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AZPROMO promotes ties with Southeast Asia, the Low Countries

In April, the Azerbaijan Export and Investment Promotion Foundation (AZPROMO) hosted a bilateral business forum Singapore-Azerbaijan. The gathering attracted 50 companies representing sectors like pharmaceuticals, telecommunications and IT, logistics, oil and mining equipment, industry, and power, among others. The Singaporean delegation to Baku was led by the CEO of Kenetics Innovations, Ken Wong, whose opening speech at the forum echoed that of Rufat Mammadov, President

of AZPROMO, in that it encouraged more investment and trade between the two countries.

Trade levels between Singapore and Azerbaijan remain low, at an estimated \$42,000 in 2013, although Azerbaijani companies are increasingly looking at Singapore as a gateway to the fast-growing Southeast Asian market. State sovereign wealth fund SOFAZ set the trend for greater investments in that region in 2013, when it began acquiring real estate in











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East Asia and reported interest in acquiring properties in Singapore, Malaysia and Indonesia. Diplomatically, Azerbaijan and Singapore have seen a strengthening of ties in the last three years, thanks to high-level visits such as that of the Azerbaijani head of state, Ilham Aliyev, to Singapore in November 2012.

New highs with the Low Countries

On the other side of the continent, in Maastricht, Netherlands, AZPROMO, the European Azerbaijan Society (TEAS), and the Netherlands Council for Trade Promotion (NCH) came together to organise a Dutch-Azerbaijani business forum.

According to Azerbaijani Minister of Economy Shahin Mustafayev, Shell's involvement in the EU's Southern Gas Corridor project and the presence of 125 Dutch companies in Azerbaijan reflect the strong commercial ties between the two countries.

Meanwhile, Dutch Minister of Economic Affairs Henk Kamp emphasised the similarities between the two countries in his keynote speech. "Whilst geographically distant, our countries have much in common. We both have a strong agricultural industry, and the energy industry has had a major impact on both our economies. Azerbaijan is trying to diversify its economy and stimulate rural development. The Netherlands is trying to recover from the financial crisis by investing in industries with great potential for growth. These mutual interests are the basis of our ties."

The event gathered together 250 delegates from both countries, including representatives of 27 Azerbaijani and 60 Dutch companies. In addition to the ministers of economy, Shahmar Movsumov, CEO of the Azerbaijani sovereign wealth fund SOFAZ, Dutch senator and chairman of the Maastricht School of Management René van der Linden, and Twan Beurskens, vice-governor of the province of Limburg were in attendance.

The Netherlands is one of the most important investors in Azerbaijan's non-oil economy, ranking second after Turkey with a foreign direct investment (FDI) stock worth \$800mn. Events like this year's business forum, which is a follow-up to the first edition organised in Baku last year, aim to promote further investment in areas like horticulture, logistics, waste and water management, and sustainable energy.

Following suit, neighbouring Belgium sent a business delegation to Baku late last month. AZPROMO hosted the delegation that was led by Secretary of State for Foreign Trade Pieter De Crem, as well as representatives of 80 local companies active in agriculture, food processing, telecommunications, logistics and consulting. Sahil Babayev, the Azerbaijani deputy minister of economy and industry, noted that bilateral trade increased by 30% in 2014 and by 66% in the first quarter of 2015, up from \$61.3mn in 2013. While in Baku, De Crem also met with the CEO of state energy company SOCAR, Rovnag Abdullayev, signaling an interest in possible partnerships in oil& gas between the two countries. •











Top story



ADB increases project finance for Azerbaijan as delegates gather in Baku

For four days in early May, Baku became Asia's capital as it hosted the 3,000 delegates that came to attend the Asian Development Bank (ADB)'s 48th annual meeting. High on the agenda for the meeting was providing assistance for Nepal, which had suffered a deadly 7.8-degree magnitude earthquake days earlier. The gathering delivered solutions to the crisis in the form of a Partnership Forum for Nepal, the pledge of \$200mn in reconstruction aid, and plans for a conference with development partners dedicated exclusively to reconstruction in Nepal.

The agenda also addressed recurrent issues facing Asian countries, such as environmental degradation, the urban sprawl in Asian cities, women's participation in the workforce, regional cooperation in Central Asia, and poverty alleviation. In his closing statement, Takehiko Nakao, the bank's Japanese president, noted that Asia's fast economic growth has yet to reach an estimated 1.4bn Asians living in absolute poverty. As such, the bank "needs to squarely address the issues of quality of growth and inclusiveness," he concluded.











The meeting served to announce some internal changes in the bank, namely the merger of its Asian Development Fund lending operations with its ordinary capital resources balance sheet. The move is expected to increase ADB's annual lending by 50% a year, up to a total \$20bn. According to Nakao, "the stronger lending capacity offers an opportunity, but we must use it well. We are already actively working with our client countries to identify new projects and programmes for our finance."

