



Doing Business in Azerbaijan:

2018 Country Commercial Guide for U.S. Companies

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Doing Business in Azerbaijan

Market Overview

2017 was marked by the stabilization of the Azerbaijani economy following the economic crisis in 2015 and associated stagnation in 2016. Low world oil prices from 2014 to 2016 hit Azerbaijan's economy hard, resulting in two currency devaluations in 2015, inflation at 13% in 2017, and the closure of several banks. Azerbaijan's GDP grew 0.1% in 2017, recovering from a 3.8% contraction in 2016 as the price of oil recovered, growth in the non-oil sector increased, and the government raised public investment. According to Asian Development Bank (ADB), IMF, and EBRD forecasts, GDP is expected to grow by 1.7% to 2.5% in 2018, and by 2% to 3.5% in 2019. Exports rose by 34% and imports by 3% in 2017, resulting in a trade surplus of \$5 billion.

As a result of the economic downturn, Azerbaijan decided to diversify its economy, targeting the agriculture, regional transportation, tourism, and information/communication technology (ICT) sectors. The government heavily subsidizes machinery and other agricultural inputs, targeting hazelnuts, rice, citrus fruits, tea, tobacco, and cotton. Azerbaijan has also launched a series of projects to develop north-south and east-west trade and transit corridors as part of its New Silk Road vision to turn Azerbaijan into a logistics hub, primarily through the Port of Alat and the adjacent Free Trade Zone (FTZ). To promote tourism, the government has waived visa requirements for several countries and simplified the application process, enabling U.S. citizens to apply and receive an e-visa in as little as three hours by paying an expediting fee. The government has also created several high tech parks as part of its efforts to bolster the ICT sector.

Despite this progress, oil and gas remain the primary economic drivers and are directly responsible for 35% of Azerbaijan's GDP and almost 88% of exports, but only 5% of employment. Furthermore, since proceeds from oil and gas underpin government support to agriculture, construction and other industries, even the non-hydrocarbon sectors of the economy are sensitive to oil price changes. In May 2018, President Aliyev formally inaugurated the Southern Gas Corridor (SGC) with a "first gas" ceremony drawing from the second phase development of the Shah Deniz offshore gas field. First deliveries to Italy via the Trans-Anatolian Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP) are likely in 2020/2021.

Market Challenges

Azerbaijan's business climate remains challenging, despite government efforts to improve key indicators. The informal economy is reportedly large, but statistics relating to its scope are difficult to verify. Widespread corruption impedes the country's development. The government has taken steps in recent years to decrease low-level corruption, especially through its ASAN ("Easy") e-government service centers which serve as one-stop shops for obtaining civil documents. Azerbaijan improved its score by one point and ranked 122nd among 180 countries in TI Corruption Perceptions Index 2017. Azerbaijan continues to develop its market infrastructure, including its legal, tax and banking framework, and links to the international business community. Corruption presents a unique challenge to businesses entering Azerbaijan that want to assess the real business risks and make reality-based decisions rather than relying on perceptions.

A handful of large holding companies play outsized roles in the economy. U.S. companies working in the Azerbaijani market have reported pressure to localize production or establish joint ventures with these companies. Small and medium enterprises are often crowded out of the market by larger players who enjoy both economies of scale and privileged access to the government.

Both the public and private sectors generally lack transparency. Tender procedures remain opaque and a small number of businesses dominate certain sectors of the economy. The Law on Commercial Secrets allows companies to withhold information about their registration, ownership, and structure. U.S. citizens considering doing business in Azerbaijan are advised to conduct due diligence carefully and seek out businesses that regularly comply with third party audits by reputable international firms.

Various companies have notified Embassy officials of challenges in resolving disputes with Azerbaijani private firms and government agencies over non-payment and tax issues, citing in particular the lack of transparency and independence of the judiciary. Additionally, some companies have notified the Embassy of widespread public and private sector use of unlicensed

software and applications. Some multinational IT companies, however, have made considerable progress by engaging directly with government officials to highlight the security risks of unlicensed software and the investments IT companies would be willing to make in Azerbaijan if the government purchased licensed software.

Azerbaijan has worked to improve its regulatory system over the past several years, but opaque procedures in a number of areas and continued allegations of corruption remain problems. Historically, customs corruption has been a serious problem for most businesses. Azerbaijan's business community, however, reports tangible improvements in customs, including greater transparency through the introduction of an e-customs system, and improved and systematized customs fee collection procedures. Bureaucracy is often difficult to navigate and can take significant time, while decision-making is slow and concentrated at the highest levels of organizations. However, here too, Azerbaijan's government has taken concrete steps to improve this situation by establishing ASAN Service Centers that meet many basic business needs, such as registering companies and property titles or receiving licenses. The ASAN Service Centers are quick, efficient, boost transparency, and have been embraced enthusiastically by the general public.

Market Opportunities

Azerbaijan's hydrocarbon sector continues to present opportunities for U.S. companies, particularly service providers. The Azerbaijani Government and BP extended the Production Sharing Agreement (PSA) for the Azeri-Chirag-Gunashli group of oil fields in the Caspian Sea, establishing a base for future exploration and investment in the largest source of oil in the country. Azerbaijan seeks to diversify its economy by targeting the agriculture, ICT, transportation, and tourism sectors. U.S. suppliers of combines, harvesters, tractors, and irrigators continue to benefit from agricultural subsidies. U.S. producers of fertilizers and pesticides, however, have limited market share, despite demand for high-quality products as the government seeks to increase yields.

Azerbaijan is seeking to attract investment in its transportation infrastructure and encourage foreign companies to establish production facilities at the Port of Alat Free Trade Zone (FTZ). The goal is to encourage foreign companies to not only use Azerbaijan as a transportation route, but also locate value-added production in the FTZ. Foreign companies operating in the FTZ will be exempt from tax and customs, and operate under a simplified permitting process.

See the *Leading Sectors for U.S. Exports & Investments* section for descriptions of opportunities in various sectors, including major infrastructure projects, significant government procurement activities, and business opportunities.

Market Entry Strategy

Companies seeking to enter the Azerbaijani market should strongly consider identifying a local partner. Business is largely relationship-driven and a premium is placed on face-to-face interaction. Furthermore, having a local presence on the ground can secure business opportunities that could otherwise go to a competitor, help manage important relationships with government entities, and minimize confusion due to language or cultural differences. U.S. companies frequently report frustration when dealing with Azerbaijani partners due to delayed responses. It is not unusual for weeks to go by without emails and phone calls being answered.

The U.S. Embassy's Commercial Section can help identify potential in-country partners and facilitate communication.

Political Environment

Political Environment

For background information on the political and economic environment of Azerbaijan, please read [U.S. Department of State Background Notes](#).

Selling U.S. Products & Services

Using an Agent to Sell U.S. Products and Services

For U.S. firms entering Azerbaijan, an agent or representative may be useful, especially if the U.S. good or service is new to the market. For developed market segments, a distributor provides another option. Verifying the financial bona fides of prospective partners can be a challenge, and limited transparency and competing monopolistic interests can, at times, make identifying importers and potential distributors difficult. Potential exporters should plan to visit Azerbaijan to build personal relationships, set up sales networks, and establish partnerships with local agents or distributors. Not-for-profit trade chambers, such as the American Chamber of Commerce in Azerbaijan (AmCham) located in Baku; the U.S.-Azerbaijan Chamber of Commerce (USACC), located in Washington, DC; and the Azerbaijani government's Trade and Investments Promotion Foundation (AZPROMO), located in Baku, can provide market insights

and help in the search for an Azerbaijani partner. The U.S. Embassy in Baku also offers an international partner search as one of its paid commercial services.

Establishing an Office

Foreigners are allowed to register business entities by opening a fully-owned subsidiary, acquiring shares of an existing company, or creating a joint venture with a local partners. Foreign companies are also permitted to operate in Azerbaijan without creating a local legal entity by registering a representative or branch office with the Ministry of Taxes. Representative offices and branch offices are not considered Azerbaijani legal entities, but are subject to taxation. Azerbaijani legal entities can take the form of a Joint Stock Company, a General Partnership, a Limited Partnership, a Limited Liability Company, an Additional Liability Company, or a Cooperative.

Most frequently, U.S. companies enter the market by selecting a well-established distributor who provides logistical support, including customs clearance, warehousing, and inventory management. U.S. businesses should take care to monitor their advertising and marketing efforts to ensure success, since distributors often service multiple product suppliers. A representative office allows for greater contact with clients and control over marketing and distribution. A fully-owned subsidiary affords greater control. Local partners often encourage U.S. companies to establish joint ventures.

Under the “single window” principle, the Ministry of Taxes is authorized to register all types of commercial legal entities and is legally obligated to do so within three business days. Online registration is available at http://taxes.gov.az/modul.php?lang=_eng&name=birpencere&bolme=registration and works adequately. 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 its 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; and
6. Other documents depending on the type of business and/or the applicable tax regime.

To register a commercial entity with foreign capital, the foreign legal entity, in addition to completing and submitting items 1, 2, 4, 5, and 6 mentioned above, also should submit the following documents:

1. A resolution from the foreign legal entities' authorized body stating its intent to open an office in Azerbaijan and approving the charter of the local entity;
2. Additional information on and identification of 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 verifying the person's identity 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 other required documents copies; and
5. If required by the type of business, copies of documents indicating contributions towards charter capital.

There is a registration fee for a branch office of approximately \$130 (220 Azerbaijani manat) payable to the accounts listed at the following link: <http://www.taxes.gov.az/>.

U.S. firms should remember that all documents from the foreign legal entity must be notarized and legalized in the United States. It is compulsory to accompany any document written in English with a notarized translation into the Azerbaijani language.

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 the *Local Professional Services* section). A U.S. firm experiencing registration problems should contact the U.S. Embassy in Baku (see contact information in the *Business Travel* section).

Franchising

Franchising can be a successful retail model in Azerbaijan. The Azerbaijan Franchise Association (AFA) was established in 2007 and Azerbaijan is seeking to join the World Franchise Council. A number of leading U.S. franchises in the food, weight loss, and clothing industries operate in Azerbaijan. International hotel chains have seen significant growth. Franchises of leading Turkish and European brands are also operating in Azerbaijan. U.S. brands are encouraged to consider franchising opportunities, but may wish to partner with a local

entity to navigate the legal requirements for setting up a franchise. The Commercial Section at the U.S. Embassy also provides paid commercial services to parties interested in identifying an international partner and setting up a franchise in Azerbaijan.

Direct Marketing

In Baku, business-to-business and e-marketing to potential customers is common. Direct marketing via mobile phones is also popular. For instance, the largest mobile operator Azercell Telecom regularly sends text messages advertising discounts for clients or sales at retail shops. Person-to-person direct marketing for health and beauty products is also well known. Several prominent U.S. and foreign direct sales companies are active in Azerbaijan.

Joint Ventures/Licensing

American firms considering joint ventures (JVs) should consider the deal structure carefully before committing to a JV, particularly in the non-energy sector, which is not protected by the production sharing agreements that shield oil and gas investments. If a JV is selected as the best way to proceed, U.S. firms should ensure there is 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 a well-planned exit strategy. Several U.S. companies have reported being pressured by local partners to establish joint ventures and localize production.

U.S. companies previously reported obstacles with licensing in Azerbaijan. However, as part of its economic reform program, the government simplified the licensing regime. All licenses are now issued with indefinite validity through the ASAN Service Centers and must be issued within 10 days of application. The Ministry of Economy also reduced the number of activities requiring a license from 60 to 32 in 2015.

Selling to the Government

The government of Azerbaijan, and state-owned and quasi-state-owned enterprises, are some of the largest players in Azerbaijan's economy. Selling directly to the government or to these enterprises can be profitable, but limited transparency in government procurement processes can present a challenge. Major infrastructure projects typically funded through the World Bank or other multilateral development bank financing are more transparent than those funded directly by the government. The government is expected to increase investment in public infrastructure projects following the increase in oil prices and recently amended the state budget to reflect an increase in public revenues and expenses. Companies selling to the government of Azerbaijan should be particularly careful to specify beforehand how the 18% Value Added Tax (VAT) will

be levied. Unless there is external financing, such as tenders backed by development banks with high transparency financing, selling to the government should be carefully handled. Azerbaijan is not yet a WTO member and has not agreed to abide by the WTO Government Procurement Agreement.

Many government public works projects are financed through borrowing from the multilateral development banks. Please refer to *Project Financing* topic in *Trade and Project Financing* section for more information.

Distribution & Sales Channels

Local companies are often distributors for foreign brands. Chinese, Turkish, Iranian, and Russian products tend to dominate this price-sensitive market. Potential distributors and franchise operators frequently cite the high cost of U.S. goods and expensive supply chains as reasons to prefer regional, Chinese, or European products. Nonetheless, several Azerbaijani firms have successfully sold and represented U.S. brands in Azerbaijan. Due diligence should be done on any potential Azerbaijani distributor before concluding an agreement or shipment.

As a port city, Baku is both a destination and a growing distribution center for sea, rail, and air cargo. The government has established a free trade zone next to the Port of Alat (approximately 70 km south of Baku) in which legal entities and their employees will be exempt from all taxes and customs duties. The Baku-Tbilisi-Kars railway directly connects Azerbaijan, Turkey, and Georgia and forms part of the East-West corridor that intends to connect China and Europe by rail. Azerbaijan is also seeking to develop the North-South Transportation Corridor to facilitate trade between South Asia and Western Europe by linking Russia and Iran. The Azerbaijani government has lent Iran funds to develop rail infrastructure to support development of the North-South link.

U.S. firms seeking distribution partners in Azerbaijan should focus on private Azerbaijani firms with proven track records and good financial standing. State-owned enterprises are unlikely candidates for distribution and sales activities on behalf of U.S. firms. They generally lack the resources to cover the costs of maintaining U.S. product inventories for the local market. Although many private Azerbaijani firms have poor cash flow and other structural disincentives, training and flexible stock/inventory options can help U.S. goods and services penetrate the Azerbaijani market. Businesses should work with Baku-based firms for internal distribution within Azerbaijan.

