



Department for
International Trade

Azerbaijan:

the Caspian-Caucasus Hub



MACE project - designed Port Baku on the left of the photo



Introduction



The territory of modern day Azerbaijan has always served as a crossroads and trade route for European, Central Asian and Middle Eastern peoples. For centuries, Azerbaijan was part of the famed Silk Road from East to West and today is working to be part of the Digital Silk Road of the future, as well as reclaim its place as a hub between continents.

Azerbaijan today is central to the Trans-Caspian East-West Trade and Transit Corridor, which helps connect China and Europe, and offers good opportunities through Free Trade Agreements with nine regional countries to reach over

270 million consumers. The Embassy has supported UK companies with their plans to leverage Azerbaijan's strategic location to access other markets and this is something I would encourage more UK firms to explore.

As well as setting out the case for Azerbaijan as a hub to re-export to the region and beyond, this brochure also highlights some key business opportunities in Azerbaijan, gives an outline of the business climate and ongoing economic reforms, and gives a taste of what it is like to live in Azerbaijan.

The UK is the single largest investor in Azerbaijan and our expertise and know-how is highly valued. Should this country guide spark your interest, please get into touch with our trade and investment team in the British Embassy in Baku, who are best placed to advise you on how to make the most of the opportunities here for your business. I hope to see your company in Azerbaijan soon.

A handwritten signature in blue ink that reads "James Sharp". The signature is written in a cursive style and is positioned above a faint horizontal line.

James Sharp,
British Ambassador to Azerbaijan

Deniz Mall,
designed by
British architects
Chapman Taylor



UK-Azerbaijan trade

The UK has been Azerbaijan's largest single investor for the last twenty years. From 1995-2021, the UK's capital inflows into Azerbaijan have exceeded USD 80 billion¹, compared to a total FDI figure of USD 280 billion².

The catalyst for the current relationship was in 1994 when the Azerbaijani government signed what became known as the 'Contract of the Century' with BP. This initiative created the foundations of a stable and successful bilateral trade and investment relationship, which includes the existence of a UK-Azerbaijan double-taxation treaty.

Since 2011, the annual total trade in goods and services between the UK and Azerbaijan has oscillated between £967 million and £1.665 billion³. The main exports from the UK include services, technology, and engineering equipment and oil machinery. The UK has enjoyed an uninterrupted healthy trade surplus with Azerbaijan since 2013⁴.

More than 400 UK companies operate in Azerbaijan and there are currently 1,300 British citizens that live here⁵.

In 2017, Baroness Nicholson was appointed by the Prime Minister as the Trade Envoy for Azerbaijan. The Trade Envoy plays a key role in promoting British business and trade interests in Azerbaijan through close engagement with President Ilham Aliyev and his government.

The UK and Azerbaijani governments established a Joint Intergovernmental Commission (JIC) five years ago, led by ministers on both sides, which serves as a trade and economic forum. Since 2021, the JIC has focused on supporting Azerbaijan's economic diversification and covers a wide range of sectors, including technology, healthcare, clean energy, education and agriculture.

UK Export Finance (UKEF) can help Azerbaijani buyers access UK goods and services through its innovative, flexible and competitive financing terms. The UK Government has allocated £4 billion in export credit to Azerbaijan to help UK exporters win business in the non-oil and gas economy⁶.

¹https://www.bp.com/en_az/azerbaijan/home/who-we-are/bp-in-azerbaijan.html

²<https://azpromo.az/storage/398/8qn7zfTelV-Doing-Business-2020-son.pdf>, page 24

³Office for National Statistics (ONS)

⁴Office for National Statistics (ONS)

⁵Azerbaijan State Migration Service, data from September 2021

⁶<https://www.gov.uk/government/organisations/uk-export-finance>



Regional hub

The Trans-Caspian East-West Trade and Transit Corridor is a key route connecting two major global economies, China and Europe (4,200 km length and a 12-14 days transit period)⁷.

Azerbaijan serves as a logistics hub for the Caspian region with the biggest airport, sea port and railway network in the region⁸.

A new international sea port, located at Alat, 60 km south of Baku, has an annual capacity of 10-11.5 million tons of cargo and 50,000 Twenty-foot Equivalent Units (TEU), with plans to increase up to 21-25 million tons of cargo and 1 million TEU⁹.

