

# bne:Invest in Azerbaijan

## Contents:

Top story	3
PASHA Bank	5
Interview	6
Feature	8
Sector	10
Economics & finance	12
News in brief	15

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July 2015

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## AZPROMO helps local agribusinesses go global

The Azerbaijan Export and Investment Promotion Foundation (AZPROMO) focused its efforts in the second half of June on supporting Azerbaijani agribusinesses to better understand and take advantage of foreign trade opportunities.

On June 25, the exporters' club gathered at the AZPROMO headquarters to discuss logistics and certifications required to export to the European Union and Asian countries. The 30

local company representatives in attendance learned about procedures, fees, and documents required to transport agricultural goods abroad. The exporters' club supports Azerbaijan-based manufacturers in accessing foreign markets and communicating with potential partners.

The following week, AZPROMO organised an information session on the opportunities in the Kazakh agribusiness sector, which attracted a



similar audience. Two AZPROMO officials, Vice President Vidadi Guliyev and Director of Business Information Centre Anar Gasimli, briefed the 30 attendees on the importance of training employees on export procedures, logistics and quality standards, and on the performance of the food industry in Kazakhstan, prices, and potential trading opportunities.

Lastly, the Japan External Trade Organisation (JETRO) representative in Tashkent, Manabu Simoyasiro, visited AZPROMO's offices to promote Foodex Japan to local companies. The largest professional trade show for food and beverage in Asia, Foodex is a good opportunity for local companies to access the fast-growing

East Asian markets, and AZPROMO will support local companies interested in participating, according to Guliyev. Simoyasiro proceeded to brief the 20 local companies present on the exhibition and registration rules, and then held a Q&A session.

While exports of agricultural goods have recorded annual growth rates of over 10% since 2010, Azerbaijan maintains a significant trade deficit in the sector. Last year, the country imported \$242mn more goods than it exported. AZPROMO's efforts therefore echo the government's policy of promoting exports of agricultural goods as a way to support the growth of the sector and regional development in the country. •



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# Top story



## Turkish Stream is no competitor for TANAP

Two large gas pipelines are slugging it out for supremacy in a battle to become the pipeline of choice for carrying gas from the Caucasus to southern Europe.

Launched in March, the construction of the Trans-Anatolian Pipeline (TANAP) is ahead of schedule. The 1,850-km pipeline will transport Azerbaijani gas from giant Shah Deniz gas field in the Caspian Sea across Turkey to the Greek border.

TANAP is one of four projects that will form the Southern Gas Corridor pipeline system, which is planned to supply gas to Europe. It is currently

the only alternative project to Turkish Stream, which is being pushed by Russia's Gazprom.

Azerbaijan is keen to see TANAP triumph and has already invested over \$1bn out of an expected total of \$12bn to develop Shah Deniz, according to Vitaly Baylarbayov, deputy vice president of Azerbaijan's state oil company SOCAR.

Multinationals are also backing the Southern Gas Corridor plan with British Petroleum (BP) awarded \$10bn worth of major contracts and 30% of the total works allocated for the Caspian part of the project, including the construction of a new compressor station in Georgia.



Despite some lingering doubts over TANAP's viability, SOCAR stated that abandoning TANAP or the Southern Gas Corridor will be financially ruinous for all parties involved, given they have already signed off on long-term supply contracts. Any delays or cancellations will result in sizable penalties and liability costs for all of the parties involved. SOCAR has already pre-sold a large volume of gas to Europe for the next 25 years.

"Our gas supply contracts have been signed and are long-term, up to 25 years. It's an unusually long term, as recently no other gas suppliers have been able to achieve such long-term contracts, not Russia, nor North Africa and not even Norway," Baylarbayov stresses. "Binding both the buyer and the supplier, in our case it also means guaranteed delivery, as the supplier, i.e. SOCAR, has also taken on obligation to transport its gas. Therefore TANAP is a done deal and must go ahead."

Shah Deniz 2 is expected to start production in 2018. An initial 16bn cubic metres will be delivered to Eskisehir in eastern Turkey per year. Turkey will buy 6bn cm, while from 2020, after completion of the Trans Adriatic Pipeline (TAP), Greece and the rest of Europe can expect to start receiving the remaining 10bn cm.

Shah Deniz will not be the only gas reserve feeding the Southern Gas Corridor. Plans are in place to diversify the supply sources by tapping the Absheron offshore gas field, where Total and Gaz de France have already invested. Additionally, there will be two more fields at Inam and Babek included.

While, investors are yet to be determined for the latter two fields, production from the new sources will add an extra 10bn cm of gas. In July, the head of SOCAR, Rovnag Abdullayev, announced that by the 2020s gas production in Azerbaijan will reach 40bn cm per year, up from the current 30bn cm.

Still, the Russian backed Turkish Stream remains a potential rival, which the Kremlin is supporting in part as a way of cutting Ukraine out its gas delivery system to Europe, given the sharp deterioration in relations between the two countries.

In a move to try and pre-empt a confrontation, SOCAR stated at the end start of July it would consider joining forces with the Russian project and supply gas to the European section of the pipeline. The suggestion is not just bravado, as to deliver more gas from the additional Caspian offshore gas fields, Azerbaijan will need extra pipeline capacity.

Turkish Stream will have a capacity of 63bn cm, delivering Russian gas to Turkey via the Black Sea. This will also contribute to the creation of a new gas hub on the Greek-Turkish border, allowing new gas supply to landlocked countries in Central Europe.

Some Russian experts are convinced that, if anything, both Turkish Stream and the Southern Gas Corridor projects are more likely to bring the three countries – Russia, Azerbaijan and Turkey – closer together, which will also allow better control over their gas supply and prices to Europe. ●

# PASHA Bank



## PASHA Bank appoints new chairman

On June 29, PASHA Bank announced that its supervisory board has appointed Taleh Kazimov as the new Chairman of the Board. Outgoing chairman Farid Akhundov will continue to be on the bank's supervisory board. Kazimov was previously a board member and Chief Investment Officer.

According to Akhundov, the decision to change the bank's management was adopted in February 2014. "The leadership of the Bank is in excellent hands with Taleh Kazimov, and I am confident that PASHA Bank will continue to be successful, both

in Azerbaijan and in the wider region, under his leadership. I would like to thank everyone in the bank for all the support I have received in my role as Chairman and CEO," he said.

In turn, Kazimov expressed his content with the appointment. "I am delighted to be taking the position of Chairman. Farid has been instrumental in making PASHA Bank what it is today, and I am looking forward to continue driving forward our 2015-2017 strategy. I think the bank has a bright future as a gateway to the Caspian region, and I am excited about reaching new heights together with the PASHA Bank team. I wish Farid great success."

A graduate of the Azerbaijan Technical University, Kazimov went on to receive an MBA from the Azerbaijan State Oil Academy, a commerce degree with a major in finance from Georgia State University and to complete the London Business School's Senior executive programme (2012).

He joined PASHA Bank in 2007 as the head of risk management. In December, 2011 he was appointed board member and Chief Investment Officer and was responsible for business development, institutional and investment banking, and risk management. Prior to joining PASHA Bank, Kazimov held various positions with Bank Standard JSC and Ernst & Young, working in investment and corporate banking, financial audit and risk management. ●

# Interview



## Accessbank works to restructure loans and as it pushes to avoid losses in 2015

Moody's may have changed the outlook for the Azerbaijani banking sector to negative, but Accessbank's CEO, Michael Hoffmann is upbeat about the outlook for the sector and for the bank this year.

"The devaluation in February has slowed down growth in the banking sector, but we are seeing a reduction in the pace of the slowdown, which is an encouraging sign. We hope there will be a turnaround after the summer break, as there are already some signs to that effect on the horizon," he said during an interview on the sidelines of the Black Sea Trade and Development Bank (BSTDB)'s regional business forum in Tbilisi in June.

Owned and established by international financial

institutions like BSTDB, the International Financial Corporation (IFC), Germany's KfW and the European Bank for Reconstruction and Development (EBRD), Accessbank caters largely to retail clients that are micro and small and medium enterprises (MSMEs). But despite the higher risk of its client portfolio, Hoffmann contends that the bank is very much in control of the devaluation.

"The main issue in the last four months has been working with our clients to restructure some of the foreign currency-denominated loans. We have made good progress in this regard, and expect to continue during the remainder of the year," he said, adding that he does not expect the devaluation to add to the bank's non-performing loan (NPL) ratio of 2-3%.

Accessbank's refinancing and restructuring efforts are in line with the banking sector as a whole, which reported a growth in loan refinancing of 26% between January and April, tenfold higher than in 2014.

The beneficiary of a \$75mn loan from the Asian Development Bank (ADB) for agricultural loans in May, Accessbank currently gives out manat-denominated loans, for which the demand is higher.

"After the events in February, there is more demand for loans in manats, and, since our clients are largely MSMEs, our loans are in manats. Only our corporate clients take out dollar-denominated loans these days. Many people converted their manat deposits to US dollars since the devaluation, so there is a shortage of manats in the banking sector at the moment," Hoffmann said.



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## An appetite for business

An experienced banker in Central Asia, who spent seven years working for the EBRD in Russia, Hoffmann finds the Azeri appetite for business impressive. "I have been in Azerbaijan for three years and I admire the fact that the locals are very entrepreneurial. They like business, and they are comfortable seeking out financing for their projects," he said. "Businesses in Azerbaijan are family-owned, and Accessbank focuses on this demographic," he adds.

At the forum, BSTDB gave out a \$6mn loan facility to Accessbank's Georgian branch, Microfinance Institution Credo LLC, half of which is to be used to support women entrepreneurs in Georgia. Hoffmann says that their number in Azerbaijan is still low.

"Our bank has numerous women employees, but there are not very many women business owners in Azerbaijan. We are happy to help them when they approach us for financing, but so far their number is low," he notes.

Women are however very active in MSMEs in the country, as they contribute to family-owned businesses, but are generally not the owners of the business. Supporting women entrepreneurs in Azerbaijan is a long-term goal for the bank.

In the short run, the bank is focused on its financial results for 2015, which will not include any losses according to Hoffmann. "Whether we are profitable or not, depends on how the economy performs, but I am confident that we will be able to avoid losses this year," he concludes. ●

# Feature



## Azerbaijani real estate sector crumbles

Low oil prices, the Russian economic crisis, and the devaluation of the manat have crushed the real estate market in Azerbaijan.

Of all the problems it was the currency drop in February, the manatee lost approximately a third of its value against both the dollar and the euro, that did the most damage to the sector. The collapse, and the resulting inflation, have forced many homeowners to terminate mortgage contracts. While there is no reliable information, experts believe that up to half of the outstanding mortgage loans were terminated following the devaluation.

According to the Central Bank of Azerbaijan (CBA) turnover on the real estate market in the first quarter of this year collapsed by 24.09% year on year. Banks and estate agents saw their share of

business stemming from house sales drop 8.8%. Banks have since tightened mortgage conditions, which has only depressed sales further. Amongst other things, the banks have increased the minimum down payment for a mortgage by a whopping 50%, pricing many first time buyers out of the market. The maximum size of mortgage loans has also been capped at AZN50,000.

Despite a brief spike in house prices in Baku immediately after the devaluation, as those with cash rushed to swap their vulnerable currency for fixed assets, prices in the capital have sunk, and continue to fall. Experts forecast a drop by 15% by the end of the year; a trend that is likely to continue into 2016.

In the meantime, high housing and living costs have forced many residents out of the city into the suburbs. While the markets are leveling, there's still a significant price gap between Baku and the surrounding regions. It's still a lot cheaper to buy land on the outskirts and build a house, than buy a small apartment in the capital.

Yet, this gap is beginning to narrow, since new road plans have been announced by the government, which include new train lines that will connect the suburbs with the city, making the commute a lot easier and more affordable too. This will inevitably result in price increases for houses in Baku's suburbs, while prices in the city will continue to slide.

On top of all the real estate sector's problems, the situation was only made worse by a major fire that broke out in one of the newly built apartment blocks in the central Binagadi district, killing 16 and injuring 50 more in June. It was reported



that the cause of the fire was poor quality plastic cladding, which was used to cover the building's exterior.

With estimated 800 more newly built blocks of flats likely to have the same cladding, the demand for old Soviet flats has begun to rise as a result. Sales of newly built apartments have begun falling, after a 30.6% increase in the first quarter of this year.

Many property experts are convinced, however, that the slide in demand for new apartments is temporary. Most of the hazardous paneling has now been replaced, according to the government

officials, and therefore it is expected that demand will recover.

The Russian crisis has also having a big impact on Azeri real estate, as one third of demand for newly built apartments in the city was due to Azeri expats buying at home. According to a report from the Centre for Social and Economic Development earlier this year, currently nearly 3mn Azerbaijanis live in Russia.

Most of them are also homeowners in Azerbaijan. However, with the Russian economy slowing, many are being forced to sell their properties at home. ●

## Sturgeon kebab, Azerbaijan's take on a classical Turkish dish

Azerbaijanis are as fond of kebabs as the Turks, as the dish is a staple of any wedding party or summertime picnic. While a large variety of meats can be barbecued kebab-style, the sturgeon kebab is a local delicacy that combines the best of both worlds: Azerbaijan's coastal culture and its Turkish heritage.

Caspian sturgeon is famous thanks to the most expensive type of caviar in the world, the Beluga caviar, which is named after a species of sturgeon that lives mainly in the Caspian Sea. But while the caviar is exorbitant

and takes over 20 years to make, the more readily available sturgeon makes for an equally delicious meal.

Grilled on metal skewers, or shish, over hot coal, the sturgeon kebab is served with sour cream, oil, lemon juice and vegetable garnishes, and is seasoned with another local delicacy, pomegranate sauce.

While in Baku, head to a traditional restaurant like Sumakh or Nakhchivan for some of the best sturgeon kebab in town. The dish is on the pricier side, and can set you back \$20 or more.

# Sector



## Azeri mining expands despite depressed mineral prices

Anglo Asian Mining, one of Azerbaijan's two gold mining companies and operator of the largest gold mine in the country –Gedabek - offered a bullish outlook for the year at its annual general meeting at the end of June.

According to CEO Reza Vaziri, the company's results are promising, with gold production in Q1 up by 52% y/y to 17,053 ounces. The pattern is similar to last year when, with a backdrop of depressed gold prices, the company increased production to in a bid to raise margins.

It fell short of its goal to turn a profit, but 2015 will be different, Vaziri insists. This year will mark "our turnaround strategy to restore profitability to Anglo Asian," he told shareholders.

The situation is not uncommon among mining companies across the world, as the drop in prices in the last three years has left them struggling to keep in the black. After two years in the red, Anglo Asian changed its strategy, working to develop its two mines in northern Azerbaijan - Gedabek and Gosha - to increase recovery rates for gold, silver and copper, which are also mined there.

The company is also building a flotation plant at Gedabek due for completion in Q3/2015, which is expected to recover an additional 5,000 ounces of gold and 1,200 tonnes of copper this year alone. It will also add sulphide to the company's ore production.

Listed on the London Stock Exchange, Anglo Asian has ambitious goals of expanding its operations in Azerbaijan to become a medium-sized gold and copper producer, but its growth has been stunted by low commodity prices. That has led to a 90% drop in its share price since 2011.

The other gold company in the country, the Azerbaijan International Mineral Resources Operating Company (AIMROC), started exporting gold from the nearby Chovdar mine in late 2012. It does not report on its production or financial results.

In addition to oil and gas reserves, Azerbaijan is endowed with mineral-rich mountains, which boast aluminum, chromium, iron, zinc, cobalt, copper, silver and gold ores, among others. However, industrial scale mining is relatively new to the country, with exploration starting less than five years ago.

The sector is, however, already seen as a strong candidate to contribute to economic diversification. It was valued at \$22.9bn in 2013 by Azeri statistics committee Azstat.

Iron mining has seen the greatest development this year, thanks to a drive to increase exports to Europe. That has prompted an investment drive in equipment and deposit development.

Azerbaijan already exports iron ore from the South Caucasus' largest iron deposit, Dashkesen, to Georgia's Rustavi metallurgical plant. The reserve holds an estimated 250mn tonnes and is operated by Azerbaijan Steel Production Complex (ASPC).

In 2014, ASPC started working with Russia's Elektrostal to improve the quality of its extracted ore and increase its concentration from 60% to 66%. It also pushed to expand capacity to 2mn tonnes per year. Previously, ASPC imported equipment and heavy machinery from Belarus.

To date, the Azeri state has spent over \$15mn developing the Dashkesen field, and is moving ahead with its planned expansion despite the threefold drop in steel prices to under \$45/ tonne since last summer. In 2014, Azerbaijan exported 73,300 tonnes of iron ore, the bulk of it heading to Panama (50,000 tonnes) with Georgia taking the rest.

The push illustrates that not everything is grim in the Azeri mining sector. While the nascent industry has been adversely impacted by the drop in mineral prices, February's devaluation of the manat was good for business according to Vaziri.

"As a company that sells its products in US dollars, and which has a significant portion of its costs in Azerbaijani manats, this will have a beneficial effect for us," the CEO said, while acknowledging the adverse effects of the devaluation on the economy as a whole. If and when global markets pick up, Azerbaijan will be ready to tap the opportunity and export its minerals to Europe and Asia. ●



# Economics & finance

## Azerbaijan's banking system under pressure

The region-wide economic slowdown and the drop in the price of oil is putting Azerbaijan's banking sector under pressure, according to the Moody's Investors Service.

Moody's downgraded the banking sector's outlook to negative in July, "reflecting the impact of lower global oil prices and currency devaluation on the operating environment for banks, as well as on their asset quality, capital, profitability, and funding."

Following the collapse in oil prices - from well over \$100 per barrel in 2014 to \$60 at the start of this year - the Azeri central bank was forced to devalue the manat by almost a third in February. Its foreign reserves had fallen 11% y/y to about \$12.7bn by the end of January as it sought to protect the currency's peg to the dollar. However, it was eventually forced to bite the bullet.

Standard & Poor's lowered its outlook on Azerbaijan's BBB- credit rating to negative on January 30, citing the oil-price decline and pressure on the manat from "weaker terms of trade."

Moody's noted that the slump in oil prices put increased pressure on Azerbaijan's economy, given that the hydrocarbon sector accounted for close to 37% of nominal GDP at the year-end 2014.

The agency forecast that Azerbaijan's GDP growth will slow to 1.0% in 2015, based on an assumption of oil prices averaging \$55 per barrel

this year, and that growth will only recover to 1.7% in 2016.

The government is attempting to counter the reduced revenues with spending initiatives, backed by foreign-currency reserves, which were equivalent to 70% of GDP at the end of 2014, according to Moody's.

"Developments in the non-oil economy are the principal determinants for the banks' operating environment, and, as such, dictate the evolution of bank performance," says Maria Malyukova, a Moody's Analyst.

February's devaluation was "credit negative" for the banking sector and the revaluation of FX assets and higher credit losses are pressuring Azeri banks' profitability and capitalisation. However, with such large reserves, the central bank is in a position to support the sector and there is no danger of a financial crisis.

"We believe that banks' asset quality will deteriorate following the local-currency devaluation, as most foreign-currency loans in Azerbaijan are to borrowers that do not have foreign-currency revenues. Moreover, higher inflation reducing consumer spending power and seasoning of banks' loan books amidst a slowdown in lending growth will also contribute to an increase in problem loans to not less than 15% of gross loans this year from 11.4% at the end of 2014," adds Malyukova.

While the situation for the banking sector remains tough, most of the pain will be absorbed this year and the sector will start to recover next year, Moody's believes. The immediate negative effect



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on system-wide banks' capitalisation from the revaluation of foreign-currency assets was around 2 percentage points. Moody's projects the average credit costs of around 3% of gross loans in 2015, absorbing most of banks' pre-provision profits this year and reducing their internal capital generation ability.

"However, most rated banks' buffers are sufficient to absorb expected losses under the central scenario of our stress test," Malyukova said. "On the funding side, the devaluation weakened depositor confidence, causing significant deposit shifts into foreign currency, widening mismatches between banks' FX assets and FX liabilities", she explained.

## Azerbaijani economy to grow by 1.8% in 2015, says IMF

Azerbaijan's near-term macroeconomic outlook "has deteriorated considerably" with non-oil GDP growth expected to decelerate to 3.5% in 2015, but the economy should expand 1.8%, up from the recent 0.6% projection, the International Monetary Fund (IMF) stated on June 9, following a fact-finding mission in Baku.

The steep decline in oil prices hit the economy, and the wave of currency depreciations in the region hit the manat hard. While the February devaluation has improved the government's balance sheet "it has also raised financial vulnerability concerns, following the sharp rise in dollarization and affecting banks' capital and manat liquidity", stated the IMF.

Foreign reserves have stabilised since mid-April, "covering now a still comfortable 7 months of imports, external buffers including the oil fund amount to about 35 month of import cover".

According to the IMF, the sizable fall in export revenue and the slowdown in public investment will spillover into private sector demand, already weakened by some loss of confidence after the devaluation.

"Some recovery in oil prices next year should help bring non-oil economic growth to nearly 4.5% in 2016," the mission assessed. "Inflation is likely to reach 8.5% in 2015, due to lower demand and the government's action to prevent price increases early this year."

## Azerbaijani manat "good for carry", say analysts

The Azerbaijani manat is due a period of currency stability, making it one of the most interesting currencies carry trades in the illiquid frontier space, according to London-based investment house ICBC Standard Bank.

In a note to investors, analysts stated that current yields on the manat's NDFs range at around 6-8%, and "investors should expect a total return equivalent to the trade's carry".

Last February Azerbaijan devalued the manat by 33.4% to AZN1.05 to the dollar from AZN0.78, following seven years of currency stability. With hydrocarbons making up 95% of Azerbaijan's exports and 35% of its GDP, the devaluation was "inevitable" following the collapse in the price of oil.

ICBC Standard Bank maintains that while AZN's low volatility will help reduce a portfolio's overall actual volatility, investors ought to remember that gap risk always exists for managed currencies such as the manat.

"However, looking ahead, we think that the risk of



a further devaluation (gap risk) is currently very low,” reads the note, adding that oil prices are “crucial to the fate of the currency”.

## FDI in Azerbaijan up by 44.8% y/y in Jan-May

Foreign direct investment (FDI) into Azerbaijan grew 44.8% y/y in the first five months of the year, amounting to AZN2.62bn (€2.22bn), according to data released by State Statistics Committee (SSC) on June 13.

On a monthly basis, FDI dropped by 0.8%. The United Kingdom led with investment amounting to AZN839mn (€709mn), followed by Norway with AZN370.4mn (€313mn), and Turkey with AZN363mn (€306mn).

In the reporting period, gross domestic product (GDP) amounted to AZN21.3bn (€18bn), marking an increase by 5.3% y/y. The non-oil and gas sector grew by 7.6% y/y, accounting for 66.1% of the GDP in the first five months of the year.



# News in brief

## Azerbaijan puts health care online

The number of electronic health cards issued in the first half of 2015 increased by 13.5% y/y, to reach 970,687, the Centre for Health Information reports. The cards, which store a patient's medical history and are issued by the Health Ministry to the parents of newborns, are part of efforts to improve the efficiency of health care and modernise the service.

## European Games boost Baku tourist numbers

The successful conclusion of the first ever European Games, which were held in Baku in June, saw the number of tourist visits to the country rise significantly, the tourism ministry said.

The multi-sport event ran in Baku for 17 days in the Azeri capital. Over 6,000 athletes attended, with over 28,000 foreign tourists visiting the city. The majority came from Russia, the UK, Germany, the Netherlands, Italy, Switzerland, Spain, the US, and the United Arab Emirates. Google searches for information on Azerbaijan rose 70% to 33mn the ministry reported.

Over 2mn tourists visited Azerbaijan last year, spending some AZN1bn (about \$950,000mn). The ministry hopes to boost visitor numbers to 5mn per year.

## Socar revenue tops €34bn in 2014, net profit grows to €1bn

Revenue of Azeri state energy giant Socar increased by AZN1.24bn (€1.06bn) to total AZN39.67bn in 2014, driven by a series of acquisitions in Switzerland, according to the company's annual financial report.

In 2012 Socar signed an agreement with Exxon Mobil to acquire its Swiss branch Esso Schweiz for \$330mn (€297mn). With the purchase Socar absorbed Esso Schweiz's retail network and the company's division for the marketing of fuel to industrial and wholesale customers (the division sells household fuel and bottled gas to independent distributors throughout Switzerland).

The oil-and-gas giant has also taken over a number of gas distribution companies, including Wangen-Olten, as well as joint ventures specialising in aircraft refuelling at Geneva and Zurich airports, and the Swiss Provision and Supply Company that controls joint ventures managing terminals and pipelines.

Oil revenues last year amounted to AZN22.44bn (€19.2bn), down from AZN25.32bn (€21.7bn) in 2013. The company's total assets amounted to AZN24bn (€20.6bn), up from AZN23bn a year earlier, while net profit grew to AZN1.27bn (€1bn) from AZN977mn (€838mb) in 2013.

SOCAR produced a total of over 8.32mn metric tons of oil in 2014, compared to 8.31mn metric tons in 2013.

## Socar to invest \$1.2bn to upgrade key refineries

The State Oil Company of Azerbaijan (Socar) intends to invest \$1.2bn in the reconstruction and upgrade of its oil refineries named after Heydar Aliyev and Azerkimya PU, Azeri Press Agency (Apa) reported on June 5, quoting company vice president Tofiq Gahramanov. Completion of the initial stage is planned for 2018.

According to Gahramanov, Socar has already received expressions of interest from potential investors. He said the government would support the modernisation of the facilities.

The upgrades will improve the quality of petrol produced and increase production to 2.2mn tonnes from the current 1.3mn tonnes. It will also boost diesel output to 2.9mn tonnes from the 2.3mn tonnes, while kerosene production will grow by 300,000 tonnes to total 1mn tonnes.

## Socar launches new oil well

The Azerbaijani state energy company Socar launched a new oil well at Guneshli field in the Caspian Sea. The well is producing an average of 48 metric tons of oil a day and operational work is being carried out by "28 May" oil and gas extraction management. The field's shallow part has been independently developed by Socar, while the deep water part is being developed together with foreign partners.

## Socar looking for investors for \$16.2bn petrochemical facility

Azerbaijan's state energy company Socar is in talks with a potential investor for a planned

\$16.5bn oil, gas and petrochemicals facility outside the capital, Baku, Reuters reported on June 3, quoting the company's vice president, Tofiq Gahramanov.

At the end of 2014 the company hired a financial consultant to seek potential investors to support the project, the launch of which has been delayed by lack of funding. That saw Socar delay the completion of the complex at Sangachal, 60km south of Baku, by four years to 2030.

The plan is to attract 70% of the necessary funds from investment firms and private companies; the rest will be financed by Socar and Azerbaijan's \$37bn state oil fund. In March, Socar stated that it would ask Azerbaijan's central bank for a one-year loan worth AZN1bn (\$952mn) for the project, but it is unknown whether the company received a positive answer.

The first stage of the project is estimated to cost \$1.2bn. It will replace Socar's two ageing downstream facilities - the Baku and Azerneftlyag oil refineries - as well as the Garadagh gas processing plant and the facilities of chemicals firm Azerikimya. Construction is expected to begin at the end of 2015 and to be completed by 2020. At that point, Socar's annual refining capacity should rise by 2mn tonnes to total 8mn.

## Car sales slump on economic slowdown

Car imports to Azerbaijan between January and May slumped on the back of the economic slowdown and devaluation of the manat.

Passenger vehicles were worst hit with the number of imports down by just under half from the

27,444 passenger vehicles imported a year earlier over the same period.

Sales have also been hurt by new regulations to toughen the conditions for car loans as part of the central bank's efforts to head off a potential credit bubble. Down payments on car loans previously required a 20% down payment, but this has been increased to 30%-50%.

## Azerbaijan and Russia deepen customs cooperation

Azerbaijan and Russia have deepened customs control cooperation as the two countries continue to move closer. The pair signed a protocol on mutual recognition of customs controls on some agricultural products. However, Azerbaijan is still not willing to join the Russian lead Eurasian Economic Union (EEU).

Trade turnover between Azerbaijan and Russia amounted to \$799.4mn in January-May, or 5.8% more in annual terms, the State Customs Committee of Azerbaijan said. Some \$138.6mn of that accounted for exports of Azerbaijani products to Russia.

## Azerbaijan to invest in Russian agriculture

Already a major exporter of agricultural products to Russia, the Azeri government said in July that it is planning to invest in the Russian agricultural sector, with a number of "agricultural centres" to be set up in Moscow, St. Petersburg, and other regions.

"The most important component of the government strategy on diversification of the Azerbaijani economy is designated to optimizing the structure

of non-oil exports, in particular by increasing the volume and range of agricultural products, and improve its competitiveness in foreign markets," Agriculture Minister Heydar Asadov said in an interview with Russian newspaper Nezavisimaya Gazeta.

The initiative suits the Kremlin, which has been trying to diversify sources of agricultural products after it imposed a ban on imports of many categories of food from the US and Europe. The first priority for cooperation is to expand the supply of staples including poultry and eggs, according to Asadov.

## Azerbaijan subsidies agro investment

Azerbaijan has introduced a number of financial incentives in an effort to attract more investment into its farms, focusing on subsidies to the agricultural insurance sector.

"Azerbaijan is interested in developing robust agricultural insurance policies, which could provide further development of the agrarian industry and provide support to farmers," said Finance Minister Samir Sharifov during the VI Azerbaijan International Insurance Forum in Baku on July 2.

Farmers take out insurance against the effect of the vagrancies of the weather on yields and the government already provides subsidies for agricultural insurance. However, it will now significantly increase these to encourage more investment.

The share of public financing in the agricultural insurance premium has been increased from 25% to 50%, and the list of supported crops was expanded to include wheat, barley, maize, sunflower, potato, sugar beet and vegetables.