property Organization (WIPO) and a number of international treaties on the protection of intellectual property. In reality, government enforcement of IPR laws has been weak and copyrighted products are often sold in markets and stores with no provision to pay royalties to copyright holders. CDs and Western videos, dubbed in Russian or Azerbaijani, are sold at less than 15 percent of their market value in the West. Firms with IPR concerns are urged to contact the Embassy's Commercial Section, as Embassy support can be crucial in forcing action to protect copyright and trademark infringement.

Due Diligence

[Return to top](#)

As accurate financial documentation and credit history is difficult to obtain on potential customers and partners, it is imperative to conduct adequate due diligence prior to entering into any commercial deal or venture. Failure to perform adequate checks can jeopardize an investment or sideline a commercial deal. Recourse in such instances is limited. In some areas, such as the oil and gas sector, some firms have a proven track record with international firms. In other areas, firms may be well-known or regarded locally, which may become apparent early on in the process. Interested companies may contact the Embassy to discuss their plans in Azerbaijan.

Local Professional Services

[Return to top](#)

Given the challenges of doing business in Azerbaijan, U.S. clients are advised to retain strong in-country legal counsel. This is especially relevant at the outset of any transaction involving investment, structuring of joint ventures, and the like. The Azerbaijani legal system does not yet contain a transparent body of commercial law, and implementation of court decisions is haphazard at best. A new civil code was adopted in September 2000 and has, to a certain extent, improved the legal environment for commercial activity. Please see Chapter 11 for a list of law firms and consulting companies with offices in Azerbaijan.

[Return to table of contents](#)

Chapter 4: Leading Sectors for U.S. Export and Investment

- [Agricultural Sector](#)

Commercial Sectors

- [Oil and Gas Sector](#)
 - [Banking and Financial Sector](#)
 - [Telecommunications Sector](#)
 - [Healthcare Sector](#)
 - [Construction Sector](#)
- 

Overview

Agriculture is a traditional industry in Azerbaijan.

With the collapse of the Soviet Union, traditional command markets dried up, forcing enterprises to seek new trade linkages. Azerbaijan inherited outdated food processing equipment, and the packaging in many cases was rudimentary – all requiring imported equipment. There is a great potential for the development of the food processing industry, however large-scale U.S. exports will remain limited and niche deals will be more prevalent. Given the challenges of doing business in Azerbaijan, U.S. firms are best advised to work with established firms with a proven market track record.

Today, more than 95 percent of the nation's agricultural land is in private hands, an important achievement in Azerbaijan's privatization program. Rural populations have benefited from privatization, but cash flow and access to affordable credit are major obstacles to business development for Azerbaijani agribusiness. Agricultural output did not increase significantly in 2009. However experts believe the sector could grow by 10-12% every year if there were appropriate investment.

There is great potential for development of the food processing industry supported by a wide variety of Azerbaijani crops and excellent climatic conditions and extended growing seasons. Fruits (apples, cherries, grapes, olives, lemons, persimmons, melons, watermelons, raspberries, strawberries, currants, plums, peaches, pears, quince, and pomegranates); vegetables (potatoes, carrots, beets, cabbage, tomatoes, cucumbers, onions and greens), grains (wheat, maize, barley), tea leaves, and nuts are of high quality, have minimal unit production costs, and have strong brand recognition in post-Soviet markets. Several start-up private firms including the Azersun Holding, MKT, CTS Agro, Guba Tinning Factory (based in Guba), M-Pro, the Azerbaijan Dairy Corporation, and Gilan Holding have already made the move to European equipment and are interested in further sourcing of U.S. equipment.

Azerbaijan requires import licenses for food products of animal origin. Starting January 1, 2009, the Customs Committee began issuing licenses for those products based on a letter of import permission from the State Veterinary Service (SVS). Azerbaijani legislation imposes special rules on labeling of food and agricultural products. The labels must be in Azerbaijani. English labels are acceptable if information in Azerbaijani is also provided, although compliance, as seen on supermarket shelves, is spotty at best.

Best Products/Services

Currently, the relative weakness of the U.S. dollar compared to the Euro and Azerbaijani manat, combined with U.S. export credits, make products made in the U.S. and sold in dollars, such as processing lines, extremely competitive in Azerbaijan. There is great demand for food processing and packaging equipment, especially for mid-size meat, dairy, and fruit and vegetable processing production. There is also a need for production of packaging materials for different market segments.

Opportunities

[Return to top](#)

Agriculture in Azerbaijan, despite being the largest employer saw an increase of only 3.5% in 2009. The Government of Azerbaijan needs to invest heavily in rural public utilities and rural infrastructure, specifically transportation. In addition, tight quality control and international certification is key to realizing the export potential of Azerbaijani produce and products.

U.S. agricultural equipment manufacturers and used equipment dealers should consider traveling to the region to meet with large private holding companies active in agricultural processing. The Government is also interested in promoting small-scale dairy processing in rural areas.

There is demand for agricultural consulting in such areas as international certification and distribution. Azerbaijani exporters are eager to export into the more lucrative Western markets, including the United States.

Resources

[Return to top](#)

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Contact: Mr. Ismayil Gasanov
Job Title: Head of Service

U.S. Department of State: <http://www.state.gov/p/eur/rls/fs/51702.htm>
USFCS / BISNIS: <http://www.bisnis.doc.gov/bisnis/bisdoc/Agribusiness%202004.htm>
U.S. Department of Agriculture: www.usda.gov
Caspian World / Iteca: <http://www.caspianworld.com>
State Statistics Committee of Azerbaijan: <http://www.azstat.org>

Oil and Gas Sector

Overview

[Return to top](#)

Since the mid 1990's the oil and gas sector has been the engine driving Azerbaijan's economy forward. Through a series of Production Sharing Agreements (PSAs), Azerbaijan succeeded in attracting significant foreign direct investment from international oil companies. This investment has led to a rapid increase in production, enriching the country and creating opportunities for U.S. businesses.

Azerbaijan is the beginning of an East-West energy corridor built on two major pipelines. The first, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, stretches from Baku in Azerbaijan, through Tbilisi, Georgia, to a terminus at Ceyhan in Turkey. The second, the South Caucasus Gas Pipeline (SCP), roughly parallels the BTC route. Development of the two pipelines, as well as the Azerbaijani-Chirag-Guneshli (ACG) oil field and Shah Deniz I gas field, resulted in more than \$400 million in contracts for U.S. firms. Significant oil revenues and additional proven gas reserves have amplified the ambitions of the State Oil Company of the Azerbaijan Republic (SOCAR) to become a world-class energy company. While proven oil fields are projected to begin declining in the coming decade, fields under exploration, such as Absheron, could present opportunities in that same timeframe. Azerbaijan also hopes to develop the Shah Deniz II gas field, which would present opportunities for a wide range of U.S. companies: from management consulting to engineering and project management for the medium term.

Best Products/Services

[Return to top](#)

Due to extensive onshore and offshore development, this sector remains at the top of the Best Sectors List that includes most types of equipment related to the exploration, extraction and transportation of oil and gas. Project management and engineering services, petroleum products, drilling and oilfield equipment also hold large potential for U.S. firms in this area.

Opportunities

[Return to top](#)

The oil and gas sector in Azerbaijan is expected to remain a lucrative market for U.S. businesses for years to come. As current production projects begin to near their plateau, major opportunities in the market have begun to shift toward support and service of the oil industry, rather than exploration and construction. However, while drilling and exploration opportunities are currently in a lull, opportunities could increase as new oil and gas projects enter the development phase.

Resources

[Return to top](#)

State Oil Company of Azerbaijan: <http://www.socar.az/>
BP Caspian: <http://www.bp.com/caspian>
Caspian World: <http://www.caspianworld.com>
U. S. Energy Information Administration: <http://www.eia.doe.gov>
State Statistics Committee of Azerbaijan: <http://www.azstat.org>
State Oil Fund of Azerbaijan: <http://www.oilfund.az>

Banking and Financial Sector

Overview

[Return to top](#)

Azerbaijan has seen considerable consolidation in the banking sector over the past few years, though many experts believe that further consolidation is still needed. The minimum capital requirement for existing and startup banking institutions was increased to approximately \$13 million. However, the majority of private Azerbaijani banks are underdeveloped, lack capital, and play a small role in financing local businesses. Measures to increase the role of banks in entrepreneurship (especially small and medium size enterprise development) continue.

The Central Bank of Azerbaijan (CBA), which was formerly known as the National Bank of Azerbaijan, is the central regulatory body.

The International Bank of Azerbaijan (IBA) remains the leading bank in Azerbaijan, and the Government remains its largest shareholder. That being said, except for the IBA, the 45 remaining banks in Azerbaijan are now privately owned and 23 of them have some foreign investment. According to a report by Salans, as of June 30, 2009, the total assets of Azerbaijani banks were 9.1 billion AZN.

Although most banks offer short-term trade financing, long-term project financing, mortgage products, and other modern banking products are becoming increasingly available. Overall lack of medium to long-term capital is a major constraint to financing private business in Azerbaijan. The existing credit supply is far too small to provide a suitable environment for the development of SME's in the country. In fact, most SME's have very limited access to affordable credit lines given collateral requirements, loan terms, etc. Long-term trade and project financing are in their infancy.

Best Prospects/Services

[Return to top](#)

Trade finance, working capital, manufacturing equipment, construction, telecommunications, food processing, agribusiness, and tourism represent the best prospects for new business development.

Leasing in Azerbaijan is in its infancy but is a promising vehicle for business financing in this developing market. Best prospects in leasing include manufacturing equipment, medical equipment, and transportation.

Opportunities

[Return to top](#)

As Azerbaijan continues to experience significant economic growth and inflow of oil revenue; development in the banking and financial sector will continue. Many Azerbaijani banks have expressed interest in pursuing correspondent relationships with U.S. banks. In addition, an increasing number of private banks have become interested in attracting foreign equity investors, and EBRD, IFC, and German financial institutions have taken an equity stake in several such institutions.

Resources

[Return to top](#)

Central Bank of Azerbaijan (CBA): www.cbar.az/eng/

International Bank of Azerbaijan: www.ibar.az

Bank Standard: www.bankstandard.com

Unibank: www.unibank.az

Technika Bank: www.texnikabank.com/

Bank Respublika: www.bankrespublika.az

AGBank: www.azeriqazbank.com

IFC in Azerbaijan: http://www.ifc.org/ifcext/eca.nsf/Content/Azerbaijan_Home

World Bank: www.worldbank.org

EBRD: www.ebrd.gov

Telecommunications Sector

Overview

[Return to top](#)

The telecommunications sector continues to attract increasing foreign investor interest. Its share of overall GDP, however, remains low. Moderate liberalization, led by the Government's vision to turn Azerbaijan into a regional information technologies hub, has created opportunities for U.S. telecom equipment providers. Increasing economic development has created opportunities for U.S. telecommunications equipment suppliers, operators, and system integrators. The Ministry of Communications and Information Technology (MCIT) has been championing the idea of creating a Regional Innovation Zone in Azerbaijan, a concept developed by the U.S.-based firm Booz Allen Hamilton. This concept is currently being reviewed by the Government to determine the next steps of implementation.

The Law on Communications is the main legislative act regulating the industry. The MCIT is required to keep a register of telecommunication licenses that have been issued, registered, suspended, or renewed. Of the telecommunications services, retail internet service provision (ISP) requires no license, which has led to growth and competition among local ISPs. However, low computer penetration and high cost of high-speed access has limited growth in this consumer segment.

Generally, foreign legal entities and individuals must obtain a license to provide express courier services or telecommunications services on an equal footing with Azerbaijani nationals. Licenses are issued for a period of five years. However, this requirement may be waived on the basis of certain international agreements. Under the Communications Law, the state has exclusive ownership of all radio frequencies. The State Radio Frequencies Commission is authorized to issue radio frequency use permits to telecommunications businesses. This Commission also prescribes the rules and procedures for obtaining such permits and for operating at various frequencies.

The Communications Law also recognizes the right of foreign individuals and legal entities to own and operate networks and devices in Azerbaijan. Such devices must be jointly certified by the MCIT and the Azerbaijani State Standards Agency and their subordinate bodies, as well as accredited test laboratories (please see contact information in Chapter 11).

Currently, Azercell Telecom JV, a joint venture of Turkcell and the MCIT, is the largest mobile communications operator with more than 3,700,000 subscribers, most on the popular, pre-pay Sim Sim program. Bakcell, the second licensed GSM provider, has positioned itself as a low-cost provider and has enjoyed strong growth, reaching more than 2,000,000 subscribers. The newest mobile operator Azerfon started operating in 2007 and currently holds a relatively smaller share of the market – 1,500,000 subscribers. In December 2009, Azerfon- Vodafone was the first operator to receive a license for 3G services. Overall, Azerbaijan is the leader among the former Soviet states in the mobile connectivity penetration.

The country's land-line telephone device number reached 15.7 per 100 people in 2009 according to the State Statistical Committee's information

Companies interested in Azerbaijan's telecommunications sector are encouraged to contact the U.S. Embassy in Baku's Commercial Section for additional information.

Best Prospects/Services

[Return to top](#)

The mobile telephony market is presently the most active sub-sector of the telecom industry in Azerbaijan. It has continued to receive considerable foreign investment since 1994, when the GSM900 network was initiated. There are three mobile operators in Azerbaijan – Azercell (GSM 900/1800), Bakcell (GSM 900/1800) and Azerfon (GSM 900/1800). Mobile communications operators have a key competitive advantage since they do not have to adhere to the low telecom tariffs dictated by the government.

Since telephone density in Azerbaijan varies from region to region, -- reaching as high as 50% in Baku, the national capital, and as low as 10-15% in small towns, -- wireless mobile and wireless local loop are often the only alternatives to underfunded wireline networks. With recent investments into the mobile communications sector, international telecom equipment manufacturers and service providers indicate that some market players are ready to invest based on expectations of long term future dividends.

U.S. suppliers should monitor developments in mobile communications for future sales opportunities. Prepaid mobile communications services, mobile banking, Internet, SMS and other value-added services have allowed mobile communications operators to attract customers from other telecom sectors, such as paging and trunking.

