



U.S. Department of State FY 2000 Country Commercial Guide: Azerbaijan

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**AZERBAIJAN
COUNTRY COMMERCIAL GUIDE
FISCAL YEAR 2000**

Forward

This Country Commercial Guide (CCG) presents a comprehensive look at Azerbaijan's commercial environment using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country commercial guides are prepared annually at U.S. embassies through the combined efforts of several U.S. government agencies.

CHAPTER I. EXECUTIVE SUMMARY

Azerbaijan covers an area of 33,440 Square miles. It's bordered by Russia on the north, Georgia on the northwest, Armenia on the west, Iran on the south, and the Caspian Sea to the east. It has a population of 7.953 million persons (1998), slightly more than half of which live in suburban areas. There are 65 towns, eight of which have populations in excess of 50,000. The capital and largest city is Baku. Located on the western shore of the Caspian on the Apsheron peninsula, it has a population of slightly more than two million. A port city, Baku is poised to become the hub of regional transportation and communication systems for the Trans-Caucasus and Central Asian republics.

Azerbaijan was a part of the Russian Empire from the early 19th century to 1918. From 1918 to 1920 it was an independent republic until it was once more taken over by Russia. This lasted until the collapse of the Soviet Republic and it regained its independence in 1991. The Russian influence is still very strong, particularly in the capital city of Baku. Although the official language is Azerbaijani, most residents in Baku prefer to speak Russian. Approximately one-third of its people are under the age of 14, but only 15% are over the age of 50.

The currency is the Azeri Manat (AZM). The exchange rate as of July 19, 1999 was US\$ 1 = 4300 AZM.

The Republic of Azerbaijan has a democratic form of government with an elected president and parliament guided by a constitution. It established diplomatic relations with the United States in early 1992.

Coup attempts, the last of which took place in 1995, and other internal political problems have caused difficulties in Azerbaijan's movement toward democracy. Although the first post-independence parliamentary election, held in November 1995, was flawed, some opposition candidates were seated.

An on-going conflict with Armenia over the region of Nagorno-Karabakh has discouraged economic activity outside the oil sector. A cease fire has been in effect since May 1994; however, localized fighting broke out briefly in the spring of 1997 and again in mid-June, 1999. With a cease-fire now in its fifth year, combined with a relatively stable government, the Government of Azerbaijan (GOAZ) now can focus on economic reform. An U.S.-Azerbaijan Bilateral Trade Treaty, ratified in April 1995, is in effect. This was followed by a Bilateral Investment Treaty signed in August 1997.

Azerbaijan has enormous economic potential, particularly in the energy sector. Although no official estimates exist for the country's total reserves, industry experts suggest that Caspian reserves may approach those of the North Sea. As a result, virtually every major oil company in the world has an interest in Azerbaijan. To help in developing this potential, the GOAZ has granted a number of Production Sharing Agreements (PSAa) to consortia comprised of the oil majors. The first PSA was granted to the Azerbaijan International Operating Company (AIOC) in 1994. Since then, the Azerbaijan Parliament has ratified a total of fifteen offshore and four onshore PSAs. These PSAs provide a solid foundation for foreign investment in oil-related sectors of the economy.

The AIOC began commercial production of oil in late 1997; other PSAs will begin to produce after the turn of the century. By 2010, total investment in the oil and gas sector could be as much as \$23 billion. Oil revenues are projected to be roughly \$80 billion over the thirty year life of just the AIOC PSA, of which the GOAZ will realize 80 percent.

A regional pipeline system centered in Azerbaijan is beginning to emerge. AIOC has developed two pipelines for its initial production -- so-called early oil -- and is making plans for a main oil pipeline. The northern route for early oil was opened in November 1997, to move Azerbaijani crude to the Black Sea port of Novorossysk. In April 1999, the western route through Georgia was completed. Optional routes for a new, main oil export pipeline (MEP), estimated to cost up to US\$ 3.7 billion, are still under consideration. Kazakh crude has been shipped via barge and rail

through Azerbaijan to Georgian ports on the Black Sea. SOCAR (State Oil Company of the Azerbaijan Republic) has formed a working group with the oil consortia negotiate MEP options through Georgia and through Turkey.

About seventy American companies, primarily in the oil and gas sectors, are now resident in Baku. Azerbaijan's largest trade event, the Caspian Oil and Gas Exhibition (COGE), is held annually the first week in June. In June 1999, the Sixth COGE attracted more than 300 companies from thirty countries.

Best prospects for U.S. products in 1999/2000 include oil/gas field machinery; telecommunications equipment and services; food products; food processing/packaging equipment; pharmaceuticals; water resource equipment; pollution control equipment; and computers/peripherals. Imported consumer goods have become increasingly available. A number of "supermarket" have appeared on the scene introducing local consumers to western-style retailing.

In 1998, total Azerbaijani imports were \$1.23 billion, including \$66 million from the United States. The U.S. is the fifth largest exporter to Azerbaijan. Not included in these statistics is the re-export of U.S. products through Turkey and Dubai. While there is no good statistical data on the level of re-export, the emergence of the U.A.E. as one of Azerbaijan's principal trading partners suggests that the re-export level is significant.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the world wide web at <http://www.stat-usa.gov>; <http://www.state.gov>, and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRADE, or by fax at (202) 482-4473.

CHAPTER II. ECONOMIC TRENDS AND OUTLOOK

Azerbaijan's economic future depends on how the GOAZ proceeds with economic reform and uses the revenue from its energy resources. Despite its oil wealth, and a flourishing trading sector, there has been slow progress toward a market economy. Under a three-year agreement with the IMF signed in December 1996, the GOAZ is continuing the policies of fiscal and monetary austerity first

adopted in 1995. As a result, inflation fell and the Azeri Manat (AZM) was relatively stable at 4000 AZM to the US\$ until recently when it was devalued. The new exchange rate as of July 19, 1999 was US\$ 1 = 4300 AZM. Reflecting this change, prices for imported food products have risen 10-15%. As an adjustments of salaries to the new prices has not yet taken place, living standards have dropped by 10%.

In 1998, GDP growth increased by 10%, however, growth is projected to be no more than 5% for 1999 and will be distributed as follows: 28% from industry, 18.8% from transport and communication, 10.5% from construction, 9.7% from agriculture, and 6.4% from trade and services. . Azerbaijan's foreign trade for 1998 had a negative balance of US\$471 million. During the first 5 months of 1999, as the result of industrial stagnancy and a decline in exports, the negative balance was US\$144 million and could reach US\$500 million by the end of the year.

International financial institutions have opened credit lines totaling US\$1.5 billion to Azerbaijan for 1999, amounting to 37.4 percent of their GNP, to be used for financing various investment projects in Azerbaijan. On July 14, 1999, EBRD allocated an additional US\$1.5 million line of credit to Azerdemiryolbank for the development of small and medium sized enterprises The minimum loan amount will be US\$50 thousand, and the maximum US\$150 thousand. The maximum credit term will be five years with an annual interest of 25% depending on the commercial risk. Enterprises financed by the EBRD credit must be 51% Azeri owned. EBRD will continue to work with other Azeri banks to promote economic growth.

Key in their switch to a free-market economy has been the move toward privatization, which began in 1996. The program calls for the privatization of 70% or more of all state-owned enterprises (SOEs). Implementation of the privatization effort is the responsibility of the State Property Committee. Between the period May 1997 to December 1998, more than 20,600 companies were privatized, and proceedings started for many others.

Agricultural potential is substantial. Of the non-oil sectors, agriculture is considered to be the most important, contributing about 30% to Azerbaijan's annual GDP and employing between 34-38% of the population. This is because parts of Azerbaijan have good weather conditions and fertile soil that are favorable to many different types of crops, including: fruits (apples, cherries, grapes, olives, lemons, persimmons, melons, raspberries, strawberries, currants, plums, peaches, pears, and pomegranates);

vegetables (tomatoes, potatoes, carrots, beets, cabbage, cucumbers and onions); grains (wheat, maize, barley); tea; nuts; tobacco; and cotton.

This growing environment is appreciably enhanced by an extensive network of canals and pipelines stretching almost 25,000 miles providing needed irrigation to more than 6.5 million hectares of arable land. However, this irrigation system was constructed during the time of the old Soviet collective farming system and, while still functioning, many parts are now in serious disrepair.

Many of the collectives and state-owned farms have since been privatized under the Law on Land Reform that went into effect in 1996. As a result, 98% of the farmland is now in private hands, and is comprised of more than 20,000 small farms.

Livestock and dairy products are another important sector contributing to the Azeri economy. Small private farms produce cattle, sheep, goats, pigs and poultry. A report by the U.S. - Azerbaijan Chamber of Commerce places 82% of Azerbaijan's meat production and 94% of its milk production coming from the private sector. Fishing is another significant sector, with 90% of the world's caviar coming from the Caspian Sea.

Farm production has declined steadily despite the country's tremendous agricultural potential. Today, many of the food products consumed by Azeri's are imported. They import 30% of all meat products, 95% of vegetable oil, 45% of milk, and 99% of their sugar. This is principally due to the lack of an adequate agricultural infrastructure. Agricultural output could be expanded dramatically with the right combination of government policies, farm management, modern inputs and marketing techniques.

Energy remains the keystone of Azerbaijan's economic future. In this regard, oil production is projected to peak between 1.5 and 2 million barrels per day between the years 2010 and 2015. However, despite its potential oil wealth, it still faces several years of tight finances, as the GOAZ will not receive revenues from Production Sharing Agreements (PSAs) until costs of initial outlays are recovered, a fact that may preclude substantial GOAZ revenues (other than signing bonuses) until well into the next decade. Recent discoveries of major offshore gas deposits will be used both to supply Azerbaijan's energy needs and to generate needed revenue from exports to Turkey and Eastern Europe.

Outside of oil exploration and production, the strongest prospects in the economy are providing supplies and services to support the oil and gas industries. Baku's expatriate community and a

relatively small moneyed class of Azerbaijani's are also creating demand for recreation, entertainment, and retail services in the capital.

The national infrastructure, built in the Soviet period, is in poor condition. Since independence there has been almost no public investment or maintenance of public infrastructure. Roads are inadequate and deteriorating. The electrical generation and distribution system is in poor condition. Eighty percent of arable land was irrigated, but the irrigation system is virtually inoperable. Baku experiences shortages of gas, water, and electricity. Elsewhere in the country, the electricity supply is poor, and gas supply is almost non-existent. Public utilities are financially crippled by their inability to collect payment from their customers.

Y2K is not perceived to pose any significant problems for Azerbaijan. Most government and private institutions do not depend on integrated systems. As they are not connected to networks, they will not be subject to serious setbacks in the event problems do occur. Because the few networks that are in place tend to be newer, they are generally Y2K compatible with little need for upgrade.

Azerbaijan's internal economy should not be significantly affected as the distribution of civilian goods and services relies very little on technology as a means by which to conduct business and, even then, does not rely on integrated systems to any great extent. Credit card transactions and point-of-sale systems are rarely found in Baku. Likewise, automated money transfer systems and ATM machines are few in number in Azerbaijan. In addition, few homes have personal computers

Emergency civilian services will not be affected by the Y2K bug as local police and fire stations are at best only partially dependent on technology and, therefore, do not rely on systems integration. Water systems in Azerbaijan are fairly dated and, for the most part, run manually with analog monitoring and distribution systems.

Computers at hospitals throughout the country are generally outdated, stand alone units primarily used by doctors for personal records and notes. The National Ministry of Health (NOH) requires all medical records be maintained in hard copy in NOH central archives so their contents can be accessed telephonically by any medical facility throughout the country. The same national standard holds true for pharmaceutical prescriptions. Such record

must be kept in hard copy by patients themselves or by the prescribing doctors.

The sectors thought to be most vulnerable to Y2K are banking, telecommunications, and transportation. However, most banks now appear they will be ready to meet the challenge. The fact that no national computerized banking system exists lessens the prospect of any significant Y2K problem. To further assure the effects of the new millenium are minimal, the National Bank of Azerbaijan has issued instructions to all financial institutions to establish special task forces to identify and resolve any potential Y2K problems.

The National Bank has recently moved into a new building and is purchasing a Y2K compatible systems network. The International Azerbaijan Bank is already using a 4-digit year field and thus should experience no problems.

The oil industry has been preparing for the new millenium for some time and it's generally felt that oil and gas production will not be hampered to any degree. In this regard, a large number of resources have been allocated to ensure that no problems will materialize. The AIOC set aside \$9 million for Y2K evaluation and upgrades, and is expected to be 98-99% compliant by January 1.

All of the western airlines flying in and out of Baku indicate they will be fully Y2K compliant by the end of the century. However, there is voiced-concern that Baku's air traffic control system (AZANS) will not be compliant by that time and that flights will not be taking place during the first week in January 2000. While AZANS is in the process of upgrading its equipment and hopes to have it completed and operational by December 1999, not much time will remain in which to test and place the new system "on-line."

CHAPTER III: POLITICAL ENVIRONMENT

The United States has good relations with Azerbaijan and supports its independence and sovereignty. Likewise, the U.S. maintains close political and economic relations, and is carrying on a dialogue on security issues with Azerbaijan. Azerbaijan eagerly seeks closer cooperation with the United States. President Heydar Aliyev made an official visit to the United States in July/August, 1997, where he met with President Clinton and a wide spectrum of executive and legislative branch officials, and visited a number of U.S. cities. In April 1999, President Aliyev attended the NATO summit in Washington, D.C.