ADB and Azerbaijan

One of the countries to benefit from the increase in the ADB's project financing capacity is host country Azerbaijan, which signed an agreement for \$1bn with the Manila-based institution to rehabilitate and expand its power distribution network. One of the signatories, state-owned Azerishiq, will carry out the programme to upgrade power distribution lines, substations, customer service lines, and to replace electric meter devices with digital ones. ADB is to disburse \$750mn in multiple tranches for this purpose, while the Azerbaijani government will contribute the remaining \$250mn. According to ADB Vice President Wencai Zhang, "Azerbaijan's power sector plays a leading role in the economy and the proposed programme will further improve electricity delivery to customers."

The ADB has been supporting Azerbaijan since 1999, granting the country 23 loans and three grants to date, which totaled \$2bn, assisting it in 32 technical projects and conducting seven private sector transactions worth over \$160mn. In 2014, the ADB developed a four-year country partnership strategy (CPS) for the Caucasian country to promote inclusive growth, rural development and to diversify the economy.

Since 1999, the ADB has focused most of its cooperation with Azerbaijan on improving infrastructure. To date, the bank has financed the construction of flood mitigation infrastructure, of 200km of highways and rural roads, improvements in rural water distribution networks, and enhanced power transmission projects to reduce power outages.

Looking ahead, the ADB will continue to finance infrastructure and transportation projects, both within Azerbaijan and in Central Asia and the Caucasus. Last year's CPS for Azerbaijan mentions the provision of sewerage services in rural areas, which currently only cover 32% of those communities, as one of the future priorities. The ADB is also working with the government and the World Bank on an integrated solid waste programme for the regions, which is to be completed this year.

Within the capital of Baku, the bank will continue its collaboration with the government on an urban transportation project and is exploring the possibility for public-private partnerships (PPPs) for it. Altogether, the infrastructure projects planned under the CPS amount to an impressive \$715mn in financing that ADB has earmarked for Azerbaijan by 2018, on top of the \$750mn recently allocated for the power sector.

The ADB works with Azerbaijan in the framework of CAREC, the Central Asia Regional Economic Cooperation, a partnership between 10 countries and six development partners that works to improve competitiveness and increase trade among its member countries, to support capacity building through a regional institute, enhance security and energy efficiency, and to establish regional investment priorities and technical assistance projects. As of 2013, CAREC had







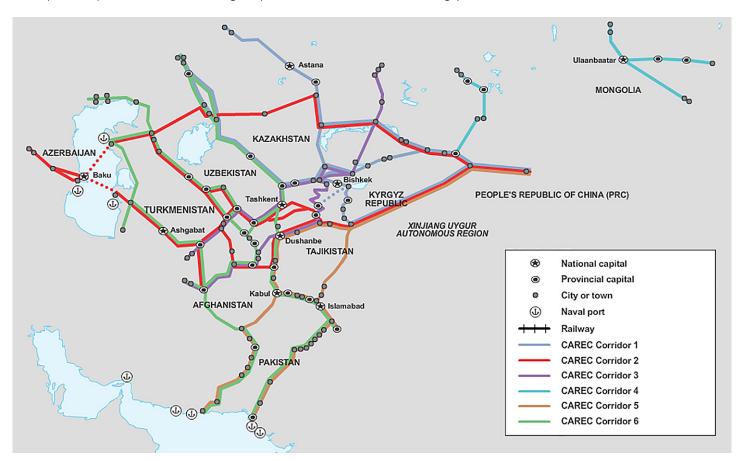




received \$22.4bn in project finance for over 160 projects. Among them, the six transportation corridors CAREC 1 through 6 stand out as having had the greatest impact on facilitating transborder trade in Central Asia.

Aside from its support for development projects, the ADB also announced plans to issue bonds on the stock exchange in Baku, as its treasurer Pierre Van Petenghem met with the chairman of the Azerbaijani state securities committee (SCS) to explore options like investing in pension funds

and registration procedures for bond issues. The move comes after the European Bank for Reconstruction and Development's (EBRD) announcement of a bond issuance in manats before the end of the year and an issuance in lari in neighbouring Georgia. The fact that large development banks from Europe and Asia are tapping into local capital markets signals a change in perception, whereby Caucasian economies are graduating from the status of mere destinations for development funds to increasingly attractive sources of finance.













PASHA Bank



PASHA Bank sponsors Marketing Kingdom Baku 3, Brain Ring

In April PASHA Bank sponsored the third edition of its Marketing Kingdom Azerbaijan – a two-day event that gathers international and local marketing specialists. Among the speakers at this year's gathering were Google branding specialist Alfonso De Gaetano, BBC marketing manager Muhammad Karim, and Visa International's director of social and digital marketing for EMEA, Noha Bashir.

Commenting on PASHA Bank's sponsorship of the event, Sona Abbasova, its director of corporate communications, noted that: "Marketing Kingdom is an important event for marketing professionals, since it facilitates the

connection between local market specialists and the global marketing industry. Hearing insights from world-class experts helps local professionals to build even more successful marketing strategies that enable them to better promote their products and services domestically, regionally and internationally."

This is PASHA's Bank third time as a gold sponsor for the Azerbaijani edition of the event. Marketing Kingdom is also held in Croatia, Serbia and Georgia.