Opportunities

[Return to top](#)

Western entrepreneurs and several Azerbaijani telecom firms act as agents for U.S. telecom companies in Azerbaijan, and an increasing number of Azerbaijani trading firms have established solid track records as partners with Western firms. For U.S. firms not willing to commit resources to the relatively small market of Azerbaijan, an agent or representative may be the best initial approach. An agent will work better if the U.S. telecommunication products/services are relatively unknown or untested in the market, as the agent will have limited overhead and inventory to test a new product in the market. For more competitive, developed market segments, a distributor provides the best option for business development. Verifying the financial bonafides of prospective partners is difficult. Given this challenge, potential

exporters should plan to visit Azerbaijan to build personal relationships, set up local sales networks, or establish partnerships with local agents or distributors.

In many cases, local companies are distributors for telecommunication products and services of different brands. Turkish, European (German, French), U.S., Chinese, and Russian products tend to dominate this price-sensitive market. Due diligence should be done on any potential Azerbaijani distributor before concluding an agreement or shipment given the risks inherent in doing business in Azerbaijan.

U.S. firms looking for opportunities in Azerbaijan should focus on medium-sized, private Azerbaijani firms with a minimum two or three-year track record and audited financial statements. State enterprises are unlikely candidates for performing distribution and sales activities on behalf of U.S. firms; these enterprises lack the resources to cover the costs of maintaining U.S. product inventory for the local market. Training and flexible stock/inventory options will help U.S. telecommunication products and services penetrate the Azerbaijani market. Given Baku's dominance of the market, it is best to work with a Baku-based firm for onward distribution throughout the country.

Resources

[Return to top](#)

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Healthcare Sector

Overview

[Return to top](#)

The medical equipment market, while small, has been experiencing steady growth given growing public healthcare investment and growth of private healthcare facilities.

After the collapse of the Soviet Union, the previous cradle-to-grave medical care disappeared almost overnight. The Government has since tried to keep the system afloat, but both providers and consumers of public healthcare admit in private conversations that the limited public financing for healthcare nowadays does not nearly cover the basic needs of the Azerbaijani population in healthcare services. The sector is also historically embedded with corruption and bribery, given unrealistically low salaries of medical professionals and poorly managed healthcare. According to the Minister of Health, Ogtay Shiraliyev, health expenditures allocated for 2010 increased by 50 percent in comparison to 2009 and is approximately \$625 million. .

Dealing with state authorities on document preparation, customs clearances, and certification may prove to be a very challenging process in Azerbaijan. We strongly

recommend U.S. companies work through local importers, as their experience can help cut the red tape.

Best Prospects/Services

[Return to top](#)

There is a strong market demand for the following U.S. healthcare/medical products and services in Azerbaijan:

- Medical testing equipment used in industrial relations;
- Ultrasound scanners;
- Electrocardiographs;
- X-ray equipment;
- Laboratory analyzers;
- Electronic surgery devices;
- Endoscopes;
- Gynecologic instruments and appliances;
- Catheters, drains, and other expendable materials

Opportunities

[Return to top](#)

Following the collapse of the Soviet Union, reforms in the Azerbaijani healthcare industry led to restructuring in public and private sectors. In 2007, the Government announced plans to privatize some of the unprofitable and ineffective medical establishments. In addition, the Government has been consistently announcing plans to spend part of the oil wealth in improving public healthcare. The Ministry of Health has been actively conducting pharmaceutical and equipment tenders for its wide network of city and regional hospitals.

U.S. firms are advised to work with both the Ministry of Health and well-established private companies with proven track records. Baku is ideally situated as a business development hub throughout the Caspian region, with air, rail, sea, and road links for market projection into the Caucasus and Central Asia. Azerbaijani firms are interested in establishing long-term relations with U.S. suppliers.

Advertising is also an important issue. There are only a few medical magazines in Azerbaijan and their circulation is limited. During Soviet times, the vast majority of Azerbaijani medical specialists received their advanced medical degrees in Russia. As many Azerbaijanis are still bilingual, Russian medical periodicals are very popular and are considered informative in all aspects. American companies can leverage this by using their offices in Russia to help them enter the Azerbaijani market. Familiarity with the Russian language and short shipment times from Russia to Azerbaijan may also speed up the deal. The Internet is a very good source of information for importing companies and for the procurement divisions of city hospitals and clinics.

Resources

[Return to top](#)

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25

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Contact: Mr. Oktay Shiraliyev, Minister
Mr. Samir Abdullayev, Head of International Relations

BIHE (Baku International Healthcare Exhibition) is the largest specialized and multi-profiled event in the field of medicine held annually. BIHE has been held since 1995 and annually features more than 70 domestic and international companies. Every year the exhibition receives about 10,000 visitors. The Ministry of Health officially supports BIHE.

For more information on BIHE 2006, please contact <http://www.ite-exhibitions.com/health/>

Construction Sector

Overview

[Return to top](#)

Azerbaijan has been going through a major residential, commercial, industrial, and public infrastructure construction boom, overwhelmingly concentrated in its capital, Baku.

The regulatory framework has been lagging behind the local construction boom. The government restructured state entities in charge of construction licensing and inspection, by moving all inspection functions to the State Construction Safety Agency within the Ministry of Emergency Situations. Much work remains to be done, however, to update Soviet-era construction rules and guidelines.

The construction market in Azerbaijan has rapidly evolved from a state-controlled monolith to one rich with private architectural, design and building firms with a thirst for the latest Western technologies and building materials. The lack of acceptable financing (i.e., bank loans and working capital on reasonable terms) forces Azerbaijani construction companies to rely on private capital. However, for targeted proposals backed by trade financing, there is potential business growth for U.S. firms with an interest in this challenging market.

Public infrastructure construction, residential and commercial real estate development, and related demand for modern construction equipment and materials are key areas of growth.

Public infrastructure construction projects have been historically financed by international lending. However, the Government of Azerbaijan has been shifting from such projects to those funded directly from the budget. Large highway and railroad upgrade projects are still funded jointly with major international financial institutions, such as the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank, as well as other major financial groups. U.S. companies are advised to work both directly with the Ministry of Transportation, as well as leading local construction companies with proven track records and audited reports.

Residential construction, whether multi-story, multiple dwelling units, or detached houses, are being built throughout the capital -- almost exclusively with private money. We expect the economic crisis will be prolonged in this sector because of its sensitivity to solvent demand, which is in turn related to the economic development indices and bank liquidity. In 2009 income growth rates continued to slow. The housing put on the market in Azerbaijan in the first 11 months of 2009 covered 1,142,400 square meters (9.3% less than the same period in 2008). In order to invigorate this market, the government promptly returned to the idea of centralized mortgage lending. Prices decreased 20% on average, and even more in high-rise buildings. U.S. suppliers are advised to create medium-term buying relationships with leading Azerbaijani construction firms, particularly in the area of modern construction solutions, production of construction materials, security/CCTV systems, automatic gates/garages, windows/doors systems, and others.

For industrial construction, the main opportunities cover primarily subcontracting to energy and infrastructure companies in construction, engineering, and telecommunication sectors, as well as operational support and supplies.

Best Prospects/Services

[Return to top](#)

The Government of Azerbaijan has announced major infrastructure projects, such as the relocation of the Baku International Port and construction of three Independent Power Plants (IPPs). The government is also working closely with multilateral financial institutions to upgrade the country's highway infrastructure, which is in need of major investments.

Today's market is more results-oriented, time-sensitive, and is growing to appreciate quality materials and workmanship. Stock is also a key element for Azerbaijani firms because clients want timely delivery of building materials and services. Inventory requirements are a financial challenge and risk for construction firms operating in this country.

Building materials on the Azerbaijani market are mostly sourced out of China, Turkey, Dubai and Russia and perceived to be of lesser quality. U.S. and European materials enjoy a stronger reputation for quality and, while more expensive, are preferred by Azerbaijani consumers that are in a position to pay. Sales are often dependent on product availability in Baku. Azerbaijani consumers are often the "cash-and-carry" type and might refrain from waiting for long supply lines from the United States.

Long-term leasing of construction equipment also presents opportunities for U.S. construction equipment firms. Leasing of earthmovers, bulldozers, small forklifts, etc. -- particularly in support of hydrocarbon production, oil and gas pipelines, and public infrastructure projects -- can be a commercially viable business. Leasing is expected to become increasingly prevalent in the future, when more design and construction sub-contractor tenders are expected to be announced.

Opportunities

[Return to top](#)

Recent reforms in the Azerbaijani construction industry led to major restructuring in public and private sectors. The U.S. Export-Import Bank (Ex-Im – www.exim.gov) and the Overseas Private Investment Corporation (OPIC – www.opic.gov) are interested in developing commercially-viable projects in Azerbaijan when a U.S. equity investor is present, and U.S. investors should keep this in mind during project planning.

The Government of Azerbaijan has been borrowing internationally and increasing budget spending for infrastructure projects. The World Bank, the Asian Development Bank, and other international institutions have highway and railroad projects under way in Azerbaijan. The Ministry of Transportation recently announced plans to build 10 transportation hubs and bridges, 11 pedestrian passages and 13 underground and multi-story parking lots.

Azerbaijani government and private groups have expressed interest in the booming real estate market. The Government's goal is to build low-cost housing units for the large

refugee and IDP population. Private groups are interested in long-term high-end real estate development in Azerbaijan. Real estate development and project management companies should consider visiting Azerbaijan to meet with both government and leading private entities to learn of opportunities in the real estate sector. U.S. companies are reminded to carry out proper due diligence and obtain professional legal and tax advice before committing to do business in Azerbaijan.

Azerbaijani firms are interested in establishing long-term relations with U.S. suppliers. For U.S. firms not willing to commit resources to the relatively small market of Azerbaijan, an agent or representative may be the best initial approach. An agent will work better if the U.S. construction products/services are relatively unknown or untested in the market, as the agent will have limited overhead and inventory to test a new product in the market. For more competitive, developed market segments, a distributor provides the best option for business development. Verifying the financial bona fides of prospective partners is difficult. Given this challenge, potential exporters should plan to visit Azerbaijan to build personal relationships, set up local sales networks, or establish partnerships with local agents or distributors.

In many cases, local companies are distributors for construction materials of different brands. Chinese, Turkish, and Russian products tend to dominate this price-sensitive market. Several well-established Azerbaijani construction firms have successfully sold U.S. and European equipment and services in Azerbaijan. Due diligence should be done on any potential Azerbaijani distributor before concluding an agreement or shipment given the risks inherent in doing business in Azerbaijan.

U.S. firms looking for opportunities in Azerbaijan should focus on medium-sized, private Azerbaijani firms with a proven track record. Training and flexible stock/inventory options will help U.S. construction materials and services penetrate the Azerbaijani market. Given Baku's dominance of the market, it is best to work with a Baku-based firm for onward distribution throughout the country.

Resources

[Return to top](#)

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Lt-Gen Rafail Mirzayev, 1st Deputy Minister
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Mr. Samir Abdullayev, Foreign Relations Department

BAKUBUILD 2009: www.bakubuild.az
BAKUBUILD (Baku International Construction and Interiors, Heating and Ventilation Exhibition) is held annually and is the only specialized construction exhibition in the country. For more information on BAKUBUILD 2009, please see www.bakubuild.az

[Return to table of contents](#)

Chapter 5: Trade Regulations and Standards

- [Import Tariffs](#)
- [Trade Barriers](#)
- [Import Requirements and Documentation](#)
- [Temporary Entry](#)
- [Labeling and Marking Requirements](#)
- [Prohibited and Restricted Imports](#)
- [Customs Regulations and Contact Information](#)
- [Standards](#)
- [Trade Agreements](#)

Import Tariffs

[Return to top](#)

The following customs duties are applied in the Republic of Azerbaijan:

- a) ad valorem - to be calculated by percent of commodities for their customs value;
- b) specific - to be calculated by a determined value for a commodity unit;
- c) combined - to be calculated by joining of both types.

In 2001, Azerbaijan introduced a new tariff schedule, replacing the previous streamlined tariff regime that was established in 1997 and updated in 1999. All imports are subject to duties at uniform rates of 15, 10, 5, or 0.5 percent of the declared customs value, or are duty free.

In addition to customs duties, an 18 percent VAT was introduced in 2001, but was decreased to 17 percent in January 2010. Goods from CIS countries (except Kazakhstan) are assessed VAT in their country of origin, not in Azerbaijan. In January 2008, the Cabinet of Ministers introduced changes to the existing list of goods exempt from VAT.

Trade Barriers

[Return to top](#)

There are several barriers to trade with Azerbaijan that make doing business here difficult. Non-tariff barriers include a weak and unpredictable legal regime, arbitrary customs administration, clear conflicts of interest in regulatory and commercial matters often leading to export/import monopolies, and corruption. The Azerbaijani government's inadequate enforcement of IPR protections also counts as a trade barrier.

Import Requirements and Documentation

[Return to top](#)

Azerbaijan requires import licenses for food products of animal origin. The State Veterinary Service (SVS) issues these licenses (contact numbers are provided in Chapter 9, Appendix E).

Importation of large-scale satellite dishes and other communications equipment requires the permission of the Ministry of Communications and Information Technologies.

Importers are required to provide the State Customs Committee with:

1. Signed import contract (and contract number);
2. Customs declaration;
3. Permission(s) from the relevant state entity(ies) when applicable
4. Bill of lading;
5. Sales invoice and packing list;
6. Certificate of origin; and
7. Certificate of quality of the imported merchandise.

Exporters are required to provide the State Customs Committee with:

1. Document verifying the legal status of the business entity;
2. Legal entity's code determined by the State Statistics Committee;
3. Copy of the contract (and contract number);
4. Certificate of origin of the product being exported;
5. Document issued by an authorized bank on the pre-payment or opening of a letter of credit for the exported product;
6. Permission(s) from the relevant state entity(ies) when applicable;
7. Sales invoice and packing list; and
8. Customs declaration.

Imported goods may be kept in a Customs warehouse for up to three years duty-free. Once the goods are released from the warehouse, they are subject to all applicable duties and taxes. The Customs warehouse will also assess charges for demurrage. The rate for this charge should be negotiated with the Customs warehouse prior to consignment to the warehouse to avoid any costly misunderstandings.