However, U.S. relations with Azerbaijan are complicated by Section 907 of the Freedom Support Act of 1992, which restricts direct U.S. Government assistance to the Government of Azerbaijan until the President certifies that Azerbaijan has ceased "all blockades and other offensive uses of forces against Armenia and Nagorno Karabakh." Azerbaijan sees this legislation as U.S. support for the Armenian side in the conflict over Nagorno-Karabakh. The administration opposes Section 907 and has called on Congress to repeal it. Beyond the ban on assistance to Azerbaijan, Azeris point to the extensive U.S. assistance to Armenia as evidence of U.S. support for the Armenian side of the conflict.

In order to provide some support and aid to Azerbaijan, the U.S. Congress has approved certain "carve-outs" to Section 907. As a result, the USG has been able to provide millions of dollars in humanitarian assistance and democracy-building assistance to the GOAZ. USG business assistance agencies - USDOC/FCS, OPIC, EXIM and TDA - are also permitted to operate in Azerbaijan.

Azerbaijan straddles a strategic crossroad between Russia and the Middle East, and between Central Asia and Europe. On its southern border lies Iran, which has criticized Azerbaijan's close relations to Western countries and Israel. Iran has also criticized President Aliyev for allowing Western oil companies to participate in exploiting offshore Caspian oil deposits. On its northern border, Russia seeks to assert its influence on the Caucasus states. Azerbaijan continues to resist Russian attempts to bring it more closely into CIS security arrangements. Economic interests in Russia pursue a more commercial and cooperative approach to Azerbaijan. The principal security issue for Azerbaijan is the conflict with Armenia over Nagorno-Karabakh. A cease-fire has been effect for over five years. However, short skirmishes occurred in the spring of 1997 and again in mid-June, 1999. The United States along with Russia and France is a co-chairman of the OSCE Minsk Group, which is engaged in intensive efforts to achieve a lasting peace settlement.

Azerbaijan's system of government grants broad powers to the President. President Aliyev came to power in 1993 when the Popular Front government of former President Abulfaz Elchibey fell when a rebel military commander from central Azerbaijan marched on Baku. Despite attempted coups in 1994-1995, Azerbaijan's political system has remained stable. The elected parliament closely follows initiatives from the President's office. Presidential elections in October 1998 were marred by irregularities, as were parliamentary elections. The President's New Azerbaijan Party, other parties loyal to the President and

independent deputies loyal to the president have an overwhelming majority in the parliament. Opposition parties have less than 20 percent of parliamentary seats, but criticize the government openly and maintain a lively and uncensored, opposition press. All major parties and most minor parties support close political relations and economic cooperation with Western countries and the United States. The government allows many opposition parties to function, but banned the Islamic Party in 1996. The parliament is trying to pass legislation that would enable Azerbaijan to hold municipal elections late in 1999.

CHAPTER IV. MARKETING U.S. PRODUCTS AND SERVICES

A. Distribution and Sales Channels: Azerbaijan's private sector marketing system is only just beginning to develop. An emerging private trading sector is very slowly replacing the moribund centralized state purchasing system. Private traders and small shops selling imported goods are thriving because they are self-financed. State enterprises are unlikely to provide markets for most U.S. goods because they are unable to pay for them. This is exclusively a cash economy.

B. Use of Agents and Distributors: There is an emerging class of western entrepreneurs who act as agents for U.S. companies, but very few Azerbaijani trading firms have established a track record as partners with Western firms. At present, about 70 U.S. firms are resident in Baku, most of who are oil related. The Commercial Section of the U.S. Embassy can provide U.S. businesses with the names of local companies that may serve as agents or distributors. Prospective companies may also contact the American Chamber of Commerce of Azerbaijan or the Chamber of Commerce and Industry of Azerbaijan for possible leads. Refer to Chapter XI, Appendix E for contact information. The lack of a western-style banking system makes it almost impossible to verify the financial bona fides of prospective partners. Because of this, potential exporters should plan to visit Azerbaijan in person to build personal relationships, set up local sale networks, or establish partnerships with local agents or distributors.

C Franchising: Apart from the expatriates, the economy of Azerbaijan, particularly with respect to disposable income, does not lend itself to franchising. However, there have been some instances that have recently materialized. The "American Fast Food" chain out of California became the first U.S. fast food operation to open its doors in March,

1999. Chrysler opened its first dealership in Baku in 1996. Ford and GM have since established dealerships in Baku. A Coca-Cola bottling plant also opened in 1996, under a Turkish licensee. HYATT Hotels began operations in Azerbaijan in 1994. Macdonald's is readying itself to open a restaurant in Baku before the year ends.

D. Direct Marketing: U.S. firms seeking to develop an export market in Azerbaijan are encouraged to set up their own representative offices using expatriate or local sales staff. Ongoing changes to the legal infrastructure require close contact with the local market in Azerbaijan. Before actually establishing an office in Azerbaijan, contact the Commercial Section of the U.S. Embassy.

E. Joint Ventures/Licensing: The GOAZ encourages foreign participation in the economy. Foreign investors can form joint ventures with local companies or other foreign investors. Privatization auctions are open to foreign investors who have purchased options to buy privatization vouchers. Lack of clarity in the tax regime can lead to unanticipated tax claims from various levels of taxation authorities. New tax legislation is under preparation.

F. Steps to Establishing an Office: Foreign investors in Azerbaijan must decide whether to establish a wholly foreign owned enterprise, a joint venture or a representative/branch office. These are the only accepted commercial forms of Azerbaijani legal entities. Companies must register as one of these entities with the Ministry **** The Registration Department of the Ministry of Justice (RDMJ) is responsible for registering all Azerbaijani legal entities, including those fully - or partly - owned by foreign companies.

- Registering a Company Branch or Representative Office : The RDMJ requires the following documents in order to register a company branch or representative office (CB/RO) of a foreign legal entity (FLE):
 - 1) A letter from the FLE signed by its president and CB/RO official applying for registration (one copy);
 - 2) A document from the management board of the FLE stating its intent to open an office in Azerbaijan two copies);
 - 3) A notarized power of attorney issued by the FLE to the head of the CB/RO (two copies);
 - 4) Two copies of the head of the CB/ROs identification document/passport and three photos;

- 5) Two copies of the FLE's company charter and certificate of incorporation or equivalent. Both sets of documents must be notarized and then certified by the consular section of the Azerbaijani Embassy in the U.S.;
- 6) Statement of good standing from the FLE's bank (one copy);
- 7) A document signed and sealed by the head of the FLE stating the purpose/objectives of the CB/RO and setting forth the operating principles and regulations of the organization, including the responsibilities and powers of the CB/RO chief executive (five copies);
- 8) Receipt for payment of the state registration fee (825,000 AZM for a CB and US\$2,000 for a representative office. Payment should be made to the State Budget Fund at the National Bank of Azerbaijan, Account 30100062, code 501004);
- 9) Sample of the registering company's corporate seal or stamp (two copies);
- 10) CB/RO's Azerbaijani Identification number;
- 11) A copy of the lease agreement or other document certifying the CB/RO's legal address in Azerbaijan.

Documents 1 through 6 should be submitted in both English and Azerbaijani. Documents 7-11 should be in Azerbaijani.

- Registration of a wholly Foreign-owned or Joint Venture Company: An FLE applying for registration of a wholly foreign-owned or joint-venture company must provide documentation listed above in 1, 2, 5, 6, 8-11. In addition, the FLE must submit five notarized copies of the company's charter approved by the founder of the company. If there were two or more partners that were involved in establishing the company, then notarized copies of the minutes of the general meeting forming the company are required. For joint ventures, RDMJ also requires two copies of the founding contract.

If there is any problem with a company's submitted application and supporting documents, the RDMJ must issue a letter within five working days describing the problem. Otherwise, the application of the company goes directly to the Board of the Ministry and should be approved at the next Registration Board Meeting. Following board approval, the Ministry will issue a registration certificate. A company must present a copy of its registration certificate to open a bank account, register with the state tax authorities, and obtain a statistical code number.

Although the Ministry of Justice has decentralized and opened district offices, FLEs must continue to submit their registration documentation to the Ministry's central office. (see Chapter XI,

Appendix E).

G. Selling Factors/Techniques: Personal contact and relationships are critical in Azerbaijan. Individual meetings are much more effective than long distance communication. Business people are generally bi-lingual in Russian and Azerbaijani (very close to Turkish). However, the official language is Azerbaijani. It may be necessary to translate official documents into Azerbaijani, rather than Russian. Business can be conducted with translators.

Letters of credit drawn on Azerbaijani banks are the preferred instruments for import/export operations. Consumer credit mechanisms are rudimentary. Most business is conducted with cash.

Private banks do exist, but account for only about 15% of deposits in the commercial banking sector, which is dominated by the state-owned International Bank of Azerbaijan. The first wholly foreign-owned western bank, the British Bank of the Middle East, began commercial operation in Baku in 1996.

Credit cards are only beginning to be used at a few western establishments and the International Bank of Azerbaijan. The International Bank of Azerbaijan operates 18 ATM machines and through the end of June '99 has issued 6,000 Visa and Evropay International cards. IBA is planning to increase the number of cards issued to 10,000 by the end of this year. It's main competitors in this regard are: Most-Bank Azerbaijan - 1000 cards; Azerdemiryolbank - 150 cards; Rabitabank - 50 cards; and Azerigasbank - 30 cards.

H. Advertising and Trade Promotion: Newspapers in Azerbaijani and Russian are published daily, except Monday. English-language papers are published weekly.

Television advertising is possible on Azerbaijan's two state-held TV stations and on the country's three private TV stations, including one satellite station, that broadcasts to Baku and to the Sumqayit area. In addition, Baku receives three Russian TV channels. Turkish TV is also received. In addition, state radios offer advertisement on their FM and medium wave broadcasts.

For further information concerning any media group in Azerbaijan, contact:

Lala G. Nacafova
Information Specialist
U.S. Information Service
American Embassy, Baku
Tel: (9) (9412) 980335/6/7

Fax: (9) (9412) 989312

Homepage: <http://www.usia.gov/posts/baku.html>

I. Pricing Products: There are GOAZ price controls only for wholesale gasoline. Prices may be quoted in U.S. dollars, but actual sales are in Azerbaijani manat. Azerbaijanis expect to bargain over prices. Storage facilities are limited and prices may vary considerably depending on shipment schedules. Recently, the government has announced excise taxes on imported tobacco and alcohol products for the purpose of protecting domestic industries.

J. Sales Service/Customer Support: Buyers in Azerbaijan are not used to customer service or product support once a sale has been made. Product guarantees are virtually unknown. An U.S. firm operating in this market and able to provide a strong customer service center, e.g., for computers or cars, enjoys a competitive advantage.

K. Selling to the Azeri Government: Selling to the central government or to state enterprises is difficult because government funds are scarce. Except for World Bank and European Bank for Reconstruction and Development (EBRD) projects, there is no financing for major capital projects. Oil revenues are not expected to flow to the GOAZ before 2003, and even then, major revenue will only begin to be realized with main oil output after 2008. At present the GOAZ is running arrears in payments to domestic suppliers. Inter-enterprise debts are massive with little prospect of being reduced. State enterprises are often two to three months late in paying their own employees. Firms selling to the GOAZ should be particularly careful to specify beforehand how the 20% value added tax (VAT) will be handled.

L. Protecting Products from IPR Infringement: Azerbaijani law protects copyrights, patents, trademarks and industrial designs. The U.S.-Azerbaijan bilateral trade treaty also covers intellectual property rights (IPR). Azerbaijan subscribes to various international intellectual property rights conventions. In reality, GOAZ mechanisms to enforce IPR laws are very limited.

M. Need for a Local Attorney: The Azerbaijani legal system does not contain a transparent body of commercial law. The Embassy maintains a list of commercial lawyers in Azerbaijan, some of who have received USG-funded training in the United States. We advise U.S. firms to seek legal advice before signing business contracts.

At present there are major international accounting firms who provide business consulting services -- Ernst & Young, Price-Waterhouse, and Arthur Anderson.

CHAPTER V. LEADING SECTORS FOR U.S. EXPORTS

The following comments pertain essentially to all sectors. While there is significant demand for the following general product categories over time, financing immediate sales is a difficult prospect. Most of the Best Prospect categories contained herein have strong GOAZ involvement. While many studies have been conducted and plans prepared that deal with modernization and upgrading, purchase contracts are coordinated and awarded according to priority and available financial resources. For this reason, forecasting precise categories of sub-sectors and quantities to be purchased/imported is extremely difficult and speculative. Previous years imports have little significance on what will happen this year or next. Other statistical data is limited or unreliable. While there is virtually no local manufacturing to compete against, current equipment in some sectors came into use during Soviet times, therefore, products manufactured in Russia or other countries that were members of the former Soviet Union tend to be more compatible and less expensive. Competition from Europe and Asia is high and often tied to foreign aid or other financing schemes. U.S. Suppliers offering attractive financing packages will be more successful in Azerbaijan than those seeking cash sales only.

A. Best Prospect Sectors for Non-Agricultural Goods and Services:

1 - Oil/gas field machinery (OGM):

This was the leading U.S. export category in 1998. Included were winches, capstans, jacks, and their parts; rotary and stationary air and vacuum compressors, and parts; and reciprocating positive displacement oil well and oil field pumps. Due to extensive development both, on and offshore, this sector will remain at the top of the Best Prospect Sectors List that includes almost all types of equipment related to the exploration, extraction, extraction and transportation of oil and gas.