Azerbaijan's ports currently process over eight million tons of freight per year, of which over 90 percent is in transit to other regional markets¹⁰, mainly between Turkey, Black Sea countries and Europe to Central Asia and China.

Almost 50 percent of the world's consumers are within a 4-hour flight from Baku .

There are 19,000 km of hard-surface roads in Azerbaijan, of which 8,000 km were built and constructed in past 10 years¹².

There are also over 2,000 km of operational railroads. The Iron Silk Way, the Baku-Tbilisi-Kars trunk-railway, connects the European and Asian railway systems¹³.

The Azerbaijan Digital Hub project, implemented by AzerTelecom, is a program designed to turn Azerbaijan into a digital centre. It consists of three main phases, with the main goals being to build a backbone infrastructure inside the country and abroad, turning Baku into a point of exchange for internet traffic (IXP), building a large regional data centre and forming a digital ecosystem¹⁴.

A new project to lay a fibre optic cable line across the Caspian Sea between Azerbaijan and Kazakhstan (TransCaspian Fibre Optic – TCFO) will lead to the formation of a Digital Silk Road passing between Asia and Europe through Azerbaijan.

Azerbaijan has free trade agreements (FTAs) with Russia, Ukraine, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Moldova and Belarus¹⁵. The nine countries have a total population of over 270 million people¹⁶ and a total nominal GDP of over USD 2.2 trillion¹⁷.

⁷<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>, page 25

⁸<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>, page 25

⁹<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>, page 25

¹⁰https://www.stat.gov.az/source/transport/en/016_1_en.xls

¹¹<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>, page 25

¹²<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>, page 25

¹³<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>, page 25

¹⁴<https://www.azertelecom.az/en/projects/key/>

¹⁵<https://www.trade.gov/country-commercial-guides/azerbaijan-trade-agreements>

¹⁶<https://www.unfpa.org/data/world-population-dash-board>

¹⁷<https://www.imf.org/en/Data>



Business opportunities

The Azerbaijani government is developing plans to transform and diversify the economy. The President is invested in the transformation and modernisation agenda, including the development of a strong renewables sector. The government is using oil and gas revenues to support the diversification agenda. Additionally, SOFAZ, the Azerbaijani sovereign wealth fund, has a USD 44 billion fund¹⁸ at its disposal. As a result of high oil and gas prices, Azerbaijan's foreign reserves exceed 100% of its GDP¹⁹.

Agriculture

In 2019, the World Bank praised Azerbaijan as the country that had carried out the largest number of reforms in the agrarian space. Agriculture employs over 36% of the working population, more than any other sector of the economy, and represents almost seven percent of GDP, a figure that has steadily increased since 2011²⁰.

The country has significant agricultural potential due to its favourable conditions; nine out of eleven existing climate zones are present in Azerbaijan. However, yields are low and this creates opportunities for agronomy training, irrigation tech, research and development, soil analysis, crop protocols, audits and fertiliser index systems.



¹⁸<https://www.oilfund.az/en/report-and-statistics/recent-figures>

¹⁹Minister of Economy, Mikayil Jabbarov, 15 November 2021

²⁰<https://www.stat.gov.az/source/agriculture/?lang=en>



Clean energy

The government has been taking active steps to reform Azerbaijan's energy market. The changes are intended to stimulate a new renewable energy market, increase gas exports, liberalise the energy market and diversify Azerbaijan's oil and gas focused economy. To support the process, the UK government has signed a Memorandum of Understanding on Energy Transition Cooperation with Azerbaijan, which will help share best practice on clean energy, energy efficiency, low carbon technologies, as well as energy market transition.

In the short term, there are commercial opportunities in solar, onshore wind, hydro, waste management (including waste to energy), electric vehicle (EV) charging infrastructure, and products and services that can help reduce CO2 emissions from oil and gas assets. In the medium to long term, there will be demand for offshore wind, hydrogen, batteries, grid management, energy efficiency good and services.

Healthcare

The Azerbaijani government will spend the equivalent of £755 million on healthcare in 2022²¹, and combined public and private healthcare spending is projected to grow 9% from 2021 to 2024²². Household expenditure on healthcare has increased year-on-year since 2010 from 3.7% of household spending, to almost 5% in 2021²³.

The Azerbaijan healthcare system is now in transition as the government introduces a scheme of Mandatory Social Health Insurance (MSHI). In the long term MSHI could increase revenue collection and generate structural changes in the system. With the introduction of MSHI across the country, the public health system is taking significant steps towards developing and improving. In private healthcare, there is an increase in demand for telemedicine and digital technology, as well as investment in areas of secondary care such as treatment for strokes and transplants.

²¹<https://meclis.gov.az/news-layihe.php?id=1588&lang=az&par=0>

²²PWC Azerbaijan, research for DIT dated March 2021

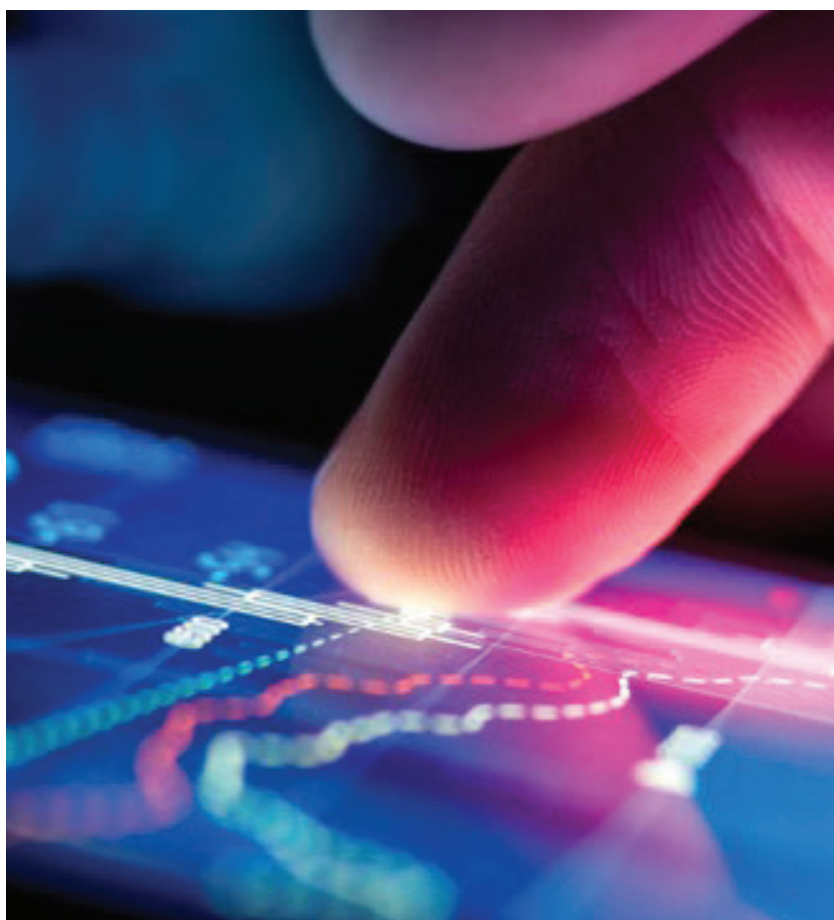
²³PWC Azerbaijan, research for DIT dated March 2021

Information and Communication Technology (ICT)

ICT is considered as one of the drivers of the non-oil economy in Azerbaijan and in recent years the IT sector's volume has doubled every three years, with an average annual growth rate of about 20-25%²⁴. The ICT sector currently generates annual revenues equivalent to £1 billion²⁵.

The Ministry of Digital Development and Transportation has expressed an interest in the UK offer on Smart Cities²⁶. The Ministry is keen that the rebuilding of towns and cities in the recovered territories follows Smart City and Village concepts. The utilities and construction sectors are also interested in cost-effective solutions provided by Internet of Things, Smart Building and Smart Home concepts.

Expected legislative changes in 2022 are anticipated to spur the development and demand for fintech.



Recovered territories

In 2021, Azerbaijan allocated USD 1.3 billion in 2021 for reconstruction activities in the territories recovered during the Nagorno-Karabakh conflict of 2020²⁷. The UK was the first country to announce humanitarian aid after the 2020 Nagorno-Karabakh conflict, donating £1 million to the International Committee of the Red Cross to help those affected.

The area recovered is around 13,000 square kilometres²⁸, which is equivalent to the size of the four counties of Yorkshire. The current challenge in the reconstruction process is the presence of landmines. The UK has provided £500,000 to clear landmines in and around Nagorno-Karabakh, secure the area, prevent injuries and save lives. The funds provided to the United Nations Development Program (UNDP) will support

demining, training and staff costs. UK firms are also actively supporting demining efforts. In parallel to the demining activity the government has initiated projects to build three airports, five motorways and two railway lines in the territories. Newly established businesses in the territories will not pay taxes or customs duties on machinery imported for companies established in the territories for up to ten years.

For UK firms interested in supporting the reconstruction effort and supporting sustainable economic growth, there are opportunities across a wide range of areas. Opportunities include master planning; the restoration and preservation of cultural buildings, Smart Cities / Villages, green energy projects; telecommunications infrastructure; agriculture and tourism²⁹.

²⁴<https://www.dcaf.ch/sites/default/files/publications/documents/AzerbaijanCybersecurityGovernanceAssessment.pdf>,

²⁵InfoCity research for DIT Baku, 2021

²⁶https://eu.eventsclooud.com/file_uploads/2ed36ce5867a41381abc8a5861b7fcd7_UKSmartCitiesDirectory.pdf

²⁷<https://en.trend.az/azerbaijan/politics/3518600.html>

²⁸Presidency, Azerbaijan, figures provided to British Embassy Baku

²⁹Presidency, Azerbaijan, data provided to British Embassy Baku

Business climate



Knightsbridge Residence,
designed by UK architects
Chapman Taylors

Recent reforms

Since 2016, President Aliyev has carried out several waves of changes to ministerial and senior official positions, which has led to the appointment of more Western-educated technocrats. The succession of reshuffles has resulted in significantly improved international competitiveness scores. For example, Azerbaijan has made strong progress in the World Bank's Ease of Doing Business, from 65th in 2017 to 28th in 2020. Azerbaijan is now one of highest ranking countries in Eastern Europe and Central Asia and made the fastest improvement in the region during this period. Consequently, the World Bank highlighted Azerbaijan as a "top ten reformer" country in its 2020 report.

The World Economic Forum (WEF) Global Competitiveness Report of 2019 ranked Azerbaijan 5th for labour market flexibility, 22nd on security, 23rd for business dynamism, 27th on corporate governance, 27th on skills of future workforce and 31st on transport infrastructure; Azerbaijan went up 11 places from 2018 to 58th overall among 141 countries.

The top three reforms ranked as most effective by European businesses in 2020 involve the services of e-government under the state agency ASAN, in the e-taxes system and the e-customs system³⁰. ASAN provides a one-stop shop together with a client-oriented approach and a sufficient transparency of procedures.

³⁰https://www.euneighbours.eu/sites/default/files/publications/2021-03/eu_business_climate_report_azerbaijan_2020_march_verified.pdf

Challenges

Despite the improvements, challenges remain. For example, issues around transparency, inconsistent application of regulations, the procedures relating to licensing and certification have been highlighted by international firms operating in Azerbaijan.

To support Azerbaijan to continue to improve its business environment and investment climate, the UK and Azerbaijan governments have agreed a number of joint working groups, including customs, energy and economic issues. These working groups provide opportunities to highlight the challenges facing UK firms and identify potential solutions.

Investment incentives³¹

In its bid to attract foreign investment, the Azerbaijani government has enacted into law the following measures:

- No restrictions on capital input and output, and repatriation of profits
- No restrictions on foreign investments
- No local content requirement
- No business inspections by state authorities and agencies
- Party to all major multilateral instruments on protection and promotion of foreign investment
- Flat Corporation Tax rate of 20 percent, Income Tax rates between 14 and 25 percent
- Over 450 e-services by state authorities
- Improved access to tourism and business through the launch of the ASAN e-visa system

As well as the above, the government is heavily incentivising investment in industrial and high-tech parks around the country. The two industrial parks of Agdam and Jabrail will pay no taxes for ten years and no customs duties for ten years on imported technology and equipment. The same goes for the high-tech parks in Pirallahi and Mingachevir.

Next to Alat port, the Alat Free Enterprise Zone (AFEZ) is scheduled to begin operations in July 2022 with the aim of strengthening Azerbaijan's position as a regional hub, and supporting the country's transition to a diversified and export oriented economy. AFEZ was created to make it easier and more affordable to produce goods which are intended for export.

Azerbaijan as a growing market

Since 2004, Azerbaijan's economy has more than trebled and its foreign reserves have grown by over 27 times. In the last ten years, Azerbaijan's trade has doubled in size³².

Azerbaijan has one of the highest credit ratings in the region – Standard & Poor's BB+ (January 2021, stable), Moody's Ba2 (April 2021, positive), Fitch BB+ (May 2021, stable).

³¹<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>

³²<https://azpromo.az/storage/398/8qn7zfTeLv-Doing-Business-2020-son.pdf>



Heydar Aliyev
International Airport
The new terminal
building's conceptual
architecture was designed
by British firm Arup

Living and working in Azerbaijan



Formula 1 Azerbaijan Grand Prix

Baku, Azerbaijan's capital, is a modern city served by the largest international airport in the region and is linked by direct flight to London (five and a half hour flight, GMT+4).

Baku hosts and has hosted a number of high profile international events, including the F1 Grand Prix since 2016, some of the matches of the 2020 Euros competition, the Europa League final in 2019 and the Eurovision Song Contest in 2012.

Baku enjoys world-class hotels, restaurants and residential accommodation, as well as a wide range

of cultural and sports facilities, including a golf course on the European golf tournament list.

One can find all the top brands in Baku, including a healthy number of iconic top British brands, such as Stella McCartney, Rolls-Royce and Waitrose. British architects and construction companies have helped to shape the skyline of Baku, including the world-renowned Heydar Aliyev Centre, designed by Zaha Hadid Architects, and some of Baku's premier shopping malls and residential accommodation.



Heydar Aliyev Centre,
designed by Zaha Hadid Architects

Useful organisations

British Chamber of Commerce Azerbaijan (BCCA)

The BCCA can help UK companies identify potential partners / local advisors and support their market entry. The BCCA also represents British business interests before the local government on issues such as taxation and customs. The two co-founders of the BCCA have between them 50 years of experience in the Azerbaijani market and are well-placed to advise new entrants into the market.

General enquiries: info@bccaze.org

Useful email addresses: Howard.Lyn@bccaze.org & John.Patterson@bccaze.org

Department for International Trade Azerbaijan

Based at the British Embassy, Baku, the Department for International Trade (DIT) Azerbaijan helps UK exporters succeed overseas. We introduce UK companies to local public and private buyers, and support British companies facing unfair/discriminatory treatment.

Website: <https://www.gov.uk/world/organisations/department-for-international-trade-azerbaijan>

Email: dit.azerbaijan@fcdo.gov.uk

UK Export Finance (UKEF)

The UK's export credit guarantee agency's mission is to ensure that no viable UK export fails for lack of finance or insurance. Only 20% UK content is required to satisfy UKEF's conditions. UKEF has allocated £4 billion of export credit guarantee for Azerbaijan. Find out more by emailing:

customer.service@ukexportfinance.gov.uk

AzPromo

Azerbaijan's exporting and investment promotion foundation AzPromo, functioning under the Ministry of Economy, is responsible for promoting investment opportunities in Azerbaijan including market research for foreign companies interested in investing or exporting to the country as well as assisting local companies to export overseas.

Find out more at www.azpromo.az

Further reading

DIT doing business in Azerbaijan

<https://www.gov.uk/government/publications/exporting-to-azerbaijan>

DIT business risk in Azerbaijan

<https://www.gov.uk/government/publications/overseas-business-risk-azerbaijan/overseas-business-risk-azerbaijan>

FCDO Travel advice

<https://www.gov.uk/foreign-travel-advice/azerbaijan>



Department for International Trade

[gov.uk/dit](https://www.gov.uk/dit)

The UK's Department for International Trade (DIT) has overall responsibility for promoting UK trade across the world and attracting foreign investment to our economy. We are a specialised government body with responsibility for negotiating international trade policy, supporting business, as well as delivering an outward-looking trade diplomacy strategy.

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