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## **INTERNATIONAL TRADE IN AZERBAIJAN: TRENDS AND CHALLENGES**

Azerbaijan is a landlocked nation in Southwest Asia bordering the Caspian Sea, Armenia, Georgia, Iran, Russia, and Turkey. Azerbaijan's success today is an outcome of comprehensive, specific and targeted efforts of the past few years. Implementation of globally important projects in various sectors of the economy, including energy, not only made our country more capable, but also facilitated regional and international cooperation. In this regard, delivery of Azerbaijani natural gas to European markets via the Azerbaijan-led and Azerbaijan-initiated Southern Gas Corridor Project will substantially contribute to strengthening Europe's energy security. In the context of this project, 87% of the work for the development of the Shah Deniz 2 gas-condensate field, 72% of the work for the expansion of the South Caucasus Pipeline, 60% of the work for the construction of the Trans Anatolian Pipeline (TANAP) and 30% of the work for the Trans-Adriatic Pipeline (TAP) have been completed. It is noteworthy that Shah Deniz is one of the largest gas fields in the world with proven reserves of at least 1.2 trillion cubic meters.

Azerbaijan also launched major projects to further strengthen Azerbaijan's transit potential. This year, construction of the Baku-Tbilisi-Kars railway is scheduled for completion. Thus, Azerbaijan is turning into a crucial transportation hub. Today, priorities for the economic policy are further diversification of the economy, while developing the non-oil sector.

Construction of industrial parks and zones are underway to ensure development of the industry sector. In 2018, several factories will open in the Sumgait Chemical Industrial Park with investments amounting close to \$2 billion. In order to ensure development of an information sector, the quality of services and the country's potential as an information transit corridor will further progress. The initiation of the electronic visa and the introduction of tax-free systems, as well as the recent hosting of large-scale events, such as the European Games and Formula 1 racing, significantly contribute to the development of tourism in the country.

The ongoing global economic crisis affected Azerbaijan's economy too, decreasing income and leading to a 10.1% devaluation of the national currency during the past year. To ensure more sustainable development, a strategic roadmap has been adopted; comprehensive structural, institutional, monetary, financial and other reforms have continued; tax and customs management has improved; and transparency is ensured in all the areas. As an example, customs collections

increased by 53%, despite a decrease in trade turnover over a period of 10 months in the past year.

## **EU-Azerbaijan relations**

### **Trade picture**

- The EU is Azerbaijan's main trading partner, accounting for around 42.4% of Azerbaijan's total trade.
- The EU continues to be Azerbaijan's biggest export and import market with respective 48.3 % and 27.7% share in total Azerbaijan's exports and imports.
- EU imports from Azerbaijan chiefly consist of mineral fuels, machinery and transport equipment, chemicals and food and live animals.
- EU exports to Azerbaijan are dominated by machinery and transport equipment, miscellaneous manufactured articles, manufactured goods and chemicals.

### **Key trends**

- The EU supports closer trade and economic integration with Azerbaijan through the European Neighborhood Policy and its Eastern Partnership dimension. An Action Plan has been agreed in this respect in 2006. The Action Plan is a long-term reform agenda in various policy areas, including trade and trade-related matters.
- EU-Azerbaijan bilateral trade relations are currently regulated by a Partnership and Cooperation Agreement in force since 1999. This agreement does not include tariff preferences, but prohibits quantitative restrictions in bilateral trade and envisages selective regulatory approximation of Azerbaijan's legislation to the EU acquis.
- Closer economic ties are dependent on the partner countries' membership in the World Trade Organisation (WTO). Azerbaijan applied for membership to the WTO in 1997 and the process is ongoing.
- With a view to supporting Azerbaijan's future WTO membership and subsequent eventual bilateral Deep and Comprehensive Free Trade Area, negotiations on upgrading the existing trade related provisions of the Partnership and Cooperation Agreement (non-preferential trade and investment agreement) were launched on 16 July 2010.
- Azerbaijan is receiving technical assistance from the EU to help it to prepare for WTO membership.
- Negotiations on an Association Agreement, launched in 2010 in the framework of the Eastern Partnership, are presently ongoing. They are accompanied by negotiations on enhanced trade provisions of the Partnership and Cooperation Agreement, intended to maximise bilateral cooperation and to support effective implementation of necessary reforms.