



Doing Business in Azerbaijan: 2014 Country

Commercial Guide for U.S. Companies

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Chapter 1: Doing Business in Azerbaijan

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Market Overview

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- Azerbaijan's economy continues to grow but the rate of growth has leveled off compared with previous years. Oil and gas remain the drivers of economic activity in Azerbaijan and are directly responsible for half of the country's GDP, which grew from 68.7 billion USD in 2012 to 73.1 billion in 2013. In recent years, non-energy sectors of the economy have grown faster than the energy sector, but no other single sector approaches the importance of energy. The Government of Azerbaijan has declared the non-oil sectors of agriculture, information/communication technology, transport, and tourism to be priority sectors in diversifying Azerbaijan's economy away from oil and gas. Signs of economic growth abound and construction of new roads, bridges, luxury hotels, and shopping malls are widespread.
- The key economic indicators of Azerbaijan's economy, according to 2013 official Government of Azerbaijan sources:
 - Real GDP growth: 5.5% in 2013
 - Inflation: 2.4% in 2013
 - Unemployment rate: approx. 5.2%
 - Poverty level: 6.0%
- As of 2014, the top 5 trade partners of Azerbaijan were as follows: Italy with \$1.4 billion in trade, Indonesia with \$774 million in trade, Germany with \$732 million in trade, Israel with \$439 million in trade, and Russia with \$416 million. The United States exported \$378 million to Azerbaijan in 2013.
- According to a report on the banking system published in July 2013 by Moody's Investors Service, the outlook on Azerbaijan's banking system remains stable. Supportive macroeconomic conditions will remain a key factor that underpins its stable outlook for the banking sector over the 12-18 months. Moody's also forecast that Azerbaijan's GDP will increase by 3.5% in real terms in 2013 (2012: 2.2%), driven by continued strong performance in the non-oil economy – which benefits from government-led investments in large-scale infrastructure projects.
- An analysis carried out by the Central Bank of Azerbaijan during the first nine months of 2013 showed that the Azerbaijani manat remains a stable and reliable

currency. The manat appreciated against the U.S. dollar by 0.4 percent in 2013. Azerbaijan's currency reserves increased in 2013 by \$4 billion to \$50 billion.

- Cooperation with international financial institutions has been very important for Azerbaijan's economic development. Azerbaijan is a member of the International Bank for Reconstruction and Development (IBRD), the World Bank, the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF) and the Asian Development Bank (ADB). Azerbaijan is not yet a member of the World Trade Organization but made progress in 2013 and into 2014 toward accession through bilateral and multilateral meetings.

Market Challenges

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- Azerbaijan's business climate remains challenging. The informal economy is large but statistics relating to its scope are difficult to verify. Widespread corruption in Azerbaijan impedes the country's development. In Transparency International's 2013 report on corruption perceptions worldwide, Azerbaijan ranked 127th, while in 2012 it had ranked 139th.
- The most corrupt spheres in Azerbaijan are considered to be law enforcement agencies, organs of the executive power (including customs and safety inspectors), medicine, and education. Customs corruption is a serious concern for most businesses. 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, the government of Azerbaijan has taken concrete steps to improve this situation by establishing one-stop public service centers for many basic business needs, like registering companies, property, etc. The centers, called ASAN service centers, are transparent, efficient and have been embraced enthusiastically by the general public. The government of Azerbaijan established four ASAN service centers in Baku already. As of 2014, centers have also opened in Sumgayit and Ganja.
- Money generated by the oil and gas sector is popularly perceived as the source of much of the corruption within the country. Despite this perception, since 2009 Azerbaijan has achieved "fully compliant" status in the Extractive Industries Transparency Initiative (EITI), which it joined in 2004 to promote more transparent management of oil revenues. As part of its obligations under EITI, Azerbaijan issues annual and semi-annual reports on the status of its oil revenues. These oil revenues enter the State Oil Fund of Azerbaijan (SOFAZ) transparently. It is when money from SOFAZ is transferred to Azerbaijan's budget that it becomes opaque. In 2013, SOFAZ transferred 14 billion U.S. dollars to the state budget.
- Lack of transparency is a problem in government budgets as well as the private sector. Americans considering doing business in Azerbaijan are advised to carefully conduct due diligence and seek out businesses that regularly comply with third party audits by reputable international firms. Due diligence and persistence are critical to success.

- The private sector is widely monopolized in many spheres. Competition in some sectors is not tolerated if interests of well-connected elites are threatened. Personal relationships remain critical in business transactions. Turkish, Russian, Iranian, Chinese, Korean, and European firms are very active in the market. U.S. firms find it especially difficult to compete in the market for cheap products. High-end U.S. products tend to have an easier ability to compete.
- The court system is weak, inconsistent and unreliable. The enforcement of judgments is extremely difficult and alternative dispute resolution (arbitration) is a new and still undeveloped concept. The system is also not transparent and decisions appear to be made on the basis of political power more often than on the basis of law.

Market Opportunities

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The best prospects exist in the following sectors:

- Oil and Gas
- Banking and the Financial
- Information/Communication Technology
- Tourism
- Transport
- Agriculture

See Chapter 4 for descriptions of opportunities in these sectors, including major infrastructure projects, significant government procurements, and business opportunities.

Market Entry Strategy

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

- Relationships are key; whether finding a partner or working with a client.
- Plan to spend a significant amount of time, perhaps over several visits, building trust and understanding with your partner. Establishing trust is critical.
- Properly document the legal responsibilities of all parties.
- When establishing the terms of a contract, be careful to structure the terms of payment so that you do not deliver all of your goods or services up-front and then trust that the other party will honor all of its payment obligations.

- Have a local presence or agent in Azerbaijan: an ear on the ground will secure business opportunities that could otherwise go to someone else.
- A local presence or agent can also manage important relationships with government entities, minimizing risk from government interference or delays.
- A local presence or agent can also be important due to language conflicts. In-country staff with local language skills will make contacting and negotiations easier with government bodies.
- Persistence and transparency on the part of foreign corporations are valued highly by potential Azerbaijani partners.

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Chapter 2: Political and Economic Environment

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

<http://www.state.gov/p/eur/ci/aj/>

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For U.S. firms entering the market in 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 is 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 (Baku), the U.S. – Azerbaijan Chamber of Commerce (Washington, DC), and AZPROMO (Azerbaijan Trade and Investment Promotion Foundation) can provide market insights and help in the search for an Azerbaijani partner. The U.S. Embassy also offers an international partner search as a paid service.

Establishing an Office

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

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

U.S. firms need to choose between the establishment of a limited presence, a joint venture, or a wholly foreign-owned enterprise for entrepreneurial activity. A limited presence is possible in the form of a representative office or a branch. A representative office and a branch that are subdivisions of a foreign legal entity are not considered Azerbaijani legal entities, but are still subject to taxation. An Azerbaijani legal entity can take the following forms:

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

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. The following documents should be submitted to the Ministry of Taxes to register a branch or a representative office:

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

6. Other documents depending on the type of business and/or the tax regime.

To register a commercial entity with foreign capital, the foreign legal entity, in addition to completing and submitting items 1, 2, 4, 5, and 6 mentioned above, also needs to 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 from the U.S. 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 copies of documents.
5. If required by type of business, copies of documents indicating contributions towards charter capital.

There is a registration fee for a branch office of 220 Azerbaijani manat (approximately USD 275) 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 its 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 Chapter 9 below). U.S. firms that experience registration problems should contact the U.S. Embassy in Baku (see contact information in Chapter 10).

Franchising

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Franchising can be a successful retail model in Azerbaijan. McDonald's has owned and operated a network of restaurants in Azerbaijan since November 1999. The Azerbaijan Franchise Association (AFA) was established in 2007 and as of 2014 Azerbaijan is working to join the World Franchise Council. Additional U.S. brands, such as Bebe, Curves, KFC, Villa Enterprises, Cinnabon, Schlotzky's Deli, and Papa John's Pizza operate in Azerbaijan. Franchises of leading Turkish and European brands are also operating in Azerbaijan. U.S. brands are encouraged to consider this opportunity, 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

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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 sends text messages advertising discounts for clients, sales at certain shops, etc. Person-to-person direct marketing for health and beauty products is also well known. Other direct marketing channels (catalogs, e-commerce and regular mail) are in their infancy. Many shippers are reluctant to send goods without prepayment. The number of credit/debit card transactions is rising, but e-commerce is limited by a lack of clear and effective legislation and the prevalence of the shadow economy. As of 2014, the government of Azerbaijan was addressing some of these issues by drafting legislative amendments that would improve the environment for e-commerce. However, these legal changes have not yet been fully implemented.

Joint Ventures/Licensing

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U.S. 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 profit sharing agreements that shield oil and gas investments. If a JV is selected, 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.

Licensing presents obstacles for firms in Azerbaijan, as there are dozens of licensable activities. The following is a list of some activities subject to licensing and the authority responsible for issuing the license:

Chamber of Auditors

- Auditing activities

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

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

Ministry of Agriculture

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

Ministry of Communications and High Technologies

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

Ministry of Ecology and Natural Resources

- Storage and disposal of radioactive and ionized waste

- Utilization and neutralization of toxic waste

Ministry of Economy and Industry

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

Ministry of Education

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

Ministry of Emergency Situations

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

Ministry of Energy

- Sale of oil products
- Sale of gas products

Ministry of Finance

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

Ministry of Health

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

Ministry of Internal Affairs

- Production of various seals and stamps

Ministry of Labor and Social Protection of People

- Assistance for Azerbaijani citizens to identify employment in foreign countries

Ministry of National Security

- The use, production, sale, purchase, import and export of technical means for illegally acquiring information by juridical and civilians not authorized to conduct investigatory activities

- Activities in the field of design and production of data protection facilities

Ministry of Transportation

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

Ministry of Tourism and Culture

- Tourist activities
- Activities of hotels and other lodging enterprises

Central Bank of Azerbaijan

- Banking activities
- Non-bank credit institutions

National TV and Radio Broadcasting Council

- TV and radio broadcasting

State Committee for Construction and Architecture

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

State Committee for Land and Cartography

- Cartographic activities

State Committee for Securities

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

Nakhchivan Autonomous Republic

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

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 central government or to these enterprises can be profitable. It can also be very difficult because of the lack of transparency of government procurement processes. 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 continue to invest in public infrastructure projects, as outlined in the State Public Investment Program. Companies selling to the government of Azerbaijan should be particularly careful to specify beforehand how the 18 percent 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 approached with caution. Azerbaijan is not yet a WTO member and has not agreed to abide by the WTO Government Procurement Agreement.

Distribution and Sales Channels

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Local companies are often distributors for foreign brands. Chinese, Turkish, Iranian, and Russian products tend to dominate this price-sensitive market. Several Azerbaijani firms have successfully sold and represented U.S. and European brands in Azerbaijan. Due diligence should be done on any potential Azerbaijani distributor before concluding an agreement or shipment.

Baku is a distribution center, as a port city and destination for sea, rail, and air cargo. Products reach final destination outside the capital by truck and local, informal transport routes. Azerbaijan is developing a new port as well as a modern rail network to Turkey through Georgia.

U.S. firms looking for opportunities in Azerbaijan should focus on private Azerbaijani firms with proven track records and good financial standing. State enterprises are unlikely candidates for distribution and sales activities on behalf of U.S. firms. They lack the resources to cover the costs of maintaining U.S. product inventories for the local market. Many 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.

Selling Factors/Techniques

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Azerbaijan is a country of traders. However, retail business is becoming increasingly regulated and moving off the "street" into shops and retail outlets. Azerbaijani shoppers are price-sensitive and brand conscious. U.S. goods and services are lesser known than their Turkish or European competitors but are thought to be reliable – a key factor in the Azerbaijani shopping mentality. Counterfeiting of consumer goods is a problem. There are three market segments:

- 1) The largest share of the population that earns the average monthly wage of \$350 or less (Although the official figure from the Azerbaijan State Statistics Committee is approximately \$500 USD, this figure does not track with most other reports.);

- 2) The small but growing middle class with limited disposable income; and
- 3) The “new Azerbaijanis” noted for conspicuous consumption of high-end items.

The first two segments patronize the large unregulated bazaars such as the Bina or Sadarak for cheap Chinese, Turkish, Iranian, and Russian goods.

We recommend that U.S. consumer product firms focus on the third group at the higher end of the market through retail outlets in Baku, given the growing number of consumers with money to spend and interest in high quality goods and services. All sales materials by law must bear labels in the local language, Azerbaijani.

Electronic Commerce

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Electronic commerce is in its infancy in Azerbaijan. Availability of ATMs has introduced some measure of e-commerce to the market, and some B2B websites have also appeared. However, the use of plastic card payments is limited to upscale restaurants and shops. The Ministry of Taxes pushed retail businesses to install POS devices, but the economy remains cash-based as many small retail businesses have not implemented POS devices in their place of business. Inadequate legislation and infrastructure for e-commerce limits U.S. firms’ ability to penetrate the retail market in Azerbaijan and stymies the growth of local business.

Useful websites:

www.B2B.az

Trade Promotion and Advertising

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Advertising in Azerbaijan is carried out through television, radio, newspapers, and billboards. Internet advertising is growing but does not have the same audience as it does in countries with greater internet access/computer ownership. Outdoor billboards are widely used in Baku 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 are one 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. Baku-based trade shows provide another opportunity to market U.S. goods and services.

Useful 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

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Prices in Azerbaijan must be quoted in Azerbaijani manat. Azerbaijanis will bargain over prices. With the exception of a few goods, such as gasoline, the government does not set retail prices. Retail prices include the 18 percent value added tax (VAT).

Sales Service/Customer Support

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Systemized customer service remains undeveloped. Some local firms are developing a Western-style customer service approach but most have not. Cellular operators and information technologies firms in Azerbaijan offer high-quality service and customer support but most other sectors of the economy have not yet adopted a similar approach. 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 Your Intellectual Property

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On paper, Azerbaijani law protects copyrights, patents, trademarks, and industrial designs. The U.S.-Azerbaijan bilateral trade treaty also covers intellectual property rights (IPR). Azerbaijan belongs to the World Intellectual Property Organization (WIPO) and is a signatory of the following treaties:

[WIPO Copyright Treaty](#)

[WIPO Performances and Phonograms Treaty](#)

[Convention Establishing the World Intellectual Property Organization](#)

[International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations](#)

[Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms](#)

[Berne Convention for the Protection of Literary and Artistic Works](#)

In reality, there is little government enforcement of IPR laws. Many copyrighted products are sold in markets and stores with no provision to pay royalties to copyright holders.

Protecting Your Intellectual Property in Azerbaijan:

Several general principles are important for effective management of intellectual property (“IP”) rights in Azerbaijan. First, it is important to have an overall strategy to protect your IP. Second, IP is protected differently in Azerbaijan than in the United States. Third, rights must be registered and enforced in Azerbaijan, under local laws. Your U.S. trademark and patent registrations will not protect you in Azerbaijan. There is no such thing as an “international copyright” that will automatically protect an author’s writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Azerbaijani market. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. Government generally cannot enforce rights for private individuals in Azerbaijan. It is the responsibility of the rights' holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Azerbaijani law:

http://azerbaijan.usembassy.gov/legal_info.html

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Azerbaijan require constant attention. Work with legal counsel familiar with Azerbaijani laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations. These include:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the United States and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at www.StopFakes.gov.
- For more information about registering trademarks and patents (both in the United States as well as in foreign countries), contact the U.S. Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the United States, contact the U.S. Copyright Office at: **1-202-707-5959**.
- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at www.stopfakes.gov.
- For U.S. small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in Brazil, China, Egypt, India, and Russia. For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: www.StopFakes.gov This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.
- The U.S. Commerce Department has positioned IP attachés in key markets around the world. You can get contact information for the IP attaché who covers Azerbaijan at: BakuCommercial@state.gov

Due Diligence

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Accurate financial documentation and credit history are very difficult to obtain on potential buyers and partners. A 2013 commercial secrecy law complicates due diligence efforts by limiting what 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 of a company are is also very difficult. Failure to perform a very 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, some 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 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.

Local Professional Services

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To identify local service providers, the following websites might be useful:

<http://iteca.az/>

<http://azpromo.az/>

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

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

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

Commercial Sectors

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- Tourism Sector
- Transport Sector

Agricultural Sector

Oil and Gas Sector

Overview

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Unit: USD thousands

	2012	2013	2014 (estimated)	2015 (estimated)
Total Market Size	31,900,000	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A	N/A
Total Exports	22,202,525	22,154,581	N/A	N/A
Total Imports	N/A	N/A	N/A	N/A
Imports from the U.S.	50,935*	50,587*	N/A	N/A
Exchange Rate: 1 USD	.79AZN	.79AZN	.79AZN	N/A

Source: Official Government of Azerbaijan statistics.

*U.S. Government statistics.

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

Azerbaijan is the beginning of an East-West energy corridor that is in the process of expansion. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline stretches from Baku in Azerbaijan, through Tbilisi, Georgia, to a terminus at Ceyhan in Turkey. The South Caucasus Gas Pipeline (SCP) roughly parallels the BTC route, but ends in Erzurum, Turkey. Work is underway on expanding the SCP and building two new gas pipelines that will take gas from the second stage of the Shah Deniz project across Turkey (the Trans-Anatolian Pipeline, or TANAP) and then across Albania and Greece to Italy (the Trans-Adriatic Pipeline, or TAP). Although many major contracts have been awarded, the development of the Shah Deniz II project and the pipeline projects are likely to present opportunities for U.S. firms.

In the longer term, the establishment of a route to gas markets in Europe is likely to spur the development of additional gas fields in the Caspian, which would present a wide range of additional opportunities for U.S. companies.

Sub-Sector Best Prospects

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Due to extensive onshore and offshore development, this sector remains the nation's largest sector in terms of revenue generated as a percentage of GDP. This includes most types of equipment related to the exploration, extraction, and transportation of oil and gas. Project management and engineering services, petroleum products, drilling and oilfield equipment as well as abatement and environmental services also hold potential for U.S. firms in this area.

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The oil and gas sector is expected to remain the most lucrative market for foreign businesses for years to come. In addition to oil and gas field development and transportation routes, Azerbaijan is planning a new oil and gas processing complex.

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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>

Banking and Finance Sector

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Unit: USD thousands

	2012	2013	2014 (estimated)	2015 (estimated)
Total Market Size	N/A	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	N/A	N/A
Exchange Rate: 1 USD	.79AZN	.79AZN	.79AZN	N/A

Source: Official Government of Azerbaijan statistics.

Official statistics were unavailable for the financial sector.

The financial sector in Azerbaijan is dominated by banks, and the non-banking sector continues to offer limited opportunities. Banks hold about 95 percent of total financial sector assets. The non-banking financial sector, particularly the micro-finance sector, is underdeveloped but is an important source of finance for small and medium-sized enterprises (SMEs).

The Central Bank of Azerbaijan (CBA), formerly known as the National Bank of Azerbaijan, is the central regulatory body. The CBA continued its policy of ensuring financial sector stability and sustainability in 2013 and undertook some policy actions to that end. New capital adequacy requirements were expected to come into force in January 2014, but were extended for an additional year. The largest banks, which hold 85 percent of total banking assets, already meet the new requirements.

The International Bank of Azerbaijan (IBA) remains the leading bank in Azerbaijan, and the government remains its largest shareholder. The 42 remaining banks in Azerbaijan are privately owned and 23 of them have some foreign investment. According to the Central Bank of Azerbaijan, as of April 1, 2014, the total assets of Azerbaijani banks were 21.4 billion AZN (approximately \$27 billion U.S. dollars).

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 to financing private business in Azerbaijan. The credit supply is far too small to provide a suitable environment for the development of SME's in the country. In fact, most SME's have very limited access to affordable credit lines given collateral requirements, loan terms, etc. Long-term trade and project financing are in their infancy. For further information on the financial sector, see pages 39-40 below.

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

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

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Many Azerbaijani banks have expressed interest in pursuing correspondent relationships with U.S. banks. In addition, an increasing number of private banks have become interested in attracting foreign equity investors, and EBRD, IFC, and German financial institutions have taken an equity stake in several such institutions. The increasing wealth of Azerbaijan has also raised interest in financial and wealth management services.

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

International Bank of Azerbaijan: www.ibar.az

State Oil Fund of Azerbaijan: www.oilfund.az

IFC: www.ifc.org

World Bank: www.worldbank.org

EBRD: www.ebrd.com

Information/Communication Technology Sector

Overview

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	Unit: USD thousands			
	2012	2013	2014 (estimated)	2015 (estimated)
Total Market Size	1,158,750	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A	N/A
Imports from the U.S.	15,892*	14,909*	N/A	N/A
Exchange Rate: 1 USD	.79AZN	.79AZN	.79AZN	N/A

Source: Official Government of Azerbaijan statistics.

*U.S. Government statistics.

Azerbaijan's IT sector is in the early stages of development. Despite progress in improving its telecommunications infrastructure, the regulatory framework governing telecommunications and information technology needs improvement.

Tariffs on imported IT equipment are an example of an area where Azerbaijan is less competitive. Duty for personal computers is 3% in Azerbaijan but 10% for computer components. In contrast, Georgia, Turkey and Turkmenistan have no tariffs on this kind of equipment and can compete more readily. These tariff regimes require modernization to improve competitiveness.

E-governance is an area for collaboration between businesses and the Government of Azerbaijan. The government has implemented some e-governance solutions to make their services more transparent and more easily accessed. The Ministry of Taxes is an example. This ministry has moved tax payments on-line, making compliance easier, though at least one U.S. firm has complained about the way the Ministry of Taxes has structured its on-line service for VAT payments. Other ministries could benefit from similar improvements but have not yet taken steps to modernize. U.S. businesses with such solutions may find opportunities in these modernization and e-government efforts.

In the private sector, e-commerce remains disparate in Azerbaijan. Few local businesses are using these technologies to interact with their customers. Opportunities exist 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 is slowly expanding the ability of Azerbaijani businesses to conduct on-line transactions with customers.

The Ministry of Communication and High Technologies (MCHT), formerly the Ministry of Communications and Information Technology, hosted the Internet Governance Forum (IGF) in November 2012, which gave Azerbaijan greater international exposure to major firms. A Memorandum of Cooperation signed between the United States and Azerbaijan during the 2012 Internet Governance Forum also gives both countries a framework for collaboration and opportunities for U.S. businesses to help Azerbaijan build up this sector. Azerbaijan's president declared 2013 the year of Information and Communication Technology, and eleven U.S. firms participated in a U.S.-Azerbaijan ICT Business Forum on the sidelines of the 2013 Bakutel tradeshow. Because IT is an emerging sector, there are opportunities for U.S. consultants with experience in the development of IT strategy to contribute to MCHT's goals and long-term approach to expanding this sector. Azerbaijan aims to be a regional communications hub, with plans to host the Eurasian Connectivity Alliance (EurACA) here to further the development of the conceptual Trans Eurasian Information Superhighway (TASIM) reaching from Germany to Hong Kong.

Another area of development under the information and communication technology umbrella is satellites to extend communication capacity. Azercosmos, Azerbaijan's space agency launched a telecommunication satellite in February 2013. Azercosmos has received USTDA financing for a feasibility study for launching a second satellite. These big ticket purchases present a significant potential for U.S. export content.

An area that hampers the IT sector is weak enforcement of intellectual property rights. Foreign Companies are reticent to produce or distribute significant IT solutions in Azerbaijan because the ability to control the IPR or protect them is virtually non-existent.

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A new IT “High Tech Park” being developed by MCHT offers opportunities for firms looking to expand into the region. Favorable concessions on taxes, VAT, and a co-investment scheme for start-ups could be attractive to the right kinds of firms. Firms that can offer services for the small Azerbaijani niche market or who would be able to use Azerbaijan as a regional base of operations to include neighboring countries will be more likely to succeed. Azerbaijan has a need for software applications in e-governance, in e-payments, and in e-marketing/analysis.

Opportunities

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E-governance or e-commerce potential remains under-fulfilled and these areas 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, as well as the private sector in Azerbaijan. Companies with expertise in satellites may benefit from Azercosmos’ interest in acquiring new capabilities.

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The Ministry of Communication and High Technologies (MCHT):
<http://www.mincom.gov.az/>

Tourism Sector

Overview

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Unit: USD thousands

	2012	2013	2014 (estimated)	2015 (estimated)
Total Market Size	1,137,500	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	N/A	N/A
Exchange Rate: 1 USD	.79AZN	.79AZN	.79AZN	N/A

Source: Official Government of Azerbaijan statistics.

Azerbaijan’s tourism sector strategy is geared toward high-end hotels that allow Baku to host business conferences and prestigious international events. The expansion of airline destination offerings is opening Azerbaijan up to tourists from the Middle East and East Asia and giving Azerbaijani citizens increased travel opportunities. Azerbaijan received Category-1 status from the U.S. Federal Aviation Administration in March 2014 following a successful International Aviation Safety Assessment (IASA). Azerbaijan Airlines and/or the semi-private carrier Silk Way Airlines plan to initiate direct flights to the United States in the early fall of 2014, pending the completion of a review of the country’s airport security by the U.S. Transportation Safety Administration. Azerbaijan is

expanding its tourism education capacity in an attempt to keep up with demand for high quality employees in the hospitality industry.

While brandishing some of the most well-known chain names in the world, including a JW Marriott, Four Seasons, Hilton, and Kempinski, most of these hotels are owned by local holding groups. Most hotels' business plans focus on luxury tourists, large-scale conferences and sporting events rather than leisure tourists. The success of these hotels rides on Azerbaijan's continued hosting of major international events. In 2012, Azerbaijan hosted the Eurovision Song Contest and FIFA's U-17 Women's World Cup. In 2015, Azerbaijan will host the first ever European Games and a Formula One race. Baku hosts a variety of martial arts sporting events yearly and the city bid to host both the 2020 Summer Olympics as well as UEFA's Euro 2020 Championship. These hotels maintain ongoing corporate contracts that allow them to maintain profitable capacity levels year-round. These contracts insulate them from the seasonal ebbs and flows of traditional high and low tourist seasons. The Central Bank of Azerbaijan estimates that 33.5 percent of all tourist services rendered in the country were for business tourists and this is in line with the business model of most Baku hotels.

There are 530 hotel facilities in the country, 5.1 percent of which are state-owned and 94.9 percent which are private. The State Statistics Committee of Azerbaijan reports that hotel revenues in 2013 amounted to 218 million USD, an 11.2 percent increase from 2012. Most of these revenues (64.7 percent) come from filling rooms and 23.4 percent from food and beverage sales.

The number of tourists who visited Azerbaijan in 2013 reached 2.4 million, and they spent some \$700-800 USD a week on accommodation, food, and cultural programs. Leisure tourists make up the smallest slice of the tourist pie. Travel agencies, such as Azerbaijan24.com and STAN tours, estimate that about 15-20,000 leisure tourists visit per year. These estimates are in line with the State Statistics Committee's numbers. The travel agencies cite the cost of visas and the length of time involved in the visa application process as the major impediments to increasing tourism in Azerbaijan.

While new ski facilities have opened in Guba and Gabala, the development of hotels and tourist destinations in the regions 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.

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Firms that have expertise in hospitality management, or three to 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.

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There are opportunities for businesses that can supply hotels with skilled employees or provide them with logistical support for their supply chains. Business trips and conferences are the main targets of Azerbaijan's hospitality industry, and companies that arrange business conferences may find opportunities in the Baku market.

Ministry of Culture and Tourism: <http://www.mct.gov.az/>

Ministry of Youth and Sport: <http://www.mys.gov.az/>

Transport Sector

Unit: USD thousands

	2012	2013	2014 (estimated)	2015 (estimated)
Total Market Size	3,676,870	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A	N/A
Imports from the U.S.	155,025*	113,059*	N/A	N/A
Exchange Rate: 1 USD	.79AZN	.79AZN	.79AZN	N/A

Source: Official Government of Azerbaijan statistics.

*U.S. Government Statistics.

Azerbaijan is positioning itself as a transportation hub for East-West trade in the region through major infrastructure investments. The completion of the Baku-Tbilisi-Kars railway and the Alat Port, if coupled with an improved trade facilitation policy enabling environment, would position Azerbaijan as a viable transit route for trade between Central Asia and Europe. Azerbaijan has also vastly expanded its air cargo facilities with new cold storage and a new cargo terminal at the Heydar Aliyev International Airport in Baku, which is an important commercial cargo route for supplying NATO and partner nations in Afghanistan. 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. The Baku-Tbilisi-Kars railway will provide Azerbaijan's rail system with a link to non-Soviet rail systems. Georgia, Azerbaijan and Turkey signed an intergovernmental agreement in 2007 to establish a rail link using the existing Tbilisi-Baku railway. The project includes construction of a 98-kilometer Kars-Akhalkalaki railway, of which 68 kilometers will run through Turkey and 30 kilometers through Georgia. Reconstruction of the 183-kilometer Akhalkalaki-Tbilisi section is also underway and nearing completion. Construction of the Georgian sector was funded by Azerbaijan, which allocated two loans to Georgia totaling \$775 million. Azerbaijan's State Oil Fund (SOFAZ) has allocated \$470.6 million (as of April 1, 2014) to construct the Georgian section of the project since the beginning of the financing of the BTK railway project. The first train had been planned to run on the new railway at the end of 2012, but has now been postponed to mid-2015, when Turkey expects to complete its 68 kilometer leg. Initially, freight transport on the BTK railway will total an estimated five million tons during the first five years of operation.

The government of Azerbaijan is also building a new Caspian Sea port at Alat. It is designed to replace Baku's port as the main commercial and industrial port in Azerbaijan. As planned, it will be larger than all Caspian ports combined and there will be ample room to expand as necessary. Additionally, Alat is situated at a rail and road hub, allowing for easy multimodal North/South and East/West transit. When completed, a train-car -ferry system will operate between the Central Asian ports of Turkmenbashi in Turkmenistan and Aktau in Kazakhstan. The port is designed to accommodate rail ferries that can transport 52 train cars at a time. The most expensive, first phase of the project is estimated at 540 million AZN. The total cost of construction of the port is 870 million AZN. During the first stage, the port will be able to handle up to 10 million tons of cargo and will increase its capacity by the third phase to reach 25 million tons of cargo.

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

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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.

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Ministry of Transportation <http://www.mot.gov.az/>

Agricultural Sector

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Agriculture is the largest sector for employment in Azerbaijan with roughly 40 percent of the working population making some part of their living in agriculture. The Government of Azerbaijan government recently released a new draft strategy for 2014-2020 to guide the development of the agricultural sector. However, there remain significant barriers to growth in the sector, which comprises a mere 5.3 percent of GDP.

