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WINNE

**World Investment News Top Reports**



## **Top report on Azerbaijan The new generation.**

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# Country Report

## *Introduction*

### **The New Generation**

This is a new era, led by a new generation. The Presidential elections held in October 2003 witnessed the election of Ilham Aliyev as new President of Azerbaijan, thereby opening the doors to a new vision and a new generation of leaders in Azerbaijan.

This new era will witness major changes and face new realities.

### **Energy**

Known as "the land of fires", the countryside of Azerbaijan is illuminated by its stocks of oil and gas, burning from the earth, which has given its country a reputation as a strategic oil nation. It has also helped build Azerbaijan's economic development and international influence in a world dominated by the search for renewable energy.

Upstream oil field development is harnessed by major investment projects, which will have a geo-political importance for Europe and Asia, positioning Azerbaijan as a key partner for oil and gas trade.

The established political stability has also allowed economic reforms to go ahead; in fact, since 1994 Azerbaijan has received billions of investments in the development of its oil and gas resources and the country now hosts the regional offices of multinational companies like BP, Exxon, Shell, as well as many other companies from the USA, UK, Italy, France, Germany, Norway, Russia, Turkey, China and Israel. One of the best-known projects of world value is the construction of the BTC oil and gas pipeline (Baku-Tbilisi-Jeyhan) and the SCP (the Southern-Caucasian gas) pipeline, which will deliver Caspian oil to world markets.

### **Privatization**

Plans are underway to privatize major state-owned companies in the financial, telecom and industrial sectors, opening the doors to new opportunities for strategic Asian investors.

Economic programs of the European Union are helping to move the economy in the right direction, and a major campaign for privatization of state properties is in the works. Shortly on auctions and tenders the enterprises oil and a process industry will be announced. Already, many enterprises which are reforming themselves and bringing a stable return on investment. The last impulse for development of a non-oil sector of economy became the program of regional development accepted by the president in the beginning of 2004, which provides the state support and the big investments. The development of an agrarian sector and a varied road infrastructure has also been a positive result of this growth.

### **Diversification**

The government also seeks the attraction of foreign investment in non-oil sectors, thus seeking economic diversity. Transport, tourism services and commerce are only a few of the main

sectors that will require renewed attention in order to grow and modernize. Azerbaijan's strategic position establishes it as an ideal partner for Asian companies looking to expand to the west.

This active policy of market transformation was led by former president Heydar Aliyev, who ruled the country during Soviet time (1969-1982) and stayed in power for more than 10 years, effectively winning democratic elections in 1993 and leading the country's metamorphosis to implement a new era of industrial development. The result was an intensive attraction of foreign capital in the oil sector and a strong GDP growth which did not fall below 10% while annual inflation did not exceed 2%.

**Ahmed Jehani Country manager World Bank**, comments that, thanks to "sound economic stability" the country has "yielded striking results such as full stabilization since 1995, very low inflation rate, very low depreciation of the exchange rate, annual double digit GDP growth - and the last couple of years were also very good in terms non-oil GDP improvement".



## Foreign Relations

Stability was bestowed to Azerbaijan in 1991 when it declared independence from the Soviet Union. Ever since then, the country has flourished, receiving a full mandate in the United Nations Organization, and adopting a new constitution in 1995 in which democratic principles are respected, standards of market economy are implemented and human rights are nurtured.

Today, accession plans to the WTO and economic partnership with the IMF places foreign relations on a high international level. Security is also an important issue. From the end of 1990s, Azerbaijan has successfully cooperated with NATO, taking part in the program "Partnership for peace". Azerbaijan also has joined the development programs of various Asian countries and has become a member of the Organization Islamic Conference, while cooperating closely with Asian and Islamic development banks.

## Cultural bridges

As a main country within the Silk Route, Azerbaijan holds strong cultural ties with Asia. It will be looking to re-inforce these ties in order to improve its world position, regional recognition and to attract new partners on both political and economic levels.

Regionally, Azerbaijan is an important player among former republics of Soviet Union as one of the leaders of the Commonwealth of Independent States (CIS), the entity formed following the break-up of the USSR.

Thanks to its favorable geographical position, Azerbaijan was historically part of the Great Silk Route. In the north the republic borders on the Russian Federation, while in the south it borders with Iran. The east of the country is perched on the coast of the Caspian Sea, which offers direct contact with Asia and as well as its neighbors Kazakhstan and Turkmenistan. In the West Azerbaijan greets the borders of Georgia and Armenia. It must be said that there is a continuing dispute between Azerbaijan and Armenia since the 1980s, which has led the UNHCR (United Nations High Commission for Refugees) to maintain a presence in the area. Due to this continuing diplomatic conflict, Armenia is cut off from other Azerbaijan.

As a stop in the Silk Route, Azerbaijan has attracted a multi-ethnic population that brings together Turkish, Russian and Jewish citizens under one flag.