Goods imported into Azerbaijan for processing and then re-exported are subject to normal duties and taxes at the time of importation. As soon as processing has been completed and the goods are re-exported, a draw-back procedure can be initiated to recover the taxes and duty paid. There is no formal procedure for submitting an application, and this process is cumbersome to use. Customs establishes the time for the processing and re-export of the goods, usually within two years. In addition, Customs may also stipulate a minimum amount of finished product be held to assure that the imported goods are utilized for the purpose intended.

Provisions for the importation of goods and equipment are an integral part of production sharing agreements (PSAs). Goods, tools, equipment, supplies, and services necessary for successfully carrying out the objectives of the PSA are generally exempt from import duties and taxes. By extension, foreign firms registered to do business in Azerbaijan and who provide services for contractor parties (CP) or foreign subcontractors (FSC) participating in PSAs may also be

exempt from duties and VAT on imported goods and equipment relevant to their work.

The following is a non-exhaustive list of items exempt from import duties:

- Goods and property for official use by diplomatic missions and equivalent missions in Azerbaijan and for private use by diplomatic and administrative employees of these missions and their resident family members.
- Goods imported on the basis of financial aid, loans and technical grants of international organizations, foreign entities, and foreign persons in accordance with inter-governmental and international treaties of Azerbaijan.
- Goods delivered to Azerbaijan for a limited term and to be returned unchanged to the country of origin under pre-defined conditions (VAT shall be paid at entrance and reimbursed at exit).
- Property of foreign employees of enterprises with foreign investment in Azerbaijan for private use.

Customs duties do not apply to goods imported under bilateral free trade treaties between Azerbaijan and foreign states. Importers are subject to the payment of a customs processing fee in the following amounts:

- if declared value of goods is 1,000 Azerbaijani manats or less – 10 AZN,
- from 1,001 AZN to 10,000 AZN – 50 AZN,
- from 10,001 AZN to 100,000 AZN – 100 AZN,
- over 100,000 AZN – 275 AZN,
- PSA goods, air transportation vehicles purchased under state guarantees, passport and personal identification templates, equipment and materials for the exporting oil and gas industry – 275 AZN, regardless of the total value of imported goods, plus 10 AZN for each additional sheet of customs declaration,
- transit transportation through Azerbaijan – 10 AZN, plus 10 AZN for each additional sheet of customs declaration,
- registration certificate for passenger vehicles, cargo vehicles, and buses – 20 AZN, for other vehicles – 15 AZN.

U.S. firms should be forewarned that customs clearances can be problematic, time-consuming, and bribes are often sought by Customs officers.

Temporary Entry

[Return to top](#)

Personal items, tools of trade, and business samples may be imported with little problem. Goods to be displayed or exhibited may be brought in as temporarily imported goods for a period of time, but must be re-exported within the time stipulated to avoid paying import duties and taxes. U.S. firms planning to exhibit at major trade exhibitions in Azerbaijan need to work closely with the show organizer well in advance to ensure timely and proper temporary declaration of goods to be exhibited. If sending samples via express mail, firms should contact the local office of the courier service to get advice on declared customs value to avoid protracted and costly problems with Customs officials. Business representatives traveling with laptops must declare them at time of

entry, but have generally not encountered problems bringing in or taking out cellular phones or laptops. Temporary entry forms covering laptops must be surrendered on departure.

Labeling and Marking Requirements

[Return to top](#)

Azerbaijani legislation imposes special rules on labeling of food and agricultural products. The labels must be in Azerbaijani. English labels are also acceptable if information in Azerbaijani is also provided, although compliance, as seen on store shelves, is spotty at best.

Azerbaijani legislation requires the following product information to appear on the label, although, again, compliance is poor:

- Name and brand of the product
- Name and address of producing company
- Country of origin
- Expiration date/shelf life
- Nutrition and caloric values
- Net weight (grams or kilos)
- Usage instructions
- Name and type of packing material
- Storage instructions
- Licensing and certification information etc.
- Special warnings, if applicable.

If the product has a shelf life of less than three months, it must include the day, month, and year of expiration. If the shelf life is more than three months but less than eighteen months, the month and year are required. Products with a shelf life of more than three years are technically not allowed for sale in Azerbaijan, however compliance is weak. Fruit products must be labeled. Another regulation requires that labels for fruit “juices” specify whether the product contains fruit juice (90-100% concentrate), nectar (25-50% concentrate), or fruit drinks (up to 10% concentrate).

Prohibited and Restricted Imports

[Return to top](#)

Government of Azerbaijan must approve, certify or license export or import of weapons, military equipment, explosives, special types of scientific and technical information for production of weapons, nuclear and radioactive materials and technologies, narcotic and psychotropic substances, blood and blood components, and export of unprocessed diamonds. In addition, it regulates the export of strategic commodities produced in Azerbaijan.

Export/import of the following goods also require government approval: wild animals and plants, and raw materials from such; information on the location of natural resources and thermal energy; works of art and antiques; results of scientific and other research, inventions; controlled psychotropic substances; medical equipment; insecticides; and veterinary drugs and substances.

Prohibited and restricted imports and exports are subject to change. Please consult with industry professionals for most up-to-date information on restrictions and regulations.

Customs Regulations and Contact Information

[Return to top](#)

Presidential decree #12 (dated November 11, 2008 and effective January 1, 2009) launched a “single window” principle at state border checkpoints to monitor both transported commodities and the means of transport. Application of the “single window” principle by the State Customs Committee should reduce the number of bureaucratic obstacles.

Valuation of goods imported into Azerbaijan is based on the declared value that appears on the invoice. Import duties of 0.5, 5, 10 and 15% are then assessed accordingly, based on the Customs Tariff schedule of the Azerbaijan Republic.

The maximum term for which goods may be stored in a customs warehouse is three years, after which they must either be declared or placed into storage facilities owned by the customs authorities.

Contact information:

State Customs Committee
2 Inshaatchilar ave.
Baku AZ1073
Azerbaijan
Tel: (99412) 438-80-80
Fax: (99412) 498-18-36
Web: <http://www.customs.gov.az/en/>
E-mail: External@customs.gov.az

Standards

[Return to top](#)

- [Overview](#)
- [Contacts](#)

Overview

[Return to top](#)

Azerbaijan uses the metric system for weights and measures. Small appliances use European standard plugs and electric connectors. The State Veterinary Service (SVS) is responsible for ensuring basic health standards on imported food and animal products. State plant quarantine inspection laws ensure standards on products that may carry diseases, pests and/or weeds that have quarantine significance for Azerbaijan. Goods subject to inspection include plants, certain foodstuffs, wood, and leather.

The State Agency on Standards, Patenting and Metrology exercises authority over functions such as patenting and other standards areas. Over the course of several years, Azerbaijan has moved from defunct Soviet standards to new Azerbaijani standards and some international standards, though this process is not yet complete. The Azerbaijani government is also moving to the adoption of many European Union standards in agricultural products.

Contacts

[Return to top](#)

For questions on standards, firms should contact the State Agency for Standards, Metrology, and Patents (see Chapter 11).

Trade Agreements

[Return to top](#)

Azerbaijan has signed bilateral free trade agreements with seven states of the former Soviet Union, although the trade liberalizing provisions of most of the agreements have not yet taken effect. Azerbaijan signed agreements with: the Russian Federation (September 30, 1992); Moldova (May 26, 1995); Ukraine (July 28, 1995); Turkmenistan (March 18, 1996); Uzbekistan (May 27, 1996); Georgia (June 10, 1996); Kazakhstan (June 10, 1997), and Tajikistan (July 13, 2007).

In 1999, Azerbaijan entered into a Partnership and Cooperation Agreement with the European Union. Among its goals is making legislation in Azerbaijan compatible with the EU body of law. This includes the protection of intellectual property rights, assets and investments, and corporate and personal belongings against abuse. It also awarded Azerbaijan most favored nation (MFN) status with the EU. In addition, Azerbaijan is working to accede to the World Trade Organization, though no serious developments have been noted recently toward completing the accession process.

Resources

[Return to top](#)

State Customs Committee: <http://az-customs.net/en/index.htm> or <http://www.customs.gov.az/>

[Return to table of contents](#)

Chapter 6: Investment Climate

- [Openness to Foreign Investment](#)
- [Conversion and Transfer Policies](#)
- [Expropriation and Compensation](#)
- [Dispute Settlement](#)
- [Performance Requirements and Incentives](#)
- [Right to Private Ownership and Establishment](#)
- [Protection of Property Rights](#)
- [Transparency of Regulatory System](#)
- [Efficient Capital Markets and Portfolio Investment](#)
- [Political Violence](#)
- [Corruption](#)
- [Bilateral Investment Agreements](#)
- [OPIC and Other Investment Insurance Programs](#)
- [Labor](#)
- [Foreign-Trade Zones/Free Ports](#)
- [Foreign Direct Investment Statistics](#)

Azerbaijan's strategic development of its oil and gas resources continues to drive the country's economic growth, and keeps this country of barely nine million people at the forefront of world energy security discussions. Unfortunately corruption, lack of transparency, politically connected economic monopolies, and cronyism remain significant obstacles to economic progress, hindering both domestic as well as foreign investment. The nearly two decade-long, and as yet unresolved, conflict with Armenia, which left the country with over 700,000 refugees and internally displaced persons (IDPs) to care for, has also been a notable drain on public coffers.

2009 once again confirmed the Azerbaijani economy's deep dependence on the global prices of oil, its main export commodity, and attendant market vagaries. The global economic crisis negatively affected both the opportunities and mood of emerging and established Azerbaijani businesses, though the country as a whole, with limited foreign debt and a general lack of integration with the global financial regime, largely escaped a serious impact. The financial and construction sectors suffered losses, but economic growth in real terms continued at a rather strong rate of over 9 percent. Fortunately, wide-scale anti-crisis measures and direct monetary injections by the Central Bank of Azerbaijan (CBA) helped to prevent a failure of the banking system; however, the insurance, securities and leasing markets were hit hard.

Sharp decreases in Azerbaijan's GDP growth rates, which reached 25-30 percent in recent years, were certainly noticed, but caused different responses from analysts and investors. Moody's Investor Service did not change Azerbaijan's ratings, but decreased the forecast on them from Positive to Stable. Fitch Ratings merely confirmed previous ratings, while Standard & Poor's changed its forecast from Stable to Positive. Foreign investments decreased significantly, mainly because of a slow period in new projects related to oil and gas. Due to increasing resource constraints, from decreases in both foreign investment and traditional budgetary inputs, Azerbaijan has begun to increase its foreign debt. This debt grew to 3.33 billion USD, an increase of eleven per cent in the first nine months of 2009. Foreign debt now comprises a relatively modest 8.7 per cent of Azerbaijan's Gross Domestic Product (GDP), and investment project credits made up

90 per cent of the external debt. These credits, also financed by the state budget, helped maintain a certain level of business activity in Azerbaijan's domestic economy. Azerbaijan's revenues failed to meet state budget projections because profit tax incomes were down significantly for the first half of the year. The state budget is normally buttressed by direct allotments from the State Oil Fund, up to 50 per cent some years. However, receiving only one quarter of the forecast revenues from the country's largest sector, oil, which reportedly makes up nearly 65 per cent of the budget's income, had a strong negative effect. Budget incomes were 50 per cent less than projected for H1, 2009. The situation began to improve in H2, but experts surmise that full income and expenditure forecasts will not be reached. Also, in spite of the global financial crisis, Azerbaijan's strategic currency reserves, held by the State Oil Fund and the Central Bank, increased to 19.1 billion USD during the year, exceeding the January 1, 2009 projection of 18.55 billion USD.

Despite public presidential statements promising focused support for the agriculture, tourism and telecommunications sectors, Azerbaijan's dependence on the oil and gas sector increased. The sector's share in Azerbaijan's industrial production reached 75 per cent, an increase of greater than 11.1 per cent. Recently, the Azerbaijani President acknowledged that national economic development would depend on oil and gas and not on the non-oil sector for the next 10-20 years. Therefore, in order to decrease economic risk, the government of Azerbaijan (GOAJ) intends to manage hydrocarbon extraction uniformly until 2020. The non-oil sector strongly diminished, with a surplus of only 1.1 per cent in October against 13.9 per cent in February and March, when it seemed the non-oil sector might be able to rescue the entire economy.

For the first 11 months of 2009, 6.44 billion manat (AZN) was invested the Azerbaijan economy from all sources of financing. This was down 18.8 per cent against the same period in 2008. Local investments totaled 5.163 billion AZN or 80.1 per cent of all investments during this period, almost four times greater than the amount of foreign capital invested in the country's economy during those same 11 months. Local investments decreased by 16.5 per cent against the same period in 2008. Foreign investments reduced by 37.2 per cent and totaled 1.281 billion AZN. The majority of domestic investments, 69.3 per cent, fell to the state sector. The state budget for 2009 allocated 4.718 billion AZN for investment purposes, of which only 2.131 billion AZN was used during the first 11 months of the year.

So how does the GOAJ manage to continue to support a constantly "growing" economy? The answer lies in its reliance on enhancements from the State Oil Fund of Azerbaijan (SOFAZ), assets of which totaled 14.2 billion USD in reserves as of October 31, 2009. Annual transfers from SOFAZ to the state budget are significant, but the GOAJ has stipulated that such transfers not exceed 50 per cent of SOFAZ's accumulated funds, while the rest be preserved as a social "safety net". The GOAJ is encouraged in its fiscal policies by the positive results of its efforts to protect the stability of the manat, the high level of foreign reserves, the relatively low level of foreign debt and increasing export-related incomes against the backdrop of recovering oil and gas prices.

The search for new exports Azerbaijan could offer to the world is still extremely passive. Sometimes this search for new exports is rather unclear or surprising, such as the production of pianos, badly assembled machines, or even the production of ostrich meat. Late in 2009, the GOAJ also stated its' intention to encourage industrial projects supporting the oil and gas sector. Related projects in the works include a methanol production plant and the construction of a shipyard in Baku. Both projects are primarily aimed at producing products for export. In the first, a private company will lead the

project, estimated to cost over 1.1 billion AZN. Construction on the factory began in 2007 and it is now 50 per cent complete. While the EBRD is stated to support this project, the first credit input of 120 million USD was received without a guarantee from EBRD. It is estimated that 30 million USD will be allotted to a quasi-joint-stock fund, where EBRD will most likely participate. Former UK Prime Minister Tony Blair, attended a signing ceremony for the enterprise in the fall of 2009. As for the shipyard, SOCAR has partnered with offshore and marine giant Keppel, which will have a 10 per cent stake in the venture.

