

## CEPD DIRECTOR AT CONFERENCE IN ROME

On May 29<sup>th</sup>, an event entitled "Economic Transition in Azerbaijan and Relations with Italy" was held in Rome, Italy by the Istituto Affari Internazionali [Institute of Foreign Relations]. About 100 people participated in the event, including participants from Italian Government structures, embassies based in Rome, private companies and think tanks. Dr. Fikret Pashayev, director of Khazar University's Center on Economic Policy and Development, participated in the event and presented his paper on "Investment opportunities in Azerbaijan and relations with Italy."

We present Dr. Pashayev's paper below.



### INVESTMENT OPPORTUNITIES IN AZERBAIJAN AND RELATIONS WITH ITALY

by Fikrat M. Pashayev, PhD, Associate Professor at the Khazar University, Azerbaijan  
Statement at the Institute of International Affairs of Italy  
Rome, 29 May 2012

#### ECONOMIC TRANSITION PROCESS IN AZERBAIJAN

Since the restoration of its independence in 1991, Azerbaijan faced a dilemma – to be a satellite of some big country or create its own independent economic system based on market relations and be the owner of its own natural resources. The country has chosen the second way and therefore the transition process included not just simple transformation from the previous inefficient system of a centrally planned economy to a market economy but also effective institutional building and good governance. This became possible through the introduction of new legislation according to international standards and establishment of relevant state agencies regulating the process of economic development.

#### INVESTMENT CLIMATE IN THE COUNTRY AND NATIONAL DEVELOPMENT OBJECTIVES IN ATTRACTING FOREIGN DIRECT INVESTMENT (FDI)

Azerbaijan's investment attraction policy can be called successful today, since the country managed to create a favorable investment climate and attract multibillion dollar investments in various sectors of its economy despite a very complex geo-political environment. From 1995-

2011 the country attracted 63.1 billion USD of foreign investment, and the FDI amounted to 41.4 billion USD. With domestic investment of 55.5 billion for the same period, the economy of Azerbaijan benefited from 118.6 billion USD of total investment. The oil and gas sector received 48.5 billion USD, and the non-oil sector 70.1 billion USD.

The oil and gas sector became the engine of development due to the country's effective oil strategy which was based on the attraction of investment of large multinational technologically-advanced oil companies. This was mutually beneficial and provided a balance of interests since the host country received oil revenues and best technologies, and companies shared risk and increased profits. Besides that, Azerbaijan gave all necessary guaranties for investors in the oil and gas sector.

In order to create a favorable investment climate, Azerbaijan adopted the Law on Protection and Promotion of Foreign Investment in 1992. The Government also signed bilateral investment treaties and bilateral tax treaties with many countries. Building a basis for FDI, the Azerbaijani Government conducted structural reforms and introduced several important pieces of legislation, such as the Tax Code, Land Code, Customs Code, Labour Code, etc.

Attraction of FDI to the oil and gas sector was

very complex since mutually beneficial economic cooperation came across with geopolitical interests of global and regional players. The first oil contract was signed on 20.09.1994, and since that time 26 PSA contracts were signed with multinationals from various countries. Long-lasting discussion over the main export pipeline route (eventually BTC) delayed construction of pipeline [till 2004] and relevant development of major offshore oil and gas fields. Interestingly, that was even more beneficial for Azerbaijan because oil prices skyrocketed since 2004 bringing Azerbaijan much more revenue in a shorter period of time. The Government created the State Oil Fund and uses oil revenues for diversification of economy and development of large infrastructural projects.

In the last 16 years foreign investment in Azerbaijan amounts to 118.6 billion USD. The main investors in the country are countries whose oil companies are engaged in explorations of oil and gas field in Azerbaijan, such as BP, Statoil, Total, Exxon, Itochu, Lukoil and others. Today major FDI source countries are USA, UK and Turkey. Cumulative FDI totaled 3.6 billion USD in 2010 and 4.4 billion USD in 2011. FDI outside the oil and gas sectors are mainly in construction, services, transport, telecommunications and manufacturing.

In the case of Azerbaijan, we can see combination of foreign investment (FDI in particular) and domestic investment. Another interesting phenomenon of the recent years is growing Azerbaijani investment abroad. That can be explained by the fact that the Azerbaijani market is too small and foreign markets are attractive, especially due to global financial crisis and economic slowdown. As for foreign investment in Azerbaijan, we already can see combination and complementation of FDI by portfolio investment, joint ventures, consortia agreements and non-equity forms of cooperation, such licensing agreements, subcontracting, management contracts, franchising, etc. This process will cover both oil and non-oil sectors as the Azerbaijani economy will become more integrated into the global economy.

The factors conducive to that are further development of investment promotion institutions, improvements in legislation, governance, transparency, law enforcement and overall

business climate. There are positive changes and the IFC's Doing Business in Azerbaijan report, covering 183 countries, gave Azerbaijan 9<sup>th</sup> place in registering property, 18<sup>th</sup> in starting business, 24<sup>th</sup> in protecting investors and 25<sup>th</sup> in enforcing contracts.

#### **ECONOMIC RELATIONS BETWEEN AZERBAIJAN AND ITALY. LEGISLATIVE BASIS FOR COOPERATION**

Azerbaijan and Italy signed a number of bilateral documents related to development of economic relations. We could particularly mention the Investment promotion and protection agreement (1997), Agreement for the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income (2004), Agreement on air transport (1997), Agreement on cooperation in the field of tourism (1997), Agreement on the prevention of customs violations (2005), Joint declaration on economic cooperation (1997), and a Memorandum of understanding on cooperation in the field of small and medium-sized enterprises (2002).