## **Political change**

President Heydar Aliyev has dominated the country's politics for a full decade. Following a period of instability that threatened civil war, President Aliyev came to power in 1993 and was returned to office in a controversial October 1998 election. President Aliyev and his supporters dominated the multiparty, 125-member parliament. An August 2002 referendum on proposed changes to the Azeri constitution drew criticism from U.S. and international observers, citing concerns on polling irregularities and voter fraud. Then, throughout 2002, President Aliyev proclaimed his intention to run in the next scheduled presidential election in 2003, yet concerns about the health of the 79-year old ruler led him to appoint his son, Ilham Aliyev, as Prime Minister in August 2003.

Finally, the mantle was passed on when President Aliyev stepped down as Presidential candidate and his son Ilham presented himself to the October 2004 elections as Presidential candidate and head of the New Azerbaijan Party (NAP).

The result was a strong electoral victory by Ilham Aliyev as the new President of Azerbaijan, heralding a new chapter in the country's political scene.

## **Managing the Karabakh conflict**

One of the issues that President Aliyev will have to deal with is the Karabakh conflict. At the end 1980s and the beginning of 1990s, the regional stage complicated itself when Azerbaijan and Armenia entered an armed conflict. Armenia claimed the northern territory of the country, including a pearl of Azerbaijan - Karabakh, which compelled immigrants to flee to the south. Since then, several U.N. resolutions have attempted to mediate the territorial conflict, and former president Heydar Aliyev attempted to reach peace in 1994 through an agreement which has set an armistice at the border, which is still observed by the Azerbaijan armed forces at the present time.

Peace talks are currently managed by the Organization on Security and Cooperation in Europe (OSCE), and it is hoped that, with the joint work of diplomats from the USA, Russia and France, a final process will soon formalize a lasting peace between both neighbors.

## **Oil & Gas**

### **OIL & GAS: The Caspian Powerhouse**

As "the land of fires", Azerbaijan has become a regional cradle for the petrochemical industry. While it was one of the first countries to send oil tankers out to the Caspian, the outstanding history of the past has not disappeared. Nor will it in the future; it is expected that Azerbaijan's oil and gas will continue booming for another 100 years at least.



The history of modern development of huge power stocks of the Caspian Sea started in September, 20, 1994 when the first oil contract between the government of the country and a consortium of multinationals was signed as a PSA (Production Sharing Agreement). Its operator was BP, who led the consortium to extracted oil for distribution to the world market through two small oil pipelines with terminal points - Novorossiysk (the Russian port on Black sea) and Supsa (the Georgian port on Black sea).

Ten years later, 22 similar agreements have been signed with the largest world oil companies for the development of oil deposits on the sea and on land. Investors from the USA, the Great Britain, France, Russia, Turkey, Saudi Arabia, Japan, Norway, Italy, Holland, China have all made Baku, the capital of Azerbaijan, their new home. Among them the biggest names are present: BP, Exxon/Mobil, LUKoil, Shell, Statoil, TOTAL, Agip, Eni, Turkish Petroleum, Chevron, JNOC, Phillips-Conoco and many others.



The total sum of oil-and-gas investments will reach 50 billion dollars - which is only a first taste of what is to come, since the total stocks of power resources of Caspian sea are estimated in 7-10 billion tons of which Azerbaijan should yield about a third of the total findings. Continuous development of oil-and-gas sector, by estimation of experts, will lead Azerbaijan to extract 57 million tons of oil in 2010 (exporting 42 million tons) while it is estimated that in 2020, some 105 million tons of oil will be produced, of which 81 million will go be sold internationally.

The state oil company of Azerbaijan (SOCAR) in 2003 has independently extracted 8,925 million tons of oil, which is practically equaled to last year's parameters.



Besides stocks of oil at the end of 90th there was an openly large gas deposit Shahdeniz (King of the sea). Its stocks are evaluated at 800 billion cubic meter of gas, and partners of the project together with Statoil (Norway) in February, 2003 have approved the first stage of industrial development of the deposit, concerning extraction of 178 billion cubic meter of gas.

For the exports of such great volumes, energy carriers have been brought in to construct export pipelines - oil to the Baku-Tbilisi-Jeyhan, and gas to the Baku-Tbilisi-Erzurum. The first oil pipeline throughput 50 million tons will be ready in the beginning of 2005, while the second gas main throughput of 15-20 billion cubic metre of gas is expected to be completed in 2006.



According to the president of SOCAR Natiq Aliyev, the Azerbaijan gas delivered up to Turkey will be the cheapest for Turkish consumers in comparison with other offers, in particular compared to the Russian "Blue stream".

By 2010, SOCAR plans to increase considerably its own gas extraction by up to 9 billion cubic metre per year, up from the present volume in 5,168 billion cubic meters of gas extracted in 2003.

