



Economic News Bulletin
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Macroeconomics

Baku hosted 7th meeting of Azerbaijan-Switzerland Joint Commission on Trade and Economic Cooperation

The 7th meeting of the Joint Commission on Trade and Economic Cooperation between the Government of the Republic of Azerbaijan and Federal Council of Swiss Confederation has kicked off in Baku.

Addressing the 7th meeting of the Azerbaijani-Swiss intergovernmental commission, Shahin Mustafayev, Minister of Economy of Republic of

Azerbaijan said that trade cooperation between the two countries is developing successfully. Mustafayev believes that there is a potential to increase Swiss investments in Azerbaijan.

Switzerland is one of the largest investors in the non-oil sector of Azerbaijan's fast-growing economy. Currently, some 65 companies with Swiss capital are operating in the country. They have invested \$220 million in the country's economy. One of them is Holcim Azerbaijan, which is one of the largest and most successful companies operating in the non-oil sector of Azerbaijan.

Mustafayev also highlighted the activity of the Swiss State Secretariat for Economic Affairs, which has successfully implemented 30 projects worth \$90 million in Azerbaijan. The secretariat itself has allocated \$25 million of this amount.

Currently, SECO is implementing eight projects worth \$15.7 million in the country, including the infrastructure projects and the projects on improving the business field.

Today, Azerbaijan and Switzerland are also successfully cooperating in the fields of transport and tourism. Mustafayev believes that the two countries should increase the tourist flow between each other.

The minister further added that Azerbaijan's state energy company SOCAR has invested 400 million francs in Switzerland's energy sector. To date, SOCAR has bought 148 filling stations in the country. Seven percent of the retail market and eight percent of the wholesale market of oil products, as well as 25 percent of the LPG market of Switzerland account for SOCAR.

Also, large Swiss companies are considering the possibility of producing their products in Azerbaijan. In particular, SIKA Company is interested in receiving a status of resident of the Sumgayit chemical-industrial park.

During the meeting of the commission, it was noted that the company plans to invest \$5.3 million in the creation of production of construction mixes in the Park.

Meanwhile, Swiss multinational ABB Global Marketing FZ Company intends to open production sites in Azerbaijan. The company is mainly engaged in the production of energy equipment.

Novartis and Roche companies, in turn, study the possibility of cooperation with Azerbaijan in the production of medicines. During the meeting, the two countries also discussed the possibility of cooperation in the field of production of medical equipment.

Azerbaijan and Switzerland agreed to expand cooperation in the industry, trade, investment, agriculture, energy and tourism sectors.

The relevant protocol was signed at the end of the 7th meeting of the intergovernmental commission by Mustafayev and Livia Leu, a representative of SECO. The document says that physical and legal entities of Azerbaijan and Switzerland should respect territorial integrity and sovereignty of the two countries, fundamental norms and principles of international law.

Industry

BP committed to its plan of Azerbaijani gas's delivery to Europe

BP Azerbaijan company remains committed to its plan on transportation



of the first gas from the second phase of Azerbaijan's Shah Deniz gas field's

operation to Turkey in 2018, to Europe – in 2020, said Gordon Birrell, BP's Regional President for Azerbaijan, Turkey and Georgia.

All work on the Shah Deniz-2 project has been done by approximately two thirds to date, according to him.

“Shah Deniz field remains stable and reliable,” said Birrell adding that it was produced about 10 billion cubic meters of gas and 2.3 million tons of condensate in this field in 2015. These volumes were produced in just six wells, according to him.

As part of the Stage 2 of the Shah Deniz development, the gas will be exported to Turkey and European markets by expanding the South Caucasus Pipeline and the construction of Trans-Anatolian Natural Gas Pipeline and Trans-Adriatic Pipeline. The contract for development of the Shah Deniz offshore field was signed on June 4, 1996.

The field’s reserve is estimated at 1.2 trillion cubic meters of gas. The shareholders in the contract are: BP, operator (28.8 percent), AzSD (10 percent), SGC Upstream (6.7 percent), Petronas (15.5 percent), Lukoil (10 percent), NIOC (10 percent) and TPAO (19 percent).

Agriculture

EBRD ready to issue \$50 million for Azerbaijan's agriculture sector

The European Bank for Reconstruction and Development (EBRD) has expressed readiness to allocate funds for the development of



Azerbaijan’s agrarian sector. Head of the EBRD’s Baku office Neal McCain announced that currently, the Bank is holding trainings for bankers in agricultural lending. “But this year, we have not financed agriculture [within the framework of the Azerbaijan Agricultural Finance Facility – AZAFF] due to the situation in the banking sector of the country” he said. “Our partners are waiting for the situation in the sector to stabilize.” Most likely, less than \$50 million will be allocated to Azerbaijan’s agricultural sector in 2016, McCain added. Nevertheless, he considers that the improvement of the situation has to be expected for the second half of 2016.

“Currently, we are also discussing financing of projects in other spheres in Azerbaijan,” McCain said adding that “of course, this year the volume of financing will be less than the year before last, but we are waiting for good progress due to the large infrastructure and gas projects.”

Azerbaijan works for the development of agricultural sector, and aims to increase volume of domestic production and expanding range of the export goods. In this regard, the government keeps cooperating with international financial institutions and attracting investment in this sector.



Over the past few years, the EU and the EBRD have been involved in several

initiatives aimed at supporting development in Azerbaijan's agricultural sector.

The EBRD, with the support of the EU, has been implementing the AZAFF, a financing facility to encourage local financial institutions to increase lending to farmers and other entities in the agricultural sector, since September 2015.

AZAFF combines the EBRD's traditional approach to channel financing to ultimate beneficiaries through banks with the provision of non-financial assistance in order to increase the direct impact of financing and foster the overall economic development of the agriculture sector in Azerbaijan.

The project's overall objective is to support the development of the agricultural sector in Azerbaijan by facilitating access to finance and business development services for agricultural enterprises and to help local banks diversify loan portfolios and increase their regional presence. The EBRD has been active in Azerbaijan since the country's independence. To date, the Bank has invested in 146 projects with over \$2.5 billion across various sectors of the Azerbaijani economy.

One of the EBRD's priorities in Azerbaijan is to contribute to the growth of the non-oil private sector by

investing in dynamic small and medium-sized enterprises.

Transport

Free trade zone will be fully operational in 2017

“We hope that a free trade zone type special economic area will be fully operational in 2017,” director general of the Baku International Sea Trade Port Taleh Ziyadov said.



He noted that President Ilham Aliyev's recent order to create a free trade zone type special economic area in the Alat town was part of “our hub strategy”.

“The order laid a legal framework for the Baku Port to become one of the famous port centers in the world,” he added.

Currently, Azerbaijan is actively working to set a single tariff for cargo transportation with the countries involved in the Trans-Caspian Transport Corridor. A tentative agreement has been already reached with Georgia. Single tariff talks are underway with Kazakhstan, Turkmenistan and Turkey. If the single tariff plans are realized, the competitiveness of the Trans-Caspian Transport Corridor will increase greatly. In addition to the benefits set by the rules in the free trade zone,

Azerbaijan has reduced the costs for cargo transportation by high-capacity vehicles by 40 percent. And as a result, the carriers operating between China, India and the EU will also pay attention to Azerbaijan.

Azerbaijani consumers too will benefit from the free trade zone's creation. As for example, the range of goods in the country will expand. Moreover, the increased competitiveness and removal of customs duties will lead to lower prices for certain goods. The increased competitiveness will also force the local producers to improve the quality of their products.

A free trade zone needs good infrastructure that usually provides more advantages than tax benefits. A free trade zone also often requires large capital investments in the modernization of roads, railways and ports, which is currently underway in Azerbaijan. For instance, according to Taleh Ziyadov, a roll-on/roll-off (ro-ro) terminal will be built at the new Baku port by late 2016, and the first phase of its development will end in 2017. Meanwhile, it is planned to increase the speed of trains running through Azerbaijan's territory up to 80 to 120 kilometers per hour. Azerbaijan can also consider constructing an airport near the new Baku port. Great work is ahead of Azerbaijan, which will eventually bring large investments and benefits, and will turn the Baku free trade zone into a large logistics and trade center standing at the crossroads

of China, India, Iran, Russia and Europe.

Tourism

Azerbaijan's tourism sector enjoys untapped potential

Tourism is now one of the world's largest industries and a major source of income for many countries. The sector is also regarded as a main instrument for regional development, as it stimulates new economic activities. Azerbaijan, a unique land in the Caucasus, has appeared not so long ago on the tourism map of world. The country with its favorable geographical location, rich natural landscape and numerous objects of historical and cultural heritage is a good place for the development of tourism.



This field is among the government's priorities for the development of its non-oil sector. Azerbaijan makes everything possible to use its natural advantages to develop the tourism sector of the country, implementing various projects and programs for attracting tourists to the country. These efforts gave fruit and in a short period of time the country was able to raise the quality level of its tourism sector. Today, Azerbaijan is a favorite

destination for over 2.5 million tourists visiting the country every year.

Deputy Minister of Culture and Tourism Nazim Samedov highlights that Azerbaijan has all necessary conditions for the tourism development.

“During the years of independence a huge work has been done in this area. Tourist infrastructure recorded a significant transformation, as large hotels, winter resort "Shahdag" and "Tufandag" were built,” he said. Following the recent devaluation of the national currency, the AZN, Azerbaijan, as a tourist destination, has become much cheaper and more affordable for foreign tourists, according to the deputy minister. Prices for many services almost not changed in AZNs, but significantly dropped given the devaluation, which in turn created some benefits for hotels and tourism companies engaged in tourism, he explained.

Currently 284 travel agencies and 535 hotels are operating in the country. The country can accommodate over 35,000 tourists in its 530 hotels, which include a series of luxury hotels, as well as many budget hotels for cost-conscious travelers. Prices for accommodation in the country start from \$15 and increase depending on the hotel class and amenities provided. The role of the major events in the development of tourism has long been on the focus of

leading specialists and experts in the field of tourism.

Hosting a major sporting event can give many economic, social and cultural benefits. Indeed, large sports events not only attract visitors for a few days or weeks, they greatly contribute to the overall marketing of the destination by helping to create an image for the country. Samedov recalled that Spain’s city Barcelona was “discovered” by tourists after the 1992 Summer Olympic Games.

The same, he said, can be said about Azerbaijan after the hosting of “Eurovision Song Contest” in 2012 and the inaugural European Games in 2015. This summer Azerbaijan is preparing to welcome 2016 FIA Formula One World Championship, which according to many experts will increase the flow of tourists by 40 percent.

“We pin great hopes on the Baku stage of Formula 1, which will take place in the capital on June 17-19. Millions of fans around the world will see the broadcast of the competition. In addition, the route of the Baku stage race runs through the central part of the capital, so viewers will be able to enjoy not only the competition, but also the views of our beloved Baku. What is important, along with the athletes participating in the race, and the members of their teams, our country will be visited by a large number of fans and journalists, who in their

articles will give attention to the country and the city, which will host the race,” he said.

Samedov also touched upon the opening of travel offices in Turkey and Russia, which he claims is a widely used way to promote tourism industry of a country.

The function of representation usually includes establishment of contacts between representatives of this country’s tourism industry, coordination of marketing activities to promote destinations, including the organization of relevant presentations, conducting info-tours for representatives of the media and more.

“Taking into account the fact that both Turkey and Russia are among the most important countries for our country's tourism market, it was decided to open offices in these countries,” the expert emphasized.

“While selecting the country, where the office can be opened, it’s necessary to take into account a variety of factors, such as geographical and cultural proximity, availability of direct flights, the tendency of the population to the country-specific travel, etc.,” he noted. To promote the country’s tourism potential, Azerbaijan also opened several travel offices in Germany, and the UAE. In the future, such travel offices can be established in other European and Asian countries.

Press Release on the report of the Ministry of Foreign Affairs of the Republic of Azerbaijan entitled “Illegal economic and other activities in the occupied territories of Azerbaijan”

The Ministry of Foreign Affairs of the Republic of Azerbaijan released today a report entitled “Illegal economic and other activities in the occupied territories of Azerbaijan”. The information contained in the report, gathered mostly from the Armenian open sources, provides sufficient and convincing evidence testifying to the continued activities in the occupied territories, in total disregard of international law, including the implantation of settlers, depredatory exploitation and pillage of and illicit trade in assets, natural resources and other forms of wealth across the occupied territories. The evidence shows that there is an illegal traffic in natural resources across the occupied section of the international border between Azerbaijan and Armenia and that Armenia is a transport base for movement of products unlawfully produced in the occupied territories of Azerbaijan as well as minerals and other wealth from those territories to international markets.

Against the background of the ongoing efforts towards the earliest political settlement of the conflict, the policy and practice of Armenia clearly testify to its intention to consolidate the occupation of the territories of

Azerbaijan and to secure the annexation of these territories that it has captured by military force and carried out ethnic cleansing on a massive scale. The lack of adequate international reaction to these actions of the Armenian side only contributes to its growing sense of impunity and permissiveness.

In that regard, the Republic of Azerbaijan calls upon the international community to oblige Armenia to comply scrupulously with its international obligations, cease and reverse immediately the transfer of settlers of both Armenian and foreign nationality into the occupied territories, cease immediately and refrain in the future from any economic and commercial activities in the occupied territories of Azerbaijan, stop the destruction and looting of the cultural heritage and sacred sites in those territories, including the archeological, cultural and religious monuments.

The Republic of Azerbaijan also calls upon all members of the international community to take effective measures, including through their national legislation, that would prevent any activities on their respective territories by any natural and legal persons against the sovereignty and territorial integrity of Azerbaijan, including the participation in or facilitation any unlawful activity in the Nagorno-Karabakh region and other occupied territories of Azerbaijan.

Armenia's policy of attempted annexation of the occupied territories of Azerbaijan has no chance of succeeding. The only way to achieve a durable and lasting conflict settlement is to ensure the unconditional and complete withdrawal of the Armenian armed forces from the Nagorno-Karabakh region and other occupied territories of Azerbaijan, as the United Nations Security Council demands in its resolutions 822 (1993), 853 (1993), 874 (1993) and 884 (1993).

The Republic of Azerbaijan will not tolerate the violation of its sovereignty and territorial integrity, including in particular through engaging in and/or facilitating by whatever ways and means illegal activities in the occupied territories. The responsibility for the consequences of any action, including pursuit of individuals and corporations through the national legal system of Azerbaijan and domestic courts of involved or third party States, which the Republic of Azerbaijan may be obliged to undertake in connection with the unlawful activities in the occupied territories of Azerbaijan in order to protect its sovereignty and territorial integrity within its internationally recognized borders, as well as the rights and legitimate interests of its citizens, will lie entirely with the Republic of Armenia and the engaged natural and legal persons, entities and bodies.