Another hindrance to foreign direct investment is the difficulty of established Azeri businesses to adapt to standard investor-friendly practices, such as those associated with the concept of corporate governance. Because of their inability or unwillingness to comply with the attendant disclosure and financial transparency required for potential shareholders to confidently invest, many enterprises are unable to successfully market their companies on Azerbaijan's nascent stock market. There is a clear shortage of management expertise in the corporate sector.

Because of the volumes of money involved, the oil and gas sector is considered by many to be one of the greatest sources of corruption within the country, despite Azerbaijan being named the first participating country to be fully compliant with the Extractive Industries Transparency Initiative's (EITI) principles and criteria in 2009. However, corruption continues to plague Azerbaijan in every economic sector and is a serious impediment to the country's economic development. The Public Sector continues to be a common source of rent seeking, damaging both market reform potential and public moral. This leads to real amalgamation of political and economic authorities at even the most basic institutional levels. Under this system, neither commercial nor state powers can develop separately from each other. Thus, losing political power often means losing economic power, and vice versa, which leads to complete suppression of free economic competition and stagnation of true economic development. The struggle against corruption is extremely difficult under these conditions, and makes Azerbaijan's economic development even more problematic.

The official currency reserves of the Central Bank of Azerbaijan (CBA) – previously the National Bank of Azerbaijan - decreased from 10.8 billion USD to 5.09 billion in October. This decrease occurred after an increase of 6.6 per cent was observed in the previous three months. According to the CBA, its reserves have decreased 1.04 billion USD (17 per cent) since early 2009. CBA experts attribute this decrease to the dwindling of hard-currency reserves in Azerbaijan's commercial banks, the expenses of maintaining the manat's convertibility rate, and with the direct support of Azerbaijan's economy by the CBA that started in H2 of 2009.

According to the Heritage Foundation's 2010 Economic Freedom Index, Azerbaijan's economic freedom score is 58.8, making its economy the 96th freest of the 179 countries ranked. Its overall score is 0.8 points higher than last year, reflecting an improvement in investment freedom offset by modest declines in several other factors. Azerbaijan is ranked 16th out of 41 countries in the Asia-Pacific region, and its overall score is above the regional average but just below the world average.

The GOAJ officially welcomes foreign direct investment, realizing that it plays a vital role in development of the country's economy. Since 1994, Azerbaijan has attracted significant amounts of foreign investment to develop further its energy sector. However, government bureaucracy, weak legal institutions and predatory behavior by politically connected monopolistic interests continue to hinder investment outside of the energy sector. The application of the "single window" principle to Azerbaijan's Customs Service in January 2009 did not improve the country's rating in the World Bank's Doing Business Report for 2010. Azerbaijan even depreciated a step on the International Trade Management rating and became 177 of the 183 countries investigated.

The Law on Protection of Foreign Investments permits foreign direct investment (FDI) in any activity open to a national investor unless otherwise prohibited by law. Foreign investors can participate, according to the legislation, in privatization of state and municipal properties, as well as in properties with unfinished construction. In Azerbaijan, foreign investments have complete and unreserved legal protection granted by this law, other laws and international contracts. The Law on Protection of Foreign Investments permits foreign direct investment in most sectors. Prohibited areas include those relating to national security and defense, and the government carefully controls other key sectors, such as energy and communications. Non-transparent, arbitrary, and corrupt government bureaucracy; weak legal institutions; and predatory behavior by politically connected monopolistic interests have severely hindered investment outside of the energy sector. The law provides that Azerbaijan will treat foreign investors in a manner "not less favored" than the treatment accorded to local investors and allows repatriation of profits, revenues, and other investment-related funds as long as applicable taxes have been paid. Azerbaijan regulates most foreign exchange and capital transactions. Foreign citizens and enterprises may lease but may not own land. Expropriation may occur in the event of natural disaster, epidemic, or other extraordinary situation. Foreign investors are legally entitled to adequate compensation.

Azerbaijan is not yet a member of the World Trade Organization (WTO), but the GOAJ, with much international technical assistance, has been working to amend existing legislation in order to accede. The progress made in 2008 to achieve its rank as the World Bank's "Doing Business 2009" number one reformer ranking, and the adoption of many WTO-compliant legal reforms have been a visible result of the GOAJ's desire to accede to the WTO. The Ministry of Economic Development has been tasked to lead the WTO accession process, and Azerbaijan held two WTO Working Party Meetings in Geneva in 2008, in addition to bilateral discussions with USTR and the EU. Creating a stable and predictable business environment is especially crucial to attract investment to the non-energy sector. At present, however, efforts to improve the practical business environment are yet to be realized and Azerbaijan remains a challenging market in which to do business.

A "one-stop shop" system was applied at the State Migration Service beginning July 1, 2009. According to a Presidential Decree dated March 4, 2009, foreigners and people without citizenship arriving in Azerbaijan will be granted legal residence and work permits according to the single window principle within 7 days of application. The fee to acquire a one-year license for a migrant worker is equal to 1000 AZN (approximately 1250 USD).

Under Azerbaijani law, foreign investors may participate in the Azerbaijan market through joint ventures with local companies, or by establishing subsidiaries wholly owned by foreign investors, as well as through representative offices and branches of foreign legal entities. The Law on Protection of Foreign Investments provides that the

Azerbaijani government will treat foreign investors in a manner "not less favored" than the treatment accorded to local investors. This law provides for repatriation of profits, revenues, and other investment-related funds so long as applicable Azerbaijani taxes have been paid. The law also provides a 10-year grandfather clause in the event new legislation less favorable to the foreign investor is adopted. However, this provision does not apply to changes in tax legislation.

While the GOAJ employs no formal screening mechanisms for general foreign investment, the process of registering an enterprise with the Ministry of Justice serves as a de facto screening process. Although by law this step is required only to determine that the documents of enterprises seeking registration are in order; the Ministry operates in a non-transparent and arbitrary manner. Credible reports indicate that ministry officials make extra-legal determinations of whether individual foreign investments are of an "appropriate" nature before making decisions about registration. Some investors have alleged that they have received demands for bribes or other illicit payments when attempting to register their enterprises.

Conversion and Transfer Policies

[Return to top](#)

Azerbaijan has a liberal exchange system, and, in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency and at a legal, market-clearing rate. Conversion is carried out through the Baku Interbank Currency Exchange Market and the Organized Interbank Currency Market. The Baku Electronic Currency Exchange System (BEST) was launched in July 2002. Cash exchange is carried out at numerous currency exchange points and no difficulties exist in obtaining foreign exchange.

Since 2001, the CBA has required that cash transactions be conducted in Azerbaijani manats. The average delay for remitting investment returns is two to three business days. Additional requirements relating to the disclosure of the source of currency transfers have been imposed in an attempt to reduce illicit transactions. Parliament amended legislation in 2007 to eliminate custom duties for cash currency exports, a move that is in-line with a WTO requirement and is believed to help ease inflationary pressures. The Tax Ministry has occasionally frozen bank accounts of companies that it believes have failed to meet their tax obligations.

A bill on non-bank lending agencies passed in Parliament on 25 December 2009, which will considerably improve the accessibility of financial services for the population and entrepreneurs. The State Committee for Securities continues to try to create a full-scale market of trading at the stock exchange. Approximately 20 companies that have applied for a listing on the Baku Stock Exchange (BSE) should appear in the stock market by the middle of 2010. The State Committee for Securities is also looking for new financial tools that could be introduced in the market, especially, debt conversion bonds. The value of deals with corporate bonds, state bonds and non-investment securities has increased this year. Mortgage bonds have also helped to invigorate the market. The bonds of 2009 have been floated almost completely (44 million AZN of the 55 million AZN). The Azerbaijan Mortgage Fund can issue bonds totaling at least 100 million AZN.

Expropriation and Compensation

[Return to top](#)

The Law on Protection of Foreign Investments protects foreign investors against nationalization and requisition except under certain specified circumstances. Nationalization of property to prevent harm to the population or damage to the state interests of Azerbaijan is possible by parliamentary resolution. Requisition by a decision of the Cabinet of Ministers is possible in the event of natural disaster, epidemic, or other extraordinary situation. In the event of nationalization or requisition, foreign investors are entitled by law to prompt, effective, and adequate compensation. There have been no cases of nationalization or requisition against foreign firms in Azerbaijan.

Dispute Settlement

[Return to top](#)

Disputes or disagreements arising between foreign investors and enterprises with foreign investment; state bodies of the Azerbaijan Republic; or enterprises, public organizations and other legal entities of the Azerbaijan Republic are to be settled in Law Courts of the Azerbaijan Republic or, on agreement between the Parties, in a Court of Arbitration, including those abroad. Dispute settlement mechanisms exist in Azerbaijan, but effective means of protecting and enforcing property and contractual rights are by no means assured. While the Azerbaijani government does not officially interfere in the court system, in practice courts are weak; judges often inexperienced, easily intimidated or bought off; and progressive new tax and other economic legislation poorly understood. The Economic Court, which has jurisdiction over commercial disputes, is weak, widely regarded as corruptible, and its decisions are often inconsistent. The Civil Procedure Code of September 2000 sets forth basic civil legislation. Since 2000, the Law on International Arbitration provides for the possibility of local arbitration in international commercial matters. However, in practice arbitration is seldom used to resolve disputes. A Bilateral Investment Treaty between the U.S. and Azerbaijan, which came into effect in 2001, provides U.S. investors with recourse to the International Center for the Settlement of Investment Disputes. Azerbaijan is a party to the World Bank Convention on the Settlement of Investment Disputes between States and Nationals of Other States and is also a member of the Multilateral Investment Guarantee Agency (MIGA). Azerbaijan is also a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which provides for binding international arbitration of investment disputes between foreign investors and the state. The Civil Procedure Code provides that foreign arbitral awards may be enforced in Azerbaijan so long as they do not contravene local legislation or public policy, and if reciprocity exists. Investment disputes have arisen in Azerbaijan when a foreign investor's success threatened well connected or favored local interests. Reportedly, resolution of such disputes has occasionally involved the foreign investor acquiring a local partner with strong ties to influential persons. Azerbaijan's bankruptcy law does not function effectively and is rarely used. However, USAID continues to work directly with the Ministries of Economic Development and Justice to promote a legal/regulatory reform of the bankruptcy/business closure system.

Performance Requirements and Incentives

[Return to top](#)

Azerbaijan has not yet developed effective incentives to attract foreign investment, other than the incentives provided by Production Sharing Agreements in the oil and gas sector; however a special economic zone law was created and passed by Parliament on 25 December 2009. Performance requirements are not imposed on new investment, but investors who participate in the privatization process of enterprises often assume

specific obligations regarding future investment and employment. Foreign investors are not required to purchase from local sources or export a certain percentage of output. Except for certain state monopolies, there is no requirement that nationals own shares in enterprises. Investors in PSAs assume obligations and requirements as provided within the PSA.

There are currently no legal requirements for employment of host country nationals, though this policy may be under review by parliament. Employers wishing to hire foreign workers in Azerbaijan must obtain a license from the Ministry of Labor. Foreigners who wish to work in Azerbaijan must register with local authorities at their place of residence and obtain work permits from the Ministry of Labor. Heads of representative offices and branches of foreign legal entities and their deputies do not require work permits, because they are not considered migrant laborers. In 2008, the Government introduced a work permit regime for all immigrant employees. Unfortunately, due to a lack of transparency and printed fee schedule, there exist opportunities for confusion and corruption.

As of July 1, 2009 Azerbaijan began applying “one window” principle to the State Migration Service; however, reports of the efficacy of the new system are varied.

Right to Private Ownership and Establishment

[Return to top](#)

Under Azerbaijani law, foreign investors may engage in investment activities not prohibited by law. Private entities may freely establish, acquire, and dispose of interests in business enterprises. In practice, access to markets, credit and other business operations is often impeded by licensing and other regulatory requirements and by politically connected business interests that can mobilize the powers of the state to their advantage. In sectors of interest to certain senior government and political figures, competition is actively impeded through administrative barriers.

Legislation regulating real property rights include the Law on Mortgage (2005), Land Code of the Republic of Azerbaijan (1999), the Law on Land Reform (1996), the Law on Land Leasing (1999), and the Law on Land Market (1999). New laws on collateral and cadastral law have been drafted which could significantly strengthen creditor rights, and improve the transparency and fluidity with which markets for real and moveable property function. Azerbaijani citizens and legal entities, including enterprises with foreign investment, can legally own, buy, sell, and trade property. Foreign citizens and enterprises may lease, but cannot own, land.

Protection of Property Rights

[Return to top](#)

Azerbaijan's judiciary is corrupt and inefficient and does not function independently of the executive. The poor quality, reliability, and transparency of governance, as well as regulatory abuse and poor contract enforcement, significantly impede the ability of many companies to do business. Politically connected business interests benefit from their control of lucrative sectors. Amendments to the Civil Code adopted in 2007 that permit the authorities to forcibly purchase property are likely to create additional opportunities for the abuse of property rights.

Secured interests in property, both movable and real, are technically recognized. While the Government, together with World Bank, has been working to improve the property registration system, the system is filled with bureaucratic requirements and is generally seen as corrupt and inefficient. In 2006, the Government centralized the processing of

residential real estate transactions through a network of notary offices under the Ministry of Justice.

In the mid-1990s, Azerbaijan began implementing a national system for registering and protecting intellectual property rights with the assistance of the World Intellectual Property Organization (WIPO), of which it is a member. Azerbaijan enacted improved copyright legislation (Law on Copyright and Related Rights) in 1996, patent legislation (Law on Patents) in 1997, and trademark protection legislation (Law on Trademarks and Geographic Names) in 1998. Azerbaijan is also a party to the Convention Establishing the World Intellectual Property Organization, the Paris Convention for Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works. Azerbaijan is also a party to the Geneva Phonograms Convention, and acceded to the two WIPO Internet treaties in 2005.