Needs of Azerbaijan for gas translate to 12 billion cubic meters, while any deficiency is covered by the purchase of gas in Russia and Kazakhstan. Azerbaijan therefore hopes to achieve growth of extraction of gas in 2006 with the beginning of extraction of gas from the Azerbaijan Shahdeniz deposit.





In order to manage oil and gas revenues for future generations, the special State oil fund of Azerbaijan (SOFAR) was created in 1999 to control activity on development of deposits, including payment for transit of hydrocarbons on territory of Azerbaijan and bonuses of foreign companies for participation in the Azerbaijan oil-and-gas projects.

This year the oil fund budget rose to \$815 million, while reserves of National bank of Azerbaijan resulted in \$757 million. The importance of this fund has led the national government to bring in foreign management to ensure transparency of this strategic national fund.

## ***Tourism***

### **TOURISM: A NEW FRONTIER**

Tourism is one of developing branches of the economy of Azerbaijan. The state and private business have recently begun work on a transformation of the country into the new tourist center of the world.

Azerbaijan - the country of mountains (the Great and Small Caucasus, uplands Talysh), with the big extent of sea coast (the general strip of coast of Caspian sea, belonging to Azerbaijan, makes more than 500 kilometers) hopes to bring to market its tourism potential to attract foreign dollars.

The natural landscapes, climate, and cultural heritage of Azerbaijan create favorable conditions for the development of all directions of tourism. In the country are present about ten reserves, large forests with unique fauna and flora. Fans of productive leisure can engage in sports fishing of a trout in mountain small rivers or a scuba diving and hunting on Caspian sea, as well as horse riding in mountains or woods.

Curative sources with mineral water of various structure and properties in huge quantity are available practically in all mountain areas of the country. Mud volcanoes could also help foster the promotion of therapeutic mud masks. At last, promoting development of tourism could attribute a soft climate to advantages, and it offers an opportunity to accept tourists on resorts along coast five months in a year - from May till September.

The historical heritage of the country is strewn with thousand-year monuments. A vivid example: rock figures of a prehistoric epoch of a neolith in Gobustan (50 km on the south from capital), brought in lists of protected monuments of UNESCO. Among numerous monuments of culture, it is possible to see Roman fortresses and numerous remains of medieval fortresses, caravans-sheds, mausoleums of an Islamic epoch or early Christian monuments of the Caucasian Albania. The architectural shape of Baku is also a gem worth the visit - the three-million capital of the Azerbaijan was connected to the medieval east, boasting an architectural eclecticism from the end of XIX century.



## **EXISTING TOURIST INFRASTRUCTURE**



Presently there are 93 hotels in Azerbaijan, hotels and motels, but only a little from them meet international standards (Hyatt Regency, Grand Hotel Europe, Radisson SAS). It is true, however, that a swift process of certification of other hotels has been delayed owing to legal delays, yet it is expected that this question will be solved by the end of 2004. Currently the majority of local hotels cannot apply more, than for two-three stars on the European classification, given the fact that most of these hotels were constructed in days of the Soviet Union.

In 2003, 27 hotels were offered up for privatization, but even after privatization the majority of hotels remain at a very primitive level.

## **ESTABLISHING A TOURISM BRANCH: A NEW PRIORITY OF THE STATE**

Within the framework of the State program on development of tourism has divided the country into six zones of development of tourism. In each zone a separate project will be prepared and submitted with consideration of potential investors.

For example, the infrastructure of the tourist zone of Nabran (northern part of coast of Caspian Sea) has seen an investment of about \$15 million. In result, such new zones of rest have appeared there. The zone of rest Nabran is in the Khachmaz area located in northeast of Azerbaijan. It is located on the coast of the Caspian sea, along large forests known for its springs and sources.

Despite of backwardness of its infrastructure, Nabran is one of the most luxurious zones of Azerbaijan. This is thanks to the presence of good roads, communications, water supplies, telecommunications, and an efficient drainage system.

Meanwhile, one of the largest and known modern hotel complexes on Apsheron is hotel Crescent Beach located in several kilometers to the south from capital.

A growing potential for investment is also in the subtropical zone of southern coast of Caspian sea.

## **EFFORTS TO DEVELOP TOURISM**

The Ministry of youth, sports and tourism created three years ago is making huge efforts to develop tourism and attract investments into this segment of economy. This also relates to the membership of Azerbaijan to the World Tourist Organization (WTO).

As Abulfaz Karayev, the Minister of youth, sports and tourism said: "We are interested in building up the tourism development strategy for the next 50 years, but it does not depend completely on us. We agreed with the US government through the Trade Development Agency that they will finance the creation of the master plan of development of tourism in Azerbaijan".