Oil: The development of Azerbaijan's vast energy resources rests with SOCAR (State Oil Company of the Azerbaijan Republic). Because of the enormous cost required to explore, extract and transport oil and gas, neither SOCAR or many of the worlds energy companies have the necessary resources to undertake this task individually. For this reason, and also to spread the risk, consortia were formed to carryout this function. In 1994, a consortium of 11 major companies (AMOCO, BP, EXXON, Pennzoil,

Unocal, LIKoil, Ramco, Itochu, Turkish Petroleum AO, and Delta-Nimir) joined to form the Azerbaijan International Operating Company (AIOC). AIOC subsequently signed a 30-year, US\$8 billion Production Sharing Agreement (PSA) with SOCAR to develop three offshore oilfields. Since that time, the Azeri parliament has ratified 14 additional offshore PSAs and 4 onshore PSAs totaling more than US\$34 billion with other consortia to explore oilfields in the Caspian basin.

Each PSA, while similar, is different and sets forth the conditions and regulations under which the consortia will operate. It includes such things as percentage of ownership, taxation, exemption from duties, the number of wells to be drilled, among others. These PSAs are ratified by parliament as "laws of the land" intended to insulate the participants from the vararies of future changes in Azerbaijan's other laws.

These PSAs are very specific regarding the timeframe in which drilling is to begin and the number of wells to be drilled. There is currently a considerable backlog in the number of wells to be drilled over the next few years. Present rig capacity will allow only four - six wells to be drilled per year. While some additional capacity can be gained through upgrading existing rigs and equipment, the future need exceeds the available equipment pool by a considerable number. Because of continued uncertainty regarding the exact potential at each site, firms are reluctant to go to the expense of bringing in additional rigs, electing instead to rely on the pool of equipment already in Azerbaijan and performing upgrades to increase the available capacity. Also, there are indications that floating production systems may be placed into use in the future.

AIOC plans to continue the first phase of the full field development of Azeri, deep-water Gunashli, and Chirag fields next year. This includes the drilling of additional wells, the development of these structures, and transportation pipelines.

Usually, the nineteen consortia register companies as possible subcontractors and suppliers and award purchase contracts accordingly. Often, a single sub-contractor will be named that will make and coordinate the purchase of all equipment and supplies required by a consortia during the course of the year. The consortia and their sub-contractors give priority to those companies that have an established presence in the country and a knowledge of local business practices; that have demonstrated their commitment to the country and the consortia by active community involvement, and that can show a successful track record in the

participation or completion of similar projects. Companies interested in providing equipment and services to consortia are encouraged to contact those consortia and register their companies as future suppliers and demonstrate their presence. If selected, many of the provisions set forth in the respective PSAs, such as exemption from import duties, will usually extend to the subcontractors and suppliers as well.

The consortia have established a "Coordinating Council" to review issues of common interest to the member companies and address those issues to the government and other relevant organizations. Currently the Coordinating Council operates as an independent consultant to the GOAZ. The World Bank has expressed interest in the possible financing of this organization.

The Coordinating Council has also proposed a Revenue Sharing Agreement which suggests establishing a special framework agreement for foreign companies that would set up joint ventures with local oil and gas machinery manufacturing plants in need of restructuring and financing. In turn, the Government would provide certain incentives to these joint ventures, similar to the conditions of the Production Sharing Agreements. This proposal is currently under review by the Cabinet of Ministers.

Following is a listing of the Oil Consortia: 1) Azerbaijan International Operating Company (AIOC); 2) Shakh-Deniz; 3) Lenkoran-Talysh Deniz; 4) Apsheron; 5) Nakhchivan; 6) Yalama; 7) Oguz; 8) Kurdashi; 9) Jenubi-Garbi Gobustan; 10) Kursangi and Garabagly; 11) Muradkhanli, Jafarli, and Zardab; 12) Inam; 13) Araz, Alov, and Sharq; 14) Ateshgah, Yanan Tava, and Mugan Deniz; 15) Zafar, Mashal; 16) Savalan, Dalga, Lerik Deniz, Janub; and 17) Padar. (Refer to Chapter XIII, Appendix H for a listing of shareholders and their respective shares in each consortium.)

NOTE: Two other consortia - CIPCO and NAOC have been dissolved because of disappointing results in test wells drilled at their sites.

Gas: Because natural gas is the main fuel used in Azerbaijan, its availability is crucial to all aspects of economic activity. Because of this, the government has placed a high priority on upgrading the country's natural gas infrastructure and improving the efficiency of gas use.

As a result of a heavy investment during the Soviet area, Azerbaijan is one of the most gasified countries in the world. Its gas transmission/distribution network extends to over 80

percent of the population, and comprises 4,500 km of high pressure transmission lines, 7 compressor stations and over 31,000 km of medium and slow pressure distribution lines.

While the country was at one time self-sufficient in gas, declining oil and gas production in recent years has led to a need for substantial gas imports to meet increasing supply shortfalls. As in many countries of the former Soviet Union, the gas transmission and distribution sub-sectors in Azerbaijan are in need of substantial investment for modernization and rehabilitation. Technical and non-technical losses result in at least 15 percent of the gas supply not being accounted or billed to customers. Parts of the system suffer from severe corrosion, and it is estimated that significant volumes, as much as 5 percent, are lost through leaky pipes, with adverse impacts on the environment and public safety.

The national gas company, "Azerigas", who controls all transmission and distribution, has experienced severe financial difficulties due to low gas selling prices for residential consumers and large payment arrears. The rapid increase in the cost of imported gas since the break-up of the Soviet Union has also reinforced the priority of reducing consumption through improved efficiency.

Pipelines: Once oil and gas have been successfully extracted, the need remains to transport it to refineries where it can be converted to fuel, lubricants, petro-chemicals and other downstream (?)products, or burned, in the case of gas. It was clear that Azerbaijan needed to develop a cost-effective, main transportation system to meet the expected export demand for its oil and gas to international markets over the next decade.

Until the region's full production potential could be developed, it was decided to utilize two existing export routes for the transport of Early Oil to the west. They were the Northern Export Route (NER) and the Western Export Route (WER). The NER is a 20/28" dia. pipeline extending from Baku through Russia to the Black Sea port of Novorossiysk. Originally stretching from Grozny to Baku, it was completed in 1983 as part of the Soviet supply system. In 1996, it was upgraded and connected the Sagachal Terminal to the Grozny-Baku pipeline allowing the shipment of Azeri crude to the Black Sea Port of Novorossiysk. It's current capacity is 100 kbd (thousand barrels per day).

The WER is a 20" diameter pipeline passing through Azerbaijan and Georgia to the Port of Supsa, also on the Black Sea. Completed in April 1999, it added an additional 100 kbd of transport capacity.

The capacity of both pipelines can be increased an additional 100 kbd each by installing addition pumping stations. The decision to increase the capacity of either route will depend on the commercial terms available, the pace of upstream (?) development, and when a new main export pipeline (MEP) becomes available. However, even if the current pipelines are upgraded, the total capacity will be only 400 kbd, far short of the anticipated future increase in production. Once AIOC shifts from its current level of Early Oil production to Full Field Development, its output is estimated to be 600-800 kbd. In addition, the other PSA holders are scheduled to begin production early in the next millenium. If significant new volumes of oil are discovered, the transport problem will be greatly exacerbated.

To address this problem, a new MEP will be required. Because of the projected volume of crude that will need to be transported, the joint effort and cooperation of the regional governments and oil companies will be required. Accordingly, studies have been conducted to examine and evaluate the possible alternate routes for the MEP. Included have been engineering and design standards, the topography and use of land through which the proposed routes would pass, construction methods, schedules, and costs, operating cost estimates, and projected revenues.

As a result of these studies, three primary routes have been identified; Baku to Supsa, Baku to Ceyhan, and Baku to Novorossiysk. The Baku to Supsa route essentially follows the existing WER from Baku west through Azerbaijan and Georgia to Supsa, a length of approximately 528 miles. The route from Baku to Ceyhan, favored by the U.S., again follows the WER to a point midway through Georgia where it then turns south, crossing Turkey to the Mediterranean port of Ceyhan, a distance of 1223 miles. The final route, Baku to Novorossiysk, follows the NER north from Baku to the Russian border, then northwest to Novorossiysk, a total of 838 miles. However, this northern route's prospects have been greatly discounted in the wake of recent difficulties and stoppages in the flow of product through the northern early oil route.

Large gas deposits in the Caspian region also provide a solid foundation for economic growth within the region. Russia and Turkmenistan have been the leaders in this sector as Azerbaijan has not been able to produce enough gas in recent years to supply

its own needs. In addition to providing gas to Azerbaijan, the focus has been on Turkey - a country of 60,000,000 people - as the primary target market for Russian and Turkmen gas. Azerbaijan's role in the original scheme was that as host to the Trans-Caspian Pipeline, a proposed pipeline linking Turkmenistan to Turkey. It would transport Turkmen gas across the Caspian Sea, through Azerbaijan, and Georgia, and finally to the Turkish market. Later, as Azerbaijan's gas field production increased, it's gas would also flow through this pipeline.

Competing with the Trans-Caspian Pipeline is Bulestream - a project initiated by Gasprom, a Russian gas conglomerate in cooperation with Italy's ENI. In this plan, a pipeline would be built to transport Russian gas across Russia, under the Black Sea to Turkey. ABN Amro Bank has expressed interest in financing this project.

However, recent natural gas discoveries of a significant nature in Azerbaijan's Shakh-Deniz field has changed all this and stands to make Azerbaijan one of the leading competitors among gas supplying countries in the Caspian region. If Azerbaijan's gas reserves prove to be as substantial as first indicated, it too will be vying for the lucrative Turkish market. In doing so, it may seek its own pipeline rather than share the Trans-Caspian Pipeline with Turkmenistan.

Each project has its advantages and each country is trying to establish a common dialog with Turkey and come to agreement on commercial terms. Since Azerbaijan is geographically closer to Turkey, it's expected that its offer will be more competitive than either Russia's or Turkmenistan's.

The U.S. supports the Trans-Caspian Pipeline as part of it's regional and strategic policy. The development of all the emerging countries is seen as an important stabilizing factor in the Region. In this context, should Azerbaijan become a major gas exporter to Turkey, the U.S. would hope that both Turkmen and Azeri gas could be accommodated along the same Caucasus corridor; otherwise, the only outlet for Turkmen gas would be through Russia where monopolistic Russian companies would dictate non-commercial tariffs for Turkmenistan.

2 - Telecommunications equipment (TEL): Significant opportunities for U.S. products and firms exist in this highly competitive market. Most of the telecommunications infrastructure is part of the old Soviet system and, as such, is urgently in need of replacement. In 1993, the Azeri Government initiated steps to

modernize and convert the old mechanical system to one that is fully digital. In this regard the Ministry of Telecommunications has adopted a program, Development of Telecommunication by the year 2010, at a cost estimated at US\$ 1 billion.

The current density of subscribers is about 20 out of each 100, which is 2-3 times lower than normal. In accordance with the government's modernization program, not only will the old telephone system be converted to a digital one, but also the number of lines and exchanges will be increased to accommodate additional subscribers.

Progress toward implementation of the Plan has been slow because of the lack of funds necessary to purchase and install needed equipment and lines. Because of this delay and the introduction of cellular service, the use of cell phones is increasing rapidly, thus creating an increasingly important sub-sector. There are two providers of cellular service, Azercell and Bakcell (Motorola). Azercell is a subsidiary of Aztelecom, which is controlled by the Minister of Telecommunications.

3 - Electrical Power Systems (ELP): Energy in Azerbaijan is totally in the public sector and is run by "Azerenergy", a state-owned, closed Joint-Stock Company. The national power system is comprised of nine thermal power plants and five hydroelectric power stations. Varvarinskaya hydroelectric power station is part of the Mingechaurskaya structure.

	Power Station	Year Built	Capacity per units	Number of units	Capacity MWT	Type
1	Mingechaurskaya	1955	60.00	6	360.00	Hydro
2	Shamkirskaya	1981	190.00	2	380.00	Hydro
3	Araz	1971	11.00	2	22.00	Hydro
4	Ter-ter	1977	25.00	2	50.00	Hydro
5	Azerbaijan	1981	300.00	8	2,400.00	Thermal
6	Ali Bayramli	1962	150.00	7	1,050.00	Thermal
7	Severnaya	1954	150.00	1	150.00	Thermal
8	Baku 1	1928	40.00	2	80.00	Thermal
9	Baku 2	1952	6.00	4	24.00	Thermal
10	Sumgait 1	1952	50.00	4	200.00	Thermal
11	Sumgait 2	1966	60.00	2		Thermal
	Sumgait 2		50.00	2	220.00	Thermal
12	Gandja	1962	30.00	3	90.00	Thermal
	Total:				5,026.00	

The length of electricity transmission lines exceeds 110,000 km, including over 2,000 km with 500-300-220 capacity; and , 13,000 km with 110135 KW. Forty structural network subdivisions carry out the distribution of electricity. The power grid is capable of generating 23 billion KWh of electricity per year. Azerbaijan has electric connections with the neighboring power grids of Dagestan (Russian Federation) and Georgia via 330 KW Electricity Transmission lines.

Previously a part of the Soviet energy system, the existing infrastructure is outdated and there has not been significant change or renewal of equipment. Azerbaijan imports about 98% of its energy generating and distribution equipment and parts from Russia and the Ukraine, Since they all were originally part of the same system, the parts are compatible and very price-competitive.