On the corporate social responsibility (CSR) front, PASHA Bank partnered up with the State securities committee to organise an intellectual tournament for university students in the country's second largest city, Ganja. Focused on economic education and titled the Brain Ring, the competition was a face-off between teams from local universities like Ganja State University, Azerbaijan State Agriculture University and Azerbaijan Technology University.

According to Sevil Abbasova, director of PASHA Bank's business centre in Ganja, "we are committed to supporting programmes that contribute to improving local communities and enhancing the sustainable development of Azerbaijan as a whole. Initiatives focusing on young people, particularly on economic education, form an integral part of our CSR platform."

PASHA Bank's CSR programme has received international recognition, and was named 'Best corporate social responsibility programme in Europe' by EMEA Finance magazine. •











Interview



Turkish trade minister sees trade with Azerbaijan rising five-fold by 2023

Hardly a week goes by without a bilateral meeting reaffirming what has become common knowledge in Europe's eastern neighbourhood: that Turkey and Azerbaijan are the best of friends. The two countries share a common ancestry and language, similar security concerns, complementary energy needs, and a strong dislike of foreign criticism of their internal affairs. Commercial interests play an important role in this friendship, more so now that construction work on the Trans-Anatolian Natural Gas Pipeline (TANAP) has begun, which for the first time will bring Azerbaijani gas direct into Europe via Turkey, to the delight of Baku, Ankara and the EU.

Turkey's minister of customs and trade, Nurettin Canikli, is understandably upbeat about this state

of affairs, and confessed to bne IntelliNews in a recent written interview that, "the exceptional development of bilateral relations in so many areas could serve as a role model for the entire international community. Relations between Azerbaijan and Turkey have acquired a strategic dimension through the establishment of the Supreme Council on Strategic Partnership, the fourth meeting of which was held in Ankara on January 15, 2015."

Azerbaijan's largest foreign investor in non-oil sectors, Turkey has invested over \$4bn in its partner country and is looking to more than double its foreign direct investment (FDI) stock by 2023, thanks to Turkish Petroleum Corporation's (TPAO) \$4.8bn stake in the giant Azerbaijani gasfield Shah Deniz II and the EU-backed Southern Gas Corridor project, which will carry that gas to Europe.

Over 3,000 Turkish companies operate in Azerbaijan, in sectors ranging from hospitality and retail to power, construction and transport. Bilateral trade is also significant, and it increased ten-fold in the last 12 years, up to \$3.2bn last year. Turkey maintains a significant trade surplus at the moment, but the balance is expected to tilt in Azerbaijan's favour come 2018, when it will start delivering 6bn cubic metres of gas a year to Ankara. According to Canikli, bilateral trade is expected to reach \$15bn by 2023. Losing its surplus does not concern Ankara in the least, as the deal will bring much-needed energy and the promise of more such deliveries from Central Asia. "We are of the opinion that the Southern Gas Corridor will contribute to the growth in commercial ties with Azerbaijan. Once other countries join the project, Turkey will











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experience an increase not only in its exchanges with Azerbaijan, but with those other countries as well."

The main country expected to join in is Turkmenistan. "It is possible to transport Turkmen gas through... TANAP, provided a pipeline to Baku is built. Despite the problems with the status of the Caspian Sea, negotiations between Azerbaijan and Turkmenistan are going well, and Turkey welcomes these efforts. Turkey is not only looking at increasing trade, but also wants to ensure regional stability and peace through this project," Canikli added.

Like in the case of trade, the balance of investment projects will soon run in Azerbaijan's favour thanks to the sheer size of the projects that Azerbaijan state oil and gas company SOCAR has in Turkey. The energy company notably owns the \$5bn STAR refinery on Turkey's Aegean coast, the Petkim petrochemical complex, and a 58% share in TANAP – a project estimated to cost between \$10 and \$11bn. Private companies from Azerbaijan are also tapping into the large Turkish consumer market; 1,600 of them, according to Canikli's counterpart in Azerbaijan, Shahin Mustafayev, although their investments are dwarfed by SOCAR.

Customs

Beside energy, Turkey's priority regarding bilateral commerce is facilitating freight transportation by railway, sea and land to enhance trade in goods. In the absence of a common border, most trade

exchanges are conducted through Georgia, which has good relations with both partners and is often times a member of trilateral agreements.

While custom procedures remain a work in progress, Azerbaijan and Turkey have agreed to establish a joint committee overseeing customs issues during President Ilham Aliyev's visit to Turkey in January. Canikli expects the committee to have a significant impact on trade. "We believe that this joint committee will contribute to the development of our cooperation on customs matters. Working groups will be established under the committee to address specific issues. The agreement does not have a direct provision on altering customs duties, but the issue could be raised in the future."

Internationally, Turkey has demonstrated its support for Azerbaijan in numerous occasions. Most recently, it used its prerogative as this year's G20 chair country to invite Azerbaijan, a non-member, to the group's annual summit. It also endorses Azerbaijan's accession to the World Trade Organisation (WTO), and has done so since 2007. "Our governments concluded a long-term economic and commercial cooperation programme in 2007, and supporting Azerbaijan's WTO membership is in line with this programme," Canikli wrote, concluding that, "we believe that Azerbaijan will make major contributions to shaping the international political and economic debate through the prism of its economic, social, commercial, political and cultural experiences." •











Feature



Turkey takes centre stage in EU-Russia gas battle

The fight between the West and Russia over energy supplies is increasingly centring on one country that is itself struggling to define its place in Europe: Turkey.