The government is ready to invest to tourism development. In 2004 it is expected that 14 to 15 projects will be financed by National fund for support of business of Azerbaijan. The ministry works above opening of Institute of tourism. A number of actions on a professional training is already moving ahead, and experts have passed training in Turkey and attended special technical schools to learn new techniques. Financial support also stems from the Program of Development of United Nations (UNDP).

Negotiations about construction new or reconstruction of old hotels in Baku are conducted with business circles of Italy, while businessmen of Saudi Arabia are working on a project for the development of mountain-skiing tourism in Gusar

The promotion of Azerbaijan in the world market of tourism will take some years, yet it is hoped that growing ties with tour operators will help attract new investments to this new sector.

## Company Profiles

### ***GRAND HOTEL EUROPE BAKU***



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Grand Hotel Europe is a welcoming landmark in Baku, the capital city of Azerbaijan. This first-class luxury hotel is ideally situated within minutes of all major business and government offices of the capital and next to the International Exhibition Center hosting annual Oil and Gas shows in Azerbaijan.



Situated atop a prominent ridge overlooking Baku and the Caspian Sea we are truly a grand hotel with our architectural mix of contemporary design and ancient themes that combine for the hotel's unique style.



The Hotel offers 94 spacious and tastefully decorated Deluxe Guest Rooms and Suites, most of them having a marvelous view of the Caspian Sea. All rooms have individually controlled air conditioning, color satellite TV, hairdryer, direct-dial international telephone, private safe, minibar and Internet connection.



ROOM TYPE	RACK RATES
Deluxe Single	200 USD + 15 USD buffet breakfast
Deluxe Double/Twin	200 USD + 30 USD buffet breakfast (two persons)
Executive Suite	320 USD + 15 USD buffet breakfast
King Suite	600 USD + 15 USD buffet breakfast





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Grand Hotel Europe in the GDS systems:

Galileo / Apollo: 1391; Sabre: 18032;

Amadeus: WCBK001; Worldspan: WCBK01

Online reservations: <http://www.europehotel-baku.com/reservation.html>



***Interview with:***

***Mr. Gunesh Inkaya, General Manager of Grand Hotel Europe Baku***

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What is the main activity of your hotel and what kind of people you actually target?

The hotel was opened in 1997 and it was meant to be a guest house for embassies and diplomatic missions. But before opening we changed our mind and turned it to 5 star hotel. There are 2 big hotels in Baku. In Baku compared to other cities there are less hotels. Actually we don't target any groups because they target us. We don't have to do much to fill up the hotel. We have 96 rooms and it is a medium-size hotel. It is not a brand or chain just as an individual hotel. It is was an American-Azerbaijan JV. In July 2003 we started the privatization of it and now it is an American investment.

The hotel is fuller during the week but in the week-ends not so much because we don't have many tourists in the country. The companies like BP and their subcontractors work during a week and in the week-end they try to leave. 50% of the visitors come from oil or oil related business.

One thing is for sure that tourism is not developed here. May be in future it is going to develop if they work hard on that.

May be you would be more interested to lobby towards the government in order to push develop the tourism infrastructure?

In Azerbaijan you can not push anyone to anything. We have seaside to rest and now the government tries to attract tourists there. But it has nothing to do with us. Baku is not like Paris or London so that you can go and see many wonderful things. At present it is the destination only for businessmen. Maybe in future trade develops and businessmen will come here not only for oil sector but for non-oil sector as well.

When we talked to the Minister of Tourism and asked him to develop the tourism sector he said they will do that but for the countryside. As to the city they have to diversify business in order to attract more businessmen.

Do you think that the government actually listens to you and your counterparts' suggestions investing or intending to invest in Azerbaijan?

Since the new president has been in power he has been working very hard to divert business to other sectors. And he is pretty successful in it.

Every year the percentage of the oil business share in the whole economy decreases. 5 years ago it was about 80% but now it is 50%. In future the oil business perhaps will make up only 20% of the economy. But I think the president is working very hard on trying to diversify business in the country.

It seems there has been some major changes which is a good sign and maybe people are waiting for such kind of sign to come to the country?

The Ministry of Economic Development is working very hard on promoting the country in order to attract foreign businessmen. During 1990-2002 there was a global crisis but since 2002 business began to grow up and people began to get interested in Azerbaijan.

If you open a hotel guide book where different countries are represented the only thing written about Azerbaijan is that it is a very dangerous country and just few more sentences. If you look at those magazines you'll be astonished. I have been living here for 10 years already and I have never had problems but according to those magazines I must be dead by now.

And we told the government if you don't change that no one will come here and why should they if they feel like they are going to die here. And since then we have had 5-6 times ISO international experts who came here to make reports and publish them worldwide. The first step is promoting the country and showing the good face of it. And I think this report will also be of great help and importance for Azerbaijan.

You must have seen Azerbaijan living the transition period and major progress over past 10 years?