The State Copyright Agency has formed an anti-piracy commission, with representatives from various ministries. While the Agency has made some progress by conducting raids and initiating civil court proceedings for violation of copyrights, in practice, there is extremely limited enforcement of intellectual property rights. Pirated software and movies, as well as knock-off clothing and luxury items, are widely available in Azerbaijan; whereas, in contrast, legitimate movies are not. Shortcomings in its intellectual property rights laws and enforcement thereof resulted in Azerbaijan remaining on the U.S. Special 301 Watch List from 2000 to 2005. Improvements in IPR enforcement allowed Azerbaijan's removal from the list in 2006. As part of its WTO accession program, Azerbaijan has recently developed a range of WTO-consistent IPR legal and regulatory reforms, which could significantly strengthen IPR rights and enforcement protections, particularly if enforced.

Transparency of Regulatory System

[Return to top](#)

Although the Azerbaijani government has improved its regulatory system in the past several years, lack of transparency and allegations of corruption remain key problems in this area. The lack of transparent policies and effective laws to establish clear rules and foster competition are particularly serious impediments to investment. Informal bureaucratic control mechanisms often impede with application of laws and regulations and hinder competition.

While laws and decrees are usually published in one of the country's official newspapers, implementation is often delayed while regulations are developed. Those regulations in many cases are not published or distributed. In 2008, the government began a concerted effort to improve the transparency and predictability of the business regulatory environment with the assistance of USAID, the World Bank (WB) and the International Finance Corporation (IFC). This is reflected in the well published progress made in the World Bank's 2009 "Doing Business" rankings. The major areas of improvement included establishing a one-stop shop for business registration, streamlining property registration and transfer procedures, automation of key tax administration processes, broadened coverage of the credit registry system, and improved corporate governance guidelines. The improvements made generally benefit local small businesses more than they benefit large foreign investors. Significant areas for improvement remain, including customs operations, business closure, and business permitting systems. And while Azerbaijan maintained its ranking, it did not improve significantly from the 2009 to the 2010 report.

Previously, Azerbaijan announced plans to adopt 29 national accounting standards to be in-line with International Financial Reporting Standards (IFRS) by 2009. Audited financial statements have only been adopted in banking and finance, where foreign ownership is most advanced.

Moore Stephens published a new report covering the Extractive Industry Transparency Initiative (EITI) in Azerbaijan in December, 2009. According to the report, non-resident companies operating in Azerbaijan extracted 92.8 million barrels of oil and 2,086 million cubic meters of natural gas in H1 of 2009. Those foreign companies paid a total enterprise profit tax of 133.061 million AZN and transit fees of 6.2 million AZN. The Local companies paid royalties of 40.6 million AZN, a total enterprise profit tax of 136.1 million AZN and other taxes of 46.3 million AZN. The foreign companies contributed 62 million USD and 356 million AZN to Azerbaijan's government in the period reported. In Transparency International's annual report on corruption perception in the world, Azerbaijan ranked 143rd on the list, while neighboring Armenia and Georgia ranked 120th and 66th, respectively. In 2008 Azerbaijan ranked 158th. The most corrupt spheres in Azerbaijan are considered to be law enforcement agencies, organs of executive power, medicine, and education.

Efficient Capital Markets and Portfolio Investment

[Return to top](#)

As of December 2009, there were 46 banks in Azerbaijan. The banking sector is dominated by the International Bank of Azerbaijan (IBA), which controls more than 50 per cent of the banking sector. Foreign ownership in the banking sector is limited to 50 per cent on an aggregate basis. There are 23 banks with foreign capital. According to the CBA, as of December 2009, total assets of the Azerbaijan banking system were 13.9 billion USD. Banks' assets rose by 12.7 per cent year-on-year. As of December 1, 2009 the volume of individual deposits in the Azerbaijani banks equaled 2,251,700,000 AZN. In 2007 Azerbaijan established the National Depository Insurance Fund, which, as of December 2000, had 42 banking members. The average cost of credit ranges from 20 to 24 per cent, and the maximum interest rate on protected deposits is also quite high (15 per cent). The amount of guaranteed secure deposits has also increased to 30,000 AZN.

In early 2009 the Central Bank of Azerbaijan's (CBA) took unprecedented measures (as did many other countries) to support the banking system, which began to recover in April. A variety of methods were used, including decreasing the refinancing rate for a short time to 2 per cent, decreasing the mandatory reserve rates and providing direct credit support for several banks, including two larger banks. After stabilizing the bank system, the CBA began to directly financing the real economic sector under state guarantees at the GOAJ's request. For the first time the CBA had the right to provide long-term credits in AZN and hard currency. The measures taken to maintain the economy and banks' liquidity (CBA provided them with over 1.8 billion AZN) helped to sustain economic growth in Azerbaijan. After brief reduction in January 2009, the CBA's official currency reserves grew by 88.2 million USD (1.7 per cent) in November, totally 5.18 billion USD. Nevertheless this was 955.9 million USD (15.6 per cent) less than in early 2009. About one-third of these funds were spent on currency interventions. The rest of the losses resulted from a decrease in the commercial banks' currency reserves created on external liabilities and kept in the CBA. The average annual inflation for the first 11 months of 2009 against the same period of 2008 was 1.5 per cent.

Previously, a presidential decree required installation of point of sale (POS) terminals in all shops within two years beginning in January 2006. Despite some progress in installation of POS terminals, the vast majority of stores and restaurants still do not carry POS terminals or, if they do, avoid running card transactions to minimize taxation. The Baku Interbank Currency Exchange (BICEX) carries out inter-bank auctions of foreign exchange and Treasury bill auctions are conducted by the Baku Stock Exchange, established in 2000. Overall the securities market remains at a very nascent stage of development. In June 2009, Fitch Ratings affirmed Azerbaijan's long-term issuer default ratings as BB+ with a stable outlook. In December, Standard and Poor's announced an upgrade to its outlook on Azerbaijan from stable to positive, while maintaining its long- and short-term sovereign credit ratings at BB+ and B, respectively. In June 2009 Moody's Investor Service lowered its outlook on Azerbaijan's Ba1 issuer rating from positive to stable. Moody's Weighted Average Bank Financial Strength Rating for Azerbaijan remained "E+".

Political Violence

[Return to top](#)

There have been no acts of political violence against U.S. businesses or assets, nor against any foreign-owned entity. The risk of political violence affecting foreign investors remains minimal. In 2006 and 2007, the Azerbaijani authorities arrested two separate groups that were accused of plotting terrorist acts against Western interests. Police periodically use force to disperse unauthorized demonstrations or spontaneous acts of public discontent; police also used force to break up a peaceful protest of conflict in Gaza in January 2009.

Corruption

[Return to top](#)

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain

foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/docs/dojdocb.html>.

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. This country is party to [add instrument to which this country is party], but generally all countries prohibit the bribery and solicitation of their public officials.

OECD Antibribery Convention: The OECD Antibribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA. [Insert information as to whether your country is a party to the OECD Convention.]

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. [Insert information as to whether your country is a party to the UN Convention.]

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS

Convention has 33 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>) [Insert information as to whether your country is a party to the OAS Convention.]

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see www.coe.int/greco.) [Insert information as to whether your country is a party to the Council of Europe Conventions.]

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and transnationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: <http://www.ustr.gov/trade-agreements/free-trade-agreements>. [Insert information as to whether your country has an FTA with the United States: Country [X] has a free trade agreement (FTA) in place with the United States, the [name of FTA], which came into force. Consult USTR Website for date: <http://www.ustr.gov/trade-agreements/free-trade-agreements>.]

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department’s Advocacy Center and State’s Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center “Report A Trade Barrier” Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA: The Department of Justice’s (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department’s present enforcement intentions under the antibribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ’s Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

POST INPUT: Public sector corruption, including bribery of public officials, [remains a major/minor challenge for U.S. firms operating in xxx xxx. Insert country specific corruption climate, enforcement, commitment and information about relevant anticorruption legislation.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a “Lay-Person’s Guide to the FCPA” is available at the U.S. Department of Justice’s Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of

the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wqi/sc_country.asp. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://go.worldbank.org/RQQXYJ6210>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

Corruption is a significant deterrent to investment in Azerbaijan, especially in the non-energy sector. Laws and regulations that exist to combat corruption have not been effectively enforced. A new anti-corruption law came into force in January 2005. Under the terms of the law, a new commission has the authority to require full financial disclosure from government officials. However, Azerbaijan made little progress in implementing this law. The Azerbaijani government recognizes that corruption is a problem, although it frequently disagrees with the results of international rankings produced by groups such as Transparency International. Popular opinions identify the State Customs Committee as the institution of greatest concern to businesses in Azerbaijan, followed by the Ministry of Taxation. Corruption appears most pervasive in the regulatory, tax and dispute settlement systems. Throughout the country, problems in the quality, reliability and transparency of governance, as well as abuse of the regulatory system and poor contract enforcement, significantly impede the ability of many companies to do business in Azerbaijan and have driven many companies, including some major Western firms, from the market.

In the past several years, politically connected businesses appear to have benefited from government regulatory and other decisions to achieve effective control over several lucrative sectors of the economy, and U.S. investors have been among those victimized. Currently, powerful state-owned enterprises, such as the Azerbaijan State Caspian Shipping Company (CASPAR) and Azerbaijan Airlines (AZAL), have protected their commercial interests by blocking new entrants into the market through the exercise of their regulatory authority -- a clear conflict of interest. A focus of current international community work in Azerbaijan is combating corruption and improving governance. In

2004, Azerbaijan joined the Council of Europe's Group of States against Corruption (GRECO), but Azerbaijan is not a signatory to the OECD Convention on Combating Bribery.

In 2009 Azerbaijan became the first participating country to achieve “fully compliant” status in Extractive Industries Transparency Initiative (EITI), which it joined in 2004 to promote more transparent management of oil revenues. As part of its obligation under this program, Azerbaijan issues annual and semi-annual reports and released its 11th EITI report on 14 December 2009 covering the period Jan-Jun 2009.

Over the past few years the GOAJ has spent large amounts on developing Azerbaijan's road-transport system; however the absence of proper financial controls opens broad opportunities for corruption in implementing these projects. This was the core opinion expressed by the EITI Public Unions Coalition, a union of social watchdog NGO's, at their December 2009 conference entitled: "Prospering Baku: how much does it cost us?" Local economics expert, Gubad Ibadoglu stated in his report that the financing of major projects from the state budget do not follow standard best practices for cost benefit analyses. He pointed out that contractors for these lucrative projects are not selected through tenders; they are appointed. He also noted that these large social investment projects are not even monitored by the state Accounting services. Such projects include: the reconstruction and expansion of Heydar Aliyev avenue (estimated to value over 40,691,000 AZN), a new road from Azizbekov metro station to the international airport (298,492 AZN), the construction of an intersection near the Excelsior Hotel (95,590,100 AZN) , and the construction of an intersection near Azizbekov metro (128,896,400 AZN). Al Jazeera broadcast an intriguing report in 2009, claiming that a government-funded road from Baku to the airport was built at a cost of 23 million USD per kilometer, while a World Bank-funded road south of the capital was built at a cost of 1.5 USD million per kilometer.

Bilateral Investment Agreements

[Return to top](#)

Azerbaijan has signed agreements on mutual protection of investments with 39 countries and on the avoidance of double taxation with 38 countries. On October 18, 2000, the U.S. Senate ratified the Treaty between the Government of the United States of America and the Government of the Republic of Azerbaijan Concerning the Encouragement and Reciprocal Protection of Investment (commonly known as a "Bilateral Investment Treaty" (BIT). Azerbaijan and the U.S. exchanged instruments of ratification on July 3, 2001, and the treaty entered into force on August 2, 2001.

In addition to the above agreements, Azerbaijan has bilateral investment protection agreements with the following countries: Austria, Belgium, Bulgaria, China, Egypt, Finland, France, Georgia, Germany, Greece, Iran, Italy, Kazakhstan, Kyrgyzstan, Latvia, Libya, Moldova, Pakistan, Poland, Saudi Arabia, Switzerland, Turkey, UAE, Ukraine, and the United Kingdom.

OPIC and Other Investment Insurance Programs

[Return to top](#)

OPIC provided 100 million USD in political risk insurance to U.S.-based financial institutions and U.S. equity partners in the Baku-Tbilisi-Ceyhan oil pipeline. In 2002, OPIC invested 50 million USD in Soros Investment Capital for projects targeted to all

three Caucasus countries. OPIC also disbursed a 4.6 million USD loan to Caucasus Airlines, a regional air carrier based in Tbilisi. Caucasus Airlines ceased operations in late 2004 after a dispute arose with Azerbaijan's state air carrier AZAL over terms on the Baku-Tbilisi route. In 2005, OPIC provided financing to Baker Oil Tools for a joint venture with the State Oil Company of the Azerbaijan Republic (SOCAR). In 2006, OPIC provided USD 7.5 million to ShoreBank International Ltd for SME and mortgage loan portfolio expansion in Azerbaijan.

In March 2004, the Export-Import Bank of the United States (Ex-Im Bank) provided a 19.3 million USD loan guarantee to Saba, Inc., a mid-sized U.S. company, for engineering, design, and construction services to build a business and residential center in Baku.

In December 2009, the Israel Export Insurance Corp. Ltd. (ASHRA) provided a project loan guarantee to Azerbaijan for the first time. The Ministry of Transport of Azerbaijan announced that country's finance and transport ministers signed a loan agreement with France's BNP Paribas to reconstruct several highways in Azerbaijan. The 270 million USD loan was designed to reconstruct a 156 km section of the Baku-Shemakha-Yevlakh (M4) highway, total length 280 km, from Muganli-Yevlakh. The loan was granted for 14 years with a 4-year grace period, and will be repaid in six-month tranches – on 15 June and 15 December every year. Loan rate is rate of 6-month LIBOR in US dollars plus a margin of 3.5 per cent per annum. 70 per cent of the loan will be provided by BNP Paribas (189 million USD) and 15 per cent by Israel's BANK LEUMI LE ISRAEL B.M. and BANK HAPOALIM B.M (40.5 million USD).