Combined-cycle gas-turbine units need to be improved in order to enhance the fuel efficiency of thermal power plants. Realizing that Azerbaijan will not be able to finance such a massive upgrade program itself, which is estimated at \$2.5 billion, it seeks potential foreign investors to jointly undertake these projects.

A five-year program has been designed for privatization. "Azerenergy" will convert into an open joint stock company (JSC) after its outstanding debts are paid to the state budget. Initial stage of privatization will cover transmission networks although it is believed that power stations will be state-owned for a while.

Renewable energy is not characteristic to Azerbaijan. Although several projects have been discussed in the past, there have not been any developments until recently. An agreement has been signed between "Azerenergy" and "Sumitomo" for a renewable energy project for wind energy. A test project will be run for two years and if the results are attractive three stations will be built. Currently preparations are underway for the test project.

4 - Telecommunications services (TES): Rapidly expanding communications needs, including the development of Internet access, offer good prospects for U.S. companies. The growing number of foreign companies established in Azerbaijan represent a high-value demand for such services.

Currently there are four joint ventures offering telephone services, two cellular operators, and a good number of ISPs (Internet Service Providers) operating in Azerbaijan. All these

ventures are established with the Ministry of Telecommunications. They provide fax, voice, data, paging, switch network, GSM and analogue services. Prices for the services vary due to changes in the cost of services offered by the Ministry to these companies. The average ISP price is \$3.00 per hour. Although 33.6KB is available, speeds will vary depending on the quality of the telephone connections and traffic.

Companies are reminded of the dual nature of the Ministry of Telecommunications. The Ministry is a policy-making institution in addition to its involvement in commercial activities.

5 - Food Processing and Packaging Machinery (FPP): A wide variety of crops are grown in Azerbaijan, Among them are fruits (apples, cherries, grapes, olives, lemons, persimmons, melons, raspberries, strawberries, currants, plums, peaches, pears, and pomegranates); vegetables (tomatoes, potatoes, carrots, beets, cabbage, cucumbers and onions); grains (wheat, maize, barley); tea; nuts. As a result, it has good potential for becoming a major supplier of packaged food products to the CIS and Europe, but lacks the latest food processing and packaging technology needed to realize that potential. Currently, there are 43 canning factories in Azerbaijan producing primarily tomato paste, natural fruit juices and apple concentrate. Most are outdated and urgently in need of upgrading. Many still use glass jars and bottles instead of plastic containers or tetrapacks that are less susceptible to damage in transit, have greater shelf-life, and store better. Because the GOAZ lacks the financial resources (estimated to exceed US\$20 million) to underwrite the cost of modernizing this industry, it has been targeted for privatization, thereby, providing significant opportunity for ownership by foreign investors.

To reduce spoilage and damage to the crops while in transit, processing plants are generally located close to the crops they are to process. There are two major areas in which production takes place, Guba for fruits and Lankaran for vegetables. As crops are seasonal, many of the canneries process more than one type of crop. Wine production and bottling is also becoming an important industry for Azerbaijan. Although a relatively large producer of milk, milking equipment and the machinery used to process and package the milk is also in urgent need of modernization and upgrading. Once modernization has taken place and production increased, several of the factories have the potential to earn income from exporting finished products to the other countries of the CIS and to Europe.

American manufacturers of food processing and packaging equipment of small capacities, interested in increasing their export sales, should e-mail their company and product profiles to the Project Management Unit (PMU), Ministry of Agriculture and Food Supplies in Baku (See Chapter XI, Appendix E). This unit is authorized by the GOAZ to send tender announcements to registered companies regarding needed equipment.

Most Promising sub-sectors include:

HS# 8438 Machines for the preparation of fruits, nuts, & vegetables

HS# 8437 Machines for cleaning, sorting, grading seeds, grains, & vegetables

HS# 8435 Juice extractors

HS# 8422 Machines for filling, closing, & sealing bottles, cans, boxes, bags, or other containers

Note: Azerbaijan uses the metric system. Electric current is 50 cycle, 220/440 volts

6 - Drugs/pharmaceuticals (DRG): Azerbaijan faces a serious shortage of basic drugs. The local pharmaceutical-chemical plant manufactures about 50 types of medications in small volume. The major quantity of medicines imported to Azerbaijan comes unofficially through private pharmaceutical dealers and importers, making it difficult for the State Department of Pharmacy and Medical Production to control the amount and types of pharmaceutical brought into the country. In the near future, a new pharmaceutical plant, an Azeri-Turkey joint venture that is 50% State owned, will begin operation. When it comes on line it will produce more than 100 types of drugs including solutions for intravenous infusion, antibiotics, analgesics, etc. The first samples have already been produced. However, this plant will not be able to fully meet the demand for medicines, and the State Department of Pharmacy and Medical Production is planning to cooperate with two large private companies to help address this problem. These companies currently import and distribute medical products from Russia, Turkey and Europe. Plans call for small production facilities to be created that will produce locally some of the products now being imported.

In 1998 Azerbaijan pharmaceutical imports exceeded \$27 million.

7- Water resource equipment (WRE): The World Bank and EBRD are financing a major project to upgrade Baku's water utility to improve the quality and supply to 2.5 million inhabitants. The

program focuses on three separate areas: water demand management, strengthening operations and maintenance, and improving water supply and production. A joint-stock company named Apsheron Regional Water Supply (ARWC) has been created in partnership with a western company. This partnership strengthens ARWC's financial position and operational performance, while improving services to consumers and taking advantage of tariff provisions.

As part of that upgrade, the market for water purifying equipment for that project and for private individuals will grow. The annual intake of fresh water from the water reservoirs of Azerbaijan is approximately 16 billion m³. About 1.2 billion m³ are from underground sources, of which there are more than 20 inland water reservoirs on the Apsheron Peninsula. Industrial development and an increase in population has led to formation of numerous settlements which do not have sewage systems or adequate water treatment facilities. Sewage water from these settlements and industrial waste have been discharged into the nearest water reservoirs, which resulted in their contamination by bio-genic elements and toxic substances. Systematic water sampling in different parts of the Caspian Basin show contamination by phenols, oil products, surfactants and others.

Most Promising sub-sectors include:

HS# 842121	Machinery and Equipment for filtering or purifying Water
HS# 842199	Parts for Machinery and apparatus for filtering and purifying water

8 - Pollution control equipment (POL): Azerbaijan faces serious pollution problems, particular on the Apsheron Peninsula. International oil consortia and companies involved in on-shore oil development will need anti-pollution equipment, particularly as the development of the fields continue and the transport of crude increases.

According to the Republican Center of Hygiene and Epidemiology, the conditions of the Caspian beaches around Baku are not satisfactory because of high bacteria content. More than 12 billion m³ of contaminated sewage is discharged into the Caspian annually, 95% of which comes from Volga River. Laboratory experiments have been conducted to measure chemical, toxic, radioactive and bacteria levels in the sea. On the first three levels (chemical, toxic and radioactive) none or very minor deviations from the norm were observed. However, the amount of

intestinal bacillus in one liter of water at most beaches is much higher than the norm.

To help address this problem, the Government of Holland is financing the Baku Bay Cleansing Project and has allocated a \$750,000 grant for this purpose. The project plans to facilitate a network of laboratories that would assist the distribution of sewage, industrial and other waste in the sea. The project also encompasses the construction of special channels on the seafloor for waste conservation. The possibility to recycle waste at industrial enterprises is also considered.

The atmosphere in Azerbaijan continues to be threatened by high levels of pollution. The annual discharge of contaminants, depending on the percentage of production capacity being utilized, constitutes from 1.2 to 2.6 million tons of hazardous substances. According to the State Committee of Statistics, hazardous air discharges include 112 thousand tons of solid dust, 93 thousand tons of sulfur dioxide, 638 thousand tons of carbon oxide, 82 thousand tons of nitrogen oxide, 1665 thousand tons of carbons, 37 thousand tons of volatile organic substances. According to the amount and density of air discharges Baku and Sumgayit are in first place. Their air basins are being poisoned by oil refineries, oil chemistry, metallurgy, and construction enterprises. In addition, a significant portion of air contamination is due to inadequately maintained passenger vehicles and motor transport equipment that is totally lacking any form of pollution control equipment.

Most Promising sub-sectors include:

HS# 842139 Air Pollution Control Equipment

9 - Computers/peripherals (CPT): Only about 3,000 to 4,000 computers were sold in Azerbaijan in 1998. As privatization and market reforms take hold, the demand for all types of computer equipment and peripherals will increase dramatically. However, without the means by which to finance the purchase of home and business computers, growth will continue to lag. As a result, virtually no computers are used at points-of-purchase.

While large businesses will have the resources to purchase name brand computers, smaller businesses and home users will rely principally on clones that are either imported or assembled locally. Because computers were slow in being introduced to Azerbaijan, they tend to be newer and

incorporate current chip architecture and, therefore, are Y2K compliant. Most come fully equipped with modems, sound cards, and CD-ROM readers.

Most Government offices still do not depend on integrated systems to any great degree, consequently, few networks are in use.

Most Promising sub-sectors include:

HS# 8471 Computers, computer parts and peripherals

10 - Health care services (HCS): The Azerbaijani public health care system provides very limited service. Private health care services will be needed to serve a growing community of expatriates and affluent Azerbaijanis. The Ministry of Health exercises control over all hospitals, and is responsible for the procurement of medical equipment and disposals.

At this time there are a few private clinics in Baku that provide almost all types of health care services. Medclub was the first private medical service company established in Azerbaijan and is affiliated with Herzliya Medical Center in Israel. This company began operation in 1998 and provides service 24 hours a day and 7 days a week. Services include: all types of emergency treatment, intensive care, pediatrics, minor surgery, laboratory work, ophthalmology, otorhynolaryngologic care, gynecology, physiotherapy, extra corporeal detoxication, exercise therapy, vaccinations; ultrasound, endoscopy, fibrobronchoscopy, etc. The facility honors a number of European Middle Eastern insurance companies. In case of necessity, the company provides medical evacuation of patients to the international medical center in Herzliya. Medclub has three fully equipped ambulances.

The German Medical Center provides emergency care services 24 hours a day and 7 days a week. Staffed by three foreign and two local doctors, the center has one fully equipped ambulance, offers intensive care, and has GYN and pediatrics units, a laboratory, x-ray, EKG, spyrography equipment, etc. The center is managed by AEA international and in case of necessity, provides medical evacuation of patients to European hospitals.

The Turkish-American joint venture medical center is equipped with modern, mostly American manufactured equipment and provides medical services 24 hours a day and 7 days a week. The center is staffed by six Turkish and five local doctors and provides diagnostic and treatment services including computer tomography; colored Doppler ultrasonography and echocardiography; x-ray examinations, mammography; laboratory services; computerized eye scanning and treatment; GYN; pediatrics. The center has a fully equipped ambulance.

Elay-Ankara is an Azerbaijani-Turkish joint venture dental clinic that offers services up to world standards. They started operation in July 1997. The clinic is equipped with modern American, German, Italian, and French medical equipment, and provides full volume dental therapeutic, surgical and orthopedic care for adults and children using modern materials.

Most Promising sub-sectors include:

HS# 9018 Medical equipment, electronic, diagnostic, measuring, etc.

HS# 9019 Ozone, oxygen & aerosol therapy equipment, artificial respiration or other therapeutic respiration apparatus

11 - Agricultural Machinery and Equipment (AME):

The demand for equipment and services related to the growing and harvesting of crops, animal husbandry, and dairy farming will steadily increase as land reform and modernization of the agricultural sector takes place. In addition to fruits and vegetables, Azerbaijan is a major producer of cotton. At present, however, production is only about half of its estimated potential. This is largely due to problems relating to irrigation, inadequate pest control, and inefficiency in harvesting the cotton when ready. Approximately 35% is hand-picked.

The storage and transportation of harvested crops also present problems. There is also a lack of adequate facilities, such as covered, protected, and refrigerated storage areas, aerators, pest/vermin control, etc. Transportation equipment is old and not well-maintained resulting in bruising and other damage to produce enroute to food processing centers or markets. There is also a total lack of refrigerated vehicles. Open-air markets prevail and fail to conform to western health standards. Fresh meat and fish that is not refrigerated, covered, or protected in any way is offered in small shops.

In addition to becoming more self-sufficient, the possibility

exists for food exports, which will help generate needed foreign exchange. To help in this regard, the World Bank has instituted a credit line to improve Azerbaijan's agricultural productivity. One of the WB projects - the Farms Privatization Project - deals with loans to farmers. Under this project, short term loans are allotted for seasonal needs, such as buying seeds, fertilizers, etc.; medium term loans are available to help buy agricultural equipment and machinery; while long term loans are more geared to help restore the country's infrastructure and irrigation systems.

Because farming has been privatized, there are approximately 20,000 small farms that are undercapitalized and lack the funds to buy modern equipment. This presents opportunities for foreign investors to enter into joint-ventures with rural private machinery "stations" to which farm equipment could be leased and then rented to individual farmers.

In addition to the need for "how to" technology and new farm implements and chemicals, there's potential for good used or refurbished farm machinery or equipment. There are no prohibitions against the import of used or refurbished equipment.

Agricultural production (1998 - in thousand tons): Wheat - 84; Cotton - 90.3; Tobacco - 100.9; Potatoes - 138.8; Vegetables - 101.5; Melons - 138.1; Fruit - 116.5; Grapes - 99.1; Tea - 52.4.