I came here in 1995 for the opening of Hyatt Regency. From 1998 till 2002 nothing changed much. It was like a calm stable period and now it is growing up again.

You have the experience of those two positions of the Hyatt and Grand Hotel Europe. How would you define the image of your hotel in Baku as compared to the others?

Since there is not so much competition between these 2 hotels because we are the main hotels in the city we have a good image. If you would have 10 Hyatt Regencies or 5 Hiltons or whatever it wouldn't be even realized. But as I said there is not much options here.

Moreover, our hotel has a great exposure. You can not miss the hotel when you pass by. Because it was a government JV the Ministry of Foreign Affairs gave this place to us.

Before the privatization the 49% of shares belonged to individual Americans and 51% to the Azeri government. But now it is 100% American investment. The privatization began only 3 years ago. We are actually the American Leasing Company assistant company which is more to aviation.

The owner of the hotel is from Northern Iran and American by citizenship and originally he is Azeri. He has had business here for a long time.

When we see how successful the hotels here we wonder why the normal hotels don't come here?

Because the hotels are normal. If we would have Hilton or 10 other brands here then we wouldn't be so successful. In Istanbul we have 5 ths hotels 400 of which are branded and the rest are the individual ones and the average rates of rooms is \$50. But here many of the rooms raise up to \$200. The money we are making here we make only for the rooms. The room rates at the Hyatt Regency are the most successful. So the Hyatt regency in Baku is probably the most successful in the world.

As an answer to your question, the explanation for that would be as the crisis for the last 4 years. Before that the Marriott was very interested to have a hotel here which is one of the biggest chains of the world. And when the crisis started they just froze their project here and went to Tbilisi. The same with Hilton. There might be some other reasons. But I don't know what they are. May be the Hyatt is too big and they don't want to come to the market that might be a natural barrier for them.

On the personal level are you going to stay here for a long time or keep on travelling?

Actually, 6 months a year I'm not here. Because our company is located in London. That's why I have to move there many times a year. And of course my responsibility is to run this place because I'm the member of board and the director for Baku.

What is your message for the foreign investors?

Azerbaijan is a very good destination for investment. But it needs support, technology for development of non-oil sector. My advice for the businessmen interested in Baku would be other than the oil business. People are realizing that the non-oil sector is also profitable.

## **GUBA OLYMPIC SPORT COMPLEX**





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The Guba Olympic Sport Complex was inaugurated on the 11th of October 2003 by the President Ilham Aliyev, also President of the National Olympic Committee.

The large sport center, which has become the base for the National Volley-ball team, complies with all Olympic standards. Sport halls, Stadium, a 50-meter swimming pool, tennis courts, a high-standing hotel and private cottages are among the main facilities available.



The construction of this new Olympic complex answers the President's will to develop the regions of Azerbaijan, and especially through the practice of sports activities. Such a vision has one major goal: creating favourable conditions for a sound development of the new generation, which will contribute to the future socio-economic development of the regions as well as maintaining peace and stability.

This long-term investment policy, initiated by the National Olympic Committee more than 3 years ago, has already provided a few towns with 8 Olympic centers (regions of Baku, Nakchivan, Gandja, Sheki, Barda, Lankaran).



Besides, it is through sports achievements on an international level that Azerbaijan will also improve its image on the global scene. This window will offer foreigners the possibility to know more about the nation, its history, its culture and its commitment towards international development.

For instance, the region of Guba offers good conditions for development of the tourism industry. The attractiveness of its nature as well as the local hospitality definitely offers growth potential for tourism activities in the region.



## ***HYATT REGENCY BAKU***



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Hyatt Regency Baku is a world-class hotel, conveniently located on Bakikhanov Street, just a five-minute drive from Baku city centre with its shopping, dining and entertainment, and only ten minutes from the Baku Exhibition Centre and the government offices. Baku Airport is within 35 minutes of the hotel.

In the second century BC, caravans travelled through Azerbaijan on the 4000-mile Silk Road linking East Asia with the West. With its recent, remarkable commercial renaissance, Baku features prominently again on the business traveller's landscape.

Smooth hotel service and genuine Hyatt warmth of manner is combined with superb efficiency to help your business flow with ease during your hotel stay. Hyatt Regency Baku is a perfect fusion of business and pleasure.



The Complex has become Baku's central meeting point for the business and social community alike. Hyatt Regency Baku and Hyatt Meeting and Conference Centre house a large array of flexible conference and banquet facilities, ideal for Baku events such as cocktail receptions, weddings, dinners, charity events and gala functions.

#### Hotel Facilities

Hotel Facilities

Hyatt Business Centre

Club Oasis

The Hyatt Business Centre offers comprehensive office services to all hotel guests. Club Oasis, dedicated to the relaxation of mind and body, is the largest health and fitness centre in the Caucasus, featuring a state-of-the-art gymnasium, indoor and outdoor tennis courts, squash courts and indoor and outdoor 25-metre swimming pools (located at the Hyatt International Centre).