Labor

[Return to top](#)

Azerbaijan has an abundant supply of qualified, trained technicians and skilled and unskilled laborers at attractive rates to employers. At the same time, companies cite increasing problems with hiring skilled professional staff, which could be result of a decline in quality education and labor emigration. The collapse of the old Soviet industrial sector in this country during the 1990s resulted in large numbers of Azerbaijanis becoming unemployed or underemployed. Government sources estimate the rate of unemployment at six-seven per cent, but other sources quote up to twenty per cent or more, with underemployment much higher. As of September 2008, the minimum monthly wage was 75 AZN (a 25 per cent increase). President Aliyev ratified a law on December 22, declaring the living-wage for 2010 to be 87 AZN. This means there are many workers, including government employees whose official salaries put them below the poverty line. A Labor Code that took effect in 1999 regulates labor relations. The workweek is generally forty hours, the right to strike exists, but industrial strikes are rare. Azerbaijan is a member of the International Labor Organization (ILO) and has ratified more than 50 ILO Conventions. Azerbaijan is currently working with the World Bank on a program to reform the state pension system. In the first 11 months of 2009, the State Migration Service received over 40,000 registration appeals. About 2,000 migrant workers were registered in Azerbaijan three years ago during the same period. Most are from CIS countries such as Georgia and Russia, but also Turkey, Iran, the U.S., and UK. The State Migration Service also receives frequent appeals from foreigners seeking refugee status in Azerbaijan. Most are from Pakistan and Afghanistan and some are from Iran.

Foreign-Trade Zones/Free Ports

[Return to top](#)

Although the government announced in 2003 its intention to create special economic zones, there are currently no foreign trade zones or free ports operating in the country. The Ministry of Economic Development has announced plans to create a special economic zone near a new Caspian port to be completed in 2012. The Ministry of Communication and Information Technologies has conducted a feasibility study to create Regional Innovation Zones with an aim to boost development of the telecommunications sector and to turn Azerbaijan into a regional information and communication technology hub.

Azerbaijan's Cabinet of Ministers has approved simplified rules for customs controls, customs checkpoints, customs clearance of goods, and the crossing of vehicles and individuals at the boundaries of special economic zones (SEZ). According to these rules, customs checkpoints may be established in the SEZ by the State Customs Committee unless otherwise provided for customs registration by the law. For these purposes, electronic control and declarations may be used. Under the new rules, goods imported into and exported from the SEZ are not subject to import duties and VAT, or customs duties and taxes (excluding excise duty).

Foreign Direct Investment Statistics

[Return to top](#)

Below numbers are the latest available from the State Statistical Committee of Azerbaijan:

Investments (million USD)	2004	2005	2006	2007	2008
TOTAL INVESTMENTS	5922.7	7118.5	8300.4	12066.1	15192.1
Foreign Investment	4575.5	4893.2	5052.8	6674.3	6847.4
Domestic Investments	1347.2	2225.3	3247.6	5391.8	8344.7

Foreign investments (mln. US dollars)

	2000	2003	2004	2005	2006	2007	2008
Total foreign investments	927.0	3371.0	4575.5	4893.2	5052.8	6674.3	6847.4
of which:							
Financial credits	262.9	238.3	293.0	698.4	983.5	1576.6	2357.9
In oil industry	546.1	2972.4	4088.1	3799.9	3422.3	4003.3	3350.7
Bonus of oil	-	58.6	21.6	1.0	17.0	68.2	3.5
Foreign companies and joint ventures	118	45.4	104.2	230.5	368.4	439.1	494.1
of which:							
Turkey	31.6	17.1	80.1	96.2	136.6	109.2	145.2
USA	11.2	4.9	8.4	24.8	70.0	78.0	87.9
Iran	2.9	-	-	1.2	17.5	4.6	-
Germany	1.7	-	2.1	21.5	17.4	22.9	48.2
Russia	-	1.2	1.8	5.1	4.6	10.7	5.8
United Kingdom	6.8	9.0	4.2	39.5	39.1	80.0	89.9
UAE	2.8	4.4	4.4	5.7	18.3	12.3	38.5
Switzerland	-	-	-	0.5	2.7	3.5	3.7
France	39.3	2.2	2.2	2.6	11.1	4.4	-
Cyprus	-	-	-	0.2	5.4	13.2	2.2
China	-	-	-	0.2	1.3	1.2	8.1
Italy	-	-	-	4.6	2.8	14.0	2.0
Pakistan	-	-	-	-	3.1	-	-
Japan	16.4	-	-	-	-	-	0.4
Other countries	5.3	6.6	1.0	28.4	38.5	85.1	62.2
Other investments	-	56.3	68.6	163.4	261.6	587.1	641.2

Major Foreign Investors:

Significant foreign investors in the energy sector include BP, Unocal, ExxonMobil, Devon Energy (Pennzoil), TPAO, Statoil, Lukoil, Itochu, Agip, ChevronTexaco, ENI, Halliburton, Schlumberger, Kvaerner, and Aker Maritime (Technip-Coflexip). Significant non-energy investments include Garadagh Cement, Castel (brewery), Coca Cola, Pepsi Cola, Azercell (mobile telephony), Bakcell (mobile telephony), Azerfon (mobile telephony), and Hyatt Hotels Baku.

[Return to table of contents](#)

Chapter 7: Trade and Project Financing

- [How Do I Get Paid \(Methods of Payment\)](#)
- [How Does the Banking System Operate](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
- [Web Resources](#)

How Do I Get Paid (Methods of Payment)

[Return to top](#)

In many areas of the economy, the vast majority of retail transactions are still done on a “cash and carry” basis. However, dependence on a cash economy is decreasing, and ATMs and credit/debit card payment machines are increasingly available in the retail market. Large transactions are accomplished through inter-bank wire transfers. Personal checks are not accepted anywhere.

How Does the Banking System Operate

[Return to top](#)

The banking system in Azerbaijan is undergoing dramatic positive changes in light of increased foreign investments and the Central Bank’s progressive policies and attitude. Many banks offer short-term trade financing, but long-term loans, project financing, and mortgages are only slowly becoming available and nearly always at steep interest rates. The Central Bank’s Mortgage Fund quickly ran out of cash in light of the very low introductory mortgage financing rates, and the Government discontinued offering low-rate mortgages in 2007 and instead started working on developing private mortgage lending. However, as of June 1, 2009 the Central Bank’s Mortgage Fund resumed issuing mortgage loans.

It is estimated that significant amounts of cash are held outside the banking sector, representing a key challenge for the Azerbaijani government to bring this capital into the formal banking system. Azerbaijan’s bankruptcy law does not function effectively. Although long-term lending is increasing and the quality of the loan book is improving, the sector plays a small role in financing the real economy and there is generally a small, albeit growing, deposit base.

Overall, lack of credit and stringent collateral requirements are key constraints to the development of private business in Azerbaijan. The existing credit supply is too limited to provide adequate support for the development of small- and medium-sized enterprises in Azerbaijan. Many private and public international institutions have built successful lending relationships with leading state-owned and private banks, and the availability of long-term trade and project finance is growing.

Outside of donor-backed credit lines, there is essentially no bank credit exceeding 12-18 months. Azerbaijani banks offer difficult lending terms, usually 15-25% interest in dollar-denominated loans with a maximum two-year term. Many Azerbaijani firms simply cannot afford such loans and turn to private sources for finance. Some Azerbaijani

banks have begun lending to the private sector, including construction, telecoms, and food processing and packaging. U.S. firms are advised to consult external sources of finance, including the U.S. Export-Import Bank and other development banks that can often offer trade and project finance that is either unavailable or too expensive from local commercial banks.

Western businesses use a handful of local banks for their local business dealings. The state-owned International Bank of Azerbaijan (IBA), the private Bank Standard, Unibank, Technika Bank, Bank Respublika, and AzeriGasBank are among the most popular and reputable. The British Bank HSBC was once widely used by expats and the Azerbaijani business community, but closed its doors in 2003. Several local banks have correspondent relationships with U.S. banks. The IBA is the only Azerbaijani bank so far to be accredited for the U.S. Department of Agriculture GSM-102 program. Citibank opened a representative office in Baku in November 2008, but not a full-service branch. The Russian bank VTB opened a subsidiary in Azerbaijan in November 2009.

Foreign-Exchange Controls

[Return to top](#)

Azerbaijan has a liberal exchange system, and, in general, there are no restrictions on converting or transferring funds into freely usable currency and at a legal, market-clearing rate. Conversion is carried out through the Baku Interbank Currency Exchange Market and the Organized Interbank Currency Market. The Baku Electronic Currency Exchange System (BEST) was launched in 2002. Some requirements relating to the disclosure of the source of currency transfers have been imposed in an attempt to reduce illicit transactions. There have been no recent changes in, nor are there plans to change, remittance policies that would tighten access to foreign exchange for investment remittances. In June 2002, the Central Bank of Azerbaijan liberalized some overseas transfer provisions for Azerbaijani legal residents, including an increase of advance payments for import transactions from \$10,000 to \$25,000 and waiver of all restrictions for withdrawing foreign currency in cash.

U.S. Banks and Local Correspondent Banks

[Return to top](#)

Name of Azerbaijani bank	Name of U.S. bank-correspondent
International Bank of Azerbaijan	American Express Bank Ltd Deutsche Bank Trust Company JP Morgan Chase Bank Citibank N.A. HSBC Bank USA Wachovia Bank N.A.
TechnikaBank	Citibank N.A. Wachovia Bank N.A. American Express Ltd
Bank Respublika	American Express Bank Ltd Wachovia Bank N.A.
AzeriGasBank	American Express Bank Ltd

	Deutsche Bank Trust Company Bank of New York Citibank
AzerDemirYolBank	American Express Bank Ltd Deutsche Bank Trust Company

Project Financing

[Return to top](#)

How to Finance Exports?

Letters of credit, confirmed by Western banks, are the usual method for small to medium transactions in Azerbaijan. Several Azerbaijani banks have long-standing relationships with Western banks (see Correspondent Accounts above) that can provide confirmation of L/C's opened by the Azerbaijani importer.

The U.S. Export – Import Bank (Ex-Im Bank) provides finance and insurance products for overseas sales of U.S. goods and services. To qualify for Ex-Im Bank support, the product or service must have at least 80 percent U.S. content. Ex-Im Bank has co-financed projects with the U.S. Agency for International Development, the World Bank, and regional development banks. Its programs often help U.S. exporters participate in development projects. Other non-traditional Ex-Im products, such as insurance, can also bring down fees for letters of credit and thus improve transaction terms.

The U.S. Trade and Development Agency (TDA) is involved in the initial phases of the project lifecycle, providing grants to assist in planning of infrastructure and industrial projects in emerging markets. In doing so, TDA facilitates partnerships between U.S. firms and local public and private sector project sponsors. Activities funded by TDA include: full or partial financing of feasibility studies, orientation visits, training grants and various forms of technical assistance. TDA has provided grants for the creation of a high-altitude air traffic control system in the Caucasus; an upgrade of the Baku refineries, a feasibility study for the Port of Dubendi; a WTO Accession Advisor to the Azerbaijani government; and a feasibility study on the development of an American MBA program at the Azerbaijan University of Construction and Architecture. TDA has also provided grants to fund consultants at the State Oil Fund (SOFAZ), the State Oil Company (SOCAR) and Ministry of Communications and Information Technology (MCIT).

The mission of the Overseas Private Investment Corporation (OPIC) is to mobilize and facilitate the participation of U.S. private capital and skills in economic and social development. OPIC assists American investors through four principal activities designed to promote overseas investment and reduce associated risks:

- Financing of businesses through loans and loan guarantees;
- Supporting private investment funds which provide equity for U.S. companies investing in projects overseas;
- Insuring investments against a broad range of political risks; and
- Engaging in outreach activities designed to inform the American business community of investment opportunities overseas.

Project Finance

Asian Development Bank

Azerbaijan became a member of the Asian Development Bank (ADB), Asia's premier non-profit financial institution, in 1999. Since joining ADB in 1999, Azerbaijan has received \$670 million in loans. ADB's operations in Azerbaijan focus on a number of major areas for assistance: direct help to the poor, narrowly focused on internally displaced persons, poverty reduction through non-oil sector development, water supply and sanitation, and renewable energy. To learn more, please contact the ADB's Baku office.

World Bank and International Finance Corporation

The World Bank is working with the Azerbaijani government to strengthen the government's institutional capacity to manage its petroleum resources and formulate key policy changes to accelerate reform. The World Bank maintains a local representative office in Baku, Azerbaijan. The International Finance Corporation (IFC), the private sector arm of the World Bank, maintains an active business development portfolio. U.S. firms should also review opportunities for World Bank consultancies and other tenders as an excellent method to establish a business presence in Azerbaijan. Contacts for the U.S. Liaison Office to the World Bank are listed in Chapter 11.

European Bank for Reconstruction and Development

EBRD has extensive involvement in the development of Azerbaijan's oil, transportation, banking and power distribution sectors. Although the Bank will continue to assist Azerbaijan's oil and gas sector in order to realize the long-awaited economic recovery and the fair distribution of the wealth created by this sector, it will pay special attention to a greater diversification of Azerbaijan's economy. To date, the EBRD's activities in Azerbaijan have focused on investments in the private sector, in particular in the banking sector, and on the financing of critical infrastructure projects. Contacts for the U.S. Liaison Office to the EBRD are listed in Chapter 11.

Web Resources

[Return to top](#)

Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

[Return to table of contents](#)

Chapter 8: Business Travel

- [Business Customs](#)
- [Travel Advisory](#)
- [Visa Requirements](#)
- [Telecommunications](#)
- [Transportation](#)
- [Language](#)
- [Health](#)
- [Local Time, Business Hours and Holidays](#)
- [Temporary Entry of Materials and Personal Belongings](#)
- [Web Resources](#)

Business Customs

[Return to top](#)

Azerbaijan is a mix of Eastern, Western, and post-Soviet business cultures. It is advisable for you to send a one-page letter of introduction of you and your U.S. firm in Azerbaijani or Russian to allow your potential Azerbaijani business partner know more about you in advance. Meetings usually start with a firm handshake and general platitudes about your trip to and first impressions of, Azerbaijan, etc. Business cards are generally exchanged during initial meetings, with one side of the card in Azerbaijani and the other in English (or Russian). Azerbaijani business people almost always offer visitors tea and sweets as a form of hospitality. Azerbaijanis tend to be very polite, but may appear to foreigners as vague and noncommittal about specifics in business transactions. Business takes time and patience in Azerbaijan, and much depends on the personal relationship you build with your Azerbaijani counterpart. A post-meeting follow-up letter capturing initial oral agreements and thanking your Azerbaijani counterpart can help build trust and friendship. Requests for meetings with government officials can take several days to confirm.