As a legacy of the collapse of the Soviet Union, Azerbaijan inherited outdated food processing equipment and rudimentary packaging facilities. Improvements in food processing and packaging require imported equipment. There is potential for the development of food processing, but large-scale U.S. exports will remain limited and 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 that parceled small land plots (one to three hectares) out to individual farmers created a long-term structural impediment to larger-scale agriculture, which constrains the market for the equipment or methods used in larger-scale U.S. agribusiness. Lack of adequate record keeping and insecure titling of land are also impediments to even small-scale consolidation of agricultural plots. Furthermore, the

degradation of Soviet-era irrigation systems has led to the salinization of large areas of farmland, which will require big investments to repair and may provide a niche market for partnering with the government on restoring arable land. Access to finance is a persistent challenge for the owners of small and medium-sized land plots.

Despite these obstacles, there is potential for additional development in the food processing industry. Azerbaijan produces a wide variety of crops, with 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. Several start-up private firms including the Azersun Holding, MKT, CTS Agro, Guba Tinning Factory (based in Guba), M-Pro, the Azerbaijan Dairy Corporation, and Gilan Holding have already made the move to European equipment and are interested in sourcing of U.S. equipment. Additionally, AzNar, a company that produces pomegranate juice, has worked directly with a U.S. firm for the distribution of their product line in the United States.

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).

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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.

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U.S. agricultural equipment manufacturers and used equipment dealers should consider traveling to the region to meet with large private holding companies active in agricultural processing. The 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.

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

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Import Tariffs

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

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

The rates of import and export duties are currently regulated by the provisions of the 2001 Resolution. Ad valorem import duties are set at rates ranging from 0% to 20%. Currently, the standard rate of value-added tax (VAT) in Azerbaijan is 18%. Goods from CIS countries (except Kazakhstan) are assessed VAT in their country of origin.

Trade Barriers

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

Import Requirements and Documentation

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Importers are required to provide the State Customs Committee with:

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

Exporters are required to provide the State Customs Committee with:

1. Document verifying the legal status of the business entity;
2. Legal entity's code determined by the State Statistics Committee;
3. Copy of the contract (and contract number);

4. Certificate of origin of the product being exported;
5. Document issued by an authorized bank on the pre-payment or opening of a letter of credit for the exported product;
6. Permission(s) from the relevant state entity(s) when applicable;
7. Sales invoice and packing list; and
8. Customs declaration.

Once the goods are released from the customs warehouse, they are subject to all applicable duties and taxes. The customs warehouse will also assess charges for demurrage. The rate for this charge should be determined with the customs warehouse prior to consignment to the warehouse to avoid any costly misunderstandings.

Goods imported into Azerbaijan for processing and then re-exported are subject to normal duties and taxes at the time of importation. As soon as processing has been completed and the goods are re-exported, a draw-back procedure can be initiated to recover the taxes and duty paid. There is no formal procedure for submitting an application, and this process is cumbersome to use. 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 the importation of goods and equipment are an integral part of production sharing agreements (PSAs). Goods, tools, equipment, supplies, and services necessary for successfully carrying out the objectives of the PSA are generally exempt from import duties and taxes. By extension, foreign firms registered to do business in Azerbaijan, and who provide services for contractor parties (CP) or foreign sub-contractors (FSC) participating in PSAs, may also be exempt from duties and VAT on imported goods and equipment.

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

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

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

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

Importation of large-scale satellite dishes and other communications equipment requires the permission of the Ministry of Communications and High Technologies. U.S. firms should be forewarned that customs clearances can be problematic, time-consuming, and bribes are often sought by customs officers.

Temporary Entry

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Personal items, tools of trade, and business samples may be imported with little problem. Goods to be displayed or exhibited may be brought in as temporarily imported goods for a period of time, but must be re-exported within the time stipulated to avoid paying import duties and taxes. U.S. firms planning to exhibit at major trade exhibitions in Azerbaijan need to work closely with the show organizer well in advance to ensure timely and proper temporary declaration of goods to be exhibited. If sending samples via express mail, firms should contact the local 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.

Labeling and Marking Requirements

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

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

- Name and brand of the product
- Name and address of producing company
- Country of origin
- Expiration date/shelf life

- Nutrition and caloric values
- Net weight (grams or kilos)
- Usage instructions
- Name and type of packing material
- Storage instructions
- Licensing and certification information
- 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 drinks (up to 10% concentrate).

For more information, the State Committee on Standardization, Metrology and Patents manages these requirements: www.azstand.gov.az/

Prohibited and Restricted Imports

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The Government of Azerbaijan must approve, certify or license export or import of weapons, military equipment, explosives, special types of scientific and technical information for production of weapons, nuclear and radioactive materials and technologies, narcotic and psychotropic substances, blood and blood components, and 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 and Contact Information

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A New Customs Code came into force in January 2012. Valuation of goods imported into Azerbaijan is based on the declared value that appears on the invoice. Import duties of 0.5, 5, 10 and 15% are then assessed accordingly, based on the Customs Tariff schedule of the Azerbaijan Republic. The maximum term for which goods may be stored in a customs warehouse is three years, after which they must either be declared or placed into storage facilities owned by the customs authorities.

The State Customs Committee is preparing new proposals to simplify customs procedures in order to support entrepreneurship and economic security in the country. The first proposal calls for reducing the duration of the customs declaration of goods from 72 to 24 hours. The second proposal seeks to reduce the number of shipping documents required for customs declarations.

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

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Overview

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

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

Standards Organizations

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The State Committee on Standardization, Metrology and Patents
www.azstand.gov.az/

Contacts

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For questions on standards, firms should contact the State Committee on Standardization, Metrology and Patents. The point of contact for standards-related issues is: www.azstand.gov.az/

Trade Agreements

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Azerbaijan is working to accede to the World Trade Organization. Azerbaijan has signed bilateral free trade agreements with seven states of the former Soviet Union, although some trade liberalizing provisions have not yet taken effect. Azerbaijan signed agreements with:

The Russian Federation (September 30, 1992); Moldova (May 26, 1995); Ukraine (July 28, 1995); Turkmenistan (March 18, 1996); Uzbekistan (May 27, 1996); Georgia (June 10, 1996); Kazakhstan (June 10, 1997); and Tajikistan (July 13, 2007).

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State Customs Committee: www.customs.gov.az/

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Openness to Foreign Investment

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Over the past few years, the Government of Azerbaijan has worked to integrate the country more fully into the global economic marketplace, attract increased **foreign investment**, diversify its economy and maintain positive growth during the global financial crisis. Robust expansion in Azerbaijan during 2013 was driven by the non-oil economy, which received a boost from continued public investment. While the oil sector is just emerging from a recession, public spending, especially on infrastructure, is contributing to higher growth rates in the non-oil sector.

Economic diversification continues to be a stated goal of President Aliyev and the government, despite what appears to be diminished zeal for economic reform compared to a period of rapid reform from 2007 to 2009, which led the World Bank to name

Azerbaijan as one of the top ten global reformers in its 2009 Doing Business report. Less than expected oil production – and its concomitant impact on oil revenues – may refocus Azerbaijan on the need for quick and comprehensive reforms, including completing its WTO accession process.

Substantial economic challenges remain for Azerbaijan, particularly with regards to the implementation of long-term institutional and systemic reforms that are critical to strengthening the foundations for economic freedom. Although Azerbaijan has continued to attract significant **foreign investment** to further develop its **energy** sector throughout the past decade, inefficient government bureaucracy, weak legal institutions, requests for illicit payments for cross-border transactions, and predatory behavior by politically connected monopolistic interests hinder investment outside of the oil and gas sector and present challenges for U.S. companies.

The score and rank of Azerbaijan in the most current World Bank Doing Business Report, Heritage Foundation Economic Freedom Index, Transparency International Corruption Index, World Bank Gross National Income (GNI) per capita, and Global Innovation Index for Azerbaijan are included in the table below.

The Government of Azerbaijan officially welcomes **foreign direct investment (FDI)**, but the recognition of its importance to the development of a robust and diverse economy still lags in some parts of the government. While the laws on the books favor foreign direct investment, thorny investment disputes can arise when a foreign investor or trader's success threatens well-connected or favored local interests.

The Law on Protection of Foreign Investments permits foreign direct investment in any activity in which a national investor may also invest, unless otherwise prohibited by law. Prohibited areas include those relating to national security and defense. The Government of Azerbaijan also exerts some measure of control over other key sectors, such as **energy and communications**. Foreign investments have complete and unreserved legal protection granted by this law, as well as by other laws and international contracts. The law provides that Azerbaijan will treat foreign investors in a manner not less favorable than the treatment accorded to national investors and allows the repatriation of profits, revenues and other investment-related funds as long as applicable taxes have been paid.

Under Azerbaijani law, foreign investors can participate – according to existing legislation – in the privatization of state and municipal properties, and can invest in Azerbaijan through joint ventures with local companies or by establishing subsidiaries that are wholly-owned, as well as through representative offices and branches of foreign legal entities. Azerbaijani law also provides a ten-year grandfather clause in the event new legislation less favorable to foreign investors is adopted; however, this provision does not apply to changes in tax legislation.

In 2008, Azerbaijan transferred responsibility for registering representative offices of foreign businesses, and the creation of business entities with foreign ownership, to the Ministry of Taxes based on the so-called “one-stop-shop” principle that greatly simplifies the registration process and reduces waiting times. The registration of representative or branch offices of foreign non-commercial entities was not, however, transferred to the Ministry of Taxes; such entities still are required to register with the Ministry of Justice. The “online registration” system of legal entities has been available since February 2012.

Registering a representative office or branch with the tax authorities should take place within one month from the start date of operations. Terminating a representative office's or branch's activities should be reported to the authorities one month prior to the termination of operations. A representative office or branch is the locally registered site of a foreign legal entity and has "non-resident" status with regards to Azerbaijani tax, legal, and currency regulations. The representative office is not subject to any taxes on its profits, as its activities are strictly limited to providing representative services to its head office. Both the representative office and branch are responsible for the timely payment of all other applicable taxes, such as personal income tax and Azerbaijani social security payments for employees.

Over the past few years, Azerbaijan has been engaged in the process of updating several key pieces of legislation that impact the business environment. It passed a new Customs Code in September 2011, and in response to a specific Moneyval recommendation, passed a Corporate Criminal Liability law in 2012. A new version of the Competition Code is currently undergoing revision in Parliament, and some observers expect the law to pass finally in 2014. Azerbaijan's **Bankruptcy** Law, which does not function effectively and is rarely used, continues to be a hindrance, as does its weak credit reporting institutions. Another hindrance to foreign direct investment is the difficulty of getting established Azerbaijani businesses to adapt to standard investor-friendly practices, such as those associated with the concept of good corporate governance or international accounting norms.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	127 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	81 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	71 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	105 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	6,220 USD	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

Azerbaijan has a liberal exchange rate system and, in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency at a legal, market-clearing rate. The Central Bank of Azerbaijan (CBA) has required that cash transactions be conducted in Azerbaijani manat since 2001. Foreign companies and individuals may have both AZN and foreign currency accounts at a local bank. All settlements within Azerbaijan, including the payment of an employee salary, should be made in AZN with a few exceptions. Permission from the CBA is required to collect revenues in foreign currency in the territory of Azerbaijan. The Baku Electronic Currency Exchange System (BEST) was launched in July 2002 and **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. In more recent years, additional requirements relating to the disclosure of the source of currency transfers have been imposed in an attempt to reduce illicit transactions.

No systematic difficulties exist in obtaining **foreign exchange**. Cash exchange is carried out at numerous currency exchange points and many cash machines will distribute both Euros and U.S. Dollars, in addition to Azerbaijani manats. In 2007, Parliament amended existing legislation to eliminate **custom duties** for cash currency exports, a step in line with **WTO** requirements. The country's strategic monetary reserves grew by 9 percent to over 50 billion USD as of December 2013. The official currency reserves of the Central Bank of Azerbaijan increased to 14.1 billion USD as of December 2013.

Expropriation and Compensation

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The Law on the Protection of Foreign Investments protects foreign investors against **nationalization** and **requisition**, except under certain specified circumstances. The nationalization of property can occur when authorized by parliamentary resolution, although there have been no known cases of 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 by law to prompt, effective, and adequate compensation.

Dispute Settlement

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Disputes or disagreements arising between foreign investors and enterprises with foreign investment, state bodies of Azerbaijan, and/or enterprises, public organizations and other legal entities of Azerbaijan, are to be settled in the **court systems** of Azerbaijan or, on 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. The Supreme Court and appellate courts have civil, criminal, administrative, economic, and military panels. 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, the judgments of the appellate

court are published within three days of issuance but may, in exceptional circumstances, be published within ten days. The Constitutional Court has the authority to review laws and court judgments for compliance with the Constitution. The decisions of the Constitutional Court are published.

The procedure for the enforcement of foreign judgments in Azerbaijan is established by the Civil Procedure Code. The Code only requires the enforcement of foreign judgments either pursuant to an international treaty or based on the principle of reciprocity and provides that foreign arbitral awards may be enforced in Azerbaijan, only so long as they do not contravene local legislation or public policy, and if reciprocity exists. A **Bilateral Investment Treaty** between the United States and Azerbaijan – which came into effect in 2001 – provides U.S. investors with recourse to the International Center for the Settlement of Investment Disputes.

Azerbaijan has entered into several other bilateral treaties – principally with neighboring states – to facilitate the enforcement of foreign judgments, and is a party to the 2004 Commonwealth of Independent States (CIS) Convention on Mutual Legal Assistance in Civil, Family and Criminal Cases. In addition, Azerbaijan is a party to the Convention on Resolving Business Disputes, dated March 20, 1992 (also known as the Kyiv Convention). Azerbaijan also is a party to the World Bank Convention on the Settlement of Investment Disputes between States and Nationals of Other States, as well as being a member of the Multilateral Investment Guarantee Agency (MIGA). Azerbaijan is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which provides for binding international arbitration of investment disputes between foreign investors and the State.

The Supreme Court is responsible for recognition and enforcement issues. The law does not provide specific periods for consideration of applications on the recognition and enforcement of foreign judgments. The average length of time that international business disputes take to be resolved, either through the court system or through negotiations and/or arbitration between the two parties, varies widely.

Performance Requirements and Incentives

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Azerbaijan has not yet developed or implemented special **incentives** to attract foreign investment. A law permitting the creation of Special Economic Zones (SEZs) was passed by Parliament in December 2009, but no such zones have been established to date. The law provides a legal basis and framework for the establishment and operation of territorial zones. There are plans to develop an SEZ in Alat, a commercial seaport under construction, and the Baku Heydar Aliyev International Airport. (See section below on SEZs.)

On December 21, 2012, the Azerbaijani Parliament passed amendments to the **Tax Code**, which included an exemption from income, land, and property taxes for business parks in the area of information technology and other industries to be established in Azerbaijan. The amendments also envisage tax and customs privileges for the residents of industrial and technological parks for a term of seven years.

Performance requirements are generally not imposed on new investments, but investors that participate in the **privatization** process often assume specific obligations

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

There are currently no formal legal requirements for employment of host country nationals, though this policy could eventually be reviewed by Parliament. Additionally, there is an overall limit on the number of foreign workers permitted in Azerbaijan, as well as sectorial limits. Employers wishing to hire foreign workers in Azerbaijan must obtain a license from the Ministry of Labor. Foreigners who wish to work in Azerbaijan must register with local authorities at their place of residence and obtain **work permits** from the Ministry of Labor. Sole proprietors, heads of representative offices, and branches of foreign legal entities and their deputies, short-term (three months or less) secondees, accredited foreign **media** representatives, **education** specialists, diplomats and international civil servants do not require work permits. As of July 2009, the State Migration Service (SMS) decreed a one-stop shop system for work and **residency permits**. According to this single window principle, within seven days of application, foreigners applying for residence and work permits should receive these documents, although not all applicants experience this level of efficiency. The fee to acquire a one-year license for a migrant worker is equal to 1,000 AZN (approximately 1,250 USD).

Despite this, major U.S. and other international firms have increasingly encountered problems registering their expatriate employees with the SMS. One of the issues has been the requirement for a certificate attesting that a foreign worker is free from yellow fever, hemorrhagic virus, HIV, Hepatitis B and C, and mental disorders. The process was streamlined in 2012 after business complaints, but it should be noted that the SMS still will only accept health certificates from approved medical facilities in Azerbaijan. The new regulations require that all foreign visitors who stay in Azerbaijan more than 3 days – both official and personal guests – must register with the SMS. Visitors staying less than 3 days do not need to register. Travelers staying at major hotels in Baku will have the **registration** done when they check in. Those staying in private homes or lesser known hotels will have to register themselves. Registration is the traveler's responsibility and can result in a \$380 - \$500 fine that 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 (www.migration.gov.az).

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

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

The registration form is only in Azerbaijani but may be completed in English.

The business community has registered its concerns about a number of other issues with the SMS and requested clarification on: exit and entry authorizations; police

registration; the possibility of submitting photo copies as opposed to original documents when applying for a visa extension; the possibility of the early submission of documents for extending one's stay; the reduction of state duties for work permits issued for less than a year; and discrepancies between validity dates on permit cards versus the actual date when the cards are received. The new Migration Code adopted in August 2013, however, reflected a number of business-friendly proposals submitted by the American Chamber of Commerce in Azerbaijan.

Right to Private Ownership and Establishment

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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. However, in practice, access to markets, credit and other business operations is often impeded by licensing and other regulatory requirements, and by politically connected business interests that can mobilize the powers of the state to their advantage. In sectors of interest to certain senior government and political figures, competition is actively impeded through administrative barriers.

Legislation regulating real **property rights** include the Law on Mortgage (2005), the Land Code of the Republic of Azerbaijan (1999), the Law on Land Reform (1996), the Law on Land Leasing (1999), and the Law on Land Market (1999). Azerbaijani citizens and legal entities, including enterprises with foreign investment, can legally own, buy, sell, and trade property. Following the 1999 Land Code, foreign citizens, organizations, and enterprises may lease, but may not own land. Expropriation may occur in the event of natural disaster, epidemic, or other extraordinary situation.

Protection of Property Rights

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Amendments to the Civil Code adopted in 2004 and 2007, which allow authorities to forcibly purchase and **expropriate property**, have created opportunities for the abuse of property rights. The poor quality, reliability and transparency of governance, as well as regulatory abuse and inconsistent contract enforcement, have exacerbated this problem.

In 2006, the Government centralized the processing of residential **real estate** transactions through a network of notary offices under the Ministry of Justice. Since 2013, Azerbaijan's State Real Estate Registry Service at the Committee for Property Issues has been the lead agency that manages the real estate registration system.

The Government of Azerbaijan works with the World Bank to improve the property registration system, but the system remains awash with bureaucratic requirements and is generally seen as corrupt and inefficient. The January 2014 Index of Economic Freedom – compiled by the Wall Street Journal and the Heritage Foundation – gave Azerbaijan poor scores on private property rights and freedom from corruption.

In the mid-1990s, Azerbaijan began implementing a national system for registering and protecting **intellectual property rights (IPR)** with the assistance of the World Intellectual Property Organization (WIPO), of which it is a member. Azerbaijan enacted improved copyright legislation (Law on Copyright and Related Rights) in 1996, patent legislation (Law on Patents) in 1997, and trademark protection legislation (Law on Trademarks and Geographic Names) in 1998. Azerbaijan also is a party to the

Convention Establishing the World Intellectual Property Organization, the Paris Convention for Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works. Azerbaijan is a party to the Geneva Phonograms Convention, and acceded to the two WIPO Internet treaties in 2005.

As part of its WTO accession program, Azerbaijan has continued to develop a range of WTO-consistent IPR legal and regulatory reforms, which could significantly strengthen IPR rights and **enforcement protections**, if they were consistently enforced. Azerbaijan amended its copyright legislation in 2008 and formed an anti-piracy commission in May 2010, with representatives from various ministries charged with enforcing existing legislation. Most recently, Azerbaijan adopted a new Law on the Provision of Intellectual Property Rights and Fight against Piracy in May 2012. This new law brings Azerbaijan's intellectual property regime more closely in line with the WTO **Trade-Related Intellectual Property Rights (TRIPS)** agreement, and satisfies many of the requirements and expectations of Azerbaijan's WTO Working Party members.

According to the State Copyright Agency, during 2013 piracy in the field of book printing dropped from 61% to 30%, from 90% to 68% in the market of audiovisual products, and from 96% to 87% in the field of software. The Business Software Alliance put the software piracy figure at 87% in 2011. Despite this progress, pirated software, movies, books, clothing and other luxury items are widely available in Azerbaijan.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Govhar Mammadova, BakuCommercial@state.gov

Local lawyers list: http://azerbaijan.usembassy.gov/legal_info.html

Transparency of Regulatory System

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The Government of Azerbaijan has worked to improve its **regulatory system** over the past several years, but a continued lack of transparency and allegations of corruption remain key problems in this area. The lack of transparent policies and effective laws to establish clear rules and foster **competition** are particularly serious impediments to foreign direct investment. Informal bureaucratic control mechanisms often interfere with the application of laws and regulations and hinder competition. While laws and decrees usually are published in one of the country's official newspapers, as well as online, implementation often is delayed while regulations are developed; those regulations, in many instances, are not published or distributed.

Politically connected businesses benefit from government regulatory and other decisions to achieve effective control over lucrative sectors of the economy, and U.S. companies have been among those impacted. Powerful state-owned enterprises, such as the Azerbaijan State Caspian Shipping Company (CASPAR) and Azerbaijan Airlines (AZAL), have regulatory authority that they can exploit to block **new entrants** into the market – a clear conflict of interest. Major businesses are run by senior government officials or other politically-connected individuals who wield inordinate influence on the market economy; these monopolistic actors often exercise their political connections and

economic power in a manner that discriminates against or unfairly burdens foreign investors or foreign-owned investments.

In August 2013, Azerbaijan's Parliament passed a law on the regulation of inspections in **entrepreneurship** and the protection of the rights of entrepreneurs. Following the law, businesses are to be divided into high, medium, and low risk groups, with the frequency of inspections regulated by these risk categories. Entrepreneurs who have not committed legal infractions for a certain period of time are categorized as low risk groups, which will result in less frequent inspections.

In October 2011, the President of Azerbaijan issued a decree calling on the Cabinet of Ministers to develop a Law on Licenses and Permits. Despite plans to adopt 29 national accounting standards, so as to be in line with International Financial Reporting Standards (IFRS) by 2009, as of 2014 audited financial statements were only adopted in banking and **finance**.

Efficient Capital Markets and Portfolio Investment

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Azerbaijan has an underdeveloped **financial services** sector – of which banking comprises more than 90 percent – that inhibits economic stability, growth and diversification. Non-bank financial sector staples such as capital markets, insurance, and private equity are in the early stages of development. The banking sector has primarily benefited from the effects that high oil prices have had on the non-oil economy, significant government spending, and the rapid expansion of higher margin retail and micro-lending.

With around 45 private banks, Azerbaijan's banking sector is fragmented; the fragmented structure reinforces oligarchic control of the economy and holds back private sector growth, as smaller firms find it difficult to finance expansion. Foreign ownership in the banking sector is limited to 50% percent ownership on an aggregate basis; currently there are around 22 banks in Azerbaijan with some investment by foreign capital. Because banks rarely compete directly against each other for market share, they have little incentive to offer competitive terms. Commercial loan **interest rates** offered by banks in early 2014 varied in the range of 16-34 percent.

Total banking sector assets were 26 billion USD as of January 1, 2014, with the top five banks holding almost 58 percent. The majority state-owned International Bank of Azerbaijan (IBA) accounts for approximately one-third of the country's banking assets, but has had problems meeting minimum capital adequacy requirements. The Central Bank of Azerbaijan (CBA) has encouraged consolidation in the sector and, in August 2012, the CBA raised the minimum capital requirement from 10 million AZN (12.7 million USD) to 50 million AZN (63.7 million USD). However, the effective date of the increased capital requirements has been postponed several times, and is currently slated for the end of 2014.

In its June 2013 report, the International Monetary Fund (IMF) noted that efforts to strengthen capital markets would facilitate the financing of the non-oil sector. The IMF also noted that the 2013 change in the Commercial Secrets Law, discouraging the disclosure of shareholders of companies, is a step in the wrong direction as it raises concerns about open competition for private sector activities and is against international

disclosure principles on beneficial ownership. On the positive side, the Azerbaijan Mortgage Fund – administered by the Central Bank – has helped fuel a growing **mortgage** market and improved **credit** access by households. Microfinance – the only significant source of non-bank financing to small businesses – has taken off.

Several on-going and planned projects designed to strengthen Azerbaijan's financial services sector, including the Capital Market Modernization Project (CMMP), diversification of the State Oil Fund's (SOFAZ) investment strategy, and Pension Reform, present opportunities for U.S. firms providing asset management and global custodian services.

Though the Baku Stock Exchange (BSE) was established in 2000, the securities market still is at an early stage of development. The Capital Market Modernization Project is an attempt by the Government of Azerbaijan to build the foundation for a modern financial capital market, including the development of market infrastructure and automation, and the strengthening of the legal and market frameworks for capital transactions. One major hindrance to the growth of the stock market is the difficulty in encouraging established Azerbaijani businesses to adapt to standard investor-friendly practices of good corporate governance that are required of publically listed companies. The State Oil Company of Azerbaijan has successfully issued two tranches of bonds for a total of \$1.5 billion, with one issue maturing in 2017 with a 5.45% coupon, and one in 2023 with a 4.5% coupon. The Government of Azerbaijan issued \$1.25 billion in bonds on March 10, 2014. The issue matures in 2014 and has a 4.75% coupon.

The State Oil Fund of Azerbaijan, established in 1999, had 35.8 billion USD in assets as of January 1, 2014, and is the world's 24th largest sovereign wealth fund, according to the Sovereign Wealth Fund Institute. Beginning in 2012, SOFAZ embarked on a slow process to diversify its conservatively invested holdings away from short-to-medium term fixed income instruments into public equities, gold, and real estate.

Pension reform has also been a priority issue for the Government of Azerbaijan, with the goal of increasing pension payments while minimizing projected shortfalls due to rising wages and demographic shifts. Since 2008, the Government of Azerbaijan has been working on a reform strategy for the State Social Protection Fund (SSPF). Reforms in 2006 and 2010 improved the reliability of the pension system, but the system remains financially unsustainable and its dependence on annual transfers from the budget has been steadily increasing over time.

Fitch Ratings affirmed Azerbaijan's long-term foreign and local currency issuer default rating (IDR) and its senior unsecured bonds at 'BBB-'. The Outlook on the IDRs is Stable as of October 2013. In January 2014, Standard & Poor's affirmed the BBB-/A-3 long and short-term sovereign credit ratings on Azerbaijan with a stable outlook. Additionally, a September 2013 Moody's Investors Service report said that the stable outlook of Azerbaijan's Baa3 foreign and local-currency bond ratings reflected the government's (1) low government debt; (2) its sustained fiscal surpluses over the past couple of years; and (3) strong net creditor position due to the sizable foreign assets that it has accumulated. It concluded that these strengths will help to shield the economy from internal and external shocks.

While there are no **state-owned enterprises (SOEs)** that officially have been delegated governmental powers, companies such as the State Oil Company of the Azerbaijan Republic (SOCAR), Azerenerji (electricity) and Azersu (water) – 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. Azerbaijan maintains that the state must retain a controlling stake in companies operating in the mining or oil and gas sectors – strictly limiting foreign or domestic private investment, exclusive of those companies that have entered into a PSA.

The International Bank of Azerbaijan (IBA) – founded in 1992 – is the only state-owned bank still operating in Azerbaijan. IBA is the largest bank in Azerbaijan, with roughly one-third of banking sector assets. IBA was partially privatized in 1994 – with the Government of Azerbaijan maintaining a 50.2% controlling stake – but a 1998 presidential decree to completely privatize the bank has not yet been implemented, both for political reasons and issues with the overall health of the bank. **Privatization** efforts again made little progress in 2013, as officials from IBA and the Central Bank of Azerbaijan (CBA) argued that stability should come before privatization. The CBA made a capital injection of 100 million AZN in March 2012, raising questions about IBA's stability. The CBA also argues that finding the right private investors for Azerbaijan's largest bank will take some time. According to the IMF, IBA forms 35 percent of the banking sector in Azerbaijan, so the bank's future problems would inevitably affect the whole banking sector.

Corporate Social Responsibility

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Corporate social responsibility (CSR) is a relatively new concept in Azerbaijan. Larger foreign entities do tend to follow generally accepted CSR 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 established a Corporate Social Responsibility 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. The Committee unites a number of companies that have established CSR programs with companies interested in exploring the concept further. The American Chamber of Commerce also has published a guide on Corporate Social Responsibility for businesses in Azerbaijan.

Political Violence

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

Corruption

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Pervasive **corruption** – including bribery of **public officials** – continues to be a major challenge for U.S. and other international firms operating in Azerbaijan. Although anti-corruption legislation is in place, corrupt practices permeate all spheres of public life. Officials from the lowest ranks of the civil service to the top echelons of government are believed to benefit from systemic corruption in the country.

The Government of Azerbaijan recognizes that corruption is a problem 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.

On September 5, 2012, President Aliyev issued a decree for a National Action Plan on Open Government and a National Action Plan on Combating Corruption. ASAN service centers created by the State Agency for Public Service and Social Innovations, under the President of the Republic of Azerbaijan, were established in July 2012 by Presidential decree and became operational in February 2013. These centers provide 23 government services from nine state entities, including the registration of commercial legal entities and tax payers, notary services, state registration of civil status acts, and the renewal of identity cards/passports of citizens. ASAN centers are intended to provide more transparent and accountable services through a “one window” model that reduces opportunities for rent-seeking and petty government corruption.

In 2013, Azerbaijan’s modest improvements in combating petty corruption were reflected in Transparency International’s ranking of Azerbaijan at 127th out of 177 countries on its Corruption Perceptions Index, up from 139 a year before. Popular opinion identifies the State Customs Committee as the institution of greatest concern to businesses in Azerbaijan, followed by the Ministry of Taxes – though the reputation of the tax authorities has enjoyed some improvement in the past year as corruption-reducing reforms have been implemented. Transparency’s 2013 Global Corruption Barometer – which examined bribery involved in people’s contact with customs, education, the judiciary, land related services, medical services, the police, registry and permit services, tax authorities and utilities – found that roughly 50% of Azerbaijani respondents had paid a bribe to one of the nine service providers in the twelve preceding months. Azerbaijan is a party to the United Nations Convention against Corruption (UN Convention) and a signatory to the Council of Europe Criminal and Civil Law Conventions. Azerbaijan is not currently a party to the Organization for Economic Cooperation and Development Anti-Bribery Convention.