#### Services

- Multilingual staff
- Florist
- Concierge
- Laundry and dry-cleaning
- Manager on duty 24 hours
- Car and chauffeur-driven limousine rental
- Airline reservation and confirmation service
- Newsagent and gift shop
- Medical staff available 24 hours
- Babysitting service (on request)
- Translator and interpreter (on request)

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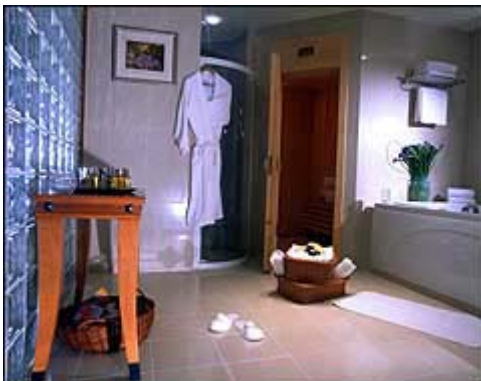
Park Hyatt Baku is conveniently located between Hyatt Regency Baku and the Hyatt International Centre and features offices, apartments, restaurants and an entertainment complex. Just ten minutes from Baku city centre, the Exhibition Complex and the government offices, Park Hyatt Baku is a five-minute drive from shopping, dining and entertainment, while Baku Airport is 35 minutes away from the hotel.

In the second century BC, caravans travelled through Azerbaijan on the 4000-mile Silk Road linking East Asia with the West. With its recent, remarkable commercial renaissance, Baku features prominently again on the business traveller's landscape

Smooth hotel service and genuine Baku warmth combine with superb Hyatt efficiency to make your business flow with ease during your hotel stay. Park Hyatt Baku is a perfect hotel fusion of business and pleasure and elevates Baku hospitality to a new level.



The 159 hotel guest rooms and suites are contemporary in design, decorated in soft, neutral colours creating a calm and relaxing hotel haven. Park Hyatt Baku also incorporates long-stay hotel apartments.



Park Hyatt Baku's restaurant, Mezzo, serves Mediterranean cuisine, and the hotel's Park Lounge provides a cosmopolitan environment in which hotel guests can enjoy afternoon tea and evening cocktails.



Hotel guests have access to the restaurants, bars and entertainment centres within the Complex at the Hyatt International Centre and Hyatt Regency Baku, that include the club, 1033 at Izmir Street, and a comprehensive fitness centre with a spa and pool at Club Oasis.

The Complex has become Baku's central meeting point for the business and social community alike. Park Hyatt Baku offers two multifunctional hotel meeting rooms, equipped with the latest technology and each accommodating up to 70 guests, while the adjacent Hyatt Regency and Hyatt Meeting and Conference Centre house a large array of flexible conference and banquet facilities for a variety of events.

#### Hotel Facilities

- Hotel Facilities
- Business Centre
- Club Oasis Fitness Centre
- Hyatt Tower Apartments
- Hyatt Offices
- Villas

The Hyatt Business Centre offers comprehensive office services to all hotel guests. Club Oasis, dedicated to the relaxation of mind and body, is the largest health and fitness centre in the Caucasus, featuring a state-of-the-art gymnasium, indoor and outdoor tennis courts, squash courts, and indoor and outdoor 25-metre swimming pools (located at the Hyatt International Centre).

#### Services

- Multilingual staff
- Currency exchange
- Florist
- Concierge
- Laundry and dry-cleaning from 7:00 am to 10:00 pm
- Manager on duty 24 hours
- Car and limousine rental
- Newsagent and gift shop
- Medical staff available 24 hours
- Babysitting service (on request)
- Translator and interpreter (on request)
- Major airline representatives and reservations offices
- Furnished luxury apartments with one to three bedrooms available for long-term lease



***Interview with:***

***Mr. Arif Hashmi, General Manager of Hyatt Regency Baku***



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10/12/03

Can we say that to some extent the profile of your guests reflects the level of foreign business in the country? It is very important to mention that 80% of our business at Hyatt Hotels in Baku is coming from oil-related sectors, be they oil companies or subcontractors servicing the oil & gas industry. If you want to break it down geographically it is 30-35% Americans, 30-35% British, 15% Turkish. The rest - Western Europe, Australia.

I understand that a great majority of your guests are businessmen, not tourists...

Absolutely! 99% of our guests are here for work. Foreign businessmen represent our largest group of visitors. The services we provide here are exclusively oriented towards businessmen's needs.

I suppose this differs significantly from some experience that you may have had in a more tourist-oriented area?