Travel Advisory

[Return to top](#)

As of January 2008, there is no U.S. State Department travel advisory in place for Azerbaijan. However, worldwide announcements for U.S. citizens to exercise caution overseas are just as applicable in Azerbaijan as in other countries.

While crime in the city of Baku has generally not been a major problem, criminal attacks on foreigners have occurred. There is a widespread perception that all foreigners carry large amounts of cash and make ideal targets. Accordingly, the Embassy advises Americans not to go out alone at night, especially in the early hours of the morning. Business visitors should arrange to be met at the airport when they arrive in Baku. In general, visiting U.S. businesspeople should take the same security precautions that they would take in any major American city. U.S. passport holders taking up permanent residence in Azerbaijan should register with the U.S. Embassy's Consular Section in order to facilitate timely dissemination of security related information (contacts below). U.S. citizens can register online at <https://travelregistration.state.gov>.

The Embassy, working closely with the American Chamber of Commerce in Azerbaijan, participates in the Overseas Security Advisory Council (OSAC), an informal group of U.S. businesses that meets to discuss security issues in Azerbaijan. Before leaving the U.S., travelers are encouraged to consult the OSAC web page at <http://www.osac.gov/> for the most current travel advisories. Any incidents involving U.S. citizens should be reported immediately to the Embassy's Consular Section (tel. 498-0335, a 24-hour number) and the local police (tel. 102).

Visa Requirements

[Return to top](#)

A valid passport and visa are required to enter Azerbaijan. All visitors to Azerbaijan are strongly urged to obtain a visa prior to arrival. The fee for processing the visa ranges from USD 131 to USD 250, depending on the validity of the visa (i.e. single or multiple entry) and the time in which it is processed. Visa applications must include a letter of invitation from an individual or organization in Azerbaijan when applying for a visa.

Visas are also available at the Baku airport; however, the Embassy advises all U.S. passport holders to obtain a visa prior to arrival if possible. The process to obtain a visa at the airport is often slow and/or chaotic, and your entry to Azerbaijan will be far more pleasant if you already hold the proper entry visa. For an airport visa, a visitor needs to submit two photographs, pay USD 131 in cash, and fill out an application (which is available at the web site listed below). The visa will be issued directly and will be valid for thirty days for U.S. passport holders (note: visas are generally valid for seven days for other nationalities). Visitors needing to stay longer than one week must apply to the consular department of the Ministry of Foreign Affairs (Address: 4 Shikhali Qurbanov Street, Baku, Azerbaijan, tel. (994 12) 493-5940, 493-9919) before the temporary visa expires. An additional fee to extend the visa will be required.

Outside the U.S., visas may be obtained from Azerbaijani embassies in Germany, Turkey, the Russian Federation, the United Kingdom, and other locations. For additional information on visa requirements, contact the Embassy of the Azerbaijan Republic, 2741 34th Street NW, Washington, DC 20008; Telephone (202) 337-5912; Fax (202) 337-5913; Website: www.azembassy.com.

U.S. Companies that require foreign businesspersons to travel to the United States should be advised that security opinions are handled via an interagency process. Visa applicants should go to the following links:

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

U.S. Embassy Baku Visa Information:
http://azerbaijan.usembassy.gov/visa_services.html

Telecommunications

[Return to top](#)

The telephone system in Baku is generally reliable. International calls can be completed but may be expensive. Cellular communication services are widely available. E-mail and full Internet service are available via local Internet providers. For start-up U.S. businesses that require reliable Internet contacts, it is best to order a dedicated ISDN or DSL line to ensure smooth communications. The Azerbaijani postal system is functional but not secure and it is not recommended to use this system for outgoing or incoming international correspondence. U.S. courier firms, such as UPS, FedEx, and PXPPost, DHL are resident in Baku and should be used to ensure delivery of business and/or personal correspondence.

Transportation

[Return to top](#)

There is a functioning subway system in Baku. However, due to severe maintenance problems, the Embassy discourages American citizens from using it. Embassy staff are not permitted to travel by subway. Buses are cheap and available, but are crowded and not recommended. Taxis rates are quite variable depending on your negotiating skills. But taxis are readily available and 4-12 AZN (5-15USD) will get you to most places around Baku. It is often difficult to find an English speaking driver, but an international-class hotel should be able to assist you with this. As an alternative, you may wish to use your phone to call the person you are meeting and have him give the driver directions (and negotiate the price for you) in the local language. Most taxis do not have meters, and to avoid confrontation it is recommended that you agree on a price before entering a taxi. Both Hertz and Avis offer rental vehicles with or without drivers. If you are considering bringing a vehicle with you from overseas, a 4X4 is recommended given the poor road conditions throughout the country and in parts of Baku.

Language

[Return to top](#)

Business can be conducted in Azerbaijani, Turkish, English, or Russian. English is increasingly used in business, however be prepared to hire an interpreter for USD100-150 per day, depending on experience. Within business circles, English is widely spoken in Baku, but outside of Baku, Azerbaijani is the easiest method to communicate. Azerbaijani and Russian lessons can be obtained readily through classified advertisements in the Caspian Business News, Baku Sun and other English-language newspapers listed below.

Health

[Return to top](#)

The health care system in Azerbaijan is far below Western-standards, under-funded, and often unable to provide even basic medical care common in the U.S. American businesspeople should ensure that all immunizations and vaccinations are up to date before arriving in Azerbaijan. A handful of clinics offer Western-standard medical care, including International SOS, the Turkish-American Medical Clinic, and MediClub. An

American-Azerbaijani joint venture provides Western-standard dental care. Major medical emergencies generally require a medical evacuation to a European destination. All U.S. travelers should ensure that they have up-to-date medical evacuation insurance to cover potential evacuation costs that can exceed \$70,000 for transportation alone.

Local Time, Business Hours, and Holidays

[Return to top](#)

Azerbaijan is located 9 hours ahead of Washington, DC, and 12 hours ahead of Los Angeles, CA. Azerbaijan observes Daylight Savings Time according to the same calendar used by the European Union. The Government of Azerbaijan does not restrict business hours. In general, businesses are open from 9:00 a.m. to 6:00 p.m. Monday through Friday. Many business and government offices also keep Saturday hours. Hours may vary considerably depending on the preference of the individual businessperson. Business appointments are rarely made before 10:00 a.m. Lunch is generally taken from 1:00 p.m. to 2:00 p.m.

The U.S. Embassy is closed for most U.S. holidays as well as many Azerbaijani holidays. A complete list of these holidays is available at <http://azerbaijan.usembassy.gov/holidays.html>. A complete list of Azerbaijani holidays (published by the President's office) is available at http://www.president.az/browse.php?sec_id=55&lang=en.

Temporary Entry of Materials and Personal Belongings

[Return to top](#)

Personal items, tools of trade, and business samples can usually be imported with little difficulty. Goods to be displayed or exhibited may be brought in as temporarily imported goods for a designated period of time, but must be re-exported within the time stipulated to avoid paying import duties and taxes. U.S. firms planning to exhibit at major trade exhibitions in Azerbaijan need to work closely with the show organizer well in advance to ensure timely and proper temporary declaration of goods to be exhibited. If sending samples via express mail, firms should contact the local office of the courier service to get advice on declared customs value to avoid protracted and costly problems with Customs officials. Business representatives traveling with laptops must declare them at time of entry, but have generally not encountered problems bringing in or taking out cellular phones or laptops. Temporary entry forms covering laptops must be surrendered on departure.

Web Resources

[Return to top](#)

Types of Visas to enter Azerbaijan:

http://mfa.gov.az/eng/index.php?option=com_content&task=view&id=22&Itemid=37

Consular Section of the Embassy of Azerbaijan in the U.S.:

<http://www.azembassy.com/new/pages.php?name=Consular>

U.S. Embassy Baku: <http://azerbaijan.usembassy.gov>

Overseas Security Advisory Council: <http://www.osac.gov>

[Return to table of contents](#)

Chapter 9: Contacts, Market Research, and Trade Events

- [Contacts](#)
- [Market Research](#)
- [Trade Events](#)

Contacts

[Return to top](#)

U.S. AND AZERBAIJANI CONTACTS

Embassy of the United States of America

Address: 83 Azadliq Avenue
Baku AZ1007, Azerbaijan
Embassy Tel: (994 12) 4980335, 4980336
Embassy Fax: (994 12) 4656671
Web: <http://azerbaijan.usembassy.gov/>
Contacts:

Donald Lu, Chargé d'Affaires, a.i.
J. Robert Garverick, Pol - Econ Counselor
Shannon Ross, Deputy Pol - Econ Chief & Regional Energy Officer
Shannon Runyon, Economic Officer
Scott Taylor, USAID Country Coordinator
Selim Ariturk, Economic/ Commercial Officer
David Sparrowgrove, Regional Security Officer
Terry Davidson, Public Affairs Officer
Warren Gray, Consular Officer

U.S. Mailing Address:
7050 Baku Place
Washington DC 20521-7050

Due to severe budget cuts and global restructuring of operations, the U.S. Foreign Commercial Service (FCS) closed its Baku office in 2003. A State Department - funded commercial representative office was opened in 2004. In 2008, Deputy Assistant Secretary Dyck and Deputy Secretary Sullivan announced in Baku that the Department of Commerce would re-establish its FCS office in Baku. A date for the re-opening has not yet been announced.

American companies seeking business opportunities in Azerbaijan should contact us at (994 12) 4980335 or e-mail BakuCommercial@state.gov. For more information, please visit: <http://www.buyusa.gov/azerbaijan>.

AMERICAN CHAMBER/BILATERAL BUSINESS COUNCILS

American Chamber Of Commerce in Azerbaijan

Address: 96 Nizami Street,
Landmark II, 2nd floor
Baku AZ1000, Azerbaijan
Tel: (994 12) 4971333
Fax: (994 12) 4971091

Email: info@amchamaz.org

Web: www.amchamaz.org

Contacts: Dan Matthews, President
Narqiz Nasrullayeva-Muduroglu, Executive Director

United States-Azerbaijan Chamber of Commerce (USACC)

Address: 1212 Potomac Street, NW,
Washington, DC 20007

Tel: (202) 333-8702

Fax: (202) 333-8703

Email: Chamber@usacc.org

Web: www.usacc.org

Contact: Mr. Mahir Iskender, Executive Director

TRADE AND INDUSTRY ASSOCIATIONS IN AZERBAIJAN

Azerbaijan Turkey Business Association

Address: 21 Istiglaliyat St, 5th floor
Baku AZ1066, Azerbaijan

Tel: (994 12) 4498882,

Fax: (994 12) 4498884

E-mail: Iragusa67@mac.com

Contact: Louette Ragusa, International Projects Advisor

National Confederation of Entrepreneurs (Employers)

Address: Hasan Aliyev Street 57, 3rd floor
Baku AZ1001, Azerbaijan

Tel: (994 12) 4657242, 4657243/44/45/46

Fax: (994 12) 4657242/43

E-mail: office@ask.org.az

Web: www.ask.org.az

Contacts: Mammad Musayev, President

AZERBAIJANI GOVERNMENT OFFICES AND KEY STATE ENTERPRISES

Note: If dialing from overseas, please use the (994 12) dialing protocol for all Baku numbers.

Office of the President of the Azerbaijan Republic

Address: 19 Istiqlaliyyat Street
Baku AZ1066, Azerbaijan

Tel: (994 12) 4923154, 4927906

Fax: (994 12) 4983328, 4980822

Web: www.president.az

Contact: Ilham Aliyev, President
Vahid Akhundov, Economic Advisor

The Cabinet of Ministers

Address: 68 Lermontov Street
Baku AZ1066, Azerbaijan
Tel: (994 12) 4980008, 4927528, 4920212,4922383
Fax: (994 12) 4926388, 4989786
Contacts: Artur Rasi-zade, Prime Minister
Mr. Agadayi Agayev, Chief of Foreign Economic
Relations Department

Ministry of Agriculture

Address: Azadlig Meydani / Government House, 3rd floor
Baku AZ1016, Azerbaijan
Tel: (994 12) 4930884, 4933745,
Fax: (994 12) 4945390
Teletype: 142216 Dask Su
E-mail: Tarana.Bashirova@fao.org
Contacts: Ismet Abbasov, Minister
Tarana Bashirova, International Relations

Ministry of Communications and Information Technologies

Address: 33 Azerbaijan Avenue
Baku AZ1139, Azerbaijan
Tel: (994 12) 4930004, 4934327
Fax: (994 12) 4987912, 4984285
Telex: 142492 Sahil Su
E-mail: international@mincom.gov.az
Web: www.mincom.gov.az
Contacts: Ali Abbasov, Minister
Ayaz Bayramov, Head of Foreign Investment Department

Ministry of Ecology and Natural Resources

Address: 100a Bahram Agayev Street
Baku AZ1073, Azerbaijan
Tel: (994 12) 4380481
Fax: (994 12) 4925907
E-mail: aliyev_isa@eco.gov.az
Web: www.eco.gov.az
Contacts: Huseingulu Bagirov, Minister
Emin Garabaghli, International Relations

Ministry of Economic Development

Address: The Cabinet of Ministers / 23 Niyazi Street
Baku AZ1001, Azerbaijan
Tel: (994 12) 4902430 / Switchboard: (994 12) 4924110
Fax: (994 12) 4902408, 4902404
E-mail: office@economy.gov.az
Web: www.economy.gov.az
Contacts: Shahin Mustafayev, Minister
Sevinj Hasanova, Deputy Minister

Azerbaijan Investment Promotion & Advisory Foundation

Address: 11, Hasan Abdullayev street

Tel: Baku AZ 1001, Azerbaijan
(994 12) 598 0147 /48
Fax: (994 12) 4990152
E-mail: office@azpromo.org
Web: www.azpromo.org
Contacts: Adil Mammadov, President
Vusal Abbasov, Acting Investment Promotion Director

Ministry of Emergency Situations

Address: 83 Tbilisi Avenue
Baku AZ1022, Azerbaijan
Tel: (994 12) 512 0013
Fax: (994 12) 512 0039
E-mail: arguge@gmail.com
Contacts: Kemaleddin Heydarov, Minister
Mr. Rafail Mirzoyev, First Deputy Minister
Mr. Erguj Kalantarli, International Relations Department

Ministry of Finance

Address: 83 Samad Vurgun Street
Baku AZ1022, Azerbaijan
Tel: (994 12) 4044701
Fax: (994 12) 4044720
E-mail: info@maliyye.gov.az
Web: www.finance.gov.az
Contacts: Samir Sharifov, Minister
Ulvi Seyidzade, Foreign Relations Department

Ministry of Health

Address: 4 Kichik Deniz Street
Baku AZ1014, Azerbaijan
Tel: (994 12) 4988559
Fax: (994 12) 4930711
E-mail: health@health.gov.az
Web: <http://www.health.gov.az>
Contacts: Ogtay Shiraliyev, Minister
Samir Abdullayev, Foreign Relations Department

Ministry of Industry and Energy

Address: 88 Hasanbey Zardabi Avenue
Baku AZ1000, Azerbaijan
Tel: (994 12) 4933824, 4470584
Fax: (994 12) 4319005
Contacts: Natik Aliyev, Minister
Rauf Hajiyev, Chief, International Relations Department

Ministry of Justice

Address: 1 Inshaatchilar Avenue
Baku AZ1000, Azerbaijan
Tel: (994 12) 4939785, 4300167
Fax: (994 12) 498-5931
E-mail: contact@justice.gov.az
Web: www.justice.gov.az

Contacts: Fikret Mammadov, Minister
Zaver Qafarov, Foreign Relations Department

Ministry of Taxes

Address: 16 Landau Street
Baku AZ1073, Azerbaijan
Tel: (994 12) 4301656, 4970668; 4038630
Fax: (994 12) 4985407
E-mail: info@taxes.gov.az
Web: www.taxes.gov.az
Contacts: Fazil Mammadov, Minister
Ilgar Akbarli, International Relations

Ministry of Transportation

Address: 1054 Tbilisi Avenue
Baku, Azerbaijan
Tel: (994 12) 4309941
Fax: (994 12) 4309942
Web: <http://www.mintrans.az/>
E-mail: office@mintrans.az
Contacts: Mr. Ziya Mammadov, Minister
Mr. Musa Panahov, Deputy Minister
Mr. Fikrat Babayev, Chief of International Relations

Department

Mr. Elmar Farajov, Head of International Projects and TRACECA Unit

Ministry of Culture and Tourism

Address: 40 U.Hajibayov str. Government House
Baku AZ1000, Azerbaijan
Tel: (994 12) 493-43-98, 493-30-02
Fax: (994 12) 493-56-05, 493-65-38
Contacts: Alulfaz
Garayev, Minister
Mr. Nazim Samedov, International Relations

Ministry of Labor and Social Protection Address: 85 S.

Asgarova str.
Tel: (994 12) 596-44-07
Contacts: Fizuli Alakbarov, Minister

State Customs Committee

Address: 2 Inshaatchilar Avenue
Baku AZ1073, Azerbaijan
Tel: (994 12) 4388080
Fax: (994 12) 4934067
Web: www.az-customs.net
E-mail: external@az-customs.net
Contacts: Aydin Aliyev, Chairman
Dilavar Farzaliyev, International Relations

State Oil Company of Azerbaijan Republic (SOCAR)

Address: 73 Neftchilar Avenue

Baku AZ1004, Azerbaijan
Tel: (994 12) 4920685, 4922312, 4921789
Fax: (994 12) 4923204, 4936492, 4971167
Web: <http://www.socar.az>
E-mail: info@socar.az
Contacts: Rovnag Abdullayev, President
Mr. Elshad Nasirov, VP of Investments and Marketing

State Oil Fund of Azerbaijan Republic
Address: 20 Bul-Bul Avenue
Baku AZ1014, Azerbaijan
Switchboard: (994 12) 4987753, ext: 132
Fax: (994 12) 4987653
E-mail: office@oilfund.az
Web: www.oilfund.az
Contacts: Shahmar Movsumov, Executive Director

State Statistics Committee
Address: 136 Inshaatchilar Avenue
Baku AZ1136, Azerbaijan
Tel: (994 12) 4381171, 4386498, 4389376
Fax: (994 12) 4382442, 4380577
Web: www.azstat.org
E-mail: ssc@azstat.org
Contacts: Arif Veliyev, Chairman
Azer Ahmadov, Foreign Relations Department

Azerbaijan Airlines State Concern (AZAL)
Address: 11 Azadlig ave.
Baku AZ1010, Azerbaijan
Tel: (994 12) 4983471, 4985388
Fax: (994 12) 4985237
Web: <http://nac-azal.com/en/index.php>
E-mail: azal_gda@Azerbaijanin.com
Contacts: Jahangir Askerov, General Director
Sabir Ilyasov, First Deputy Director

Azerenergy Joint Stock Company
Address: 10 A. Alizade Street
Baku AZ1601, Azerbaijan
Tel: (994 12) 4937358
Fax: (994 12) 4985523
Web: www.azerenerji.com
E-mail: azerenerji@azerenerji.com
Contacts: Etibar Pirverdiyev, President
Rafael Abbasov, Foreign Relations Department

Azerigaz Joint Stock Company
Address: 23 Yusif Safarov Street,
Baku AZ1025, Azerbaijan
Tel: (994 12) 4904252
Fax: (994 12) 4904255
Contacts: Alihan Melikov, Chairman

Azer Bayramov, Foreign Economic Relations Department

Azerbaijan State Railway Road Administration

Address: 230 Dilara Aliyeva Street
Baku, Azerbaijan
Tel: (994 12) 4984467, 4994400
Fax: (994 12) 5982648
Contacts: Arif Askerov, Head
Igbal A. Huseynov, Deputy Head

Baku Sea Port - International Sea Trade Port of Baku

Address: 72 Uzeyir Hajibeyov Street
Baku AZ1010, Azerbaijan
Tel: (994 12) 4930268
Fax: (994 12) 4933672
E-mail: office@bakuseaport.az
Contact: Elchin Mirzayev, General Director
Vahid Aliyev, First Deputy Director
Elman Aliyev, Chief of Commercial Department

Caspian State Shipping Company

Address: 5 M. A. Rasulzade Street
Baku AZ1601, Azerbaijan
Tel: (994 12) 4932058, 4935181
Fax: (994 12) 4935339
Web: www.caspar.baku.az
E-mail: gkmp@caspar.baku.az
Contacts: Aydin Bashirov, Chief
Ilham Mammadov, Foreign Econ Relations Department

National Bank of Azerbaijan

Address: 32 Rashid Behbudov Street
Baku AZ1014, Azerbaijan
Tel: (994 12) 4931122
Fax: (994 12) 4935541
Web: www.cbar.az
E-mail: mail@nba.az
Contacts: Elman Rustamov, Chairman of the Board

SELECT COMMERCIAL BANKS IN AZERBAIJAN

International Bank of Azerbaijan

Address: 67 Nizami Street
Baku AZ1005, Azerbaijan
Tel: (994 12) 4930091, 4930307, 4934159, 4933964
Fax: (994 12) 4934091
Web: www.ibar.az or www.ibaraz.com
E-mail: ibar@ibar.az, emil.mustafayev@ibar.az
Contacts: Jahangir Hajiyev, Chairman of the Board
Emil Mustafayev, Deputy Chairman

Bank Standard

Address: 4 H. Hajiyev Street

Tel: Baku AZ1005, Azerbaijan
(994 12) 4971071
Fax: (994 12) 4980778
E-mail: bank@bankstandard.com
Web: www.bankstandard.com
Contacts: Emin Babayev, Chairman of the Board

Bank Respublika
Address: 21 Khagani Street
Baku AZ1000, Azerbaijan
Tel: (994 12) 598 0800
Fax: (994 12) 598 0880
E-mail: info@bankrespublika.az
Web: <http://www.bankrespublika.az>
Contacts: Ms. Khadija Hasanova
Chairperson of the Executive Board

Unibank
Address: 57 Rashid Behbudov Street
Baku AZ1022, Azerbaijan
Tel: (994 12) 4982244, 4982245
Fax: (994 12) 4980953
E-mail: Faig.Huseynov@unibank.az
Web: www.unibank.az
Contacts: Faig Huseynov, Chairman of the Executive Board

Azerigazbank
Address: 16 Landau Street
Baku AZ1073, Azerbaijan
Tel: (994 12) 4975017, 4330650
Fax: (994 12) 4989615
Web: www.azeriAzerbaijanigazbank.com
E-mail: agbbank@azeriAzerbaijani.com
Contacts: Azer Movsumov, Chairman of the Board

Azerdemiryolbank
Address: 31 Garabag Street
Baku 370608, Azerbaijan
Tel: (994 12) 4447130, 4447171
Fax: (994 12) 4960977, 4411976
E-mail: damir@azerdemiryolbank.com
Web: www.azerdemiryolbank.com
Contacts: Roman Amirdjanov, Chairman of the Board

MULTILATERAL DEVELOPMENT BANKS AND TRADE AND PROJECT FINANCE CONTACTS

**Asian Development Bank (ADB)
Azerbaijan Resident Mission**
Address: 6 Bakikhanov str.
Bridge Plaza, 8th floor
Baku AZ1065, Azerbaijan
Tel: (994 12) 437 3477

Fax: (994 12) 437 3475
E-mail: adbazrm@adb.org
Web: <http://www.adb.org/Azerbaijan/>
Contacts: Mr. Faraj Huseynbeyov, OIC/Head of Team

For consultations and development of U.S.-sponsored projects with the ADB, please also contact:

Asian Development Bank (ADB)

Address: The U.S. Commercial Service Liaison Office to the ADB
25th Floor, Ayala Life-FGU Building
6811 Ayala Avenue, Makati City
Metro Manila 1226, Philippines
Tel: (63-2) 887-1345 to 46
Fax: (63-2) 887-1164
E-mail: manila.adb.office.box@NOSPAM.mail.doc.gov1
Web: <http://www.buyusa.gov/adb/>

European Bank of Reconstruction and Development (EBRD)

Address: The Landmark, 4th floor / 96 Nizami Street
Baku AZ1010, Azerbaijan
Tel: (994 12) 4971014
Fax: (994 12) 4971019
E-mail: delaeyf@ebrd.com
Web: <http://www.ebrd.org/country/country/azer/index.htm>
Contact: Francis Delaey, Head of Office

For consultations and development of U.S.-sponsored projects with the EBRD, please also contact:

U.S. Commercial Liaison Office for the EBRD

Address: EBRD, Office of the U.S. Director
One Exchange Square
London EC2A 2JN, United Kingdom
Tel: (+44 20) 7338 6000, 7894 0154, 7588 4027, 7338 7490
Fax: (+44 20) 7338 6100, 7588 4026
Web: <http://www.buyusa.gov/ebrd/>
E-mail: Sanford.Owens@NOSPAM.mail.doc.gov1
Contacts: Sanford Owens, Senior Commercial Officer
U.S Commercial Liaison Office

World Bank

Address: Icheri Sheher, 91/95 Mirza Mansur Street
Baku AZ1004, Azerbaijan
Tel: (994 12) 4921941, 4922807
Fax: (994 12) 4934766, 4921479
E-mail: sbagirli@worldbank.org
Web: www.worldbank.org/az
Contacts: Mr. Gregory Jedrzejczak, Country Manager
Ms. Saida Bagirli, External Affairs Officer:

For consultations and development of U.S.-sponsored projects with the World Bank, please also contact:

U.S. Commercial Liaison Office for the World Bank

Address: 1818 H Street, NW
Washington, DC 20433
Tel: 202-473-6168, 202-458-0120
Fax: 202-522-2630, 202-477-2967
Telex: Rca 248423
Email: blopp@worldbank.org
Web: www.worldbank.org
Contacts: Mr. Brian Lopp, Commercial Liaison
Office of the U.S. Executive Director

International Monetary Fund (IMF)

Address: 83 Samed Vurgun Street
Baku AZ1601, Azerbaijan
Tel: (994 12) 4970188, 4970189
Fax: (994 12) 4970187
E-mail: agadirli@imf.org
Web: <http://www.imf.org/external/country/AZE/index.htm>
Contacts: Aghgun Gadirli, Local Representative

International Finance Corporation (IFC)

Description: Member of the World Bank Group
Address: 90 Nizami str.
Baku AZ1004, Azerbaijan
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14th & Constitution Ave, NW
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E-mail: devans@doc.gov
Contacts: Judd Gregg, Secretary of Commerce

Office of Market Access and Compliance

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Washington, DC 20230
Tel: (202) 482-2902
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Web: www.mac.doc.gov
E-mail: Danica.Starks@mail.doc.gov
Contact: Ms. Danica Starks, Senior Desk Officer/Policy Advisor,
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(Market access and regulatory issues)

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**International Trade Administration
Trade Advocacy Center**

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U.S. Department of State

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U.S. Department of Agriculture

Foreign Agriculture Service
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Market Research

[Return to top](#)

To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/mrktresearch/index.asp>.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Please consult www.buyusa.gov/azerbaijan and www.export.gov for the latest market research on Azerbaijan, including industry sector overviews, spot market updates, and commercial news briefs.

Trade Events

[Return to top](#)

Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents/index.asp>

Iteca Caspian is the leading organizer of industry fairs and trade shows in Azerbaijan. Please check out their website for the most up-to-date information on industry events.

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[Return to table of contents](#)

Chapter 10: Guide to Our Services

The Economic Section of U.S. Embassy Baku took over the commercial functions of the U.S. Department of Commerce's Foreign Commercial Service (FCS) in Baku after it closed down in 2003 due to budgetary constraints.

While the Economic Section of the Embassy partners closely with FCS in Turkey, we are unable to provide the same level of customized services (including partner searches) that are generally available in markets where FCS operates. We invite all American businesses contemplating work in Azerbaijan to contact the Economic Section of U.S. Embassy Baku for guidance and assistance. We can be reached at:

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[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **the Department of State** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of State** may assist companies in these endeavors.