Express Delivery

Major local, U.S., and international courier services operate in Azerbaijan, offering domestic and international shipping, courier, cargo, warehousing, and logistics services.

Selling Factors & Techniques

Operating in the Azerbaijani market requires patience and a long-term perspective. Having a local partner in Azerbaijan significantly facilitates marketing and selling goods and services, as well as interacting with the local government. Identifying a reliable partner requires sufficient due diligence. The U.S. Embassy's Commercial can help U.S. companies conduct market research, partner search, and provide due diligence support. All sales materials by law must bear labels in Azerbaijani.

The Azerbaijani retail business is becoming increasingly regulated and moving off the "street" into shops and retail outlets. Azerbaijani consumers are price-sensitive and brand-conscious. U.S. goods and services are becoming better known, joining their Turkish and European competitors – a key factor in the Azerbaijani shopping mentality. Counterfeit consumer goods, however, remain a problem. Furthermore, the Azerbaijani market remains segmented based on income. The largest share of the population earns a monthly wage of approximately \$313 and has limited disposable income; a small, but growing middle class earns roughly \$1,000 per month; and a concentrated, but very wealthy segment of the population has sufficient income to purchase luxury goods.

The currency devaluations in 2015 significantly decreased the purchasing power of the majority of Azerbaijanis. Historically, most Azerbaijanis patronized large, unregulated markets such as the Bina or Sadarak Bazaars for cheap, imported goods from China, Turkey, Iran, and Russia, as well as counterfeit Western goods. However, the growth of Western-style shopping malls and supermarkets, particularly in Baku in recent years, has seen middle-class shoppers increasingly direct their attention to buying Western goods and services from mid-range Western brands. The devaluations of 2015 also reduced demand for high-end goods and services, though this is changing as oil prices increase and the economy stabilizes.

As Azerbaijan develops its tourism industry, the number of visitors from Iran, Iraq, and Gulf Cooperation Council (GCC) states has increased significantly, representing a growing segment of the shoppers in Baku's malls.

E-Commerce

Electronic commerce is steadily increasing in Azerbaijan. A number of companies, ranging from large service companies to new startups, conduct the majority of their sales via websites using domestic electronic payment systems such as GoldenPay and online authentication systems such as the “Asan Imza” electronic signature system. The number of credit/debit card transactions is rising, and as of 2017 most major hotels, restaurants, supermarkets, and mid-range shops in Baku accept credit or debit card payments. Many shippers, however, remain reluctant to send goods without pre-payment, and e-commerce is limited by a lack of clear and effective legislation. To address some of these challenges, the government passed legislation in April 2017 to promote the use of non-cash transactions in an attempt to improve tax collection and promote transparent transactions. The Ministry of Taxes has also pushed retail businesses to install Point of Sale (POS) devices, but the economy remains largely cash-based as many small retail businesses do not use POS devices.

Domestic e-commerce remains underdeveloped. Despite the availability of electronic payment and authentication systems, most Azerbaijanis prefer to make payments in cash. E-commerce is otherwise only used for purchases made abroad. For sales overseas, AzExport.az online sales portal provides a database of goods produced in Azerbaijan available for buyers anywhere in the world to purchase online. It offers secure payment options using major credit cards, and global and local transport and logistics companies. The site has also partnered with other large international sales portals to direct potential buyers to its database of products.

E-commerce is subject to relatively weak intellectual property rights (IPR) enforcement, as with every sector in Azerbaijan. Several multinational IT companies report widespread use of unlicensed software in homes, offices, and government workspaces. The government has not taken any concerted steps to improve e-commerce IPR protections.

Trade Promotion & Advertising

Advertising in Azerbaijan is carried out through television, radio, newspapers, and billboards. Internet advertising is growing, especially through social media, but does not have the same audience as it does in countries with greater Internet access/computer ownership. Outdoor billboards are widely used in urban centers for advertising and trade promotions. Outdoor advertising for tobacco and alcohol products is prohibited. Newspapers in Azerbaijani and Russian are published daily, except Sunday, and English-language papers are published weekly. Newspapers are widely read and provide effective means to reach Azerbaijani consumers with disposable income. Television advertising is possible on state-run and private national TV networks. There are popular private FM radio stations as well. There are numerous Baku-based trade shows and exhibitions that provide opportunities to market U.S. goods and services.

More information on conferences, trade shows and exhibitions can be found at the following websites:

<http://iteca.az/>

<http://azpromo.az/>

<http://amchamaz.org/default.html/>

<http://abc.az/eng/>

<http://azerbaijan.usembassy.gov/doing-business-local.html/>

Pricing

Prices in Azerbaijan must be quoted in the local currency, the Azerbaijani Manat. Outside grocery stores and retail stores in shopping malls, Azerbaijanis will bargain over prices. With the exception of a few goods, such as gasoline, the government does not officially set retail prices, although there were reports of *de facto* price controls on consumer goods after the 2015 devaluations. Retail prices include an 18% VAT or 4% tax (a simplified tax rate which applies to businesses and individual entrepreneurs not subject to VAT).

Sales Service/Customer Support

Systematized customer service remains undeveloped and typically is not comparable to U.S. standards. To promote tourism, the Ministry of Culture and Tourism (from which an independent State Tourism Agency was spun off in 2018) has undertaken programs to train service sector employees to improve custom service standards, particularly in the hotel industry. Product guarantees are rare, but are becoming more common. However, implementation is still a problem, as local distributors do not always uphold parent company guarantees.

Protecting Intellectual Property (IP)

Intellectual property right enforcement remains weak in Azerbaijan. Although Azerbaijani law protects copyrights, patents, trademarks, and industrial designs, U.S. and multinational companies report significant problems with counterfeit goods, as well as parallel imports. While the legal structure covering IP protections is relatively strong; enforcement is weak. Piracy and blatant infringements on IPR, such as the use of unlicensed software by both the private and public sectors and fake international computer shops are commonplace.

More detailed information on IP issues in Azerbaijan is provided in the Investment Climate Statement in this guide.

In any foreign market companies should consider several general principles for effective protection of their intellectual property. For background, please see [Protecting Intellectual Property](#) and [Stopfakes.gov](#) for more resources.

The IP Attaché covering Azerbaijan is based at U.S. Embassy Kyiv.

For more information, contact ITA's Office of Intellectual Property Rights Director, Stevan Mitchell at Stevan.Mitchell@trade.gov.

Local Professional Services

U.S. companies in Azerbaijan have reported difficulties with tax and legal issues, particularly following the currency devaluations. Companies interested in entering the market should seek advice from a reputable agent early and often.

To identify local service providers, the websites below might be useful.

<http://www.taxes.gov.az/>

<http://azpromo.az/>

<http://amchamaz.org/default.html/>

<http://abc.az/eng/>

Principal Business Associations

The biggest and the most active business association in Azerbaijan is the American Chamber of Commerce (AmCham). Its mission is to promote the business interests of its members by working to improve the business climate in Azerbaijan and by providing services to its members. Established in 1996, AmCham is a private, non-profit business association composed of over 250 members and associates active in every sector of the Azerbaijani economy. AmCham represents approximately 80% of all foreign investment, and a significant portion of local investment, in Azerbaijan. Through its industry sectoral committees, members are able to share information, raise issues of common concern, and propose possible solutions. AmCham has maintained an active role in facilitating a public-private dialogue on economic reforms through its biennial White Paper of proposals submitted to the government and joining different government agencies at conferences on various topics, such as customs and tax regimes.

Limitations on Selling U.S. Products and Services

The Embassy is not aware of any limits on selling U.S. products or services in Azerbaijan.

Web Resources

American Chamber of Commerce in Azerbaijan: <http://amcham.az/>

German-Azerbaijan Business Association: www.ahk-baku.de/en/about-us/ahk-azerbaijan/

Azerbaijan-Turkey Business Association: <http://www.atib.az/>

National Confederation of Entrepreneurs: ask.org.az/en/index

Caspian European Club: www.caspianenergy.org/index.php/en/

Dubai Chamber in Azerbaijan: www.dubaichamber.com/what-we-do/trade.../dubai-chamber.../dcro-azerbaijan

Due Diligence

Accurate financial documentation and credit history can be difficult to obtain for some potential buyers and partners. A 2013 commercial secrecy law complicates due diligence efforts because it limits the information banks and other financial institutions can share with third parties about Azerbaijani companies. Additionally, understanding the corporate structure of a company or discovering who the beneficial owners, major partners, or shareholders are can be difficult. Failure to perform a careful survey of former partners, clients, and competitors jeopardizes investments and commercial deals. Recourse in such instances is limited, and even where arbitration clauses are respected they can take a long time to resolve. Despite these difficulties, many Azerbaijani firms have established track records of positive work with international firms.

Companies may contact the U.S. Embassy to discuss their plans in Azerbaijan. The Commercial Section can also provide an International Company Profile (ICP), a standardized service to help U.S. clients determine the bona fides of prospective foreign business representatives or partners. These reports can be useful when businesses request financing guarantees from agencies such as the U.S. Export-Import Bank. The ICP provides a detailed credit report on the overseas company; a list of the company's key officers and senior management; banking, and other financial information; sales, profits, and liabilities; market information; and an opinion as to the viability, reliability, and strength of the potential partner in the target market.

Leading Sectors for U.S. Exports & Investments

Energy Sector

Overview

Since the mid-1990's the oil and gas sector has been the engine driving Azerbaijan's economy. Through a series of production sharing agreements (PSAs), Azerbaijan succeeded in attracting significant investment from international energy companies. This investment led to a rapid increase in production, enriching the country and creating opportunities for U.S. businesses. The sharp fall in world oil prices in October 2014 sharply reduced the country's export revenues and put a strain on its public finances, but prices rebounded in 2017 and oil and gas operations still dominate the country's economy (officially, 40 to 45% of GDP) and as a share of government revenue (officially, 60 to 70%). Azerbaijan is ranked nineteenth in the world in terms of proven oil reserves and 24th for natural gas reserves.

Azerbaijan's oil and gas sector has grown and diversified since the collapse of the Soviet Union. A consortium of international oil companies (IOCs) led by BP and the Azerbaijani government agreed to the "Contract of the Century" in 1994 for the development of the Azeri-Chirag-Deepwater Gunashli (ACG) oil field. Production started in 1996 and by 2017, production exceeded 3.2 billion barrels. In December 2017, stakeholders also renewed their ACG contract through 2049. Azerbaijan's petroleum and liquids production is largely transported via the Baku-Tbilisi-Ceyhan pipeline, which was commissioned in 2006. IOCs continue to explore other oil prospects in Azerbaijan's offshore, including in the Shallow Water Absheron Peninsula. Some of these prospects are estimated to hold significant reserves, but none on the scale of the ACG.

Azerbaijan is also a significant gas producer and viewed by the U.S. and European governments as key to Europe's long-term energy security. The largest known gas reservoir in Azerbaijan's territorial offshore is the BP-operated Shah Deniz (SD) field. Phase 2 development of SD, known as SD2, came online May 29, with production transported via the first two pipelines in the Southern Gas Corridor (SGC).

The Southern Gas Corridor is a \$40 billion project to bring gas from the Caspian Sea to Europe for the first time in history. It spans 3600 kilometers, crosses six countries, and involves over ten major companies. The SGC comprises four parts: phase 2 development of the Shah Deniz gas field (SD2); expansion of the South Caucasus Pipeline (SCPX), which runs from the Sangachal gas terminal near Baku to Azerbaijan's border with Georgia; construction of the Trans Anatolian Pipeline (TANAP), which runs from Turkey's border with Georgia to Turkey's border with Greece; and construction of the Trans Adriatic Pipeline (TAP), which runs from Greece's border with Turkey to Puglia, Italy. The project will supply 6 billion cubic meters of gas per year (bcma) to Turkey and 10 bcma to Europe. SD2, SCPX, and TANAP (as far as Eskisihir, Turkey) are completed. First gas from SD2 was celebrated in Baku May 29 and in Eskisihir June 12. TAP is scheduled for completion in 2020/21.

The SGC has been built as an expandable project. With additional compressors, SCPX can be expanded from 25 bcma to 32 bcma, TANAP from 16 bcma to 32 bcma, and TAP from 10 bcma to 20 bcma. The SGC was built this way to encourage additional investment in existing and alternative sources of supply – in the Eastern Mediterranean (e.g. Cyprus and Israel), Iraq, Central Asia (e.g., Turkmenistan, estimated to have the world’s sixth-largest gas reserves), and Azerbaijan. Bringing these alternative sources into the SGC would mean overcoming various political, economic, technical, commercial, and security factors. The U.S. government hopes these countries will seize the opportunity presented by the SGC to peacefully and responsibly develop their gas resources for export, further enhancing Europe’s energy security while benefiting from greater integration with European energy markets. If Gazprom uses an expansion of TAP to export gas to Europe, it is unlikely that these alternatives will be developed for European markets. Potential third-party suppliers, including Gazprom, will have an opportunity to book volumes via an expansion of TAP before that pipeline is commissioned. Currently, no booking date has been scheduled.

Questions have been raised about whether SD2 will become subject to U.S. sanctions against Iran given that Naftiran Intertrade (NICO), a wholly-owned subsidiary of National Iranian Oil Company (NIOC), has a 10% stake in that project. Expectations are that activities that were sanctionable prior to Implementation Day in 2014 will be sanctionable again once the U.S. re-imposes sanctions; and that activities that were not sanctionable under the relevant U.S. secondary sanctions would generally remain not sanctionable, absent new sanctions. SD2 was exempted from previous Iran sanctions.