Yes. I worked in different hotels. I have been working for Hyatt for the past 15 years, but it in different countries: California, Istanbul... I came here in 1995 to open the original Hyatt i.e. Hyatt Regency Baku. Then, I left for Muscat, Oman and stayed there for about 2 ½ years. Our business mix in Muscat was almost 50-50 meaning 50% business and the other 50% leisure. It was a very interesting time in Muscat as we had to compete with business hotels as well as resorts. From Muscat I was sent to a short assignment to Belgrade, former Yugoslavia, and came back to Baku in late 2001.

I assume that undertaking the management of Hyatt Hotels in Baku represented a new challenge for you, so different from what you experienced before? Absolutely, Baku was so different from now in 1995. Baku has evolved dramatically over the past 7 years. It looks like it has undergone a non-stop progress.

And of course, this growth impacted a lot on our activity. Our occupancy rate increased dramatically and we had to build another hotel (Park Hyatt) next to the original one (Regency), including 3 towers. We also invested in the construction of villas within this compound and providing all the necessary comfort and security. The villas are mostly used by major oil companies.

The service that you provide to foreign visitors as well as for organizations seems to be pretty unique...

Yes, because we do our best to be the number one on the world market. The service that we provide is the same in all Hyatt Hotels worldwide. That is why people always recognize us wherever they are and they are very loyal to us. We want to provide a life style through our services, shops, offices, and apartments. The whole complex is like a little town inside a town. You won't find such a service if you go somewhere else. Besides, we provide a very high level of security here. People feel safe with us.

Do you collaborate with Government authorities or the Chamber of Commerce in order to attract foreign delegations, or do you market yourself through your own network?

We receive foreign delegations all the time. Recently we had the visit from the US Defense Secretary. We also have hosted two presidents - Mr. Shevardnadze and Kazakhstan President. The Hyatt is a global company. We have a lot of representatives all around the world: in London, Frankfurt, New-York, Madrid, Paris. We have the same reservation system. Anyone can check the availability and make the reservation in Baku from any other city of the world.

In most high-standing hotels, conferences are the main source of income. How does it go in your hotel?

No, here, our main income is coming from the Rooms department. This department contributes to 65% of our total turnover. It is more than in many other cities worldwide. For instant, in Paris, the Rooms division and the Food & Beverages department share 50/50%. In Baku only 30 to 38% come from the Food & Beverages department.

8 years after the set up of your hotel, do you still intend to make any major investment?

Of course! We just spent half a million dollars on our new restaurant. We will serve Mediterranean food, emphasizing on Italian cuisine. We will also have the Spanish, French and other Mediterranean dishes. This is a very expensive project run by a British designer, but it was worth spending money on it. But the major investment that is coming up now is the refurbishing of the bedrooms at the Hyatt Regency. We need to change their look, replace the furniture. Those rooms definitely look too old-fashioned in comparison with those of the Park Hyatt.

## ***MINISTRY OF COMMUNICATIONS***

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"Independent Republic should have independent communication."

"At the present time communications is proved to be necessary for everyone."

"Recently in Azerbaijan communications is in a speedy progress and attained achievements are considered to be satisfactory."

"Exploitation of automatic telephone exchange (ATE) installed by means of a technology of high level is enormous event in the industry of our Republic as well as in the life of the society."

The Late President of Azerbaijan Republic,  
His Excellency Mr. Heydar Aliyev.

## Investment policy of the Ministry of Communications



After gaining State Independence, the Azerbaijan Republic, according to international law and universal norms carries out independent economic and social policy in interests of the citizens.

One of main principles of economic independence of Republic is attraction in economy of local and foreign investments and their protection. From this point of view in Republic the structural and investment policy directed on radical technological updating of manufacture and branches of an infrastructure, with the help of the scientific and technical policy directed on highly effective accelerated development of economy, corresponding to national interests and requirements of the world market is spent.

The large-scale economic policy spent in Azerbaijan Republic has influenced also one of the biggest branches of an infrastructure - communication. In the field of communication attaches great importance to investments, both due to internal resources, and by attraction of foreign investors.



The investment policy spent by the Ministry of Communications in the field of communication of Azerbaijan is carried out according to laws of the Azerbaijan Republic " About investment activity ", " About protection of foreign investments " and other normative-legal acts.

For last five years in republic on expansion of an existing telephone system, reconstruction morally and physically out-of-date telephone exchanges, expansion of a zone of a radiotelevision announcement and increase of its quality, for development of mail, the Internet



and other new kinds of services of communication is enclosed investments for the sum more than 300 million US dollars.



Simultaneously with the enclosed investments due to internal opportunities of the enterprises and the organizations of communication, there is created to foreign investors the favorable investment climate for capital investments in communication of Azerbaijan.

Process of attraction of foreign investments into branch of communication of Azerbaijan began in 1991. By creation of joint ventures by all kinds of services of communication with participation of the various companies the Ministry of Communications of the Azerbaijan Republic aspired to bring development of telecommunications into accord to the international level.