Most Promising Sub-Sectors Include:

HS# 8432 Seeders, planters and transplanters
HS# 8433 Harvesting machinery, threshing machinery, & combined harvesting/threshing Machinery

B. Best Prospects for U.S. Agricultural Exports: Azerbaijan faces an annual wheat deficit of one million tons. To compensate for its shortfall, it traditionally imports wheat from Russia, Ukraine and Kazakhstan. At present, however, most of Azerbaijan's wheat imports are from the European Union, but U.S. wheat could be competitive under the right terms.

The R. J. Reynolds Tobacco Company has established a cigarette factory in Azerbaijan. Although tobacco is a key Azeri crop, in 1998, it imported \$66 million in U.S. tobacco products (USG figure). Cigarette manufacturing is projected to reach 8.439 million sticks by the year 2006.

In addition, fast moving consumer goods, e.g. snack foods and candies, are finding increasingly ready outlets in a number of small stores around Baku.

CHAPTER VI. TRADE REGULATIONS, CUSTOMS AND STANDARDS

A. Trade Barriers:

Special import provisions: The GOAZ still uses government-to-government agreements to manage some trade.

B. Customs Regulations:

Importers are required to provide customs with:

1. Signed import contract;
2. Customs declaration specifying what is being imported;
3. Invoice for the goods imported;
4. Permission from the relevant ministry if imports include pesticides, medicines, or weapons and ammunition;
5. Bill of lading;
6. Certificate of origin; and
7. Certificate of quality of the imported merchandise.

Exporters are required to provide customs 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;
4. Certificate of the 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 of the Cabinet of Ministers if exporting weapons, ammunition, nuclear technology and explosives, and permission of appropriate ministries if exporting certain animal bones; medicinal raw materials; information about natural resources; inventions; precious stones; antiques; and
7. Customs declaration.

C. Tariff Rates: Under the guidance of the IMF, the GOAZ introduced a new, simplified import tariff schedule, effective July 1, 1997 and which was subsequently updated February 27, 1999.

All imports are at uniform rates of 15, 5, or 3 percent, or are duty free. Most goods are subject to 15% import customs duties.

The following groups of commodities are subject to 5 percent duties:

- Live animals (except breeding stock)
- Grain products
- Ores
- Organic and non-organic chemical products
- Explosive materials
- Wood and wood products
- Paper and cardboard products and wastes
- Textiles - Cotton and chemical fibers and fabric
- Ferrous metals
- Non-Ferrous metals - Copper, Nickel, lead, zinc, tin and their articles
- Nuclear reactors
- Some types of mechanical and electric devices
- Railroad locomotives and carriages
- Some types of vehicles
- Planes and space apparatus
- Ships
- Some types of medical equipment.

The following are items that are exempt from import duties:

- Seeds, fertilizers, forage, breeding animals, medicines, medicines for veterinary use, biologic preparations and veterinary supplies, packed baby food, syringes, and pharmaceutical goods;
- 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;
- Humanitarian aid for free distribution delivered by properly registered humanitarian organizations and by other legal entities and physical persons under the permission of state commission on international humanitarian aid;
- Technical equipment, including raw material and parts for their production, to be used for prophylactics and treatment of disability (except for automotive transport);

- Goods transferred to state property following confiscation, ownership disputes, or inheritance disputes;
- Property to be used as contribution by a foreign investor to the charter fund of a joint venture or for the creation of an enterprise fully owned by a foreign investor;
- 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);
- Transit goods (under the control of customs);
- Goods to be sold in tax-free shops
- Property of foreign employees of enterprises with foreign investment in Azerbaijan for private use;
- Currency, cash, bills in legal turnover (not for numismatic purpose), official state document letterheads and forms, passports and securities, delivered on the basis of approving document issued by the National Bank or the Ministry of Finance;
- Goods delivered for a limited time for re-export or processing (VAT shall be paid on entrance and refunded on exit);
- Goods imported on the account of the state budget (must be approved by the Ministry of Finance).
- Fish and fish articles produced in the Caspian basin within the quota for Azerbaijan and delivered to Azerbaijan.

Customs duties do not apply to goods imported under bilateral free trade treaties between GOAZ and foreign states.

Also, importers are subject to the payment of a Customs Processing Fee in the amount of .015 % of the declared customs value or a minimum of 16,500 manats, whichever is greater. This fee is payable regardless of whether the goods are exempt from customs duties or IVAT.

D. Import Taxes: In addition to customs duties, a 20% value added tax (VAT) is charged on certain imports. Commodities exempted from VAT are the same as those shown above exempted from import duties, with the exception of fish and fish products. Goods from other CIS countries

(except Kazakhstan) are assessed VAT in their country of origin, not in Azerbaijan

E. Import License Requirements: The GOAZ requires import licenses for food products of animal origin. The State Veterinary Committee (SVC) issues these licenses (contact numbers are provided in Chapter XI, Appendix E).

F: Temporary Entry: Commodities temporarily imported for a specified period that will be re-exported or used for processing, are exempt from import duties. Temporary import permits must be renewed after one year. Failure to do so risks forfeiture of the duty free status and full assessment of duty with penalties back to the time of initial import.

G. Special Import/Export Requirements and Certifications: Imported goods may be kept in a Customs warehouse for up to three-years duty free. Once the goods are released from the warehouse, they're subject to all applicable duties and taxes.

Goods imported into Azerbaijan for processing and then re-exported are subject to normal duty 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. To become a processor, a license must be obtained from the Customs Committee. There is no formal procedure for submitting an application. The Customs Committee established the time for the processing and re-export of the goods, usually within two-years. In addition, they may also stipulate a minimum amount of finished product to assure the imported goods are utilized for the purpose intended.

Provisions for the importation of goods and equipment under Production Sharing Agreements (PSAs) are an integral part of each agreement. Essentially, all good, tools, equipment, supplies, and services necessary for successfully carrying out the objectives of the PSA are exempt from import duties and taxes. By extension, foreign firms registered to do business in Azerbaijan and who provide services for Contractor Parties (CP) or Foreign Subcontractors (FSC) participating in Production Sharing Agreements (PSA) may also be exempt from duties and VAT on imported goods and equipment relevant to their work.

H. Labeling, Marking requirements: At present there are no labeling or marking requirements in Azerbaijan.

I. Prohibited Imports: The GOAZ prohibits the import of radioactive materials and wastes, narcotics and psychotropic drugs. Special permission is required to import weapons, explosives and certain radioactive equipment used in the oil industry.

J. Warranty and Non-Warranty Repairs: If the goods and services are purchased from local dealers and distributors, they will provide warranty services as stated in the product instructions. In the past, it has been the practice of most of the foreign companies to buy products, especially office equipment, from their home countries. As a result, these companies may experience difficulty in obtaining warranty repair and maintenance services from the dealers/distributors of those same companies in Azerbaijan.

Non-warranty services are available in the local market for reasonable prices. However, companies are cautioned not to rely on these services for state of the art, sophisticated equipment and products.

K. Export Controls: GOAZ regulations prohibit the export of weapons, explosives, radioactive materials and wastes, narcotics and psychotropic drugs. In addition, it regulates the export of strategic commodities produced in Azerbaijan. At present, strategic commodities include: petroleum products, cotton, electric power, and non-ferrous metals. Potential buyers of such commodities must get approval of the state commission on supervision of foreign economic relations.

The GOAZ has eliminated a foreign currency surrender requirement for exporters. At present exporters are required to sell thirty percent of their hard currency export earnings on an interbank currency market. Under the present exchange rate regime, this is not an onerous requirement.

L. Standards:

- Electrical - Current is 50 cycle, 220/440 volts. Typical small appliances use European standard plugs and electric connectors.
- Weights/Measures - The metric system is used.

- ISO-9000 - Not yet a factor except, perhaps, for some of the oil & gas companies.
- The State Veterinary Committee (SVC) 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 food stuffs, wood, and leather.

M. Free Trade Zones/Warehouses: Although the Azerbaijani Customs Code provides for the establishment and operation of bonded warehouses, they require free economic zones. There are currently no such free trade or economic zones in Azerbaijan.

N. Membership in Free Trade Arrangements: On July 1, 1999, Azerbaijan entered into a Partnership and Cooperation Agreement with the European Union that was designed to make all legislation in Azerbaijan compatible with the European directives to which EU countries must abide. This includes the protection of: intellectual property rights; assets and investments; and corporate and personal belongings against abuse. It also awarded Azerbaijan Most Favored Nation (MFN) status with the EU. In addition, the GOAZ is currently seeking WTO membership.

O. Customs Contact Information: Information regarding application of the current rules can be obtained from the GOAZ's customs service (Contact numbers provided in Chapter XI, Appendix E.)

CHAPTER VII. INVESTMENT CLIMATE

Of all companies in Azerbaijan, local companies comprise 54%, while joint ventures comprise 46%. Because of unsuccessful test wells prompting the withdrawal of two of the consortia, the interest among foreign companies to conduct business activities in Azerbaijan has decreased over the last year. Of the 3.5 thousand joint-ventures registered in Azerbaijan, only 1.2 thousand are active. Joint-ventures currently produce 2 -3% of Azerbaijan's GDP.

A. Openness to Foreign Investment: It is the policy of the Government of Azerbaijan (GOAZ) to encourage and welcome foreign direct investment. One of the first legislative acts adopted in Azerbaijan after it became independent was the 1992 Law on Protection of Foreign Investments. This law guarantees equal

treatment to foreign and Azerbaijani investment regardless of nationality. Foreign participation is possible through joint ventures with local companies, wholly foreign owned enterprises, and representative offices. Participation of foreign investors in certain areas, such as the energy sector, requires prior approval of the Cabinet of Ministers (and in some cases, President Aliyev). According to the privatization law passed on September 29, 1995, foreign investors may participate in Azerbaijan's mass privatization by acquisition of state privatization options. On July 16, 1996, Azerbaijan's parliament passed a land law, which allows for private ownership of land but precludes ownership of land by individual foreigners.

Officially, U.S. and other foreign firms are able to participate in government-financed or subsidized research and development programs on a tender basis. In fact, preference is given to local firms whenever possible.

Valid visas and registration of the company/firm are necessary requirements for the foreign investors to start operating activities. Also, effective May 1999, foreign entities, companies or individuals, conducting business activities in Azerbaijan and employ foreign nationals are required to obtain a license from the Ministry of Labor and People's Social Protection. This can be accomplished by submitting the following documents:

- Application letter. Applications for legal bodies should show the name of the legal person, the legal and organizational form, legal address, type of activity, settlement account number and name of bank. Applications for individuals should show the name of person in full, plus detailed information contained on their identification document (Serial No., date and place of issuance and address)
- Official copy of establishment documents
- Official copy of a state registration certificate
- Official copy of a tax registration certificate
- Payment order (receipt) confirming payment of State Duty (license fee) in amount of 500,000 AZM per license. The fee is to be remitted to the Operational Department, National Bank of Azerbaijan and referred to Account Number: 360201, Correspondent Account Number: 501004, Tax Identification Number: 170013678
- Copy of lease agreement or office ownership certificate
- Document justifying the need for attracting foreign employees

The Ministry is to issue its permission within 15 days of application. A license is valid for 5 years. Note: Information

has been received that indicates a possible revision to this regulation that will require each foreign entity to pay a fee in this amount for each foreign national employed.

The time required for the GOAZ to process a straightforward business registration varies from a few weeks to over a year. De-registration can also be a lengthy process.

A cause for concern among foreign investors is they may find that the high-ranking officials who run GOAZ regulating agencies are one and the same as their toughest business competitors

B. Right to Private Ownership and Establishment

Azerbaijani law provides for private ownership of land and businesses by foreign investors. In addition, a move toward privatization began in 1996. The program calls for the privatization of 70% or more of all state-owned enterprises (SOEs). Implementation of the privatization effort is the responsibility of the State Property Committee

Successful privatization of state enterprises, combined with new capital investment, modern management practices, and a favorable overall commercial environment could stimulate additional economic growth. To assure success, favorable laws were enacted to encourage and protect foreign investors. In accordance with the Law on Protection on Foreign Investments enacted in 1992, foreign investors are protected against nationalization or requisition except under certain specified conditions. Should nationalization or requisition become necessary, compensation will be paid according to the real value of the investment at the time the nationalization or requisition occurred. In addition, with the exception of taxes, should legislation take place that puts the foreign investor in a position less favorable than the previous legislation, there's a grandfather provision that extends the previous legislation for an additional ten years.

Foreign investors in Azerbaijan may establish a presence in one of three ways: through joint venture with local partners; by opening a branch office of a foreign entity; or by creating a foreign owned Azerbaijani corporate entity. Depending on the method selected, different tax regulations will apply. In addition, joint ventures and wholly foreign-owned Azerbaijani legal entities may benefit by their ability to obtain certain licenses or consents.

Presently, foreigners cannot buy land, though the State Property Committee appealed to the Special Presidential Commission on

Privatization to improve the situation and to allow foreigners to take part in the process of privatization. However, foreigners participating in joint ventures with Azerbaijani partners can purchase real estate jointly. Azerbaijani citizens can buy, sell, and trade apartments.

In accordance with the Land Code of the Azerbaijan Republic adopted in 1992, joint ventures may rent land for an infinite term. Foreign investors may acquire the right for utilization of natural resources on the base of concessions.