Petroleum and other Liquids				
	2014	2015	2016	2017
Domestic Production (bpd)	857,000	858,000	844,000	799,000
Total Imports	NA	NA	NA	NA
Imports from the U.S. (bpd)	23,000	13,000	10,000	7,000
Exports from Azerbaijan (bpd)	773,000	780,500	765,500	762,800
Total Domestic Demand (bpd)	107,000	90,500	88,500	43,200
Exchange Rate (\$=AZN)	1=0.78	1=1.05	1=1.6	1=1.7

Sources: *EIA, Federal Reserve Economic Research*

Total domestic demand: *Domestic production + imports - exports.*

bpd = barrels per day

Natural Gas				
	2014	2015	2016	2017

Domestic Production (bcm)*	29.62	28.98	29.37	28.60
Total Imports (bcm)	0	0	0	0.3
Exports from Azerbaijan (bcm)	8.1	8.1	8.0	8.0***
Total Domestic Demand (bcm)**	22	21	21	21
Exchange Rates (\$=AZN)	1=0.78	1=1.05	1=1.6	1=1.7

* Includes volumes used for reservoir maintenance at ACG and associated gas from that field which is supplied by the IOC consortium to SOCAR.

** Domestic demand may exceed this figure due to mismanagement of meters and gas theft.

*** AzStat has not yet reported exports for 2017. This is an estimate.

Sources: *SOCAR, AzStat, industry contacts.*

Refining

Azerbaijan is developing a new Oil-Gas Processing and Petrochemical Complex which will consist of a gas processing plant, petrochemical plant, power supply unit to be operational by 2020, and oil refinery expected to be operational in the early 2030s.

Growth in petroleum product demand is driven largely by growth in the country's construction and transportation sectors. Modernization of Azerbaijan's only refinery, the Heydar Aliyev Baku Oil Refinery, is expected to be completed by 2021, enabling the country to better meet that demand, add export potential, and reduce associated environmental pollution. Modernization will increase the plant's production capacity from 6 million to 7.5 million tons per year. The modernization project will involve upgrades to existing equipment as well as installation of 14 new units in three phases. Phase 1, to be completed in 2018, includes construction and start-up of a bitumen plant, unidentified associated plants, and a gas-filling station at the site. Phase 2 will include construction of storage installations for Euro 5-quality diesel and reconstruction of unidentified units, scheduled for completion by the end of 2020. Phase 3 involves construction of an A-92/95/98 gasoline plant with products conforming to Euro 5 standards and is scheduled to be completed by 2021. After the modernization, the production of gasoline at the refinery will increase from the 1.3 million tons to 2.2 million tons; diesel from 2.2 million tons to 2.9 million tons; and aviation kerosene from approximately 700,000 tons to 1 million tons.

Between January and April 2018, Azerbaijan's export of oil products accounted for 3% of Azerbaijan's total exports. Azerbaijan exports oil products to Turkey, Georgia, Italy, Egypt, Greece, Lebanon, Singapore, Ukraine, Afghanistan, Tajikistan, Uzbekistan, Malta, Libya, Romania, China, Spain, the Bahamas, and elsewhere.

Extensive onshore and offshore resources make the hydrocarbon sector the largest generator of revenue and the most lucrative market for foreign businesses. U.S. companies have

opportunities to sell exploration, development, and transportation equipment, particularly for deepwater exploration in the Caspian Sea. Opportunities in brownfield projects include exploration, surveying, and enhanced oil recovery. U.S. companies may also benefit from demand for project management, engineering services, abatement and environmental services.

Web Resources

State Oil Company of Azerbaijan: <http://www.socar.az/>

Ministry of Energy of Azerbaijan: <http://www.minenergy.gov.az/>

BP Caspian: <http://www.bp.com/caspian/>

Caspian World: <http://www.caspianworld.com/>

U. S. Energy Information Administration: <http://www.eia.gov/>

State Statistics Committee of Azerbaijan: <http://www.stat.gov.az/>

State Oil Fund of Azerbaijan: <http://www.oilfund.az/>

Agricultural Sector

Overview

Azerbaijan has designated agriculture as one of the four priority sectors for diversifying its economy. The agricultural sector is Azerbaijan's largest employer, employing 37% of the population, but accounting for only 6% of GDP. Azerbaijan produces a wide variety of crops, due to excellent climatic conditions and an extended growing season. 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 high quality, have minimal unit production costs, and have strong brand recognition in post-Soviet markets. The government seeks to support the agricultural sector through various measures including: import substitution, which significantly limits opportunities for U.S. agricultural products; tax exemptions; and subsidies of machinery, pesticides, and fertilizers. The subsidies for machinery, in particular, have increased sales of U.S. combines, tractors, harvesters, and irrigation equipment.

As a legacy of the collapse of the Soviet Union, Azerbaijan inherited outdated food processing equipment and rudimentary packaging facilities. Improvements in these facilities will require imported equipment. There is potential for the development of food processing, but large-scale U.S. exports will likely remain limited; niche deals are more prevalent. We advise U.S. companies and investors to work with established firms with a proven market track record.

Post-Soviet land reforms parceled small land plots of roughly two to five acres out to individual farmers, creating a structural impediment to larger-scale agriculture, mechanization, and consolidation. Furthermore, inadequate record keeping and titling of land have complicated efforts to reform the sector and complicated lending to farmers unable to prove a legal right to the land they cultivate. The degradation of Soviet-era irrigation systems has led to the salinization of large areas of farmland, which will require significant investments to repair and may provide a niche market for partnering with the government on restoring arable land. A lack of agricultural experts and specialists also poses significant challenges to development in agriculture. The Azerbaijan State Agricultural University, located in Ganja, is the only university that specializes in agriculture. Like other sectors in the Azerbaijani economy, a handful of large enterprises with connections to the central government distort the market.

Azerbaijan requires import licenses for food products of animal origin. Starting January 1, 2009, the State Customs Committee began issuing licenses for those products based on a letter of import permission from the State Veterinary Service (SVS). The responsibility for import permissions was transferred to the newly established Food Safety Agency in March 2018. To protect and spur domestic production, starting November 1, 2016, the government increased import fees for certain agricultural and construction products (See the *Customs Regulations and Standards* section for additional details.)

Leading Sub-Sectors

There is 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

American-manufactured agricultural equipment and used equipment dealers should consider personally traveling to the rural markets to meet with target audiences, such as farmers and large private holding companies active in agricultural processing. The Azerbaijani 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 and Europe.

Web Resources

Ministry of Agriculture: www.agro.gov.az/

Information/Communications Technology

Overview

Information/Communications Technology is also one of the four target sectors for economic diversification and the second-largest target for foreign investment after the oil and gas industry. The Azerbaijani government seeks to develop the country's IT market, having launched education and e-government programs to create a test center for Microsoft, to provide digital resources to schools and universities outside of Baku, and to expand e-services. Along with restructuring the banking system, the Central Bank announced plans to create a digital identification system based on block chain technology. Furthermore, SOCAR and IBM created the Caspian Innovation Center in January 2018 to provide business analytics services to the oil and gas industry.

The government also established several technological parks throughout the country that offer tax breaks and exemptions for companies. These incentives include profit, land, and property tax breaks and VAT exemptions for imports for the first seven years after a company begins operations at the technological park. Despite these projects and government plans to liberalize the telecommunications sector, the regulatory framework governing telecommunications and information technology needs improvement. Furthermore, Azerbaijan's tariffs on IT imports make it less competitive compared to several of its neighbors, which do not impose import tariffs on this goods category.

As more Baku-based businesses leverage e-commerce to interact with their customers, and the Azerbaijani government pushes to expand non-cash payments increases, we expect opportunities to arise for companies that can create and successfully market electronic services that facilitate transactions on-line. Golden Pay, a service similar to PayPal, is a local company that has entered this market and has been steadily expanding the ability of Azerbaijani businesses to conduct on-line transactions with customers.

As in other sectors, intellectual property protection remains a problem in the IT industry. Several large multinational companies have expressed concerns about unlicensed software in both the public and private sectors, though notable progress has been made by some companies that have worked directly with the government to address the issue. The ability to control or protect intellectual property rights in the private sector is virtually non-existent.

Leading Sub-Sectors

E-governance has been a successful area for collaboration between businesses and the Government of Azerbaijan. The Ministry of Taxes has moved tax payments online, the Customs Committee has introduced electronic application and payment services, and the "Asan Imza"

mobile electronic signature technology enables the use of mobile phones as an electronic identity card and means of signing documents. The main advantage of "Asan Imza" is that no additional devices and software are required to read the smart card. To use the service, it is enough to have a mobile phone and a SIM-card containing digital authentication keys and signatures. The electronic signature certificates used in the "Asan Imza" system are provided by the Asan Certification Services Center of the Ministry of Taxes of the Republic of Azerbaijan. U.S. businesses with similar solutions may find opportunities in these modernization and e-government efforts.

Azerbaijan is actively developing its satellite services to build its regional commercial telecommunications capacity. Azercosmos, Azerbaijan's space agency, successfully obtained and launched a U.S.-produced telecommunications satellite in February 2013. A second U.S.-made satellite is set to launch in autumn 2018.

Opportunities

E-governance and e-commerce potential remain under-fulfilled and present an opportunity for well-crafted and well-implemented solutions. Consulting firms experienced in the development of IT sectors may find their experience sought after by the public and private sectors in Azerbaijan. Companies with expertise in satellites may benefit from Azercosmos' interest in acquiring new capabilities. The annual BakuTel IT expo provides global companies an opportunity to reach potential customers and investors throughout the Eurasia region.

Web Resources

Ministry of Transportation, Communication and High Technologies: <http://www.mincom.gov.az/>

Banking and Finance

Overview

The financial sector in Azerbaijan is dominated by banks, with the non-banking sector continuing to offer limited opportunities at present. Banks hold about 95% of financial sector total assets. The non-banking financial sector, particularly the micro-finance sector, is underdeveloped and suffered significantly after the devaluations in 2015. Microfinance institutions are only now beginning to restart lending. Nineteen banks were closed in 2016 as a result of non-performing loans, poor asset quality, lack of liquidity, and the overall economic downturn due to decreased revenue from oil exports. Azerbaijan's largest bank, the International Bank of Azerbaijan (IBA), which is majority-owned by the Azerbaijani government, completed its restructuring in 2018. The Financial Markets Supervisory Authority (FMSA), created in 2016, is the chief regulator of the banking and finance industry.

Most banks offer short-term trade financing, long-term project financing, mortgage products, and other modern banking products. The overall lack of medium- to long-term capital is a constraint on financing private business in Azerbaijan. The credit supply is far too small to provide a suitable environment for the development of small and medium enterprises (SMEs) in the country. In fact, most SMEs have very limited access to affordable credit lines given collateral requirements, loan terms, etc. Long-term trade and project financing are in their infancy.

In 2015, Azerbaijan devalued the manat against the dollar as a result of declining export receipts due to the fall in global oil prices. In January 2017, Azerbaijan dropped an exchange rate corridor it had used for foreign-exchange transactions in a move to let the country's currency move towards a free float. However, the Central Bank does not appear to have introduced a genuinely floating exchange rate as of July 2018. Since April 2017, the dollar-manat exchange rate has held steady at 1 USD to 1.70 AZN.

Leading Sub-Sectors

Financial and wealth management, trade finance, working capital, and lending represent the best prospects for new business development. As the economy stabilizes, the demand for microfinance is also increasing, with very few lenders in place. 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, as well as equipment for health care and transport.

Opportunities

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 the EBRD, IFC, and German financial institutions have taken an equity stake in several such institutions. The increasing wealth of Azerbaijan has also raised interest in financial and wealth management services.

Several recent projects designed to strengthen Azerbaijan's financial services sector, including the Capital Market Modernization Project (CMMP), the diversification of the State Oil Fund's (SOFAZ) investment strategy, and pension reform represent opportunities for U.S. firms that provide asset management and global custodian services.

Web Resources

Central Bank of Azerbaijan: www.en.cbar.az/

International Bank of Azerbaijan: www.ibar.az/

Transportation

Overview

Azerbaijan is positioning itself as a transportation hub for East-West trade in the region through major infrastructure investments, designed to make a new “Silk Road” a reality. The completion of the Baku-Tbilisi-Kars railway and the Alat Port create a potential transit route for trade between East, Central, and South Asia and Europe. Azerbaijan has also vastly expanded its air cargo facilities with cold storage and a modern general cargo terminal at the Heydar Aliyev International Airport in Baku. These air cargo facilities will complement Azerbaijan’s investments in road, port, and rail infrastructure.

The most significant transportation project in Azerbaijan is the Baku-Tbilisi-Kars (BTK) railway, opened in fall 2017. The BTK railway links the Soviet-era rail systems of Azerbaijan and Georgia to that of Turkey, and, eventually, the rest of Europe. The peak capacity of the corridor will be 17 million tons of cargo per year once fully operational. This figure will include one million passengers and 6.5 million tons of cargo, initially, although cargo is likely to lead in utilization.

Azerbaijan has also built a new Caspian Sea port at Alat, approximately 70 km south of Baku. Alat is situated at a rail and road hub, allowing for easy multimodal North/South and East/West transit. When fully completed, a train ferry system will operate between the Central Asian ports of Turkmenbashi in Turkmenistan and Aktau in Kazakhstan. Alat port is designed to accommodate rail ferries that can transport 52 train cars at a time. The three-phase project will cost \$544 million. The first phase created the capacity for 11.5 million tons of cargo per year, increasing to 25 million tons in the third phase and up to 50,000 containers, many of which could be transshipped between China, Central Asia and Europe. The new port also serves as a point of concentration for the BTK railway line, commissioned in 2017. A free trade zone located adjacent to the port offers companies tax and customs exemptions in an effort to encourage value-added processing in addition to using the port to transit Azerbaijan.

Azerbaijan is also creating a North-South transport corridor with Iran and Russia, including financing portions of rail construction in Iran.

Leading Sub-Sectors

Freight forwarders, logistics/supply chain developers, and managers may have opportunities as the BTK railroad and Alat Port develop. Firms with experience working with difficult customs regimes or helping countries reform their customs operations may also do well in Azerbaijan.

Opportunities

Suppliers of aircraft, rail wagons, locomotives, transport equipment, construction equipment, and materials or international transportation companies may find opportunities in the transport sector, especially as the links across the Caspian and into Turkey are completed.

Web Resources

<http://portofbaku.com/en/> (Port of Baku / Alat)

Travel and Tourism

Overview

Azerbaijan's tourism sector strategy emphasizes event tourism, such as hosting business conferences and international sporting events. The expansion of airline destination offerings and simplified visa procedures has also opened Azerbaijan to ordinary tourists from the Middle East. Azerbaijan Airlines, or "AZAL," (passenger) and Silk Way Airlines (cargo) began direct flights to New York in 2014, after the completion of a review of the country's airport security by the U.S. Transportation Security Administration. The U.S.-Azerbaijan Open Skies Agreement concluded in April 2016 has led to a further increase in commercial flights between the two countries. AZAL and Silk Way have purchased significant numbers of U.S.-made aircraft over the past few years and continue to expand and modernize their fleets.

In order to attract more tourists to Azerbaijan, the government simplified its visa regime, creating ASAN ("Easy") Visa System to process electronic visas within three days of application for citizens of eligible countries, including the United States. Additionally, in June 2016, single-entry tourist and transit visa fees were reduced to \$20 from \$50. In February 2017, a presidential decree to create fast track routes, including adding ASAN payment and visa terminals, for entry to Azerbaijan at border checkpoints from the bordering countries Georgia, Iran, Russia, and Turkey. Other reforms included establishing a Tourism Council chaired by the Minister of Culture and Tourism, opening 15 regional offices of the Ministry of Culture and Tourism, and appointing tourism agents in 10 countries. In 2018, an independent State Tourism Agency was spun off the Ministry of Culture.

As with other sectors, the hospitality industry in Azerbaijan is dominated by a small number of large holding groups. Several well-known western chains operate in Baku, focusing on affluent tourists, business travelers, and large-scale conferences and sporting events. The Central Bank of Azerbaijan estimates that 33.5% of all tourist services provided in the country were for business travelers. By contrast, the market for mid-range, two- and three-star hotels, boutique and bed-and-breakfast-style accommodations, hostels, and entertainment centers remains underdeveloped.

Since 2012, Azerbaijan has focused on event tourism to develop the industry. That year, the country hosted the Eurovision Song Contest and FIFA's U-17 Women's World Cup. In 2015, Azerbaijan hosted the first-ever European Games. In 2016, Baku hosted the first of five Formula One Grand Prix events at the Baku City Circuit (Note: Azerbaijan signed a 10-year contract with Formula 1. The first five years are obligatory, and the following five years are optional.) Baku hosted the Islamic Solidarity Games in May 2017. Having made significant infrastructure investments in 2014-2015, which include a new Olympic stadium and adjacent housing complex for international athletes, Azerbaijan is well-positioned to host large-scale international sporting events and has put forth candidacies to host future Summer Olympics games, as well as to host World Expo 2025.

While new ski facilities have opened in the Gusar and Gabala regions in the last four years, the development of hotels and tourist destinations in the regions still greatly lags behind the level of development in Baku. Package deals combining travel to Azerbaijan with other destinations in the region might be a possibility to increase tourism, particularly after the new Baku-Tbilisi-Kars railroad to Georgia and Turkey.

According to the State Statistical Committee of the Republic of Azerbaijan, as of 2017 there are 563 hotel facilities in the country: 35 of them are state-owned, 515 private, eight foreign-owned, and five joint ventures. The State Statistical Committee reports that gross income of travel agencies and tour operators totaled \$41 million in 2017 versus \$36.7 million in 2016; hotel revenues in 2017 amounted to \$284 million. The number of tourists visiting Azerbaijan increased by 20% in 2017, compared to 2016. Approximately 30% of these were from Russia, 20% from Georgia, 13% from Iran, 11% from Turkey, and 4% from UAE, with the remainder coming from other countries.

Leading Sub-Sectors

Firms that have expertise in hospitality management, or three- and four-star hotel chains and franchises have opportunities in Azerbaijan to lend their expertise to existing tourist facilities or expand services to the underserved mid-range tourist and budget traveler.

Opportunities

There are opportunities for businesses that can supply hotels with skilled employees or provide training to develop them, and also for logistical support to the hotels' supply chains. Business trips and conferences remain the main targets of Azerbaijan's hospitality industry, and companies that arrange business conferences may find opportunities in the Baku market. Individual, family, and package tourism not associated with corporate travel is a growth area. There is a lack of entertainment venues in Baku, which can open horizons for new U.S. companies to invest in this field.

Customs, Regulations & Standards

Trade Barriers

As part of the government's efforts to spur domestic agriculture, it has prioritized import-substitution for food products, raising tariffs to keep many foreign products out of the market. The customs duty applied to the import of poultry meat is defined at the rate of \$1 per kilogram, while the rate for 1,000 chicken eggs stands at \$100. U.S. businesses exporting poultry meat to Azerbaijan in 2016 faced financial challenges because of the tariff increase. A weak and unpredictable legal regime also hinders imports, though government efforts since 2016 to improve customs collection and management have resolved some issues. Nonetheless, conflicts of interest in regulatory and commercial matters often lead to export/import monopolies and enable corruption.

Import Tariff

Azerbaijan is not a member of the WTO and has not made progress on accession to the WTO in recent years. The WTO Secretariat reports that Azerbaijan is less than a quarter of the way to full membership. In 2016, Azerbaijan imposed higher tariffs on a number of imported goods, including agricultural products, to promote domestic production and reduce imports.

Azerbaijan adopted a new set of tariffs in 2018, simplifying the regime to include only three rates 0%, 5%, or 15%, depending on the import. Under the new regime, the majority of raw materials and machinery are exempt from customs duties. Finished products and agricultural produce are all typically charged a 15% tariff. Breeding stock can often be imported duty free. Azerbaijan's customs are designed to support a program of import substitution to develop local production.

Under the production sharing agreement (PSA) contract regime used in the energy sector, contractors, their agents, and subcontractors are entitled to import and re-export from Azerbaijan, free from any import duties and restrictions on goods used for hydrocarbon activities.

Import Requirements & Documentation

Importers are required to provide the State Customs Committee with the following: signed import contract (and contract number), customs declaration; permission(s) from the relevant state entity(s) when applicable, bill of lading; sales invoice and packing list; certificate of origin, and certificate of quality of the imported merchandise.

Goods imported into Azerbaijan for processing and later 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 the process is cumbersome to use. The State Customs Committee establishes the time for the processing and re-export of the goods, usually within two years. In addition, it 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 import of goods and equipment are an integral part of production sharing agreements (PSAs) in the energy sector. 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 or foreign sub-contractors participating in PSAs, may also be exempt from duties and VAT on imported goods and equipment. In all cases, the specific terms of the PSA will govern each individual situation.

Labeling/Marking Requirements

Azerbaijani legislation imposes special rules on labeling food and agricultural products. The labels must be in Azerbaijani. English labels are also acceptable if information in Azerbaijani is also provided. Azerbaijani legislation requires the following product information to appear on the label, although compliance is poor and enforcement limited:

- 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
- 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. Fruit products must be labeled. Labels for fruit juices must specify whether the product contains fruit juice (90-100% concentrate), nectar (25-50% concentrate), or fruit flavors (up to 10% concentrate).

The State Agency for Antimonopoly Policy and Supervision of the Consumer Market was created in 2018 after the abolition of the State Committee on Standardization, Metrology and Patents.

U.S. Export Controls

For information on goods subject to export restrictions, see the section below on Prohibited and Restricted Imports.

An engine that consolidates 11 export screening lists of the U.S. Departments of Commerce, State, and the Treasury into a single search, as an aid to industry in conducting electronic screens of potential parties to regulated transactions, is available at the following website:

<http://developer.trade.gov/consolidated-screening-list.html>

Temporary Entry

Goods to be displayed or exhibited may be brought in as temporarily imported goods, 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 courier service to get advice on declared customs value to avoid protracted and costly problems with customs officials. It is not common for items to enter the country to be repaired.

Prohibited & Restricted Imports

The Government of Azerbaijan must approve, certify, or license exports or imports 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 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 them; 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 the most up-to-date information on restrictions and regulations.

Customs Regulations

Azerbaijan adopted the “Commodity Nomenclature of Foreign Economic Activity, Rates of Import and Export Customs Duties” in 2018. Import duties of 0%, 5%, and 15% percent are levied based on the Customs Tariff schedule of the Azerbaijan Republic. Customs clearance was streamlined in May 2016 through an e-declaration system. Additionally, amendments to the Customs Tariff law, adopted in January 2016, provide exemptions of up to seven years to entrepreneurs importing capital equipment for priority sectors. Moreover, up to 50% of their revenues can be exempted from income, property, and land taxes for up to seven years.

Azerbaijan’s business community reports seeing real improvements in customs, including more transparency, and improved and systematized customs fee collection procedures. Azerbaijan has worked to improve its regulatory system over the past several years, but opaque procedures in a number of areas and continued allegations of corruption remain problems.

Contact information:

State Customs Committee

2 Inshaatchilar Prospekt

Baku AZ1073, Azerbaijan

Tel: (99412) 404 22 00

(99412) 404 22 17

Web: www.customs.gov.az/en/

E-mail: international@customs.gov.az

Standards for Trade

Standards

In February 2017, the Azerbaijani government established the Food Safety Agency, taking over many of the duties previously executed by the State Veterinary Service, such as 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 President established the Azerbaijan Standardization Institute (AzStand) in 2017. In April 2018, the President signed a decree creating the State Antimonopoly and Consumption Market Supervisory Agency, abolishing the State Committee on Standardization, Metrology, and Patents. Simultaneously, the President established the State Intellectual Property Agency, reorganizing the Copyright Agency and Patent and Trademark Office. Over the course of several years, Azerbaijan has moved from defunct Soviet standards to developing new Azerbaijani standards and adopting some international standards, though this process is not yet complete. The Azerbaijani government is also moving to adopt many European Union standards related to agricultural products.

Testing, Inspection and Certification

Azerbaijan is a party to treaties on International Registration of Marks under the Madrid Agreement and the Madrid Protocol, the 1999 Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs (“Hague Agreement”), and the Patent Cooperation Treaty. These treaties allow for individuals and legal entities to register industrial property outside of the territory of Azerbaijan and establish protections in the territories of several or all member states. Based on Azerbaijan’s adoption of the protocol relating to the Madrid Agreement Concerning the International Registration of Marks in October 2006, individuals and legal entities in Azerbaijan can file an international application under the Madrid System for international registration of marks.

Trade Agreements

Azerbaijan has had observer status at the World Trade Organization (WTO) since 1997 and began negotiations with WTO members on accession in 2004. According to the WTO Secretariat, Azerbaijan has significant progress to make towards full membership and its activity on accession stalled following the adoption of import substitution as a national policy goal. In 2016, Azerbaijan imposed higher tariffs on a number of imported goods, including agricultural products, to promote domestic production and reduce imports. Azerbaijan has free trade agreements (FTAs) with Russia, Ukraine, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Moldova and Belarus. Under the FTAs, goods can be imported from those countries free of customs duties.

Licensing Requirements for Professional Services

A presidential decree signed in December 2015 issued new measures establishing that all licenses, current and newly issued, are to be issued for an unlimited period of validity. The decree designated the Ministry of Economy as the state authority responsible for the issuance, suspension, resumption, and cancellation of licenses (except for licenses issued for types of activities related to national security) through ASAN Service Centers (<http://www.asan.gov.az/en>). It further established that licenses should be issued within 10 days of application (previous regulations provided for a 15-day period). In accordance with the List of Licensable Activities (see details below), the number of activities which require a special permits (licenses) was reduced from 60 to 32, while the amount of state duties payable for the issuance of licenses reduced by up to 50 percent. Licenses can be granted to both Azerbaijani and foreign citizens and legal entities. Activities no longer requiring a special license include tourism services and the sale of tobacco and alcoholic drinks.

Licensable activities include those related to national security as well as medical services and products, education, and certain telecommunications activities, among others. The Ministry of Economy issues all business licenses, except those with a national security component, including private security activities, information security systems, biometric technologies, and personal information management systems. The State Security Service, the Ministry of Internal Affairs, and the Ministry of Transportation, Communications, and High Technologies issue these licenses.

Members of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to notify to the WTO proposed technical regulations and conformity assessment procedures that could affect trade. [Notify U.S.](#) is a free, web-based e-mail registration service that captures and makes available for review and comment key information on draft regulations and conformity assessment procedures. Users receive customized e-mail alerts when new notifications are added by selected country(ies) and industry sector(s) of interest, and can also request full texts of regulations. This service and its associated web site are managed and operated by the USA WTO TBT Inquiry Point housed within the National Institute of Standards and Technology, part of the U.S. Department of Commerce.

AZERBAIJAN INVESTMENT CLIMATE STATEMENT 2018

Executive Summary

The overall investment climate in Azerbaijan continues to improve, although significant challenges remain. Over the past few years, the government has worked to integrate the country more fully into the global marketplace, seeking to attract foreign investment, diversify its economy, undertake further needed market economic reforms, and maintain growth. However, as a country that remains dependent on oil and gas output for roughly 86% of its export revenue, continued low world oil prices have hit Azerbaijan's economy hard. Real GDP grew 0.1% in 2017, recovering from a 3.8% contraction in 2016, with the non-oil economy growing by 2.7% year-on-year.

While the oil and gas sector has historically attracted the majority of foreign investment, the Azerbaijani government has targeted four non-oil sectors as key to diversifying the country's economy and ensuring future prosperity: agriculture, tourism, information/communication technology, and transportation – including Azerbaijan's place on the new Silk Road. Measures taken in recent years to improve the business climate and reform the overall economy include suspending certain government inspections of businesses, doing away with certain redundant business license categories, empowering the popular Azerbaijani Service and Assessment Network (“ASAN”) government service centers with licensing authority, simplifying customs procedures, and creating tax incentives for investors. Most notably, President Aliyev signed the Strategic Roadmap of the National Economy Prospects in December 2016. The 11 roadmaps that make up the strategy lay out objectives and action plans for 2016- 2025 and cover the following sectors: the oil and gas industry, manufacturing and processing of agricultural products, stimulation of small and medium enterprises, heavy industry and mechanical engineering, tourism, logistics and trade, construction of affordable housing, development of vocational training and education, financial services, telecommunications and information technologies, and public utilities.

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. Foreign citizens, organizations, and enterprises may lease but not own land. Azerbaijan's Law on the Protection of Foreign Investments protects foreign investors against nationalization and requisition, except under specific circumstances. The government of has not shown any pattern of discriminating against U.S. persons or entities through illegal expropriation. The Bilateral Investment Treaty (BIT) between the United States and Azerbaijan provides U.S. investors with recourse to settle investment disputes using the International Center for the Settlement of Investment Disputes (ICSID). The average time needed to resolve

international business disputes through domestic courts or alternative dispute resolution varies widely.

Azerbaijan considers travel to the region of Nagorno-Karabakh and the surrounding territories unlawful. Engaging in any commercial activities in Nagorno-Karabakh and the surrounding territories, whether directly or through business subsidiaries, can result in criminal prosecution and/or other legal action being taken against individuals and/or businesses in Azerbaijan; it may also affect the ability to travel to Azerbaijan in the future.

Table 1

Measure	Year	Index/Ranking	Website Address
Transparency International	2017	122 of 180	http://www.transparency.org/research/cpi/overview
World Bank's Doing Business Report "Ease of Doing Business"	2017	57 of 190	http://www.doingbusiness.org/rankings
Global Innovation Index	2017	82 of 128	https://www.globalinnovationindex.org/analysis-indicator
U.S. Foreign Direct Investment in partner country	2015	N/A	http://www.bea.gov/international/factsheet/
World Bank GNI per capita	2016	USD \$4,760	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Policies Toward Foreign Direct Investment

Over the past few years, the Azerbaijani government has worked to integrate the country more fully into the global economic marketplace and attempted to attract foreign investment in order to diversify its economy and boost economic growth and employment. The flows of foreign direct investment to Azerbaijan have risen steadily in recent years, primarily in the energy sector. The government continues to seek to attract FDI to the agriculture, transportation, tourism, and information and communication technology (ICT) sectors in an effort to diversify the economy, but foreign investments in these areas have thus far been limited.

Foreign investments enjoy complete and unreserved legal protection under the Law on the Protection of Foreign Investment, the Law on Investment Activity, and guarantees contained within international agreements and treaties. In accordance with these laws, Azerbaijan will treat foreign investors, including foreign partners in joint ventures, in a manner not less favorable than the treatment accorded to national investors. Azerbaijan's Law on the Protection of Foreign Investments protects foreign investors against nationalization and requisition, except under specific circumstances. The government has not shown any pattern of discriminating against U.S. persons or entities through illegal expropriation.

Azerbaijan's primary body responsible for investment promotion is the Azerbaijan Export and Investment Promotion Foundation (AzPromo). AzPromo is a joint public-private initiative, established by the Ministry of Economy and Industry in 2003 to foster the country's economic development and diversification by attracting foreign investment into the non-oil sectors of the economy and stimulating expansion of Azerbaijan's exports of non-oil goods to overseas markets. In January 2018, President Aliyev issued a decree promoting foreign investment and protecting foreign investors' rights. The decree called for the drafting of a new law on investment activities that will conform with international standards and establishes mechanisms to protect investors' rights and regulate damages. The draft law has not yet been released. Additionally, the government regularly meets with the American Chamber of Commerce (AmCham) to solicit the input of the business community, particularly as part of AmCham's biennial white paper process. AmCham is currently finalizing the 2018 edition and preparing for consultations with appropriate government officials.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreigners are allowed to register business entities by opening a fully-owned subsidiary, acquiring shares of an existing company, or creating a joint venture with a local partners. Foreign companies are also permitted to operate in Azerbaijan without creating a local legal entity by registering a representative or branch office with the Ministry of Taxes.

Foreigners are not permitted to own land in Azerbaijan, but are permitted to lease land and own real estate. Foreigners are also restricted from holding a majority share in certain sectors.

Furthermore, under Azerbaijani laws, the state must retain a controlling stake in companies operating in the mining, oil and gas, satellite communication, and military arms sectors, limiting foreign or domestic private ownership to a 49% share of companies in these industries. Foreign ownership in the media sector is also strictly limited. Unless there is an international agreement with Azerbaijan providing otherwise, foreign shareholding in media companies is limited to 33% in newspaper publishing and is prohibited in TV broadcasting companies. Restrictions on

foreign equity ownership in the financial services sectors (banking and insurance) have been abolished; however, there are still limits within these sectors for how much total foreign capital participation is permitted. Furthermore, a special license to conduct business is required for foreign or domestic companies operating in telecommunications, sea and air transportation, insurance and other regulated industries. Azerbaijan does not screen inbound foreign investment and U.S. investors are not specifically disadvantaged by any existing control mechanisms.

Other Investment Policy Reviews

Azerbaijan has not conducted an Organization for Economic Cooperation and Development (OECD) investment policy review, a United Nations Conference on Trade and Development (UNCTAD) investment policy review, or a WTO Trade Policy Review.

Business Facilitation

Azerbaijan ranks 57th in Ease of Doing Business and 5th in Starting a Business out of 190 countries in the World Bank's 2017 *Doing Business Report* (rankings are available at: <http://www.doingbusiness.org/rankings>). In 2017, the *Doing Business Report* highlighted reforms that simplified the process of obtaining a new electricity connection, eliminated the vehicle tax for residents, and introduced an electronic system for submitting import and export declarations. The 2018 *Doing Business Report* noted reforms related to the establishment of credit bureaus, protection of minority investors, electronic payment of court fees, and processes for resolving insolvency.

Azerbaijani law requires all companies operating in the country to register. Without formal registration, a company may not do business in Azerbaijan (e.g., maintain a bank account, or clear goods through customs). As part of the ongoing business law reforms, a “One Window” principle was introduced January 1, 2008. The registration procedures involving several government bodies (Ministry of Justice, Social Insurance Fund, and State Statistics Committee) have been eliminated, and businesses must register only with the Ministry of Taxes. The established period for registration with the Ministry of Taxes is officially set at three days for commercial organizations. Since 2011, companies have been able to e-register, reducing the number of procedures required from six to two and the number of days from eight to three. Online registration is available at http://taxes.gov.az/modul.php?lang=_eng&name=birpencere&bolme=registration.

Outward Investment

Azerbaijan does not actively promote or incentivize outward investment, though Azerbaijani entities, particularly the State Oil Company of Azerbaijan (SOCAR) and the State Oil Fund of Azerbaijan (SOFAZ), have invested in various countries, including the United States. The government does not restrict domestic investors from investing overseas.

2. Bilateral Investment Agreements and Taxation Treaties

Azerbaijan has signed 51 Bilateral Investment Treaties (BIT). The 2001 BIT in force between the United States and Azerbaijan encourages the reciprocal protection of investment. Azerbaijan also has bilateral investment treaties currently in force with Austria, Belgium-Luxembourg Economic Union, China, Croatia, Czech Republic, Finland, France, Georgia, Germany, Greece, Hungary, Iran, Israel, Jordan, Kazakhstan, South Korea, Kuwait, Kyrgyzstan, Latvia, Lithuania, Moldova, Montenegro, Poland, Romania, Russia, San Marino, Serbia, Spain, Switzerland, Syria, Tajikistan, Turkey, Ukraine, UAE, the United Kingdom, and Uzbekistan.

Azerbaijan has free trade agreements (FTAs) with Russia, Ukraine, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Moldova and Belarus. Under the FTAs, goods can be imported from those countries free of customs duties.

The United States signed a tax treaty with the USSR, to which Azerbaijan is considered a successor state. The United States and Azerbaijan do not have a separate bilateral taxation treaty. The United States and Azerbaijan are parties to the OECD Convention on Mutual Administrative Assistance in Tax Matters. Azerbaijan signed an intergovernmental agreement with the United States to implement the Foreign Account Tax Compliance Act (FATCA) on October 9, 2015, based on the “IGA Model 1a” form.

Azerbaijan has double taxation treaties with Austria, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Great Britain, Greece, Hungary, Iran, Italy, Japan, Jordan, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Montenegro, Netherlands, Norway, Pakistan, Poland, Romania, Russia, San Marino, Saudi Arabia, Serbia, Slovenia, South Korea, Spain, Sweden, Switzerland, Tajikistan, Turkey, UAE, Ukraine, Uzbekistan, and Vietnam. Treaties with Jordan, Spain, Sweden, Malta and Denmark are pending ratification by the parliament of Azerbaijan.

Several U.S. companies with operations and investments in Azerbaijan report they have been subject to repeated tax audits, requests for prepayment of taxes, and court-imposed fines for violations of the tax code.

3. Legal Regime

Transparency of the Regulatory System

The Azerbaijani government has worked to improve its regulatory system over the past several years, and legal, regulatory, and accounting systems are approaching international norms. However, continued limited transparency and allegations of corruption in regulatory matters

remain a problem. Tender procedures remain opaque and a small number of businesses dominate certain sectors of the economy.

The Azerbaijani legal system is based on civil law and the central government is the primary source of regulations relevant to foreign businesses. Azerbaijan's regulatory system remains opaque, despite efforts to foster competition and establish clear rules. U.S. companies have complained about a lack of transparency and consistency in the application of regulations. Azerbaijan has yet to develop informal regulatory processes managed by private sector associations. Limited transparency and inconsistent enforcement of rules to foster competition are serious impediments to foreign direct investment. Draft legislation is neither made available for public comment nor usually run through a public consultation process. However, the government has begun engaging business organizations, such as the American Chamber of Commerce in Azerbaijan (AmCham) and consulting firms on various proposed draft laws. The website of Azerbaijan's National Parliament, <http://meclis.gov.az/>, lists all the country's laws, but only in the Azerbaijani language.

Legal entities in Azerbaijan must adhere to the National Accounting Standards (NAS), which are based on the International Financial Reporting Standards (IFRS) with some modifications. "Publicly important" businesses, such as insurers, banks, and other large commercial entities, must adhere to IFRS. Certain small businesses can be registered as simplified taxpayers and are not obliged to maintain accounts in accordance with IFRS or NAS.

On October 19, 2015, the President of Azerbaijan approved a law suspending inspections of entrepreneurs for two years. This suspension was extended on October 31, 2017 to last until January 1, 2021. The suspension includes an exception to allow for inspections of food and pharmaceutical products for quality and safety control purposes, as well as inspections in certain other areas. The government has also simplified its licensing regime. All licenses are now issued with indefinite validity through the ASAN service centers and must be issued within 10 days of application. The Ministry of Economy also reduced the number of activities requiring a license from 60 to 32.

International Regulatory Considerations

Azerbaijan has had observer status at the World Trade Organization (WTO) since 1997. A working party on Azerbaijan's succession to the WTO was established on July 16, 1997, and Azerbaijan began negotiations with WTO members in 2004. The WTO Secretariat reports that Azerbaijan is less than a quarter of the way to full membership. In 2016, Azerbaijan imposed higher tariffs on a number of imported goods, including agricultural products, to promote domestic production and reduce imports. Currently, Azerbaijan is negotiating bilateral market access with 19 economies.

Legal System and Judicial Independence

Azerbaijan's legal system is based on Civil Law. Disputes or disagreements arising between foreign investors and enterprises with foreign investment, Azerbaijani state bodies and/or enterprises, and other Azerbaijani legal entities, are to be settled in the Azerbaijani court system or, upon agreement between the parties, in a court of arbitration, including international arbitration bodies. The judiciary consists of the Constitutional Court of the Republic of Azerbaijan, the Supreme Court of the Republic of Azerbaijan, the appellate courts of the Republic of Azerbaijan, trial courts, and other specialized courts. Trial court judgments may be appealed in appellate courts and the judgments of appellate courts can be appealed in the Supreme Court. The Supreme Court is the highest court in the country. Under the Civil Procedure Code of Azerbaijan, appellate court judgments are published within three days of issuance, or within ten days in exceptional circumstances. The Constitutional Court has the authority to review laws and court judgments for compliance with the Constitution. On February 3, 2016, President Aliyev signed the Decree on Establishment of the Board of Appeal in the Central and Local Executive Authorities for the investigation of recurring complaints by entrepreneurs regarding the executive authorities or their local organizations.

Businesses report problems with the reliability and independence of judicial processes in Azerbaijan. While the government promotes foreign investment and the laws guarantee national treatment, in practice investment disputes can arise when a foreign investor or trader's success threatens well-connected or favored local interests. According to Freedom House's 2017 report, Azerbaijan's court system is "subservient to the executive." The U.S. business community has complained about inconsistent application of regulations and non-transparent decision-making.

Laws and Regulations on Foreign Direct Investment

Foreign investment in Azerbaijan is regulated by a number of international treaties and agreements, as well as domestic legislation. These include the Bilateral Investment Treaty (BIT) between the United States and Azerbaijan, the Azerbaijan-EC Cooperation Agreement, the Law on Protection of Foreign Investment, the Law on Investment Activity, the Law on Investment Funds, the Law On Privatization of State Property, and the Second Program for Privatization of State Property, as well as by laws regulating specific sectors of the Azerbaijani economy. This legislation permits foreign direct investment in any activity in which a national investor may also invest, unless otherwise prohibited by law.

On January 2018, President Aliyev issued a decree on promoting foreign investment and protecting foreign investors' rights. The decree called for the drafting of a new law on investment activities that is in conformance with international standards and establishes

mechanisms to protect investors' rights and regulate for damages, including lost profit caused to investors. The details of this law have not yet been made public.

Competition and Anti-Trust Laws

The State Service for Antimonopoly Policy and Consumer Protection under the Ministry of Economy is responsible for implementing competition-related policy. On April 28, 2016, President Aliyev signed an amendment to the law on Antimonopoly Activity and an Amendment to the Criminal Code. The amendments introduced the concept of cartel agreements, which are identified as anti-competitive arrangements that may include increasing or decreasing prices; maintaining prices at the same level; implementing privileges, rebates or bonuses; or other methods of restraining competition. A new version of the Competition Code began undergoing revision in Parliament in late 2014, but has not yet been passed.

Expropriation and Compensation

The Law on the Protection of Foreign Investments protects foreign investors against nationalization and requisition, except under certain specified circumstances. Nationalization of property can occur when authorized by parliamentary resolution, although there have been no known cases of official nationalization or requisition against foreign firms in Azerbaijan. Requisition – by a decision of the Cabinet of Ministers – is possible in the event of natural disaster, an epidemic, or other extraordinary situation. In the event of nationalization or requisition, foreign investors are entitled under the law to prompt, effective, and adequate compensation. Amendments made to Azerbaijan's Constitution in September 2016 enable authorities to expropriate private property when necessary for social justice and effective use of land. According to Freedom House's 2016 report, “[p]roperty rights and free choice of residence are affected by government-backed development projects that often entail forced evictions, unlawful expropriations, and demolitions with little or no notice.” The Azerbaijani government has not shown any pattern of discriminating against U.S. persons by way of direct expropriations.

Dispute Settlement

ICSID Convention and New York Convention

Azerbaijan is a member of the International Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID convention) as well as the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. The Supreme Court of Azerbaijan is responsible for recognizing and enforcing arbitral awards rendered pursuant to the Conventions. While there are no specialized commercial courts in Azerbaijan, the Azerbaijan International Commercial Arbitration Court (AICAC) was

established by a non-governmental organization in 2003 as an independent arbitral institution. The AICAC, a third-party tribunal, is the only arbitration institution functioning in Azerbaijan, but public information on the case load of the AICAC is not available.

Investor-State Dispute Settlement

Azerbaijan has also ratified the European Convention on Foreign Commercial Arbitration dated April 21, 1961. The Bilateral Investment Treaty (BIT) between the United States and Azerbaijan, which went into force in 2001, provides U.S. investors recourse to settle any investment dispute using the ICSID convention. Azerbaijan has been a party to three ICSID cases, two of which (*Barmek v. Azerbaijan* and *Fondel Metal Participations and B.V. v. Republic of Azerbaijan*) were settled and one of which (*Azpetrol v. Azerbaijan*) was decided in favor of the State. Thus far, the ICSID has not issued arbitral awards against the government of Azerbaijan. Over the past 10 years, the U.S. Embassy in Baku has been notified of three investment dispute cases regarding U.S. citizens. None of these cases, however, have been resolved.

International Commercial Arbitration and Foreign Courts

International arbitration in Azerbaijan is regulated by the Law on International Commercial Arbitration, based on the UNCITRAL model law. Parties may select arbitrators of any nationality, the language of the proceedings, the national law to be applied, and the arbitration procedure to be used. In cases in which parties did not stipulate the terms of the proceedings, the Supreme Court of the Republic of Azerbaijan will resolve the omission. Azerbaijan has incorporated the provisions of the New York Convention into the *Law on International Commercial Arbitration*. The Supreme Court may refuse to enforce a foreign arbitral award on specific grounds contained in Article 476 of the Civil Code.

Bankruptcy Regulations

Azerbaijan's Bankruptcy Law continues to restrict economic development. Azerbaijan's Bankruptcy Law applies only to legal entities and entrepreneurs, not to private individuals. Bankruptcy proceedings may be initiated by either a debtor facing insolvency or by any creditor. In general, the legislation focuses on liquidation procedures. Amendments to Azerbaijan's bankruptcy law adopted in 2017 extended the obligations of bankruptcy administrators and defined new rights for creditors. In the World Bank's 2017 *Doing Business Report's* section on resolving insolvency, Azerbaijan's ranking advanced from 84 in 2017 to 47 in 2018.

4. Industrial Policies

Investment Incentives

Since early 2016, the government has introduced tax and investment incentives for entrepreneurs and legal entities in non-oil export sectors as part of the overall economic reform/diversification effort. These measures include certain partial, temporary exemptions from corporate and property taxes, and favorable tax treatment for manufacturing facilities and imports of manufacturing equipment, and subsidies for certain exports. In 2016, a presidential decree introduced an investment promotion certificate that provided additional incentives for investment promotion. Investment certificate holders are exempt from paying 50% of income tax and land tax owed, and from paying customs duties on machinery, equipment, and devices imported for investment purposes in priority industries of the economy for up to 7 years. The priority projects include work in industrial parks, creation of manufacturing plants, and research work.

Foreign Trade Zones/Free Ports/Trade Facilitation

President Aliyev signed a decree in March 2016 establishing a free trade zone next to the Port of Alat (approximately 80 km south of Baku) and Parliament passed implementing legislation in February 2018. According to the bill, the Alat free trade zone authority, administrative enterprises, legal entities and their employees, and residents will be exempt from all taxes and no customs duties or taxes will be paid for goods and services imported to Free Zone.

The Ministry of Transport, Communications, and High Technologies has discussed plans to create other special economic zones, including a petrochemical complex and regional innovation zones to boost development of the telecommunications sector and to turn Azerbaijan into a regional information and communications technologies hub. The government has also discussed establishing a special zone to encourage the production of renewable energy. Such projects represent consulting, engineering, and other potential commercial opportunities for international firms.

Performance and Data Localization Requirements

The Government of Azerbaijan does not mandate local employment, although some Production Sharing Agreements (PSAs) include localization provisions. While performance requirements are not generally imposed on new investments, the government is seeking to increase the number of value-added services and processes performed in Azerbaijan. American companies have reported that government-connected companies often pressure current or potential partners to establish local production of certain components in order to maintain or expand cooperation.

5. Protection of Property Rights

Real Property

Azerbaijani law recognizes equal rights to land ownership by state and municipal governments and private individuals and entities. The Law on the Protection of Foreign Investments protects foreign investors against nationalization and requisition, except under certain specified circumstances. International organizations, foreign citizens, and foreign legal entities may not own land or be granted a purchase option on a lease, but are permitted to lease land. Following independence, the government of Azerbaijan implemented land reforms that divided state-owned farms into privately-held small plots. Due to poor record keeping and titling in rural areas, it is often difficult to determine definitively who the owner of a plot is. Amendments made to Azerbaijan's Constitution in September 2016 enable authorities to expropriate private property with compensation in instances when necessary for social justice and effective use of the land.

Since 2013, Azerbaijan's State Real Estate Registry Service at the Committee for Property Issues has been the lead agency managing the real estate registration system. In April 2016, Azerbaijan's President approved amendments to the Law on Immovable Property Register. The amendments cut the period of registration of property rights and the provision of extracts from the Register from 20 to 10 working days. The Azerbaijan Mortgage Fund has issued 19,601 mortgages as August 2017. The total sum of mortgage loans has amounted \$488.2 million. As of August 2017, the government of Azerbaijan also launched issuance of mortgage loans in electronic format.

The World Bank's Doing Business Report ranked Azerbaijan 21 out of 190 countries in 2017 in its country rankings on the Ease of Registering Property.

Intellectual Property Rights

Intellectual property rights (IPR) in Azerbaijan are regulated by the Law on Copyrights and Related Rights, the Law on Trademarks and Geographic Designations, the Law on Patents, the Law on the Topology of Integrated Microcircuits, the Law on Unfair Competition and the Law on Securing Intellectual Property Rights and Combating Piracy. The legal structure covering intellectual property protections in Azerbaijan is relatively strong, but experts note the level of enforcement within the country is weak. Piracy and blatant infringements on intellectual property rights, such as fake international computer shops openly doing business in the capital, are commonplace. The Business Software Alliance put the software piracy figure at 84% in 2015, though Azerbaijan's Copyright Agency announced in January 2018 that software piracy in Azerbaijan was less than 75%, unlicensed printing of books accounted for 28% of the total market, and 65% of audio and video products were pirated.

Azerbaijan is a party to the Convention Establishing the World Intellectual Property Organization (WIPO), 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. Violation of intellectual property rights can result in civil, criminal, and administrative charges. Azerbaijan tracks and reports on seizures of counterfeit goods but does not publish statistics on this effort. Azerbaijan is not listed in USTR's Special 301 report, nor is it listed in the notorious markets report. For additional information about national laws and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

6. Financial Sector

Capital Markets and Portfolio Investment

Azerbaijan's stock market, the Baku Stock Exchange, opened in 2000. An effective regulatory system that encourages and facilitates portfolio investment, foreign or domestic, is not fully in place. There is not sufficient liquidity in the markets to enter or exit sizeable positions, and existing policies limit the free flow of financial resources into the product and factor markets. In February 2016, the government established the Financial Market Supervisory Authority (FMSA), a new financial supervisory authority, to take over all functions of the Azerbaijan State Committee for Securities, the State Insurance Supervision Service under the country's Ministry of Finance, and the Financial Monitoring Service under the Central Bank of Azerbaijan. The FMSA aims to license, regulate and control the securities market, investment funds, insurance, credit organizations (banks, non-banking credit organizations and operator of postal communication) and payment systems. It also aims to improve the oversight system for combatting money laundering and preventing the financing of terrorism as well as to provide transparency and efficiency in this sphere.

Non-bank financial sector staples such as capital markets, insurance, and private equity are in the early stages of development. Several recent projects designed to strengthen Azerbaijan's financial services sector, including the Capital Market Modernization Project (CMMP), the diversification of the State Oil Fund's (SOFAZ) investment strategy, and pension reform represent opportunities for U.S. firms that provide asset management and global custodian services. The CMMP is an attempt by the government to build the foundation for a modern financial capital market, including developing market infrastructure and automation systems, and strengthening the legal and market frameworks for capital transactions. One major hindrance to the stock market's growth is the difficulty in encouraging established Azerbaijani businesses to adapt to standard investor-friendly practices that are generally required for publicly listed companies.

The Government of Azerbaijan and Azerbaijan's Central Bank respect IMF Article VIII by refraining from restrictions on payments and transfers for current international transactions, and credit is allocated on market terms. Foreign investors are able to obtain credit on the local

market, and the private sector has access to a variety of credit instruments. However, two currency devaluations in 2015 led to further dollarization of the economy, weakened bank balance sheets, and raised concerns about the country's financial stability. Lending has still not recovered and limited access to capital remains a barrier to development, particularly for small and medium enterprises.

Money and Banking System

The country's financial services sector – of which banking comprises more than 90% – remains underdeveloped, a factor that constrains economic growth and diversification. The drop in world oil prices in 2014/2015 and the resulting strain on Azerbaijan's foreign currency earnings and the state budget exacerbated existing problems in the country's banking sector. Furthermore, the resulting depreciation generated challenges for banks, given the high proportion of foreign currency loans to residents with local currency earnings. One of the banking sector's main problems is the continuing growth in non-performing loans. According to the country's Financial Market Supervisory Authority, about 19 percent of all consumer loans in Azerbaijan account for non-performing loans of over \$1 billion. According to [other reports](#), the current volume of non-performing loans exceeds one-third of the capital in the country's banks. The Institution of Banking Ombudsman was established in Azerbaijan in September 2017. The ombudsman considers appeals on disputes that amount to about \$2,000.

As of December 2017, there were 30 banks registered in Azerbaijan, including 15 banks with foreign capital and two state-owned. As of December 31, 2017, there are 509 branches, 142 sub-branches, 2,431 ATMs of 30 banks throughout the country. A total of 16,171 people are employed in the banking sector. Bank regulator FMSA closed 10 banks in 2016 and completed restructuring of the country's largest bank, the International Bank of Azerbaijan (IBA) in 2017. As of January 1, 2018, 47 non-bank credit organizations and 109 credit unions operate in the country. Lending by global banks to Azerbaijan's financial sector has been minimal.

Total banking sector assets stood at approximately \$16.5 billion as of December 2017, with the top five banks holding almost 58% of this amount. The state-owned International Bank of Azerbaijan (IBA) accounts for approximately 40% of the country's banking assets and has received several large cash infusions over the past several years from the government. In January 2017, the Ministry of Finance increased the government's stake in the IBA from 54.96% to 76.73%. The government undertook a substantial cleanup of the assets of IBA, including transferring IBA's non-performing assets at book value to Agrarkredit, a government-owned non-financial enterprise funded by the Central Bank. The amount of transferred assets totaled \$6 billion in 2015-2016 and a further \$3 billion transfer in 2017 (25% of 2016 GDP in total). In May 2017, IBA entered formal restructuring, similar to U.S. Chapter 11 Bankruptcy, and completed its restructuring process in September 2017.

Foreign banks are permitted in Azerbaijan and may take the form of representative offices, branches, joint ventures, and wholly owned subsidiaries. These banks are subject to the same regulations as domestic banks, with certain additional restrictions. Foreign individuals and entities are also permitted to open accounts with domestic or foreign banks in Azerbaijan.

In December 2017, the Central Bank of Azerbaijan announced plans for a pilot project to create a digital identification system for transactions between banks and customers based on blockchain technology.

Foreign Exchange and Remittances

Foreign Exchange Policies

There are no statutory restrictions on converting or transferring funds associated with an investment into freely usable currency at a legal, market-clearing rate. Foreign exchange transactions are governed by the Law on Currency Regulation. The Central Bank administers the overall enforcement of currency regulation. Among those regulations is a requirement that local cash sales be conducted in Azerbaijani manats (AZN), in accordance with the country's constitution. Foreign companies and individuals may have both manat and foreign currency accounts at a local bank. Currency conversion is carried out through the Baku Interbank Currency Exchange Market (BICEX) and the Organized Interbank Currency Market.