For 01.01.2003 years in the field of communication the volume of the involved investments by creation of joint ventures has made more than 250 million US dollars, number of working joint ventures - 10. Due to means of the state enterprises of communication in 1998-2002, it was enclosed 104 million dollars of investments, it was handed over in operation Electronic Automatic Exchanges with capacity of 408574 numbers, it was digitalised 42,1 % of the general capacity on republic.

Now the Ministry of Communications spends a system investment policy for attraction in the field of communication of republic of new investments.

## **Economic Policy of Ministry of Communications of Azerbaijan Republic**

Just after when Azerbaijan Republic gained its State independence, the large-scale economic policy, which it pursued, has also comprised the communication, one of the biggest infrastructure sectors. The earnings of the Ministry of Communications for 2002 were 425,3

billion Azeri manats as compared with 22,1-29,9 billion Azeri manats of earnings in 1993-1994, and 316,2 billion Azeri manats of earnings in 1997, as well as 390,2 billion manats of earnings in 2001.



The total amount of payments dedicated to state budget comprised 0,6 billion manats, however in 2002 it was 82,2 billion Azeri manats.

Under constant supervision and guidance of our President, the development of national communication toward the level of International standards can be said to date from 1997.

The total number capacity of telephone networks in the Republic was 735402 by the latest 1996, at present it comprises over 1 000 000 numbers.

The number of telephone sets per 100 families is as follows: from 1991 to 1996 the growth was 1,6 piece which totaled 39,7 pieces per 100 families, whereas comparing, during the last 6 years it grew as high as 17,3 piece which totaled 57,0 pieces per 100 families by the latest 2002.

By 1997 the communication enterprises in regions were operating with low profit, however, commencing from first half-year of 2002, the profitable operation of all communication enterprises were ensured as a result of constant analyses and works done in the field.

In recent years varieties of service types has been increased by using opportunities of accessing all communication enterprises to computer networks through ON-LINE regime in all regions of the Republic, constant analyses were carried out and recommendations were provided, and consequently, the increase of earnings in all fields of services was achieved.



As a result of recent policy of economy pursued over the Republic, the volume of communication services in the structure of services provided to population was 4% in 1995, however, at present the above-mentioned indicators reached to 27%.

Remarkable works has been done in the field of communication commencing from 1997 with the help of relevant tariff policy on the bases of scientific justifications in the direction of reducing prices.

Thus international telephone calls tariffs were reduced by 40% in the direction of Iran and Turkey, by 46,7% in the direction of European countries, and by 50% in the direction of the USA and other countries during 1998-2003. With effect from January 2003, tariffs on about 200 city, rural, long-distance and international telephone communication services were reduced.



The policy, which is pursued by our President targets at improving social welfare and financial well being of people, comprises the communication field as well.

In 1993 the average monthly salary in the Republic was 2,300 manats, whereas it was raised up to 132,000 manats in 1996, and raised up to 428,800 manats in the latest 2002. Average monthly salary is planned to have reached up to 500 000 by the end of 2003.

Under the decision taken by the Board of Ministry of Communication, 663 new workplaces were opened in 2001 and additionally 295 workplaces were opened in 2002.

***Interview with:***

***H.E. Mr. Nadir Akhmedov, Minister of Communications***



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04/02/04

The telecom sector has been undergoing a significant transition phase for the past 10 years. Can you briefly come back on the main achievements reached by your government over that period? 15 years ago, the telecommunication sector was suffering from underdevelopment and corruption. But today, we don't have anymore corruption and anybody can install as many lines as he wants. We even provide credit facilities to allow the people to get access to our telecommunication services. We also try to provide the same service anywhere in the country. There is no region of Azerbaijan where you cannot have access to a telephone. This development could only happen through gaining the country's independence and the high commitment of late President Heydar Aliyev to the telecommunication sector.

15 years ago, the telecommunication sector was suffering from underdevelopment and corruption. But today, we don't have anymore corruption and anybody can install as many lines as he wants. We even provide credit facilities to allow the people to get access to our telecommunication services. We also try to provide the same service anywhere in the country. There is no region of Azerbaijan where you cannot have access to a telephone. This development could only happen through gaining the country's independence and the high commitment of late President Heydar Aliyev to the telecommunication sector.

Also, you will find an internet club anywhere in Azerbaijan. Internet service providers are growing. In Baku, you have high speed connections (up to 90Mbit) but unfortunately still a lot of people don't use this service. The penetration is only around 35%. That's because we are in our transition period. Also, one important factor is the fact that computer technology is still too expensive for Azeri people and students. So we are trying to buy those computers and provide them to the population at a lower price and now we can feel that internet users are increasing. At the Ministry of Communications, we pay special attention to e-communication. We provide services through our cables to the 15 existing ISP in the country and our wish is to develop the internet faster.

We are witnessing the privatization of Backcell as well as Azercell on the GSM market. