

FACT SHEET: AZERBAIJAN
(January, 2005)

Prepared By Bakhtiyar I. Mamedov, BISNIS Representative in Azerbaijan - January, 2005

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GENERAL PROFILE

Territory: 87 thousand square km

Demographics: Azerbaijan has a population of approximately 8,113,000 million as of 2001. Exact population size is different to measure due to the influx of refugees from the conflict in Nagorno-Karabakh (known in Azerbaijan as Dagliq Qarabag), estimated between 750,000 and 1 million. By 2026 the population is projected to exceed 10 million. Population is 49% male, 51% female; 51% urban and 49% rural.

Political System: Presidential Republic – government based on separation of power between executive, legislative and judicial branches.

Head of State: Ilham Aliyev, President of the Republic of Azerbaijan (since 2003). The president is Head of State, in charge of the executive branch and elected for a five-year term. According to the constitution the president can be elected for a maximum of two terms. The next presidential elections are scheduled for October 2008.

Office of the President of Azerbaijan Republic

Address: 19 Istiglaliyyat Street
Baku 370066, Azerbaijan
Tel: (994 12) 4923154, 4927906
Fax: (994 12) 4983328, 4980822
Web: www.president.az
Contact: Vahid Akhundov, State Counselor for Economic Policy
Ali Asadov, State Counselor for Economic Affairs
Ali Hasanov, Chief, Public Political Affairs Department

Head of Government: Artur Rasi-zade, Prime Minister (since 1996). Legislative power is vested in the Parliament of the Republic of Azerbaijan (also known as the Milli Majlis). Its 125 members are elected to five-year terms from single-member constituencies. The next parliamentary elections are scheduled for November 2005.

The Cabinet of Ministers

Address: 68 Lermontov Street
Baku 370066, Azerbaijan

Tel: (994 12) 4980008, 4927528
 Fax: (994 12) 4926388, 4989786
 Web: http://www.president.az/s27_cabinet_of_ministers/_cabinet_e.html
 Contact: Yagub Eyyubov, Deputy Prime Minister (Energy)
 Abbas Abbasov, Deputy Prime Minister (Agriculture)
 Abid Sharifov, Deputy Prime Minister (Transport, Construction)

Religions: Muslim 93.4%, Russian Orthodox 3%, Armenian Orthodox 2.5%, Jewish 1%.

Ethnic Groups: Azeri 90%, Dagestani 3.2%, Russian 21.8%, Armenian 1.5%, Jewish 1%, Kurds 0.2%, Lezghi 2.2%, Talysh 1.0%, Avars 0.6%, Tatars 0.4%, Georgians 0.2%.

Official Language: Azerbaijani (Russian and Turkish also widely spoken)

Employment: Recent figures indicate unemployment levels of approximately 20%

Monetary Unit: Manat (AZM); USD 1 = AZM 4902.00 as of 27 January 2005. A thousand manat note is often referred to as a "mammed". A ten-thousand manat note is referred to as a "shirvan". Notes: For more updates on currency rates visit the website of National Bank of Azerbaijan at www.nba.az/eng/

ECONOMY

Foreign Trade Turnover (2004)

Countries	Imports Thousand USD	Exports Thousand USD	Foreign Trade Balance
Total FTT	3142762.2	3012419.3	-130342.9
USA	120600.8	24817.3	-95783.5
Germany	172915.2	36626.3	-136288.9
UK	370234.9	5714.1	-364520.8
Turkey	201665.9	172061.3	-29604.6
CIS General	1062271.5	556503.9	-505767.6
Russia	497078.8	175480.5	-321598.3
Kazakhstan	228547.5	8422.8	158849.3
Georgia	12681.5	171530.8	158849.3
Ukraine	139654.3	11036.5	-128617.9

U.S. Azerbaijan Trade

FY – 2000: USD 231 million
 FY – 2001: USD 85 million
 FY – 2002: USD 104 million
 FY – 2003: USD 129 million
 FY – 2004 (Jan-Nov): USD 177 million

Main U.S. Exports to Azerbaijan (2004)

Drilling & Oil Field Equipment – USD 21.2 million
Meat & Poultry – USD 15.0 million
Tobacco – USD 9.6 million
Material Handling Equipment – USD 4.7 million
Telecom Equipment – USD 3.3 million

Main Azerbaijan Exports to the U.S. (2004)

Petroleum Products – USD 5.66 million
Tobacco/Waxes/Nonfood Oils – USD 2.6 million
Art Work/Antiques – USD 399,000
Nuts – USD 222,000

Principal U.S. Exports, 2004: Oil and gas machinery, tobacco products, electrical equipment and surveying equipment.

Background: Principal U.S. Exports, 2000 (USD 210 million): Commercial aircraft and parts led U.S. exports to Azerbaijan in 2000, jumping to USD 68 million and accounting for 45 percent of total sales. Aircraft sales were followed by shipments of oil and gas machinery (USD 32.4 million), tobacco products (USD 15.2 million), electrical equipment (USD 2.6 million), and surveying instruments (USD 2.4 million). As a result of this export growth, in 2000 Azerbaijan surpassed both Uzbekistan and Kazakhstan to become the third largest market for U.S. exporters, after Russia and Ukraine, among countries formerly part of the Soviet Union. Within the Caucasus region, Azerbaijan's economy is perhaps the best poised for trade growth in 2005 and beyond.

Best U.S. Export Prospects: Best prospects for U.S. products and services in 2005 include oil/gas field machinery and services; architectural, and construction, engineering services; building materials; telecommunications equipment and services; food processing/packaging equipment; and agricultural machinery. Imported consumer goods have become increasingly available, although less expensive Eastern European (Russian, Turkish) goods predominate. A number of supermarkets have appeared on the scene introducing local consumers to western-style retailing.

Principal U.S. Imports, 2004: The principal imports to the U.S. from Azerbaijan in the year 2004 were art, antiques, oil, mineral fuels, apparel, grains, seeds and fruits. These items have been the primary imports to the U.S. from Azerbaijan for the last three years.

Despite Azerbaijan's macroeconomic success and initial efforts to take on structural economic reform, this country remains a difficult place to do business given arbitrary tax and customs administration, a weak court system, monopolistic regulation of the market, and corruption.

The government is aware that corruption is a serious problem. Draft anti-corruption legislation had its first reading in the parliament in December 2001. Azerbaijan plans to reform its civil service, including significant salary hikes for government employees. Both the IMF and World Bank programs include reforms aimed at combating corruption and improving governance, including restructuring of the State Customs Committee (SCC) and reform of its operations. Azerbaijan agreed with the IMF to reform the SCC based on a 2002 audit conducted by an international consulting firm. In 2004, the World Bank approved a new USD 15 million Rural Investment Project and a USD 10 million Pension and Social Assistance Project. At the end of 2004, negotiations with the World Bank were in progress on a new 3-year, USD 60 million Poverty Reduction Support Credit (PRSC) facility.

INVESTMENT

Total FDI in Azerbaijan: As work on the Baku-Tbilisi-Ceyhan (BTC) main oil export pipeline and development of Azerbaijan's oil and gas fields intensifies, foreign investment is projected to increase from the approximately 15 to 25 percent of GDP in the late 1990s to 50 percent of GDP in 2004. Since 1995, over 85 percent of all investment in Azerbaijan has been financed from abroad. Over 75 percent of that investment has been in the form of Foreign Direct Investment (FDI). FDI statistics are approximations only. According to the Azerbaijan State Statistics Committee, Azerbaijan received foreign investment totaling over USD 2 billion in 2003. Of that amount, nearly USD 1.8 billion was invested in the energy sector.

COMMERCIAL INFORMATION

U.S. Companies: More than 100 U.S. companies, a 25 percent increase since 2000, are now resident in Baku. The American Chamber of Commerce in Azerbaijan has over 140 members, a 30 percent increase since 2000.

Major trading partners: Azerbaijan's major trading partners (by dollar amounts of trade) are the United Kingdom, Russia, USA, Turkey, Germany, France, Italy, Kazakhstan and Georgia

Oil Fund Assets: About USD 1 billion (as of January 2005). By the end of 2015, the oil fund is estimated to contain USD 13 billion, more than double Azerbaijan's 2002 GDP.

PSA: Azerbaijan has signed 22 Production Sharing Agreements (PSAs) with major international oil companies, which altogether are worth around USD 50 billion. The Azerbaijan International Operating Company (AIOC), the consortium which oversees exploitation of the offshore Azeri-Chirag-Guneshli (ACG) oilfield. made initial investment commitments of around USD 9 billion. AIOC is likely to ultimately invest up to USD 15 billion. ACG oil will be exported via the Baku-Tbilisi-Ceyhan pipeline (BTC).

Oil production: According to the Ministry of Fuel and Energy, Azerbaijan plans to produce more than 15 million tons of oil in 2005. This will provide additional incentives for U.S. oil and gas supply and servicing companies to enter the market.

BTC/ACG Phase II, ACG Phase III, Shah Deniz: The BTC oil pipeline, officially approved in September 2002, will ship its first oil in 2005 and ultimately produce 1 million barrels a day. In August 2002, CCC, a Greece-based construction and project management firm, won a tender for laying pipe and construction of the Azeri and Georgian portions of the pipeline. BP is the operator in AIOC and in the consortium exploiting the offshore Shah Deniz natural gas field. Shah Deniz gas will be exported via the South Caucasus Pipeline (SCP), which parallels BTC and stops in east-central Turkey. This role as operator in both SCP and BTC makes BP the major player on the Azeri energy scene. ACG is being exploited in stages with ultimately five new oil platforms set to be operating. In September 2002, McDermott Caspian Contractors, Inc was awarded additional contracts for ACG Phase Two. This includes fabrication of the topside decks of the drilling platforms for the West Azeri and East Azeri portions of the ACG field. These decks include facilities for drilling, power generation and living quarters. Total expenditure for ACG Phase Three, tendered in 2003, is estimated at USD 3.6 billion. Exploitation of Shah Deniz, also sanctioned in 2003, will result in investments of more than USD2 billion on offshore platforms, drilling services, well casing, maintenance, and other works. Some segments of SCP have been constructed simultaneously with BTC, as the project moves to large-scale construction work covering the entire line, opportunities will emerge for U.S. sub-contractors.

Fitch IBCA Rating: In November 2004, Fitch IBCA upgraded Azerbaijan's long-term foreign currency rating from a BB- to BB with a stable outlook, reflecting macroeconomic stability, low government debt, and development in the oil and gas sector.

Banking sector: Total assets are equivalent to roughly USD 1.5 billion or 25% of GDP. As of January 2005 there were 44 banks operating in Azerbaijan.

Azerbaijan and WTO: WTO accession process for Azerbaijan started in 1997 when Azerbaijan officially applied for WTO membership. Azerbaijan has since been admitted as an observer. In 2002 the U.S. Trade and Development Agency (TDA) awarded a U.S. USD 1,000,000 grant to Azerbaijan's Ministry of Economic Development for technical assistance related to qualifying for entry into the WTO.

Top U.S. Subsidiaries in Azerbaijan: Bechtel International, Inc., ChevronTexaco, ConocoPhillips, ExxonMobil Azerbaijan Operating Co. L.L.C., Halliburton International Azerbaijan, McDermott Caspian Contractors, Inc., Schlumberger Logelco, Inc., Unocal.

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Sources: U.S. Census Bureau, State Committee on Statistics, IMF, National Bank of Azerbaijan, EBRD, BMI, World Trade Atlas, U.S. Commercial Service and BISNIS, U.S. Embassy in Baku.

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