C. Protection of Property Rights:

Modern Copyright legislation was enacted in 1996. New Patent (1997) and Trademark (1998) laws are in place. They were prepared with assistance from the World Intellectual Property Organization (WIPO) of which Azerbaijan is a member. Azerbaijan is also a member of the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, and the Universal Copyright Convention. The bilateral trade treaty between the United States and Azerbaijan contains intellectual property protection provisions. Although these rights are protected by law, in practice there is little enforcement. Pirated software, audiotapes, and videotapes are widely available.

D. Adequacy of Laws and Regulations Governing Commercial Transactions: Although Azerbaijan became independent in 1991, and subsequently adopted a democratic form of government, its shift to a free-market economy has been slow. This is partially because many of its laws and regulations are hybrids and still reflect numerous aspects of Soviet laws. Foreign investors may find signed contracts ignored by local partners and by GOAZ authorities that are used to less formal business dealings. Changes are occurring, but are often in conflict with other laws still to be changed. Often times, new legislation is not promptly published so implementation is sometimes lagging. In addition, there are inconsistencies in how legislation is implemented. Pursuing a court case can be a lengthy, expensive, and unpredictable process. Because the U.S. government has not ratified the Bilateral U.S.- Azerbaijani Investment Treaty, U.S. investors do not have automatic recourse to the convention on the settlement of investment disputes. Collection of payments can be frustrating in the absence of effective legal redress.:

Another source of frustration is that the application of customs duties varies widely. Importers of bulk items report different

customs duties for virtually every shipment. Corruption among customs officers is common.

E. Foreign Trade Zones/Free Ports: There are currently no Foreign Trade Zones or Free Ports in Azerbaijan.

F. Major Taxation Issues Affecting U.S. Business: Foreign investors in Azerbaijan are subject to two different forms of taxation, depending on the type of business or investment. If the investor has entered into a Production Sharing Agreement (PSA), the PSA will stipulate the tax protocols that will pertain to that particular investment. Each one may be different and for that reason will not be discussed here. Investors operating outside of PSAs are subject to a Statutory Tax Regime. This regime includes the following taxes:

- Profit Tax - A Profit Tax of 32% is assessed against a firm's taxable profits (gross receipts less VAT, excise taxes, and expenses included in the cost of production.
- Dividend Withholding Tax - A Dividend Withholding Tax of 15% is assessed at the time dividends are distributed outside Azerbaijan.
- Value Added Taxes (VAT) - Goods and services are subject to a 20% value added tax. This applies to imported goods as well.
- Personal Income Tax - Income taxes ranging from 12% to 40% are assessed progressively based on gross income.

Note: If the employee is a foreign citizen (expatriate) and is physically present in Azerbaijan for 183 days or more during a calendar year, he/she is considered to be a permanent resident of Azerbaijan and, therefore, his/her entire worldwide income is subject to Azerbaijan income taxes. If they are actually present in Azerbaijan for less than 183 days, they are considered to be a non-resident and only that portion of their income derived from Azerbaijani sources is subject to Azerbaijan income taxes.

- Social Insurance Fund - Employers are required to pay an amount equal to 35% of an employee's gross salary to a Social Insurance Fund. The employee pays an additional 1%.

- Employment Fund - An amount equal to 2% on an employee's gross salary must be paid by the employer to this fund.

Tax authorities tend to use Azerbaijan's complicated and often contradictory tax laws to pursue relatively trivial infractions. New tax legislation, now under preparation, will take effect in January 2000.

G. Performance Requirements and Incentives:

- Performance Requirements: None.
- Incentives: A Presidential decree of January 18, 1997, called back almost all tax privileges previously available to foreign investors, effective January 1, 1997. This does not apply to international oil PSAs ratified by the parliament, which have the power of a law and supersede any subsequent legislative changes.

Investors are free to choose sources of goods, services and labor. Enterprises with foreign participation exceeding 30% foreign capital have the right to export their goods and services without a license. All foreign investors have the right to import without license goods used in their business.

Legislation does not require that nationals own shares in enterprises with foreign investment, nor does it require that the share of foreign equity be reduced over time or that technology be transferred.

Legislative acts may specify geographical areas with restricted or prohibited activity of foreign investors for the reasons of national security and defense.

H. Transparency of Regulatory System: Azerbaijan is a relatively new republic that is still making the transition to a market economy. The legal framework inherited from the Soviet Union is gradually being replaced by new rules and procedures. Weak administration and a lack of transparency characterize regulation. Although necessary new laws are being adopted under the guidance of the World Bank and IMF, Azerbaijani laws are often vague and take on meaning only through implementing decrees and regulations. There is no official gazette. Decrees are usually published in leading newspapers, but accompanying regulations usually are not. There are often differences between policies established by the GOAZ and procedures followed by executive

agencies. The latter frequently lag behind the former. The Baku City tax authority regulates tax payments by foreign investors. Payments to Azerbaijani physical persons are subject to withholding at the source of payment.

Foreigners have invested approximately \$500 million in the privatization process, but the value of privatization vouchers has declined by 75% from its January 1998 level. The GOAZ's second-phase privatization program, scheduled to be in place in January 1999, has not been submitted to parliament. As a result, there is no clear process for privatizing Azerbaijan's potentially profitable, large-sized state enterprises.

I. Corruption: Corruption is perhaps the greatest single problem foreign investors' face in Azerbaijan. Although state leaders have repeatedly proclaimed the struggle against corruption the most urgent task, the situation has not improved. According to the local criminal code, both giving and accepting a bribe is a criminal act..

J. Labor: Most Azerbaijani labor unions depend on the GOAZ. The right to strike exists and have occurred sporadically in the industrial sector. Azerbaijan is a member of the International Labor Organization. A nationwide minimum wage exists, but is currently less than \$2 per month. Provisions for the payment of a "13th month" and bonuses for workers with long-term service in the oil sector may often be written into their contracts. The legal work week is 41 hours. Health and safety standards exist but are not enforced. Local employees of U.S. companies in the energy sector enjoy significantly better working conditions than exist elsewhere in the economy. U.S. employers report that the Azerbaijani labor force is well educated and motivated, but -- as a result of their Soviet training -- may be reluctant to take responsibility and initiative.

K. Efficiency of Capital Markets and Portfolio Investment: The Azerbaijani banking system is small, weak, and plays a minimal role in the economy, which mostly functions on cash. There are four state-owned banks, seventy private Azerbaijani banks, and twelve foreign-owned banks. Many western businesses use either of two banks for their local business - the International Bank of Azerbaijan (IBA), the healthiest state-owned bank which is scheduled for privatization in the second half of 1999, or the British Bank of the Middle East Baku branch. Both have correspondent relationships with U.S. banks. Western businesses generally use local banks only for the payment of local transactions. Of the four state-owned banks, only IBA is a fully-

functioning commercial bank. The other three are technically bankrupt and going through a World Bank-designed restructuring program and, consequently, unable to lend money. Private banks are small and weak. Some of the stronger ones do business with foreign companies and may have correspondent relationships with U.S. banks.

The Baku Interbank Currency Exchange holds interbank auctions of foreign exchange. It also has conducted auctions of Treasury Bills for the Ministry of Finance. Development of a secondary market in T-bills has been prevented by the GOAZ's reliance on thirty-day bills. There is no stock exchange or other capital markets.

Bank supervision is rudimentary. Relatively few Azerbaijani businesses maintain bank accounts, perceiving that banks cannot protect the confidentiality of deposits. The deposits of Azeri citizens in the International Bank of Azerbaijan total \$14 million, representing approximately 1/3 of all deposits made in the country and ranks it first over "Sberbank" and HSBC British Bank. The total amount of all bank deposits of Azeri population exceeds \$50 million. Although many banks offer short-term trade financing services, longer term loans and mortgages are not available. Repatriation of profits is an onerous and bureaucratic process.

There is a lack of standard international accounting practices. Foreign companies are required to maintain accounts according to Azerbaijani standards, which are inconsistent with international standards. Three of the "Big Five" U.S. accounting firms have offices in Baku.

L. Conversion and Transfer Policies: There are no restrictions on converting or transferring funds associated with an investment into a freely usable currency and at a legal market clearing rate. There is no difficulty in obtaining foreign exchange. The manat (national currency) is freely convertible at hundreds of foreign exchange shops throughout Baku.

Enterprises with a foreign capital share may freely transfer profits from their business in Azerbaijan to their home country with no charges. The average delay for remittance of investment profits is two to three banking days. However, repatriation of profits can be an onerous and bureaucratic task.

Foreign investors may be required to put 15 to 25 per cent of their operating capital into a "reserve fund" which cannot be

withdrawn from the country while operations are ongoing in Azerbaijan. The GOAZ has frozen bank accounts of companies that have not met all their tax obligations.

M. Expropriation and Compensation: The law prohibits nationalization and expropriation of property, except where national interests are endangered, and then only with full compensation. No acts of expropriation have occurred in recent years. In addition, the Overseas Private Investment Corporation (OPIC) is active in Azerbaijan and new investments can be covered by insurance. Refer to Sub-Section Q.

N. Dispute Settlement: There are no effective means for enforcing property and contractual rights. Officially the GOAZ does not interfere in the court system, but in practice courts are not independent. The Economic Court, which has jurisdiction over commercial disputes, is weak and corrupt. There is a new bankruptcy law, but it remains untested. Local courts do not accept judgments of foreign courts.

Azerbaijan is a party to the World Bank Convention on the Settlement of Investment Disputes between States and Nationals of Other States. However, the application of the World Bank convention is limited since it only governs disputes arising from investments between contracting states and nationals of other states. Azerbaijan is also a member of the Multilateral Investment Guarantee Agency (MIGA). It is not a member of the International Center for the Settlement of Investment Disputes (ICSID), also known as the Washington Convention. Nor, is it a member of the New York Convention of 1958. Azerbaijan is also not a member of the CIS Arbitration Court. Bilateral agreements on legal assistance with Russia and Turkey have been signed, though the agreement with Russia does not cover commerce.

O. Political Violence: While political instability has been a problem since independence, the political situation has been relatively stable since a coup attempt in 1995 was suppressed.

Since the late 1980s Azerbaijan has been in a state of conflict with neighboring Armenia over the Nagorno-Karabakh enclave. Ethnic Armenians from Nagorno-Karabakh now control that area and several adjacent regions of Azerbaijan. A cease-fire has been in effect since May, 1994. However, localized fighting broke out briefly in the spring of 1997 and summer of 1999. There is a process for negotiating an end to the conflict under the auspices of the OSCE (Organization of Security and Cooperation in Europe)

Minsk Group, in which the U.S., Russia, and France are co-chairmen.

P. Bilateral Investment Agreements: Azerbaijan signed a bilateral investment treaty with the U.S. in July, 1997. Azerbaijan also has bilateral investment protection agreements with the United Kingdom, Germany, Turkey, China, and Pakistan.

Q. OPIC and Other Investment Insurance Programs: An OPIC treaty is in effect between the United States and Azerbaijan. The Caspian Finance Center was established in Ankara in 1998 to facilitate OPIC, EXIM and TDA services in the Caspian Sea area. U.S. firms interested in OPIC financing or insurance programs in Azerbaijan should contact OPIC directly. The World Bank's Multilateral Investment Guarantee Agency (MIGA) may issue certain types of insurance to private companies investing in Azerbaijan. Interested U.S. firms should contact MIGA in Washington, D.C., directly. (See Chapter XI, Appendix E for contact details.)

R. Capital Outflow Policy: Although legislation provides that companies are free to take capital out of the country, in reality, there are some restrictive handles regulated by the National Bank. They are mostly related to the transfer of money to offshore accounts. Currency convertibility is not generally regarded as an impediment for doing business in Azerbaijan, but restrictions remain on larger amounts.

Note: Additional information on investments can be obtained from the USACC Investment Guide to Azerbaijan published by the U.S.-Azerbaijan Chamber of Commerce (See Chapter XI, Appendix E)

CHAPTER VIII. TRADE AND PROJECT FINANCING

The Azerbaijani banking system is small, weak, and plays a minimal role in the economy, which mostly functions on cash. Although many banks offer short-term trade financing services, longer term loans and mortgages are not available.

Western businesses use either of two banks for their local business dealings - the International Bank of Azerbaijan (IBA), the healthiest state-owned bank, or the British Bank of the Middle East Baku branch. Of the four state-owned banks, only the IBA is a fully functioning commercial bank. The other three are technically bankrupt and currently going through a restructuring program and consequently unable to lend money.

The ISA is currently in the process of being privatized. The Azeri government has selected a financial consultant to assess the

value of its assets in the Bank and advise them regarding all investment proposals received. It is expected that the EBRD (European Bank of Reconstruction and Development) will take 20% of the available shares in this bank.

The IBA is in the process of being privatized. The Azeri government has selected a financial consultant to assess the value of its assets in the Bank and advise them regarding all investment proposals received. It is expected that the EBRD (European Bank of Reconstruction and Development) will take 20% of the available shares in this bank.

Both the International Bank of Azerbaijan and the British Bank of Middle East have correspondent relationships with U.S. banks.

OPIC, TDA, EXIM and AID now operate in Azerbaijan. U.S. EXIM Bank has signed a limited Project Incentive Agreement with Azerbaijan, but it is not yet operational. The World Bank and EBRD are both active in financing public infrastructure projects in Azerbaijan. See Chapter XI, Appendix E for contact details.

CHAPTER IX. BUSINESS TRAVEL

A. Business customs: Business cards are generally exchanged during initial meetings, with one side of the card in Azerbaijani and the other in English (or Russian). Azerbaijani business people almost always offer visitors tea and sweets. Azerbaijanis tend to be very polite, but may appear to foreigners as vague and noncommittal about specifics in business transactions. Also, they are reluctant to make appointments more than 24 hours ahead of time.