This legislative basis created opportunities for the expansion of economic cooperation, and according to the Ministry of taxation in 2011, 32 Italian commercial legal entities were registered as tax payers. Italian companies become active subcontractors in case of domestic investment. Thus, such companies as "Saipem Spa", "Todini", "Impresa", "Codest", "IRD" and others were chosen as subcontractors for implementation of various infrastructure projects.

The major body aimed at promotion of bilateral economic cooperation is the Intergovernmental Economic Commission (est. 2006) and co-chairman of this Commission for the Azerbaijani side is Minister of Industry and Energy Natig Alyev. Business development-related government bodies and private agencies also actively cooperate. The Italian Institute of Foreign Trade (ICE) has its branch in Azerbaijan and contributes to the development of economic and commercial relations. The Chamber of Commerce in Azerbaijan and Italian Union of Chambers (UNIONCAMERE), AZPROMO and ICE have developed their cooperative relations.

## ECONOMIC COOPERATION AND ITS PROSPECTS

Italy is a major trading partner of Azerbaijan due to the fact that Azerbaijan exports its oil through Italy. In 2011 the trade volume between Italy and Azerbaijan amounted to 9,495 million USD (export of Azerbaijan amounted to 9,341 million USD, import amounted to 254.57 million USD). The major export product of Azerbaijan is crude oil and natural gas. Currently Italy, as a major trading partner of Azerbaijan, accounts for 27% of Azerbaijan total trade turnover with 2.61% for import and 35.15% for export. Italian import prevails in machinery, mechanical devices, spare parts, as well as medicines, transformers, building materials, furniture, food, textiles.

Italian oil companies are actively engaged in development of the oil and gas sector in Azerbaijan. Italian companies can be more engaged in large projects – including oil refinery development. The Italian "ENI" has a 5% share of the BTC consortium. "Eni" recently has shown an interest in the exploitation of the deposits from the "Dan Ulduzu" and "Ashrafi" offshore perspective oil fields and suggested its services in transportation liquefied Turkmen gas via the Caspian Sea by ferry. Italy is interested in development of the Southern Gas Corridor and in particular the ITGI project (Interconnector Turkey-Greece-Italy) and Italian Government support Italian company Edison efforts in promotion of this project. Saipem S.p.A has been actively working in Baku for years; it is involved as an oil and gas sub-contractor in complex onshore and offshore projects, mainly for the construction and maintenance of platforms, pipeline infrastructure, etc.

Cooperation between Italy and Azerbaijan most probably will continue in the oil and gas sector, including oil and gas refinery and transportation.

Azerbaijan is also keen on developing its non-oil economy based on certain priorities, and they perfectly matches the strengths of Italian companies who can be more boldly engaged in this sector. Forms of cooperation can include 100% FDI, joint ventures, sub-contracting, license agreements, franchising. Among sectors of the non-oil economy matching the strength of Italian industry and Azerbaijani developmental priorities we could mention agriculture, food-processing, transportation, tourism, construction, information technologies and other sectors.

## UNİVERSİTET XƏBƏRLƏRİ

### FÖVQƏLADƏ HALLAR NAZİRİ İLƏ GÖRÜŞ

Xəzər Universitetinin təsisçisi, Direktorlar və Qəyyumlar Şurasının sədri professor Hamlet İsaخانlı iyunun 13-də Fövqəladə Hallar Nazirliyində nazir Kəmaləddin Heydərovla görüşdü. Görüşdə Xəzər Universiteti ilə Fövqəladə Hallar Nazirliyi arasında əməkdaşlıq məsələləri, o cümlədən Xəzər Universitetinin tələbələrinin Fövqəladə Hallar Nazirliyində təcrübə-praktika (internship) keçməsi, Fövqəladə Hallar Nazirliyinin Xəzər Universiteti məzunlarını iş dəvət etməsi və digər məsələlər müzakirə olundu.

### FİDAN QASIMOVANIN YARADICILIĞINA HƏSR OLUNMUŞ VERİLİŞ-FİLMİN NÜMAYİŞİ

İyunun 14-də AzTV-də görkəmli Azərbaycan musiqçisi, opera müğənnisi Fidan Qasimovanın yaradıcılığına həsr olunmuş veriliş-film nümayiş etdirildi. Qonaqlar - Xəzər Universitetinin təsisçisi, Direktorlar və Qəyyumlar Şurasının sədri professor Hamlet İsaخانlı və Bakı Musiqi Akademiyasının rektoru Fərhad Bədəlbəyli Fidan Qasimovanın yaradıcılıq xüsusiyyətləri, Azərbaycan və dünya vokal sənəti haqqında danışdılar.



### AMEC RƏHBƏRLİYİ İLƏ MÜZAKİRƏ

İyunun 13-də Xəzər Universitetinin rəhbərliyi və əməkdaşları AMEC-in iqamətgahında şirkətin rəhbər işçiləri ilə görüşdülər. Tədbirdə AMEC tərəfdən Peter Vord, Salek A. Azim, Kris Valton, Amir Rəşid, Andrev McDonald və İrana Babazadə, Xəzər Universiteti tərəfdən rektor Con Rayder, Beynəlxalq əlaqələr üzrə prorektor Fərda Əsədov, Mühəndislik və tətbiqi elmlər fakültəsinin dekanı Siyavuş Azakov və İnkişaf üzrə direktor Raziyə İsayeva iştirak etdirdilər.

Con Rayder universitet haqqında ümumi məlumat verdikdən sonra Siyavuş Azakov fakültə və ixtisaslar haqqında danışdı, iştirakçılara tədris planını paylayaraq elektronika, telekommunikasiya və radio mühəndisliyi, inşaat mühəndisliyi və digər fənlərin tədrisi haqqında məlumat verdi və müzakirələr aparıldı. Sonra görüşdə tərəfləri maraqlandıran digər məsələlər müzakirə olundu.