Azerbaijan has also been a participant in the Extractive Industries Transparency Initiative (EITI). In 2009, Azerbaijan became the first participating country to become fully compliant with EITI requirements. Azerbaijan’s EITI reports do not currently provide data on a company-by-company basis – which is optional – but citizen groups in Azerbaijan are encouraging companies to do so.

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

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

foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

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

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/>

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

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

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 158 parties to it as of November 2011 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational

business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. [Insert information as to whether your country is a party to the UN Convention.]

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 34 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>) [Insert information as to whether your country is a party to the OAS Convention.]

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 49 member States (48 European countries and the United States). As of December 2011, the Criminal Law Convention has 43 parties and the Civil Law Convention has 34 (see www.coe.int/greco.) [Insert information as to whether your country is a party to the Council of Europe Conventions.]

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

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

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

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

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

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

Anti-Corruption Resources

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

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>.
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is

available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.
- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See <http://info.worldbank.org/governance/wgi/index.asp>. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://data.worldbank.org/data-catalog/BEEPS>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/s?s=global+enabling+trade+report>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 106 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

Bilateral Investment Agreements

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Azerbaijan has signed agreements on mutual protection of investments with 39 countries – including the United States – and on the avoidance of double taxation with 40 countries.

On October 18, 2000, the U.S. Senate ratified the Treaty between the Government of the United States of America and the Government of the Republic of Azerbaijan Concerning the Encouragement and Reciprocal Protection of Investment – commonly known as a “**Bilateral Investment Treaty**” (BIT). The United States and Azerbaijan exchanged instruments of ratification on July 3, 2001, and the treaty entered into force on August 2, 2001. The United States currently does not have a taxation treaty with Azerbaijan, but both countries are parties to the OECD Convention on Mutual

Administrative Assistance in Tax Matters. Azerbaijan does not have a bilateral free trade agreement in place with the United States.

Azerbaijan has **bilateral investment protection agreements** with the following countries: Austria, Belarus, Belgium, Bulgaria, China, Croatia, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Iran, Israel, Italy, Jordan, Kazakhstan, Korea, Kyrgyzstan, Latvia, Lithuania, Lebanon, Moldova, Norway, Pakistan, Poland, Qatar, Romania, Saudi Arabia, Syria, Switzerland, Tajikistan, Turkey, UAE, Ukraine, the United Kingdom, and Uzbekistan.

OPIC and Other Investment Insurance Programs

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

OPIC has repeatedly provided funds for numerous banks operating in Azerbaijan in order to expand their Small and Medium Enterprise (SME) lending portfolio, including 4.8 million USD to Rabita Bank in 2008 and 7.3 million USD to Turan Bank in 2009. In 2011, OPIC provided Muganbank a loan guarantee for 10 million USD to expand its operations, targeting SME borrowers. OPIC has also provided 1 million USD and 3 million USD, respectively, to FinDev and CredAgro for microfinance lending. In 2012, OPIC provided loan insurance to Viator Microcredit Azerbaijan LLC (500,000 USD), NBCO Vision Fund Azercredit LLC (2 million USD), and FinDev again (1 million USD). In 2013, OPIC signed a memorandum with Turanbank for a loan in the amount of 7 million USD with a term of seven years for SME financing.

In its 2013 annual report, the Export-Import Bank of the United States (Ex-Im Bank) stated that it has outstanding insurance and loan guarantees for Azerbaijan in the amount of 117.3 million USD, primarily in support of aviation and telecommunications sales. In 2011, Ex-Im Bank endorsed a 116.6 million USD loan with a ten-year repayment period to finance the Azerbaijani space agency's purchase of the AzerSat-1 satellite from Orbital Sciences. In addition, in December 2013, Ex-Im approved a 640.7 million direct loan to the Turkish arm of the State Oil Company of Azerbaijan to finance the export of American-made oil refinery equipment that will be used to build a refinery on Turkey's western coast.

Labor

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A **Labor Code** that took effect in 1999 still regulates overall labor relations. The workweek 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. Azerbaijan has an abundant supply of skilled and unskilled laborers; however, companies repeatedly cite problems hiring skilled professional staff, which likely is a result of the decline in the quality of education, economic shifts and labor emigration. The collapse of the old

Soviet industrial sector during the 1990s resulted in large numbers of Azerbaijanis becoming unemployed or underemployed. Government sources estimate the rate of **unemployment** at five to six percent, but other sources conclude the figure is 20% or more, with underemployment being much higher.

As of January 1, 2014, both the **minimum monthly wage** and the base compensation for pensions were set at 160 USD. The average monthly salary in 2013 rose to 540 USD, representing a 6% increase over the average salary in 2012. Azerbaijan currently is working with the World Bank and the European Union on a program to reform the state pension system.

There has been a significant rise in **migrant workers** over the past five years; the International Organization for Migration's 2011 estimate places the number at 113,118, most of which are from neighboring countries, such as Georgia, Russia, Turkey, and Iran. The SMS also receives frequent appeals from foreigners seeking refugee status in Azerbaijan, most of whom are from Pakistan and Afghanistan, and some from Iran.

Foreign-Trade Zones/Free Ports

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Although the government announced its intention to create **special economic zones** in 2003 – and passed a law to establish such zones in 2009 – currently there are no foreign trade zones or free ports operating in Azerbaijan. Despite this, Azerbaijan's Cabinet of Ministers Resolution No. 199, signed on December 25, 2009, has approved simplified rules for **customs** controls, customs checkpoints, customs clearance of goods, and the crossing of vehicles and individuals at the boundaries of special economic zones. According to these rules, customs checkpoints may be established in the zones by the State Customs Committee. For these purposes, electronic control and declarations may be used. Under the new rules, goods imported into and exported from these zones are not subject to import duties and VAT, or customs duties and taxes.

Certain ministries – the Ministry of Economy and Industry, the Ministry of Finance, and the Ministry of Information and High Technologies – continue to discuss plans for creating special economic zones, including a petrochemical complex, regional innovation zones to boost development of the **telecommunications** sector and turn Azerbaijan into a regional **information and communication** technologies hub, and a special zone to encourage the production of renewable energy.

Foreign Direct Investment Statistics

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TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	

Host Country Gross Domestic Product (GDP) (<i>Billions U.S. Dollars</i>)	2013	73.1	2013	73.5	http://www.worldbank.org/en/country http://www.imf.org/external/pubs/ft/scr/2014/cr14159.pdf
	2012	68.7	2012	66.6	
	2011	65.9	2011	65.9	
	2010	52.9	2010	52.9	
	2009	44.2	2009	44.2	
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		
U.S. FDI in partner country (<i>Millions U.S. Dollars, stock positions</i>)	2013	No national data available	2013	No data	<ul style="list-style-type: none"> Bureau of Economic Analysis (BEA)
	2012		2012	13	
	2011		2011	11	
	2010		2010	88	
	2009		2009	15	
Host country's FDI in the United States (<i>Millions U.S. Dollars, stock positions</i>)	2013	No national data available	2013	No data	
	2012		2012		
	2011		2011		
	2010		2010		
	2009		2009		
Total inbound stock of FDI as % host GDP (<i>calculate</i>)	2013	No national data available	2013	No data	
	2012		2012		
	2011		2011		
	2010		2010		
	2009		2009		

* Azerbaijani (host country) statistical sources:
<http://www.stat.gov.az/source/finance/indexen.php>

**TABLE 3: Sources and Destination of FDI
Azerbaijan, 2012**

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	11,118	100%	Total Outward	7,515	100%
Turkey	1,933	17%	Turkey	3,355	45%
Norway	1,847	17%	Georgia	2,724	36%
United Kingdom	1,471	13%	Switzerland	592	8%
Iran, Islamic Republic of	910	8%	France	105	1%
Netherlands	670	6%	United Arab Emirates	105	1%

"0" reflects amounts rounded to +/- USD 500,000.

Source: <http://cds.imf.org>

Contact Point at Post

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- GOVHAR MAMMADOVA
- COMMERCIAL COORDINATOR
- U.S. Embassy Baku, Azerbaijan
- +994 12 488-3300 ext. 3593
- BakuCommercial@state.gov

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Chapter 7: Trade and Project Financing

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

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

How Does the Banking System Operate

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Many banks offer short-term trade financing, but long-term loans, project financing, and mortgages are only slowly becoming available and at steep interest rates.

It is estimated that significant amounts of cash are held outside the banking sector, representing a key challenge for the government to bring this capital into the formal banking system. Azerbaijan's bankruptcy law does not function effectively. Although long-term lending is increasing and the quality of the loan book is improving, the sector plays a small role in financing the real economy. Lack of credit, stringent collateral requirements, high interest rates, and an inability to assess credit risk are key constraints to the development of private business.

Azerbaijani banks offer costly lending terms, usually 15-25 percent, but occasionally higher interest 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. The average lending rate was reported at 26 percent in 2011 and dropped to 15 percent in 2013. Some Azerbaijani banks have begun lending to the private sector, including construction, telecoms, food processing, and packaging. U.S. firms are advised to consult external sources of finance, including the U.S. Export-Import Bank and other development banks that can often offer trade and project finance that is unavailable or too expensive from local commercial banks. Western businesses use a handful of local banks for their local business dealings and several have correspondent relationships with U.S. banks.

Foreign-Exchange Controls

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Azerbaijan has a liberal exchange system and, in general, there are no restrictions on converting or transferring funds into freely usable currency at a legal, market-clearing rate. For more information, see Conversion and Transfer Policies in Chapter 6.

U.S. Banks and Local Correspondent Banks

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

	Deutsche Bank Trust Company Bank of New York Citibank N.A.
DemirBank	American Express Bank Ltd Deutsche Bank Trust Company

Project Financing

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How to Finance Exports?

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

The U.S. Export – Import Bank (Ex-Im Bank) provides finance and insurance products for the overseas sales of U.S. goods and services. To qualify for Ex-Im Bank support, the product or service must have at least 80 percent U.S. content.

Project Finance

Overseas Private Investment Corporation

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

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

Asian Development Bank

Azerbaijan became a member of the Asian Development Bank (ADB), Asia's premier non-profit financial institution, in 1999. Since joining ADB, Azerbaijan has received \$1.6 billion in loans. ADB's operations in Azerbaijan focus on support for hard and soft infrastructure and private sector operations in the oil and gas industry, trade finance, and commercial bank lending to support small and medium-sized enterprises and agribusiness.

World Bank and International Finance Corporation

The World Bank is working with the Government of Azerbaijan to strengthen the government's institutional capacity to manage its petroleum resources and formulate key policy changes to accelerate reform. The World Bank maintains a local representative office in Baku. 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.

European Bank for Reconstruction and Development

The EBRD has prioritized the economic diversification of the non-oil and gas sectors, the development of a sustainable financial sector that is able to support private sector growth as well as rural and regional development. To date the Bank has invested in 146 projects with over US\$ 2.5 billion across various sectors of the economy.

Web Resources

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Export-Import Bank of the United States: www.exim.gov

OPIC: www.opic.gov

Trade and Development Agency: www.tda.gov/

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

USDA Farm Service Agency: www.fsa.usda.gov/

U.S. Agency for International Development: www.usaid.gov

ADB: www.adb.org

EBRD: www.ebrd.com/pages/country/azerbaijan.shtml

World Bank: www.worldbank.org/en/country/azerbaijan

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Chapter 8: Business Travel

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Business Customs

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Azerbaijan is a crossroads of Near Eastern, Western, and post-Soviet business cultures. It is advisable to send a brief letter introducing yourself and your U.S. firm in Azerbaijani or Russian to allow your potential business partner in Azerbaijan to know more about you and your company in advance. 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 appear to U.S. businessmen as vague and noncommittal in business transactions. Business takes time and patience in Azerbaijan, and depends on the personal relationship you build with your Azerbaijani counterpart(s). A post-meeting follow-up letter or e-mail capturing initial agreements and thanking your Azerbaijani counterpart builds trust and friendship. Requests for meetings with government officials can take time to confirm and may only be finalized at the last moment.

Travel Advisory

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As of June 2014, there is no U.S. State Department travel advisory in place for Azerbaijan. U.S. citizens should exercise caution overseas.

For more information, click here:

<http://travel.state.gov/content/passports/english/country/azerbaijan.html>

In the city of Baku, criminal attacks on foreigners have occurred because of a perception that foreigners carry large amounts of cash. Accordingly, the U.S. Embassy advises Americans not to go out alone at night or in the early hours of the morning. Business visitors should arrange to be met at the airport when they arrive in Baku. U.S. businessmen should take the same security precautions that they would take in any major city. U.S. passport holders taking up permanent residence in Azerbaijan should register with the U.S. Embassy's Consular Section to facilitate timely dissemination of security messages (contacts below). U.S. citizens can register online at <https://travelregistration.state.gov>.

The U.S. Embassy, working with the American Chamber of Commerce in Azerbaijan, participates in the Overseas Security Advisory Council (OSAC), an informal group of U.S. businesses that meets to discuss security issues in Azerbaijan. U.S. travelers are encouraged to consult the OSAC web page at <http://www.osac.gov/> for the most current travel advisories. Incidents involving U.S. citizens should be reported immediately to the Embassy's Consular Section (tel. 012-488-3300), the Embassy's Duty Officer for after-hours emergencies (tel. 050-221-3643), and the local police (tel. 102).

Visa Requirements

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A valid passport and visa are required to enter Azerbaijan. The visa application fee is \$160 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 of the Azerbaijani Ministry of Foreign Affairs. Transit and short stay single entry visas are no longer available at Heydar Aliyev International Airport in Baku for most travelers.

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

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

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

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

Telecommunications/Electric

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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 wifi 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. U.S. citizens should acquire an adapter and/or transformer for these outlets if they plan to use American electrical equipment here.

Transportation

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- **Subway:** There is a functioning subway system in Baku, but it has a limited number of stops that are not always conveniently located. It is the quickest and easiest way around the city.
- **Buses:** They are cheap and plentiful, but are crowded and no route information is readily available.
- **Taxis:** There are reliable taxi services: *189 and "London taxi" service *9000. These taxis have meters and cost approximately 4-12 AZN (\$5-15USD) to reach most places in and around Baku. A taxi to the airport from the city center costs approximately \$25-30 USD. It is difficult to find an English speaking driver, but an international hotel can assist you with this.

- **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:** In regards to air travel: there are many flights to Baku. Azerbaijan Airlines, Lufthansa, Turkish Airlines, Qatar Airways, Austrian Airlines, British Airways, and other international carriers all offer flights to Baku. Azerbaijan is planning direct flights to New York starting in September 2014.

Language

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Business can be conducted in Azerbaijani, Turkish, English, or Russian. English is increasingly used in business. However, be prepared to hire an interpreter for \$100-150 USD per day, depending on experience. Outside of Baku, Azerbaijani is the easiest method to communicate. Azerbaijani and Russian lessons can be obtained readily.

Health

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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 that 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. 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

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

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

Temp Entry of Materials and Personal Belongings

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

Web Resources

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Types of Visas to enter Azerbaijan:

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

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

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

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Chapter 9: Contacts, Market Research and Trade Events

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- [Trade Events](#)

Contacts

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AMERICAN CHAMBERS/BILATERAL BUSINESS COUNCILS

American Chamber Of Commerce in Azerbaijan
www.amchamaz.org

United States-Azerbaijan Chamber of Commerce (USACC)
www.usacc.org

TRADE AND INDUSTRY ASSOCIATIONS IN AZERBAIJAN

Azerbaijan Turkey Business Association
www.atib.az

National Confederation of Entrepreneurs (Employers)
www.ask.org.az

GOVERNMENT OF AZERBAIJAN OFFICES AND KEY STATE ENTERPRISES

Office of the President of the Azerbaijan Republic

www.president.az

Cabinet of Ministers

www.cabmin.gov.az

Ministry of Agriculture and Food

www.agro.gov.az

Ministry of Communications and High Technologies

www.mincom.gov.az

Ministry of Ecology and Natural Resources

www.eco.gov.az

Ministry of Economy and Industry

www.economy.gov.az

Azerbaijan Investment Promotion & Advisory Foundation

www.azpromo.org

Ministry of Emergency Situations

www.fhn.gov.az

Ministry of Finance

www.finance.gov.az

Ministry of Health

www.health.gov.az

Ministry of Energy

www.minenergy.gov.az

Ministry of Justice

www.justice.gov.az

Ministry of Taxes

www.taxes.gov.az

Ministry of Transportation

www.mintrans.az

Ministry of Culture and Tourism

www.mct.gov.az

Ministry of Labor and Social Protection

www.mlsp.gov.az

State Customs Committee

www.customs.gov.az/en/

State Oil Company of Azerbaijan Republic (SOCAR)

www.socar.az

State Oil Fund of Azerbaijan Republic

www.oilfund.az

State Statistics Committee

www.stat.gov.az

Azerbaijan Airlines (AZAL)

www.azal.az

Azerenergy Joint Stock Company

www.azerenerji.gov.az

Baku Sea Port - International Sea Trade Port of Baku

<http://bakuseaport.az/eng.html>

Central Bank of Azerbaijan

www.cbar.az

MULTILATERAL DEVELOPMENT BANKS AND TRADE AND PROJECT FINANCE CONTACTS

Asian Development Bank (ADB)

Azerbaijan Resident Mission

<http://www.adb.org/Azerbaijan/>

European Bank of Reconstruction and Development (EBRD)

<http://www.ebrd.com/pages/country/azerbaijan.shtml>

World Bank

<http://www.worldbank.org/en/country/azerbaijan>

International Monetary Fund (IMF)

<http://www.imf.org/external/country/AZE/index.htm>

International Finance Corporation (IFC)

www.ifc.org

AUDITING, LAW & CONSULTING FIRMS

Baker & McKenzie

www.bakernet.com

Chadbourne & Parke LLP / in affiliation with BM Intl LLP

www.bmlawaz.com

Deloitte & Touche
www.deloitte.ru

Ernst & Young (CIS) Limited
www.ey.com/Azerbaijan

MGB Law Offices
www.mgb-law.com

Michael Wilson & Partners, Ltd
www.mwp.kz

Moore Stephens Azerbaijan Ltd - Baku
www.moorestephens.com

PricewaterHouseCoopers
www.pwc.com/az/en/

Dentons
<http://www.dentons.com/en/global-presence/central-asia/azerbaijan/baku.aspx>

Market Research

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To view market research reports produced by the U.S. Commercial Service please visit the following website: <http://www.export.gov/mrktresearch/index.asp> and click on Country and Industry Market Reports.

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

Please consult U.S. Embassy in Azerbaijan's website - <http://azerbaijan.usembassy.gov/business.html> and www.export.gov for the latest market research on Azerbaijan, including industry sector overviews, spot market updates, and commercial news briefs.

Trade Events

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

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

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

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Chapter 10: Guide to Our Services

Per a Memorandum signed between the Departments of State (DOS) and Commerce (DOC), Embassy Baku was designated a DOS-DOC Partnership Post with a sponsoring U.S. Foreign Commercial Service (FCS) Post in Ankara. This was done to expand the U.S. commercial presence in Azerbaijan and to meet the needs of U.S. firms wishing to do business in the Azerbaijani market. Embassy Baku offers U.S. FCS branded services, including Gold Key Service, International Partner Search, and Single Company Promotions. The U.S. Embassy in Baku encourages interested U.S. businesses to explore formal Advocacy via the Advocacy Center at the Department of Commerce. Formal Advocacy allows the U.S. Embassy in Baku to support qualified U.S. businesses as they pursue tenders and contracts in competition with foreign companies.

Questions about our services, formal Advocacy, or the business environment in Azerbaijan can be directed to BakuCommercial@state.gov. The U.S. Embassy in Baku is pleased to serve the U.S. business community and looks forward to hearing from you in the near future.

The Economic Section of the U.S. Embassy can be reached at:

Economic Section
U.S. Embassy Baku
111 Azadlig Prospekti
Baku AZ1007, Azerbaijan

Phone: (+994 12) 488 3300
Fax: (+994 12) 488 3310
E-mail: BakuCommercial@state.gov
Web: <http://azerbaijan.usembassy.gov/business.html>

The President's National Export Initiative marshals Federal agencies to **prepare U.S. companies to export successfully, connect them with trade opportunities and support them once they do have exporting opportunities.**

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: www.export.gov

For more information on the services the U.S. Commercial Service offers to U.S. exporters, please click on the following link: (Insert link to Products and Services section of local buyusa.gov website here.)

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E)**.

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

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