B. Travel advisory and visas: A passport and visa are required to enter Azerbaijan. Business persons who apply for their visas more than five days in advance and tourists who apply more than ten days in advance will usually not be charged for their visas. Individuals requesting visas in less than this amount of time or arriving in Baku without a valid Azerbaijani visa will be charged a special processing fee ranging from \$ 40 to \$ 250 for their visa. For visitors arriving from countries without an Azerbaijani Embassy, passports are retained by immigration authorities at the airport. Visitors must apply to the consular department of the Ministry of Foreign Affairs the next working day to retrieve their passport. All visitors to Azerbaijan are strongly urged to obtain a visa prior to their arrival. Travelers with valid Georgian visas are permitted to enter

Azerbaijan for five days. Thereafter they must obtain an Azerbaijani visa. Visa applicants must include a letter of invitation from an individual or organization in Azerbaijan when applying for a visa. Outside the United States, visas may be obtained from Azerbaijani embassies in Germany, Turkey, and the United Kingdom. For additional information on visa requirements, contact the Embassy of Azerbaijan, 927 15th Street, NW, Suite 700, Washington, DC 20005; telephone (202) 842-0001; fax (202) 842-0004.

While crime in the city of Baku has generally not been a major problem, in recent months, criminal attacks on foreigners have increased. There is a widespread perception that all foreigners carry large amounts of cash and make ideal targets. Accordingly, the Embassy advises Americans not to go out alone at night, especially later-on. When taking taxis, only use those that have 'BLUE' license plates. Business visitors should arrange to be met at the airport when they arrive in Baku.

Before leaving the U.S., travelers are encouraged to consult the Overseas Security Advisory Council (OSAC) Web Page at <http://ds.state.gov> for the most current travel advisories.

Any incidents involving U.S. citizens should be reported immediately to the Embassy's consular section (tel. 98-03-35) and the local police (tel. 02).

C. Holidays: The following national holidays are observed in Azerbaijan.

New Year's Day	January 1
International Women's Day	March 8
Novruz Bayram	March 20/21
Victory Day	May 9
Day of the Republic	May 28
National Salvation Day	June 15
Day of Armed Forces	June 26
Day of State Sovereignty	October 18
Constitution Day	November 12
Day of National Revival	November 17
Universal Azeri Solidarity Day	December 31

ISLAMIC HOLIDAYS WITH DATES TO BE DETERMINED:

Gourban Bayram
Ramazan Holiday

NOTE: The U.S. Embassy is closed on all U.S. Holidays as well as the above mentioned Azeri Holidays.

D. Work Week: The GOAZ does not restrict business hours. In theory, businesses are open all day Monday through Saturday. Hours may vary considerably depending on the preference of the individual businessperson. Business appointments are rarely made before 10 am.

E. Business Infrastructure:

- Business can be conducted in Azerbaijani, Turkish or Russian languages.
- All private transactions are in cash -- credit cards are only accepted in about three dozen establishments.
- The telephone system in Baku is oversubscribed and technically inadequate. International calls are possible, but expensive. Cellular communication services are available (including GSM). E-mail via local Internet providers is available. Full Internet service has also recently become available.
- The GOAZ postal system is functional, but not secure. The U.S. courier firm DHL is resident in Baku (see contact list, Chapter XI, Appendix E).
- There is a functioning subway system in Baku, but, because of severe maintenance problems, the U.S. Embassy discourages Americans from using it. Buses and streetcars run, but are crowded and not recommended. Taxis are inexpensive and readily available.
- Electric voltage in Azerbaijan is 220v, 60 cycles. European standard plugs and electric connectors are used.
- There are numerous shops in Baku where food, clothing, and small appliances are available. Imported electronics are readily obtainable.
- Azerbaijan is famous for its carpets. There are several carpet shops inside the old city near the Maiden's Tower. Antique carpets may also be bargains in Azerbaijan, but it is difficult to take them home without permission from the Ministry of Culture.
- Caviar can be bought at local shops. It's recommended that travelers purchase caviar only in tins or sealed jars that bear an Azeri label in order to avoid delays or possible confiscation of caviar at the U.S. Customs.
- Drinking tap water is not recommended. Bottled water is generally available on the local market. Beer and soft drinks are widely sold.

- There are many restaurants in Baku. One of the most common local dishes is kebab, made of lamb, chicken or fish. Coffee is not up to western standards, and many Americans here drink tea. Vodka, brandy, champagne, and beer flow freely. Fruits and vegetables are more readily available, and at lower prices, here than elsewhere in the CIS.
- There are several hotels, built and operated to western standards, in Baku. The Hyatt Regency and Hotel Europe are the most commonly used. Their average room rates are US\$300 per day. In addition, there are numerous apartment buildings with private apartments readily available in different parts of town. Those located in the downtown area tend to be expensive. The average monthly rate for an apartment in downtown Baku runs USD800 - 1,200. There are, however, some that are more reasonably priced at USD500 - 600 as well. Due to the recent downturn in the oil industry prices have also come down somewhat, but this is expected to be a temporary situation until business becomes lively again.

F. Temporary Entry of Goods: 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. Business persons traveling with laptops, must declare them at time of entry. The temporary entry form covering the laptop must be surrendered on departure. Azerbaijan is not a member of the Carnet Convention.

NOTE: U.S, business travelers are encouraged to obtain a copy of the "Key Officers of Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402; Tel. (202) 512-1800; Fax (202) 512-2250. Business travelers to Azerbaijan seeking appointments with U.S. Embassy - Baku officials should contact the Commercial Section in advance. The Commercial Section can be reached at: Tel. (994) (12) 980-335; Fax (994) (12) 986-117; Email: LallyM@state.gov

Chapter X. ECONOMIC AND TRADE STATISTICS

Appendix A: Country Data

Population	7.6 million
Population growth rate	1.0%
Religion	68% Shia 28% Sunni

3% Orthodox Christian
1% Jewish

Government System Republic
Languages Azerbaijani and Russian
Work Week Monday-Friday 40 hours

Appendix B: Domestic Economy

(all figures are unofficial estimates in millions of U.S. dollars unless otherwise noted)

	<u>1997</u>	<u>1998</u>	<u>1999**</u>
GDP (current prices)	3630	4080	4300
GDP growth rate (%)	5.8	10	5
GDP per capita (\$)	471	533	550
Gov spending as % of GDP	21	21	N/A
Inflation (%)	3.7	-1	3-5
Unemployment (%)	N/A	15	N/A
Foreign exchange reserves	200	566	N/A
Average ex rate for U.S.\$	3900	3904	4000
Debt Service Ratio	_____	_____	_____
US Military/Economic assistance (USAID)*	17	18	?

* Due to section 907 restrictions, the majority of U.S. aid to Azerbaijan continues to be direct humanitarian assistance to refugees and internally displaced people provided through private voluntary organizations (PVOs).

** Projected

Appendix C: Trade

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Total Country Exports FOB	631	777	593
Total Country Imports	961	1,008	1,234
U.S. Exports	17	67.7	66.05
U.S. Imports	2	2.5	13.7

Appendix D. Foreign Investment Statistics

(all figures \$ million unless otherwise stated)

Foreign Investment Flows:

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
	15	30	160	546
%	0.5	1	7	17
GDP				

Note: growth in FDI since 1995 IS largely due to investment by foreign oil companies.

Foreign investment in Azerbaijan in 1999 is projected to reach \$872 million, or 20% of projected GDP, according to the Ministry of Economy. Three international oil consortiums will contribute \$604 million. Foreign direct investment in the first quarter of 1997 was about \$90 million.

1997 Investment by Foreign Oil Companies

<u>Project</u>	<u>Amount of investment</u>
1. Azeri, Chirag, Guneshli	569
2. Karabakh	20
3. Shakh-Deniz	15

U.S. companies have 41.9 and 30 percent stakes in the first and the second projects, respectively.

Other Sources of Foreign Investment in 1997:

<u>Source</u>	<u>Amount</u>	<u>Field</u>
1. World Bank	\$11 million	Reconstruction of Baku water supply system
2. EBRD	\$23 million	Construction of Yenikand hydra power plant, upgrade of gas supply system
3. Turkish EXIMbank	\$10 million	Reconstruction of Baku airport
4. Islamic Development Bank	N/A	Relief projects and road construction

Azerbaijan's direct investment abroad. No official data are available on the amount of Azerbaijani direct investment abroad.

CHAPTER XI: U.S. AND AZERBAIJANI CONTACT LIST

Appendix E: U.S. and Azerbaijani Contact List

AMERICAN EMBASSY

Embassy of the United States of America
83 Azadliq Prospekti
Baku, 370007, Azerbaijan
Embassy Tel: (994-12) 98-03-35/6/7;
Embassy Fax: (994-12) 90-66-71
Commercial Section Fax (Direct line): (994-12) 98-61-
Contacts: Stanley T. Escudero, U.S. Ambassador to Azerbaijan
Elizabeth Shelton, Deputy Chief of Mission
Michael Lally, Senior Commercial Officer (9/99)
William D. McKinney, USAID Country Coordinator
John Q. Adams, Economic Officer
Sherry A. Holliday, Political Officer (7/99)
Joseph T. Zuccarini, Administrative Officer (7/99)
Craig Dicker, Public Affairs Officer
Crystal Erwin, Consular Officer
Seymour Khalilov, BISNIS Commercial Assistant

U.S. Mailing Address:
American Embassy - Baku
Department of State
Washington, DC 20521-7050

AMERICAN CHAMBER/BILATERAL BUSINESS COUNCILS

American Chamber Of Commerce in Azerbaijan
(Serves interests of American companies in Azerbaijan)
8, Rasul Rza St, 15/2 (near the Molokan Square)
Tel: 93-51-69;
Fax: 98-34-03
Contact: Timothy Dolan, Executive Director

United States-Azerbaijan Chamber of Commerce (USACC)
1030-15th Street, NW, Suite 520
Washington, D.C. 20005
Tel: (202) 898-0900
Fax: (202) 898-0015
Email: chamber@usacc.com

TRADE OR INDUSTRY ASSOCIATIONS IN AZERBAIJAN

Chamber Of Commerce and Industry of Azerbaijan
(Helps foreign firms register, finds foreign partners
for local companies, promotes trade fairs)
31/33 Istiglaliyat Street,
Baku - 370000
Tel: 92-89-12
Fax: 98-93-24

Contacts: Suleyman Tatliyev, President
Rauf Vezirov, Vice President

AZERBAIJANI GOVERNMENT OFFICES

Ministry of Agriculture and Food Supplies
Government House, 3rd floor
Azadlyg Meydani,
Baku - 370016
Tel: 93-08-84, 93-80-03
Fax: 94-53-90
Teletype: 142216 Dask Su
Contact: Irshad Aliyev, Minister

Ministry of Telecommunications
33 Azerbaijan Avenue,
Baku - 370139
Tel: 93-00-04, 93-43-27
Fax: 98-42-85
Telex: 142492 Sahil Su
Contact: Nadir Ahmadov, Minister

Ministry of Economy
Government House,
Baku - 370016
Tel: 93-69-20, 93-64-90
Fax: 93-20-25
Contact: Namik Nasrullayev, Minister

Ministry of Finance
83 Samad Vurgun Street,
Baku - 370022
Tel: 93-30-12, 93-05-62
Fax: 98-79-69
Contact: Fikrat Yusifov, Minister

Ministry of Trade
(Responsible for intra-governmental trade, foreign
business & trade regulation)
23 Niyazi Street,
Baku - 370066
Tel: 98-92-67
Fax: 98-00-11
Telex: 142274 Farah Su
Contact: Farhad Aliev, Minister

Ministry of Justice
(Registers foreign businesses)

13 Bulbul Avenue,
Baku - 370601
Tel: 98-49-41, 98-80-04
Fax: 93-41-67, 93-40-86
Contact: Sudabe Hassanova, Minister

State Committee for Geology and Mineral
Resources
(Explores and registers mineral resources)
100a Agayev Street,
Baku - 370073
Tel: 38-54-54; 38-04-81
Fax: 39-84-32, 38-15-21
Telex: 142287 Sipiz Su
Contact: Islam Taghiyev, Acting Chairman

State Committee For Anti-Monopoly Policy and
Business Support
(Works out anti-monopoly and business development
policies)
83 Salatyn Askerova Street,
Baku - 370002
Tel: 95-79-72; 94-80-82
Fax: 94-69-51
Contact: Ragib Quliyev, Chairman

State Statistics Committee
24 Inshaatchilar Avenue,
Baku - 370136
Tel: 38-11-71; 38-77-25
Fax: 38-05-77
Arif Veliyev, Chairman

State Committee for the Production of
Special Machinery and Conversion
(Responsible for conversion of military products
manufacturing plants)
40 Matbuat Avenue,
Baku - 370141
Tel: 39-40-30; 39-23-07;
Fax: 39-24-53
Contact: Sabir Alekperov, Acting Chairman

State Customs Committee
(Main Customs Office)
Kamaladdin Heydarov, Chairman
2 Inshaatchilar Avenue,

Baku - 370073
Tel: 38-80-80
Fax: 93-40-68

State Oil Company of Azerbaijan Republic
(SOCAR)
(Offshore and onshore oil extraction, refining)
73 Neftchiler Avenue,
Baku - 370601
Tel: 92-06-85; 92-23-12
Fax: 92-32-04; 93-64-92
Contact: Natic Aliyev, President