The average time for remitting investment returns is two to three business days. Some requirements on disclosure of the source of currency transfers have been imposed in an effort to reduce illicit transactions. Azerbaijan's foreign currency reserves are based on the reserves of the Central Bank of Azerbaijan, those of the State Oil Fund of Azerbaijan (SOFAZ), and the assets of the State Treasury Agency under the Ministry of Finance. Foreign currency reserves of the Central Bank increased by USD \$1.3 billion (34.2 percent) during 2017 and totaled USD \$5.3 billion. As of January 1, 2018, SOFAZ assets increased by 8.02% to reach USD \$35.8 million compared to the beginning of 2017 (USD \$33.1 million).

The Central Bank of Azerbaijan officially adopted a floating exchange rate in 2016, but continues to operate under an "interim regime" which appears more like a managed float in practice, as it transitions to a full float.

Remittance Policies

Corporate branches of foreign investors are subject to a remittance tax of 10% on all profits derived from its business activities in Azerbaijan. There have not been any recent changes or plans to change investment remittance policies that either tighten or relax access to foreign exchange for investment remittances. There do not appear to be time limitations on remittances, including dividends, return on investment, interest and principal on private foreign debt, lease

payments, royalties, and management fees. Nor does there appear to be limits on the inflow or outflow of funds for remittances of profits or revenue.

Azerbaijan is a permanent member of the international Financial Action Task Force (FATF) and is listed as a country of concern. (The continuum of FATF lists countries as being of primary concern, concern, or monitored.) The main obstacle Azerbaijan faces is the endemic level of corruption, but other generators of illicit funds include robbery, tax evasion, smuggling, trafficking, and organized crime.

Sovereign Wealth Funds

Azerbaijan's sovereign wealth fund is the State Oil Fund of Azerbaijan (SOFAZ). Its mission is to transform hydrocarbon reserves into financial assets generating perpetual income for current and future generations and to finance strategically important infrastructure and social projects of national scale. Since it was established in 1999, SOFAZ has financed several projects relating to infrastructure, housing, energy infrastructure, and education. According to its bylaws, SOFAZ is not permitted to invest domestically. The State Oil Fund publishes an annual report which it submits for independent audit. The fund's assets totaled \$35.8 billion as of January 1, 2018. More information is available at oilfund.az.

7. State-Owned Enterprises

In Azerbaijan, state-owned enterprises (SOEs) are active in the oil and gas, power generation, communications, water supply, railway, and air passenger and cargo sectors, among others. There is no published list of SOEs. Statistics are not available on the percentage of resources SOEs allocate to research and development (R&D). While there are no SOEs that officially have been delegated governmental powers, companies such as the State Oil Company of Azerbaijan (SOCAR), Azerenerji (the national electricity utility), and Azersu (the national water utility) – all of which are closed joint-stock companies with majority state ownership and limited private investment – enjoy quasi-governmental or near-monopoly status in their respective sectors.

SOCAR is wholly-owned by the government of Azerbaijan and takes part in all oil and gas activities in the country. It publishes regular reports on production volumes, the value of its exports, estimates of investments in exploration and development, production costs, the names of foreign companies operating in the country, production data by company, quasi-fiscal activities, and the government's portion of production-sharing contracts. SOCAR's annual financial reports are audited by an independent external auditors and include the consolidated accounts of all SOCAR's subsidiaries, although revenue data is incomplete.

There have been cases where many powerful state-owned enterprises have used their regulatory authority to block new entrants into the market. In sectors that are open to both the private and

foreign competition, SOEs generally receive a larger percentage of government contracts or business than their private sector competitors. While SOEs regularly purchase or supply goods or services from private sector firms, domestic and foreign private enterprises have reported facing problems competing with SOEs under the same terms and conditions with respect to market share, information, products and services, and incentives. Private enterprises do not have the same access (including terms) to financing as SOEs. However, SOEs are in principle subject to the same tax burden and tax rebate policies as their private sector competitors. The SOEs are also afforded material advantages such as preferential access to land and raw materials, advantages that are not available to private enterprises. There is little information available on Azerbaijani SOEs' budget constraints due to the limited transparency in their financial accounts.

Privatization Program

A renewed privatization process started with the May 19, 2016 presidential decree implementing additional measures to improve the process of state property privatization and the July 19, 2016 decree on measures to accelerate privatization and improve the management efficiency of state property. The State Committee on Property Issues launched the portal providing information on privatization, <http://www.privatization.az/index.php/en/>, in July 2016. It contains information about the facilities, their addresses, location, and initial costs with an aim facilitating the process. In addition, the State Committee on Property Issues has developed a draft of the Third State Privatization Program (the "Privatization Program"). The main objectives of the Privatization Program are to attract foreign investment, increase efficiency and transparency in respective sectors, particularly the oil, metallurgy, light industry, sports, tourism, and other sectors. Bidding and tender processes in Azerbaijan, however, are generally considered non-transparent.

8. Responsible Business Conduct

Responsible business conduct (RBC) is a relatively new concept in Azerbaijan. Producers and consumers do not have a general awareness of responsible business conduct, including environmental, social, and governance issues. No information is available on legal corporate governance, accounting, and executive compensation standards to protect shareholders in Azerbaijan. Larger foreign entities tend to follow generally accepted RBC principles – mainly in line with their international corporate ethos – and aim to educate their local partners, who generally consider basic charitable donations and paying taxes as acts of social responsibility.

The American Chamber of Commerce in Azerbaijan (AmCham) established a Corporate Social Responsibility (CSR) Committee in October 2011 to encourage companies to embrace the concept of social responsibility and encourage a positive impact through activities and dialogue with relevant stakeholders. In addition, AmCham published a guide on RBC/corporate social responsibility for businesses in Azerbaijan. In 2011, the Ministry of Economy established

standards for corporate governance, which included an evaluation methodology for these standards and a code of ethical behavior. The Ministry has been tasked to meet with entrepreneurs and explain the importance of using corporate governance standards. Restrictions on registration of NGOs have complicated the efforts of some corporations to implement their CSR plans.

Azerbaijan's Extractive Industries Transparency Initiative (EITI) status was downgraded from "compliant" to "candidate" on April 14, 2015, due to concerns about the ability of civil society to engage critically in the EITI process in Azerbaijan. Following a review in October 2016, and the EITI Secretariat's subsequent evaluation in March 2017 that Azerbaijan had not sufficiently implemented required so-called "corrective actions," Azerbaijan withdrew from the EITI, but stated it remained committed to continuing to provide transparency and accountability in the extractive industries. In April 2017, Azerbaijan established its own national body, the Extractive Industries Transparency Commission (EITC); since then, it has held multiple meetings and published a 2016 report.

9. Corruption

Pervasive corruption continues to be a major challenge for firms operating in Azerbaijan. Although anti-corruption legislation is in place and the government has acted to tackle low-level corruption, corrupt practices remain a barrier to greater foreign investment. Azerbaijan does not require private companies to establish internal codes of conduct that, among other things, prohibit bribery of public officials, nor does it provide protections to NGO's involved in investigating corruption. Nevertheless, some private companies use internal controls, ethics, and compliance programs to detect and prevent bribery of government officials. U.S. firms have identified pervasive corruption as an obstacle to FDI and cite its prevalence in the following areas: government procurement, awarding of licenses or concessions, dispute settlement, the regulatory system, customs, and taxation.

The Azerbaijani government recognizes that corruption is a problem and has been a participant in regional anti-corruption initiatives, but to date laws and regulations to combat corruption have not been effectively or consistently enforced. Azerbaijan has made modest progress in implementing a 2005 Anticorruption Law, which created a commission with the authority to require full financial disclosure from government officials.

Anti-corruption reforms to reduce red tape and promote open government started in licensing regulations, tax, and customs sectors. Azerbaijan continues to focus on e-government, service delivery, and simplification of regulations to prevent corruption, particularly through the ASAN service centers opened in February 2013. Eleven centers across Azerbaijan provide 30 government services from nine state entities, including the registration of commercial legal

entities and taxpayers, notary services, state registration of civil status acts, and the renewal of identity cards/passports of citizens. ASAN centers have been regarded as successful in providing more transparent and accountable services through a “one window” model that reduces opportunities for rent-seeking and petty government corruption, and as such ASAN is expanding the number of services provided and state entities engaged.

Despite the progress made in reducing corruption in public services delivery, other serious and complex challenges have yet to be tackled, particularly in reducing corruption in the civil service, public procurement, and the judiciary. Popular opinion identifies the Ministry of Taxes and the judiciary as difficult barriers to business in Azerbaijan. The business community has welcomed improvements in customs procedures in 2016, though some contacts have begun to report instances of backsliding. Since late 2016, there have been extensive reforms in the tax regime, but these remain to be fully understood and analyzed by the business community. Local and foreign business leaders have also welcomed the appointment of the new Minister of Taxation as a sign the government recognizes the need for further reforms.

Azerbaijan signed and ratified the UN Anticorruption Convention and is a signatory to the Council of Europe Criminal and Civil Law Conventions. Azerbaijan is not currently a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

Contact at government agency or agencies are responsible for combating corruption:

Kamal Jafarov
Acting Executive Secretary
Commission on Combating Corruption
Baku, Azerbaijan
(+994 12) 492-04-65
kamal.jafarov@antikorrupsiya.gov.az

10. Political and Security Environment

There have been no known acts of political violence against U.S. businesses or assets, nor against any foreign owned entity.

A cease-fire with Armenia has been in effect since 1994 for the conflict surrounding the disputed region of Nagorno-Karabakh. However, intermittent gunfire along the cease-fire line and along the border with Armenia continues, often resulting in injuries and/or deaths. There have been no threats to commercial enterprises from skirmishes in the border areas. It is unlikely that civil

disturbances, should they occur, would be directed against U.S. businesses or the U.S. community. The government has also suspended the importation and operations of U.S. companies in Azerbaijan if the companies' products or services are provided in Nagorno-Karabakh. Azerbaijan considers travel to the region of Nagorno-Karabakh and the surrounding territories unlawful. Engaging in any commercial activities in Nagorno-Karabakh and the surrounding territories, whether directly or through business subsidiaries, can result in criminal prosecution and/or other legal action being taken against individuals and/or businesses in Azerbaijan; it may also affect the ability to travel to Azerbaijan in the future. Due to the existing state of hostilities, consular services are not available to U.S. citizens in Nagorno-Karabakh.

11. Labor Policies and Practices

The 1999 Labor Code regulates overall labor relations and recognizes international labor rights. The work-week generally is considered to be 40 hours. The right to strike exists, though industrial strikes are rare. Azerbaijan is a member of the International Labor Organization (ILO) and has ratified more than 57 ILO Conventions. In practice, labor unions are strongly tied to political interests. Collective bargaining is not practiced. Azerbaijan has regulations to monitor labor abuses, health, and safety standards in low-wage assembly operations, but enforcement is less effective. A labor contract between employer and employee technically may be written or oral, but in order to be official there must be a signed agreement. This employment agreement is required for the employee to receive any unemployment or other employment related benefits.

Employment relations are established by an employment contract, which, in most cases, does not necessarily indicate a fixed term of employment. An employer must give an employee two months' notice of termination, with certain exceptions. An employee can terminate his/her employment contract at any time, but must give one month's notice. Upon termination of formally registered employment, employers must pay departing employees monetary compensation for unused vacation leave. A formally registered employee who becomes unemployed is entitled to 70% of his/her average monthly wage, calculated over the past 12 months at the last place of work.

The Law On Unemployment Insurance signed in August 2017 allows for payments to be made to unemployed individuals registered within the State Employment Fund. The amount of payments will depend on the length of employment insurance records and past average monthly salary. Benefits can be paid for up to 26 weeks within a 12-month period, with the possibility of extending payments if a jobseeker is unable to find work within 12 months. In this case, unemployment benefits are set at the minimum level approved by law, which is \$50. Azerbaijan is currently working with the World Bank and the European Union to reform the state pension system.

Azerbaijan has an abundant supply of semi-skilled and unskilled laborers. An estimated 40% of the Azerbaijani population works in agriculture, although this sector only contributes 6% of the country's GDP. The construction sector tends to use temporary and contractual workers; reportedly many of these workers' agreements are not formally registered with the government. The relatively limited supply of highly skilled labor remains one of the biggest challenges in Azerbaijan's labor market. As of 2017, government sources estimate the rate of unemployment at 5%, but other sources estimate the figure at 15% or higher, with underemployment being much higher. The average monthly wage as of December 2017 was USD \$310, and the official minimum wage increased in 2017 to approximately USD \$76 (130 AZN) per month, compared to the previous level of approximately USD \$68 (116 AZN) per month.

12. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) and the U.S. Export-Import (Ex-Im) Bank provide political risk insurance and financing and loan guarantees in Azerbaijan. Azerbaijan is also a member of the Multilateral Investment Guarantee Agency (MIGA), and the European Bank for Reconstruction and Development (EBRD). The World Bank, Asian Development Bank, and other third-country institutions are active in providing financing and insurance for investment in Azerbaijan.

Over the past two decades, OPIC has invested around \$230 million in Azerbaijan across 24 business projects. While Azerbaijan's financial services sector has been a major area for investments, OPIC-funded projects have included investments in the energy (such as the BTC oil pipeline completed in 2006), franchising, banking, microfinance, and hotel and hospitality sectors of Azerbaijan. OPIC has repeatedly provided funds for numerous banks operating in Azerbaijan in order to expand their small and medium enterprise (SME) lending portfolios, including \$4.8 million to Rabita Bank in 2008 and \$7.3 million to Turan Bank in 2009. In 2011, OPIC provided Muganbank a loan guarantee for \$10 million to expand its operations, targeting SME borrowers. OPIC has also provided \$1 million and \$3 million to FinDev and CredAgro for microfinance lending, respectively. In 2012, OPIC provided loan insurance to Viator Microcredit Azerbaijan LLC (\$500,000), NBCO Vision Fund Azercredit LLC (\$2 million), and FinDev again (\$1 million). In 2013, OPIC signed a memorandum with Turanbank for a loan in the amount of \$7 million with a term of seven years for SME financing. As of 2015, OPIC has active loan projects with two non-banking credit organizations, KredAgro and TBC Kredit.

In its 2014 annual report, Ex-Im Bank reported outstanding insurance and loan guarantees for Azerbaijan in the amount of \$211.9 million, primarily in support of aviation sales. In 2011, Ex-Im Bank closed a \$116.6 million loan with a ten-year repayment period to finance the Azerbaijani space agency's purchase of the AzerSat-1 satellite from Orbital Sciences. In June

2015, Ex-Im Bank finalized a \$211.9 million loan to finance Azerbaijan Airline's purchase of Boeing commercial aircraft.

13. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP)	2017	USD \$41.225 billion	2015	USD \$37.848 billion	www.worldbank.org/en/country
Foreign Direct Investment Inward Flows	No reliable data		2016	\$4.5 million	www.worldbank.org/en/country
U.S. FDI in partner country (value of stock positions)	No reliable data				
Host country's FDI in the United States (value of stock positions)	No reliable data				
Total inbound stock of FDI as % host GDP	No reliable data		2016	11.9%	https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=GE-AZ&name_desc=false

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	26.683	100%	Total Outward	17.88	100%
UK	5.565	21%	Turkey	9.215	52%
Turkey	5.111	19%	Georgia	2.934	16%
Norway	3.075	12%	Switzerland	0.976	5%
Iran	2.263	8%	UK	0.946	5%
Russia	2.211	8%	U.S.	0.563	3%

Source: IMF

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets		
Top Five Partners (Millions, US Dollars)		
Total	Equity Securities	Total Debt Securities
No reliable data		

14. Contact for More Information

Phil Guthrie
 Commercial Officer
 U.S. Embassy in Baku, Azerbaijan
 +994-12-488-3300
 BakuCommercial@state.gov

Trade & Project Financing

Methods of Payment

In many areas of the economy, retail transactions are still generally completed on a cash 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. All payments must be made in the local currency, the Azerbaijani Manat. Credit-rating and collection agencies are not developed in Azerbaijan.

For more information about the methods of payment or other trade finance options, please read the Trade Finance Guide available at www.Export.gov/TradeFinanceGuide.

Banking Systems

Over the past decade, the banking sector has benefited from the government's investment of oil revenues in the non-oil economy, and the rapid expansion of higher margin retail and microlending. When oil revenues sharply declined in 2014, Azerbaijan's banking sector faced significant increases in non-performing loans. The prevalence of cash transactions – estimated at 70% by Central Bank authorities – hinders the development of the financial system. It is estimated that significant amounts of cash are held outside the formal banking sector. Furthermore, high levels of dollarization hinder the effectiveness of monetary policy, although Azerbaijan has reduced the dollarization of deposits from its peak of 70% in December 2017.

Although long-term lending is increasing and the quality of the banks' loan books is improving, the sector plays a small role in financing the real economy. Lack of credit, stringent collateral requirements, high interest rates, dollarization, and an inability to assess credit risk are key constraints to the development of private business.

Azerbaijani banks offer costly lending terms, usually at 10-35% interest, but occasionally higher, in dollar-denominated loans with a maximum two-year term. Many Azerbaijani firms cannot afford such loans and turn to private sources (i.e., personal deals) for finance. Some Azerbaijani banks have begun lending to the private sector, including construction, telecoms, food processing, and packaging. Western businesses use a handful of local banks for their local business dealings. Since the beginning of 2016, the Central Bank of Azerbaijan has terminated the licenses of 11 banks in total. The banking sector has consolidated significantly following the devaluations in 2015.

Azerbaijan's bankruptcy law has not functioned effectively in the past. However, the government approved a Law on Amendments to the Bankruptcy Law in April 2017 which outlines provisions for filing bankruptcy. These measures guided the bankruptcy filing of Azerbaijan's largest bank, the International Bank of Azerbaijan, which had otherwise made efforts for restructuring its liabilities since late 2016 and was approved by international creditors for restructuring in July 2017.

Foreign Exchange Controls

Azerbaijan has a liberal foreign exchange system and, in general, there are no current restrictions on converting or transferring funds into freely usable currency at a legal, market-clearing rate. For more information, see the *Conversion and Transfer Policies* section of the Investment Climate Statement.

U.S. Banks & Local Correspondent Banks

There are no U.S. banks with branches in Azerbaijan. The International Bank of Azerbaijan (IBA) is the only Azerbaijani bank which has correspondent banking relationships with a U.S. bank.

Project Financing

External sources of finance include the U.S. Export-Import Bank (EXIM), the Overseas Private Investment Corporation (OPIC), the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD), among others. EXIM is the official export credit agency of the United States and supports U.S. exports by assuming credit and country risks that private companies are unwilling to accept. The Overseas Private Investment Corporation mobilizes and facilitates the participation of U.S. private capital and skills in economic and social development. OPIC provides project finance, finance for investment funds, and political risk insurance. The Asian Development Bank supports the construction of transportation corridors, providing linkages with neighboring countries and expanding opportunities for rural communities. It has provided project financing to expand the electricity network, and to improve energy efficiency by enhancing power distribution and integrating renewable energy sources. ADB's development priorities for Azerbaijan in the short to medium term include upgrades to urban infrastructure projects in transportation, energy, water, sanitation, solid waste management in regional towns and other urban infrastructure services, as well as private sector development.

In Azerbaijan, the EBRD focuses on promoting economic diversification, a sustainable financial sector for private sector development, improved business environment, and good governance. To date, the EBRD has invested in 161 projects with over \$2.46 billion across various sectors of

the economy. 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 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.

The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the European Bank for Reconstruction and Development, the Asian Development Bank, and the World Bank. These institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help American businesses learn how to get involved in bank-funded projects, and advocate on behalf of American bidders. Learn more by contacting the Commercial Liaison Offices to the European Bank for Reconstruction and Development (<http://export.gov/ebrd>), the Asian Development Bank (<http://export.gov/adb>) and the World Bank (<http://export.gov/worldbank>).

Web Resources

Commercial Liaison Office to the European Bank for Reconstruction and Development:

<http://export.gov/ebrd>

Commercial Liaison Office to Asian Development Bank: <http://www.export.gov/adb/>

Commercial Liaison Office to the World Bank: <http://export.gov/worldbank>

Trade Finance Guide: A Quick Reference for U.S. Exporters, published by the International Trade Administration's Industry & Analysis team:

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

Business Travel

Business Customs

Azerbaijan is a crossroads of Near Eastern, Western, and post-Soviet business cultures. A premium is placed on face-to-face contact and close business relations. Business takes time and patience in Azerbaijan, and depends on the personal relationship you build with your Azerbaijani counterpart(s). Companies interested in entering the market should expect to spend a considerable amount of time building trust. Delays in communication are common and should

not be taken as an immediate sign that a potential partner is not interested. Post's Commercial Section can facilitate communication with potential partners. Requests for meetings with government officials can take time to confirm and may only be finalized at the last moment.

During meetings, professional business attire is appropriate. Business cards are generally exchanged during initial meetings, with one side of the card in Azerbaijani and the other in English (or Russian). Azerbaijanis often offer visitors tea and sweets. Azerbaijanis tend to be very polite and hospitable, but can appear to U.S. businesspeople as vague and noncommittal in business transactions.

Travel Advisory

The State Department issues Travel Advisories when warranted by local conditions. If you are traveling to Azerbaijan, please refer to travel.state.gov for [Azerbaijan-specific information](#). This site is updated regularly and contains key information for travelers regarding security and safety, health, visa and immigration regulations, and general travel information about the Azerbaijan.

Azerbaijan considers travel to the region of Nagorno-Karabakh and the surrounding occupied territories unlawful. Engaging in any commercial activities in Nagorno-Karabakh and the surrounding occupied territories, whether directly or through business subsidiaries, can result in criminal prosecution and/or other legal action being taken against individuals and/or businesses in Azerbaijan; it may also affect the ability to travel to Azerbaijan in the future. Due to the existing state of hostilities, consular services are not available to U.S. citizens in Nagorno-Karabakh.

Visa Requirements

A valid passport and visa are required to enter Azerbaijan. The visa application fee for an eVisa is \$20. The application fee for a multiple entry visa is \$350 and there is an additional courier fee. Single-entry visas are available without a letter of invitation, but a multiple entry visa is only issued with an invitation from a company in Azerbaijan who has submitted their invitation for approval from the Azerbaijani Ministry of Foreign Affairs. The list of the travel agencies can be found at www.mfa.gov.az or on the Embassy of Azerbaijan's website at www.azembassy.us/. U.S. citizens traveling on the New York – Baku route may be issued a 30-day visa on arrival at Heydar Aliyev International Airport

Travelers to Azerbaijan must register with the State Migration Service (SMS) after arrival, if they intend to stay more than 15 days in the country. Major hotels in Baku will generally assist guests with registration. Those staying in private homes or lesser-known hotels will have to register themselves. Registration is the traveler's responsibility and failure to register can result

in a fine of up to 400 manat, which must be paid before being allowed to depart Azerbaijan. Registration may be done in person, by mail, or via e-mail to qeydiyyat@migration.gov.az.

If registering via e-mail the traveler should scan and send the following information:

- SMS registration form
- Copy of passport biographic page
- Copy of Azerbaijani visa
- Copy of Entry stamp in passport

The registration form is only in Azerbaijani, but may be completed in English. More information is available at: <http://www.migration.gov.az/>

Outside the United States, visas may be obtained online or from any Azerbaijani embassy or consulate. For additional information on visa requirements, contact the Embassy of the Republic of Azerbaijan, 2741 34th Street NW, Washington, DC 20008; Telephone (202) 337-5912; Fax (202) 337-5913; Website: www.azembassy.us/

U.S. Companies that require travel of foreign businesspersons to the United States are advised that security evaluations are handled via an interagency process. Visa applicants should go to the following link(s): [State Department Visa Website](#) and [U.S. Embassy Baku Visa Information](#).

Currency

The national currency of Azerbaijan is the manat. In 2015, as a result of low world oil prices and related decrease in revenues from oil and gas exports, the manat lost 98% of its value due to two currency devaluations. Following the second devaluation, in December 2015, the government engaged in a managed float of the exchange rate within a 4% band of a set rate. In January 2017, the government publicly claimed to have abandoned the managed float, however the currency has remained stable since April 2017 at an exchange rate of 1.70 manat to one U.S. dollar.

Telecommunications/Electric

The telephone system in Baku is generally reliable. International calls can be completed, but are expensive. Cellular communication and roaming for U.S. cell phones services are also available. E-mail and full Internet service are available via local Internet providers, and Wi-Fi is readily available in many Baku hotels. 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.

Electricity is supplied at 220V 50Hz, with European Standard sockets. American citizens should acquire an adapter and/or transformer for these outlets if they plan to use American electrical equipment here.

Transportation

Subway: There is a functioning subway system in Baku. It is inexpensive and a quick way to navigate the city, although its stations are not always conveniently located for international travelers.

Buses: They are cheap and plentiful, but are crowded and route information is not readily available.

Taxis: There are reliable taxi services, particularly *189. These taxis have meters and cost approximately 4-12 AZN (\$2-7) to reach most places in and around Baku. A taxi to the airport from the city center costs approximately \$10-30. It is difficult to find an English-speaking driver, but an international hotel can assist you with doing so. Ride-hailing services were introduced in Baku in April 2015 and have been positively received. Unregistered cabs are prolific and un-metered; if a traveler opts to use one, a price should be negotiated in advance, and the driver may or may not speak adequate English.

Car Rental: 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, but improving, road conditions throughout the country and in some parts of Baku.

Air: There are many flights to Baku, although some routes have been suspended or their frequency decreased due to the slower economy resulting from the 2014 drop in world oil prices. Azerbaijan Airlines (AZAL), Lufthansa, Turkish Airlines, Qatar Airways, and other international carriers all offer flights to Baku. Azerbaijan Airlines began direct flights to New York in 2014.

Language

Business can be conducted in Azerbaijani, Turkish, English, or Russian, with English becoming increasingly prevalent. However, business travelers should be prepared to hire an interpreter for \$100-150 per day, depending on experience. Outside Baku, Azerbaijani is the most common method to communicate. Azerbaijani and Russian instructors can be readily obtained.

Health

The health care system in Azerbaijan is often unable to provide the level of medical care common in the United States. American visitors should ensure all immunizations and

vaccinations are up to date before arriving in Azerbaijan. There are some clinics that offer a higher standard of medical care, including International SOS Clinic, the Turkish-American Medical Clinic, and MediClub. World Med Clinic (American Implant Center), an American-Azerbaijani joint venture, provides U.S.-standard dental care. However, major medical emergencies 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

Azerbaijan no longer observes Daylight Savings Time according to a decree issued by the Cabinet of Ministers, Decision No. 131, on March 17, 2016. Therefore, Azerbaijan is eight hours ahead of Eastern Standard Time during daylight savings time in the United States and nine hours ahead of Eastern Standard Time when daylight savings is not observed. The Azerbaijani government does not restrict business hours. In general, businesses are open from 9:00 a.m. to 6:00 p.m. Monday through Friday. Many businesses 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 U.S. holidays as well as several Azerbaijani holidays/commemorations. A complete list of these holiday closures is available at <http://azerbaijan.usembassy.gov/holidays.html>. A complete list of official Azerbaijani holidays/commemorations (published by the President's office) is available at <http://en.president.az/azerbaijan/holidays>.

Temporary Entry of Materials or Personal Belongings

Personal items, tools of trade, and business samples can usually be imported with little difficulty. Foreign currency can be brought into the country, but must be declared. Visitors are allowed to take the same amount of currency out of the country as was shown on the declaration form upon entering the country. Camera equipment must be declared upon arrival. All visitors should retain their customs declaration form until departure from the country. Travel-Related Web Resources

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

Consular Section of the Embassy of Azerbaijan in the U.S.: <http://www.azembassy.us/consular-service.html/>

Republic of Azerbaijan State Migration Service: <http://www.migration.gov.az/>

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