On May 8 EBRD President Suma Chakrabarti said during a visit to Baku that the multilateral lender will extend a syndicated loan for Azerbaijan's biggest gas project, the second phase of the Shah Deniz project, which will produce 16bn cubic metres cm of gas a year (cm/y) from 2019-2020, with 10bn cm/y earmarked for Europe and 6bn cm/y for Turkey. The gas will be transported from Azerbaijan to Turkey via Georgia through the South Caucasus Pipeline (SCP) and the planned Trans-Anatolian Natural Gas Pipeline (TANAP). From the Turkey-Greece border the gas will be sent to Europe via the planned Trans Adriatic Pipeline (TAP).

The size and terms of the loan have yet to be decided, Chakrabarti said. However, analysts say the move is a measure of the project's importance to the EU as an alternative gas supplier, as Europe tries to reduce its reliance on Russian energy.

Whilst Azerbaijan is emerging as an important gas exporter, Turkey position in the region is growing through its significance as a transit country, ferrying energy supplies for entire continent. And Azerbaijan has played a major role in that transformation. It was Azerbaijan's initiative to transport its oil from the Caspian Sea to Europe that first put Turkey on the world energy map as a key transit player. Azerbaijan's capacity and initiative has also propelled Turkey into becoming a main trading centre for Azerbaijan's oil and gas, says Gulmira Rzayeva, senior research fellow at the Centre for Strategic Studies of Azerbaijan and research associate at the Oxford Institute of Energy Studies.

And with more players now joining the great energy game, Turkey's position is likely to strengthen further.

Russia is pressing ahead with its Turkey-centred gas pipeline, the so-called Turkish Stream. On May 7 Gazprom CEO Alexei Miller said after talks with Turkish government officials in Ankara that the first consignments of Russian gas would flow through Turkish Stream by the end of 2016.

Turkish Stream was dreamed up by the Russians in response to the EU's objections to its proposed South Stream pipeline, which would have sent 63bn cm/y of Russian gas into Europe up through Southeast Europe. The EU's strict rules over third-party access to pipelines under its Third Energy Package and its stricter stance over Gazprom's alleged abuse of its dominant market position in Emerging Europe has, say analysts, set in motion a major policy shift at Gazprom in the way it exports gas to Europe. "This shift in Russian gas











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export strategy is a direct result of issues that Gazprom and the Kremlin have seen emerging in Europe over the past decade," says James Henderson of Oxford Institute for Energy Studies. "Its suggestion of a Turkey-Greece hub seems to be a concession that new delivery points are an option, potentially at the border of Europe rather than at the borders of consuming countries."

The new line - which will fully comply with EU laws, the Russian side emphasizes - will deliver an estimated 49bn cm/y to a planned hub at the Greek border (Turkey will take about 14bn cm/y), from which EU customers can help build and own the line's extension into Europe, Gazprom says. The Greek government has been actively courting Russia in hope of receiving billions of dollars of advance payment for its role in extending Turkish Stream into the EU. However, the US is increasing pressure on Athens to concentrate on the completion of TAP rather than Turkish Stream. "What we agreed on is it's important to focus on what projects are on the table today and that is TAP, that will interconnect to the Azerbaijani pipeline," Amos Hochstein, the US special envoy for energy affairs, said on May 8 after talks with Energy Minister Panayiotis Lafazanis and State Minister Nikos Pappas.

"Right now [Turkish Stream] is not a threat to the Southern Gas Corridor and the Turkish government makes it clear they don't want to undercut the Southern Gas corridor, as they're also its shareholders through TANAP and the Trans-Adriatic Pipeline (TAP)" says Mehmet Ogutcu, London based CEO of Bosphorus Energy Club.

Foot on gas

TANAP is planned as a scalable pipeline and so will have the capacity to transport volumes bigger than Azerbaijan can offer at this stage. TANAP's capacity is set to rise to 23bn cm/y by

2023 and to 31bn cm/y by 2026. And to fill that, more gas needs to be sourced.

There is talk about adding Turkmen gas into the flow of gas from Azerbaijan, which would require building a pipeline under the Caspian Sea. However, Russia, as a littoral state of the Caspian, objects to strongly, principally because it would create more competition for its gas.

Whilst the talks of lifting its sanctions are still ongoing, Iran has already expressed an interest in acquiring part of Azerbaijani state oil and gas company SOCAR's shares in TANAP, according to Rovnag Abdullayev, head of SOCAR. "The TANAP project is so profitable that any talks about a transfer of shares are not feasible. We can only sell. If we get a good offer, then we are ready to discuss it," he has said, adding that there are already such proposals.

With the possibility of Iran and Turkmenistan joining the pipeline, TANAP will become the largest pipeline delivering significant volumes of Caspian basin gas to Europe.

Far from seeing it as competition, Azerbaijan would welcome the lifting of sanctions against Iran. With over 20mn native Azerbaijani's living in Iran (Azerbaijan's current population is 9.5m), the two countries have deep historical ties. Azerbaijan could also serve as a geopolitical link between the West and Iran. Once connected to TANAP, providing energy security would be in Iran's interest.

TANAP's construction is expected to be completed by the end of 2018 and first gas to be delivered from Shah Deniz field is expected to start from 2019. The pipeline will join TAP - the next leg of the Southern gas corridor - in 2020, crossing 20 cities and creating over 5,000 new jobs. •











Things to Do in Baku

In June 2015, Baku will host the inaugural European Game. The Azerbaijani capita's position as a crossroads between Europe and Asia means it boasts ancient history subtly mixed with cuttingedge architecture, a melting pot of art, music and ethnic influences. If you're planning to visit Baku next month, here's some information to help you get your cultural and geographical bearings around this wonderful city.

The Walled City of Baku - Icheri Sheher

The World Heritage Site, the Icheri Sheher, is the walled inner city of Baku. Built in the 12th century, the walls enclose medieval courtyards and narrow cobbled streets, now crowded with cafes and carpet shops. Don't forget to haggle! Within the walls of the Icheri Sheher is the Maiden Tower. Of the eight stories of the tower, the first three are believed to date back to the 7th or 6th century BC and were used as a fire temple, believed to be the largest Zoroastrian temple in the world. The Palace of Shirvans - Shirvanshakh Sarayi - is another historical site within the ancient walls of Baku and is a remarkable example of medieval architecture that dates back to the middle of the 15th century. With imposing domes, intricate carvings and patterned windows - shebeke - the palace is a masterpiece of medieval masonry and craftsmanship.

The fire temple of Ateshgah

Ateshgah, is one of Azerbaijan's most remarkable landmarks. Known for its famous naturally occurring flames, Ateshgah was sacred to Zoroastrian fire worshippers for centuries. As a

nod to the Olympics, the European Games will be carrying the torch of its own, with the kindle for it in the flames of Ateshagah.

Rock art of Gobustan

Located 60km south of Baku, the rocks of Gobustan encompass over 60,000 mountain carvings. The oldest carvings can be dated back to 14 millennia BC. Serving as a visual timeline, they depict armed hunters with dogs, and lifesize bulls that are now extinct, proving that civilization in Azerbaijan has existed for at least 126,000 years. Depictions of boats, similar to those used by the Vikings, led the Norwegian ethnographer Thor Heyerdahl to conclude that Scandinavian ancestors came from this region, and drawings of caravans and camels persuaded experts that Gobustan was once a part of the Silk Route. Since 2007 Gobustan has been officially recognized as a rock-art landscape by Unesco.

Stroll around the Teze Bazar

Like many Middle Eastern cultures, the bazaar is the centre of the city's social life. Bursting with seasonal and local produce, it buzzes and heaves with the city's life, luring in customers to purchase the juiciest melons, sweet-scented peaches and pungent pieces of cheese, straight from sheepskin parcels or sacks. The market traders will slice, chop and peel any of their produce and thrust it into passing customers' hands, pleading with them to stop and taste the food. For a sneaky taste of Beluga caviar head to Teze Bazar – but keep a good hold of your purse!











Sector

Baku grows defence industry, eyeing regional security partnerships

The delicate and ever-changing balance of power in Eastern Europe and Central Asia has prompted the administration in Baku to develop stronger regional security partnerships in recent years and a nascent, but fast-growing domestic defence industry.

A veteran Nato partner, Azerbaijan joined the organisation's Partnership for Peace initiative in 1994, and has since contributed troops to operations in Afghanistan, provided financial support and training to Afghani security forces, and served as a transit point for Nato forces heading to the mission in Afghanistan. Over the last two decades, Azerbaijan has carried out a skilful balancing act between Nato, Russia (from which it imported \$4bn worth of military equipment a few years ago), Israel (a more recent purveyor of drones and anti-aircraft and missile defense systems), and Iran. Despite its successful military strategizing elsewhere, the uncomfortable and frequently breached ceasefire with Armenia remains the main driver behind Baku's keen interest in cultivating a home-grown defence industry.

Disenchanted with the lack of support from its big, but distant security partners, Azerbaijan has closed ranks and is focusing on smaller-scale, but stronger partnerships in the region. This change of direction led to the emergence of a new security trifecta in 2013, comprising Georgia, Turkey and Azerbaijan. The three countries have run several military exercises so far, focused on protecting the eastern part of the Southern Gas Corridor

to Europe, but there is scope to expand these operations. Bilateral security cooperation between Turkey and Azerbaijan predates this arrangement, but an over-assertive Russia has turned Georgia into a very keen security partner in the Caucasus. So much so, that the former Georgian defence minister, Irakli Alasania, found his country to be "very fortunate to have such great neighbours and strategic allies as Azerbaijan and Turkey."

Made in Azerbaijan

Alasania had good reasons to feel fortunate to be in the company of Nato stronghold Turkey and emerging military power Azerbaijan. Not only has Baku spent upwards of \$6bn on military equipment in recent years, but its exports of armaments went from virtually zero to over \$100mn a year in the last two years alone. According to Azerbaijani Minister of Defence Yaver Jamalov, local industry now produces more than 900 varieties of defence products at its 58 production facilities, ranging from ammunition and intelligence equipment, to air bombs of up to 500kg and multiple-rocket launchers.

And this is just the beginning, as an April 2014 interview with Jamalov reveals. "Azerbaijan will start the production of 40mm multiple grenade launchers and ammunition in collaboration with a Serbian company. A production unit has already been established. We plan to open between seven to eight such plants this year. They will produce a variety of ammunition, weapons and other products. One of these plants will produce 85mm-155mm calibre tank and artillery shells. There is a great need for these projectiles in our army. Moreover, a production plant of ammunition for RPG-7 grenade launchers will also commence production,











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and will produce four types of ammunition for grenade throwers, as well as barrels for all types of weapons, ranging from 5.45mm to 30mm."

The growth in production is doubled by international marketing efforts, as Baku touts its new products every year at defence fairs in Malaysia, Turkey and, starting in 2014, at its domestic defence exhibition ADEX. As a result, it has attracted a growing number of orders for its armaments, reaching exports worth \$123mn in 2013 and \$100mn in 2014. In addition to older trading partners like Turkey, Russia and Belarus, its clientele promises to become more diverse, as the country is negotiating new deals with Malaysia, Singapore, Pakistan and, most recently, Iran.

Meanwhile, the government is working on changing the legislative framework to support the nascent

military-industrial complex. In April, the defence ministry proposed tax exemptions for manufacturers of military equipment, which could attract private defence companies to invest in the sector. "Azerbaijan will also start producing different bullets and ammunition for sniper rifles," Jamalov said, while noting that the state is building plants for barite, TNT and RDX, which should be completed by 2016 and will obviate the need for imports of these substances.

While still in its early stages, the speed at which Azerbaijan's defence industry is growing points to a determined effort to rid the country of its billion-dollar reliance on imports of military equipment, and to turn it into a net exporter. An added benefit to industrial growth is that its military prowess will be sending a strong signal to its enemies that Azerbaijan is becoming a force in the region to be reckoned with. •













Economics & finance

EBRD keeps Azerbaijan GDP forecast unchanged

Overall stagnation in 2015 and meagre expansion in 2016 are the main themes of the European Bank for Reconstruction and Development's latest "Regional Economic Prospects" report, which was released on May 14. But those predictions, which span all 35 of the countries covered by the EBRD, mask sharp regional differences. The Russian recession will continue to make life difficult in Central Asia and the Caucasus, the bank says, while the outlook for Central Europe is improving.

Azerbaijan stood out in the Central Asia and the Caucasus region for keeping its growth outlook unchanged by the EBRD. "Overall, the growth forecast for 2015 remains unchanged at 1.5% and we expect the same moderate level of growth in 2016," the bank said.

Azerbaijan posted sound growth in the first quarter, according to official estimates. Real GDP increased by 5.3% on year in January-March (up from 2.8% annual GDP growth in 2014).

The Central Asia and the Caucasus region experienced major negative external shocks stemming from the Ukraine-Russia crisis and the downturn in the Russian economy, the Russian ruble's depreciation, and the falling oil price that has hit oil and gas producers like Azerbaijan hard.

But the EBRD attributed the resilience to Azerbaijan's growth outlook to the lower base of last year, when oil extraction disruptions caused growth to slow, as well as due to elevated capital spending on landmark infrastructure projects. The bank also noted that while the 25% devaluation of the manat in February affected domestic demand and banks negatively, it "helped buttress the fiscal revenue impact of declining oil revenues and competitiveness."

However, it warns that as oil prices have remained low, the trade balance deteriorated and still-high international reserves remain under pressure, declining by 14% on month in March to the lowest level since late-2011.

EU backs Azerbaijan to join WTO

Azerbaijan's biggest trading partner, the EU, has thrown its weight behind the Caucasian country's bid to join the World Trade Organization, though few doubt the road ahead is still long.

On May 7, Latvia's foreign minister and president of the EU Council, Edgar Rinkevich, told newswires that the EU is ready to assist the EU's so-called Eastern Partnership countries that are not yet part of the WTO to join the trade body.

"We also want to work with our partners from Azerbaijan, Belarus and Armenia to establish the level of cooperation that would meet the common interests. We are also ready to support those countries that are not yet members of the WTO, on their way to the WTO. This is what we offer when we meet with our partners," Rinkevich said.

He also expressed hope that the EU would be able to resume work with Azerbaijan on a new cooperation framework, which could include











economic partnership and cooperation in the field of free trade.

This follows comments from Malena Mard, head of the EU Delegation to Azerbaijan, who told a press conference in Baku on March 31: "The EU welcomes Azerbaijan's accession to the WTO, because this will pave the way for further deepening of trade and economic cooperation. As you know, the European Union is the biggest trade partner of Azerbaijan. The steps that Azerbaijan is taking in order to be a member of the WTO are quite positive."

However, Mard added: "We know that it's a complex and time-consuming process. Luckily, the next meeting will be held in late June. At the same time, we're observing that the dialogue is intensifying."

Oxfam-appointed country expert, Elkhan Mikhailov, has said that Azerbaijan will be ready to WTO within six months. But the EU's frontman at the WTO, Olaf Hejdelbah, is less optimistic about Azerbaijan's readiness to join the body, stating that the country's membership in the WTO is unlikely to happen within the next four to five years. In his view, the process of preparation for accession to the WTO in the country is going "sluggishly" and the list of work to be done remains impressive.

As part of the accession process, Azerbaijan must review all its international trade arrangements and train local specialists for the work involved in WTO. Azerbaijan must also amend some of its existing laws to bring them in line with WTO regulations. At present, Azerbaijan ranks 80 among 189 states in the World Bank's "Doing Business" ranking, and is way down at 126 out of 175 states in terms of corruption,

according to Transparency International 2014 report, thus creating further challenges for WTO accession.

"If WTO accession is to be a success, Azerbaijan must promote the development of the economy with an eye on the consequences of that accession," says Vugar Bayramov, chairman of the Center for Economic and Social Development of Azerbaijan. "Baku officials must not forget that WTO accession is not so much a goal as a means to achieving broader goals. Having become members, we can increase our integration into the world economy, achieve more liberalization in foreign trade, and simplify customs supervision procedures, among other things. And we hope that accession will also give Azerbaijan greater access to international financial institutions. something that should by means of careful negotiation boost the country's economic wellbeing

EBRD pondering Azeri manatdenominated bonds by end-2015

The European Bank for Reconstruction and Development (EBRD) may issue bonds in the manat, Azerbaijan's currency, by the end of 2015, the bank's president, Suma Chakrabarti, said at a press conference in Baku on May 8.

In February, the Central Bank of Azerbaijan (CBA) devalued the manat against the dollar and the euro, a move aimed at strengthening the country's international competitiveness amid pressure on its finances from falling oil prices.

Manat-denominated bonds would expand opportunities for local companies to obtain loans in local currency, according to EBRD, which would











become the first international organisation to issue bonds in the local currency.

In 2014 the institution issued its first laridenominated bonds in neighbouring Georgia. The two-year bonds totalling GEL50mn (€20.7mn) is part of a strategy focusing on tackling excessive reliance on foreign capital and foreign exchange borrowing in emerging economies.

Azerbaijani central bank's reserves drop by 43.6% y/y in April

The Central Bank of Azerbaijan's (CBA) foreign reserves dropped to \$8.39bn as of April 30 from \$14.9bn a year earlier, marking a 43.65% drop y/y, AzerNews reported on May 8, quoting data from the CBA. Reserves started declining in July 2014 and have been falling by almost \$1bn a month since December due to an increase in demand for dollars in the country.

In early April, AzerNews reported Governor Elman Rustamov as saying that dollarisation remained high, because "we can't restrain the population from keeping their funds in dollars, but we have sufficient amount of currency reserve to allow the population to convert their funds into dollars without any problem".

On February 16 the CBA abandoned the manat's dollar peg and opted for a dollar-euro basket to manage the exchange rate. On February 23 the central bank devalued the manat by 33.5% against the dollar and by 30% against the euro as falling oil prices and economic turmoil in Russia put pressure on the currency and are hitting hard across former Soviet Union.

Azerbaijan to place €500mn in Eurobonds in 2016

Azerbaijan is planning a placement of "no less of €500mn" in Eurobonds in 2016, Azernews reported on April 20, quoting the finance minister, Samir Sharifov, who didn't provide a timeline. "It depends on the needs of the market and how economic factors will develop".

Azerbaijan sold \$1.25bn in a debut bond issuance in March 2014 with a repayment term of 10 years and a yield of 5%.











Chart

Azerbaijan stays strong

This month's chart shows how Azerbaijan's economy is expected to remain relatively buoyant this year, while many of the other countries in the EBRD's Eastern Europe and the Caucasus region suffer from the problems coming out of in Russia and Ukraine.

The average 2015 economic forecast in the EBRD region that includes Azerbaijan is a disappointing

3.3% contraction. Azerbaijan's economy on the other hand is expected to grow 1.5%, which is down from last year's 2.8% but still well in positive territory.

For 2016, Azerbaijan's GDP is expected to remain at 1.5% growth, compared with an average 1.8% growth for the Eastern Europe and the Caucasus region. •

	Actual 2014	Current forecast		EBRD Forecast in January 2015	
		2015	2016	2015	Change Jan April
Eastern Europe and the Caucasus					
Armenia	3.4	-1.5	1.0	0.0	-1.5
Azerbaijan	2.8	1.5	1.5	1.5	0.0
Belarus	1.6	-2.5	0.0	-1.5	-1.0
Georgia	4.8	2.3	2.6	4.2	-1.9
Moldova	4.6	-2.0	1.5	0.0	-2.0
Ukraine	-6.8	-7.5	3.0	-5.0	-2.5
Average 1	-1.3	-3.3	1.8	-1.8	-1.5











News in brief

West and Azerbaijan denounce Nagorno-Karabakh 'elections'

Azerbaijan's separatist region of Nagorno-Karabakh went to the polls on May 3 to elect a new parliament in a vote denounced as illegitimate by Baku and the West.

The election is the sixth held since the 149,000-strong enclave – which occupies a fertile highland plateau wedged between the Caspian Sea, the Black Sea and the Little Caucasus Mountains – first called for independence from Azerbaijan in 1988.

Smouldering violence in the dying days of the Soviet Union erupted into full-scale war between Armenia and Azerbaijan in 1992, and by the time a ceasefire was agreed in May 1994 some 30,000 had died. Since then, the dispute has languished in a frozen state of no peace, no war. The ethnic-Azerbaijani community – which before the war made up around 25% of the region's population – was entirely driven out during the conflict and today Nagorno-Karabakh is almost entirely ethnic Armenian.

"The so-called 'elections' in Armenian-occupied Karabakh have no legal force, they contradict Azerbaijan's constitution and international law," Azerbaijan's foreign ministry spokesman, Hikmat Hajiyev, told AFP. "Armenia stages a provocation called 'elections' which harms the ongoing negotiations... We will not accept results."

The EU and US also weighed in. The EU's foreign policy chief, Federica Mogherini, said through a spokesperson on Friday that "the European Union does not recognise the constitutional and legal framework" within which the elections were to be held.

Azerbaijan invests \$30bn in infrastructure in last decade

Azerbaijan invested \$30bn in infrastructure, including social infrastructure, between 2006 and 2015, Finance Minister Samir Sharifov said in remarks carried by Trend news agency. The minister estimates investment in infrastructure has boosted GDP by 5-20%.

Since public funds are limited the minister believes Azerbaijan should create conditions for attracting private investment in the development of infrastructure. "On capital markets there is a lot of money that could be attracted to the development of infrastructure, but it is important to know how much private investors are interested in [investing in] such long and risky projects," Trend quoted Sharifov as a telling an ADB meeting in Baku on May 2.

Ukraine's Antonov to sell 10 aircraft to Azerbaijan

Ukrainian aircraft manufacturer Antonov intends to sell 10 An-178 aircraft to Azerbaijan's Silkway Airlines, the Unian news agency reported on May 7.

"An agreement on supplying 10 aircraft to Azerbaijani Silkway Airlinese company has been signed, and this company has become the customer of An-178," the aircraft maker's press service told Unian. It did not specify a timeline for the supplies of the aircraft

The cargo aircraft, made on the basis of the An-158 passenger plane, is capable of carrying up to 18 tonnes of freight including bulky C1 sea containers.











Azerbaijan to get ownership of low-orbit satellite

Azerbaijan's satellite operator Azercosmos will receive the ownership of the Azersky low-orbit satellite in May, Trend news agency reports, citing the Communications and High Technologies Ministry.

Azercosmos will start building ground infrastructure to operate the satellite in June. The satellite was launched in June 2014 as part of Azerbaijan's cooperation with France in the space sphere. The satellite, capable of producing images with a ground resolution of 1.5 metres in diameter, will be used to monitor, delimit and demarcate Azerbaijan's state border, Trend said.

Azercosmos is already operating Azerspace-1 satellite, also known as AzerSat-1, launched into orbit on February 7, 2013 from Kourou in French Guiana. The satellite provides TV, radio and internet transmission services and covers Europe, Asia and Africa.

EBRD to extend loan for Azerbaijan's biggest gas project

The European Bank for Reconstruction and Development (EBRD) will extend a syndicated loan for Azerbaijan's biggest gas project, Shah Deniz II, EBRD President Suma Chakrabarti said on May 8.

The size and terms of the loan had yet to be decided, he said during a visit to Baku.

Shah Deniz is being developed by a consortium led by BP, Azeri state energy company SOCAR and

others, and will offer an alternative gas supplier for Europe as the continent tries to reduce its reliance on Russian energy.

Shah Deniz I has been pumping gas since 2006 and has an annual production capacity of about 10bn cubic meters (cm) of natural gas. Shah Deniz II is expected to produce 16bn cm of gas a year from 2019-2020, with 10bn cm earmarked for Europe and 6bn cm for Turkey.

Azerbaijan's oil exports rise 3.7% in Q1

Azerbaijan's oil exports amounted to 8.4mn tonnes in the first quarter, marking an increase by 3.7% y/y, the State Statistics' Committee (SCC) said. Crude oil and condensate production rose to 10.6mn tonnes in January-March, (up from 10.4mn tonnes in the first quarter of 2014).

The growth was driven by increased output at the main Azeri, Chirag and Guneshli (ACG) oilfields operated by BP. According to the SSC, production in the oil and gas sector increased by 3.4% in the first three months through March 31, while the non-oil sector's activity rose by 9% y/y.

Exports via Georgia through the Baku-Supsa pipeline rose to 1.09mn tonnes (from 1.08mn tonnes), while 6.6mn tonnes (up from 6.5mn tonnes) were shipped through the Baku-Tbilisi-Ceyhan. In the same period, oil exports via Russia, through the Baku-Novorossiisk pipeline, amounted to 339,491 tonnes, up from 254,356 tonnes a year earlier.

In 2014 Azerbaijan's oil exports dropped by 3.5% y/y, to 33.04mn tonnes from 34.25mn in 2013.