Azerigaz State Company
(Natural gas distribution)
23 Yusif Safarov Street,
Baku - 370025
Tel: 67-74-47; 67-75-65
Fax: 65-12-01
Contact: Alihusein Jamalov, Acting Chairman

Azerikimya State Company
(Petrochemicals, plastics)
16, Nizami Street,
Sumgait - 373200
Tel: (99 264) 2-04-47
Fax: (99 264) 5-98-17
Contact: Fikrat Sadikhov, President

Azerenergy State Company
(Energy generation and distribution))
A. Alizade Street 10,
Baku - 370601
Tel: 93-73-58; 93-72-57
Fax: 98-55-23
Contact: Muslim Imanov, President

Azerbaijan Airlines State Concern (AZAL)
(Domestic and international flights, air freight)
11 Azadlyg Avenue,
Baku - 370000
Tel: 93-44-34; 98-44-07
Fax: 98-52-37
Contact: Jahangir Askerov, General Director

Caspian Shipping Company
M.A. Rasulzade Street 1,

Baku - 370601
Tel: 93-20-58; 93-51-81
Contact: Aydin Bashirov, Chief

Baku Sea Port
U. Hajibeyov Street 72,
Baku - 370010
Tel: 93-67-74, 93-40-97
Fax: 93-36-72
Contact: Aydin Mamedov, Chief

Azerbaijan National Bank
(Central bank, regulates banking system)
33, Rashid Behbudov Street,
Baku - 370070
Tel: 98-37-73
Fax: 93-31-06
Contact: Elman Rustamov, Chairman Of The Board

State Taxation Inspectorate
(Supervises collection of taxes)
A. Nobel Avenue 23,
Baku - 370025
Tel: 66-00-62; 66-00-37; 67-23-49
Fax: 98-33-71
Contact: Hidayat Sultanov, First Deputy Chairman

Baku State Tax Inspection Board
62 Neftchilar Ave.
Baku - 370601
Tel: 95-68-58; 95-68-84
Contact: Zabit Ahmedov, Chief

Country Market Research Firms

SIAR Baku
Social and Marketing Research Center.
Ul/ Vagif 103a/3
370007 - Azerbaijan
Tel: 972934
Fax: 942934
E-mail: siar@azeri.com
Contact: Rahim Husseinov, General Manager

Azerbaijan Commercial Banks

The International Bank of Azerbaijan
67 Nizami Street,

Baku - 370010
Tel: 93-03-07; 98-91-22
Fax: 93-40-91; 98-91-28
Contact: Fuad Akhundov, Chairman of the Board

The British Bank of the Middle East (BBME)
96, Nizami Street, "Landmark" Business Center,
Baku
Tel: 97-08-08
Fax: 97-07-30

Azdemiryolbank
31, Garabag Street,
Baku
Tel: 67-48-86
Fax: 98-03-33

Rabitabank
1 B. Sardarov Street,
Baku - 370001
Tel: 92-60-99; 92-61-48
Fax: 92-61-57

Multilateral Development Bank Offices in Azerbaijan

Caspian Finance Center (OIPC, EXIM, TDA)
Ankara, Turkey
Tel: 90-312-468-6110/2075
Fax: 90-312-466-6082
E-mail: info@tda.gov
Contact: Peter Ballinger, OIPC Director

EBRD (European Bank of Reconstruction and Development)
5 Sabir St., Ichari Shahar
Baku, 370004
Tel: 97-10-14
Fax: 97-10-19
Contact: Murat Yildiran, Senior Banker

IMF (International Monetary Fund)
32, Rashid Behbudov St.,
Baku - 370070
Tel: 97-22-36/7
Fax: 97-22-38
Contact: Jonathan Dunn, Resident Representative

World Bank

91/95 Mirza Mansur St., Ichari Shahar,
Baku
Tel: 92-19-41; 92-28-07
Fax: 93-47-66; 92-14-79
Contact: Tefvik Yaprak, Resident Representative

UNDP (United Nations Development Program)
3 BMT-nin 50 Illiyi St.
Baku -
Tel: 98-98-88
Fax: 98-32-35
Contact: Ercan Murat, Country Representative

Other Key Azerbaijani Contacts

Baku General Customs Board
(City Customs Office)
62 Neftciler Avenue,
Baku - 370601
Tel: 93-95-88, 93-53-49

Key U.S Government Contacts in Washington

Trade Promotion Coordinating Committee (TPCC)
Trade Information Center
USA Trade Center
Washington, D.C. 20230
Tel: 1-800-USA-TRADE

U.S. Department of State
Office of Business Affairs
2201 C Street, NW
Washington, D.C. 20520
Tel: 202-746-1625
Fax: 202-647-3953

U.S. Department of Commerce
Office of Market Access and Compliance
Russia/NIS Program Officer (For market access and regulatory
problems only)
14th & Constitution Ave. NW
Washington, D.C. 20230
Tel: (202) 482-2902
Fax: (202) 482-2456

Business Information Service For The Newly
Independent States (BISNIS)
International Trade Administration
U.S. Department of Commerce, Room 7413

Washington, D.C. 20230
Tel: (202)482-4655x28
Fax: (202)482-2293

U.S. Department of Agriculture
Foreign Agriculture Service
Trade Assistance and Promotion Office
1400 Independence Avenue, S.W.
Washington DC 20250
Tel: (202) 720-7420

Overseas Private Investment Corporation (OPIC)
1100 New York Avenue, NW, Twelfth Floor
Washington, D.C. 20527

Finance Department, NIS Division
Tel: (202)336-8494; (202)336-8515
Fax: (202)408-9866; (202)408-9866

Insurance Department, NIS Division:
Tel: (202)836-8572; (202)336-8664
Fax: (202)408-5142; (202)408-5142

Investment Development Department:
Tel: (202)336-8621; (202)336-8650
Fax: (202)408-5145; (202)408-5145

U.S. Trade and Development Agency (TDA)
Rosslyn Plaza East
1621 North Kent Street
Arlington, VA 22209
Daniel Stein, Regional Director
Tel: (703)875-4357
Fax: (703)875-4009

Multilateral Investment Guarantee Agency (MIGA)
The World Bank
1818 H St., NW
Washington, D.C. 20433
Tel: (202) 473-6168
Fax: (202) 522-2630
Telex: Rca 248423

Export-Import Bank of the United States (EXIM)
International Business Development
811 Vermont Avenue, NW
Washington, D.C. 20571

Tel: (202)565-3903; (202)565-3904
Fax (202)565-3931

CHAPTER XII MARKET RESEARCH AND TRADE EVENTS

Appendix F: Market Research

In FY 2000, Embassy Baku will prepare a series of International Market Insights (IMIs) devoted to business opportunities in: 1) agriculture (food processing, packaging, green-house manufacturing), 2) oil and energy related industries (power generation, oil industry infrastructure development, oil-field manufacturing), 3) pollution control equipment, 4) water resource equipment.

Industry sub-sector analyses (ISAs) will be prepared on power generation, the oil industry, food packaging and processing equipment and technology, pollution control equipment, and the Service Sector.

Appendix G: Trade Event Schedule

- 1) InterFood/Foodpack Azerbaijan '99
Date: September 1-4, 1999
Place: Baku Sports & Exhibitions Complex
Contact: ITE Group Plc.
E-mail: foodtech@ite-exhibitions.com
Web: <http://www.ite-exhibitions.com>

- 2) 5th BakuBuild Exhibition
5th BakuTelecommunications & Computers
Exhibition
Date: September 9 - October 2, 1999.
Place: Baku Sports & Exhibitions Complex
Themes: Building & Construction Materials,
Telecommunications
Contact: ben.leighton@ite-exhibitions.com
Web: <http://www.ite-exhibitions.com/build>

- 3) Caspian Industrial Development Exhibition &
Conference
Date: October 12-15, 1999
Place: Baku Sports & Exhibition Complex
Themes: Infrastructure, Food & Agriculture,
Contact: Spearhead Exhibitions Ltd.

E-mail: Spearh@azeurotel.com
Web: <http://www.caspianevents.co.uk>

- 4) 3rd Annual Conference and Exhibition of the U.S. - Azerbaijan Chamber of Commerce
Date: October 25-26, 1999
Place: Renaissance Hotel, Washington, D.C.
Theme: Introduce strategic, political and commercial priorities of Azerbaijan and meetings with Government Ministers.
Contact: U.S. - Azerbaijan Chamber of Commerce
Fax: (202) 898-0015
Web: <http://www.usacc.com>

- 5) Azerbaijan Medica & Dent
Date: November 9-11, 1999
Place: Baku Sports & Exhibitions Complex
Theme: Medical & Dental
Contact: Primus Balticum
E-mail: info@primus-messe.com
Web: <http://www.primus-messe.com>

- 6) Caspian-Auto Show + Service
Date: 10-14 May, 2000
Place: Baku Sports and Exhibitions Complex
Theme: Automobiles, commercial vehicles, buses, bicycles, garage and filling station equipment, replacement parts and accessories.
Contact: Primus Balticum
E-mail: info@primus-messe.com
Web: <http://www.primus-messe.com>

- 7) 7th Annual Caspian Oil and Gas Exhibition and Conference
Date: June 6-9, 2000.
Place: Baku Sports and Exhibitions Complex
Theme: Oil & Gas Exploration, Machinery and Equipment
Contact: Spearhead Exhibitions
E-mail: spearhead.baku@ans-dx.com; caspian@spearhead.co.uk
Web Page: <http://www.caspianevents.co.uk>

- 8) Azerbaijan Medica & Dent
Date: November 7-10, 2000
Place: Baku Sports & Exhibitions Complex

Theme: International specialized fair for medical technology, laboratory equipment, dentistry, pharmaceuticals, optics, hospital equipment and medical cosmetics.

Events during the show: Pharma Conference, Dental Congress, Neurologists' Conference, Meeting of the General Medical Council, Specialized seminars.

Contact: Primus Balticum

E-mail: info@primus-messe.com

Web: <http://www.primus-messe.com>

CHAPTER XIII OIL & GAS CONSORTIA

Appendix H: Members of the Azerbaijan Oil & Gas Consortia

- 1) AIOC (Azerbaijan International Operating Company)
Date signed: September 20, 1994
Shareholders: BP Amoco (34.1); Statoil (8.56); Itochu (3.92); Exxon (8.0); Ramco (2.08); Unocal (10.04); TPAO (6.75); Delta (1.68); Lukoil (10.0); Pennzoil (4.81); SOCAR (10.0).
- 2) Shakh-Deniz
Date signed: June 4, 1996
Shareholders: BP Amoco (25.5); Lukoil (10.0); TPAO (9.0); Statoil (25.5); Elf (10.0); SOCAR (10.0); OIEC (10.0).
- 3) Lenkoran-Talysh Deniz
Date signed: January 13, 1997
Shareholders: Elf (40.0); OIEC (10.0); Petrofina (5.0); Total (10.0); Wintershall (10.0); SOCAR (25.0)
- 4) Apsheron
Date signed: August 1, 1997
Shareholders: Chevron (30.0); SOCAR (50.0); Total 20.0).
- 5) Nakhchivan
Date signed: August 1, 1997
Shareholders: Exxon (50.0) SOCAR (50.0)
- 6) Yalama
Date signed: July 4, 1997
Shareholders: LUKARCO: LUKoil (32.4), ARCO (27.6); SOCAR (40.0)
- 7) Oguz

Date signed: August 1, 1997
Shareholders: Mobil (50.0) SOCAR (50.0)

- 8) Kurdashi
Date signed: August 1, 1997
Shareholders: SOCAR (50.0); Agip (25.0); Mitsui (15.0);
TPAO (5.0); Repsol (5.0)
- 9) Jenubi-Garbi Gobustan
Date signed: June 2, 1998
Shareholders: Commonwealth Oil and Gas (80.0);
SOCAR (20.0)
- 10) Kursangi and Garabagly
Date signed: June 2, 1998,
Shareholders: Frontera Resources (30.0);
Delta Oil/Amerada Hess (20.0); SOCAR (50.0).
- 11) Muradkhanli, Jafarli, and Zardab
Date signed: July 22, 1998
Shareholders: Ramco (50.0); SOCAR (50.0).
- 12) Inam
Date signed: July 22, 1998
Shareholders: BP Amoco (25.0); SOCAR (50.0);
Monument Oil and Gas (12.5); Central Russian Fuel (12.5)
- 13) Araz, Alov, and Sharq
Date signed: July 22, 1998
Shareholders: BP Amoco (15.0); Exxon (15.0); Alberta
Energy (5.0); Statoil (15.0); TPAO (10.0); SOCAR (40.0).
- 14) Ateshgah, Yanan Tava, and Mugan Deniz
Date signed: December 25, 1998
Shareholders: JAPEX (22.5); Teikoku (7.5); INPEX (12.5);
ITOCHU (7.5); SOCAR (50.0)
- 15) Zafar, Mashal
Date signed: April 27, 1999
Shareholders: Exxon (20.0); SOCAR (50.0); with 20.0% -
to be determined
- 16) Savalan, Dalga, Lerik Deniz, Janub
Date signed: April 27, 1999
Shareholders: Mobil (20.0); SOCAR (50.0); with 20.0% -
to be decided

17) Padar
Date signed: April 27, 1999
Shareholders: Moncrief Oil International, Inc. (80.0);
SOCAR (20.0)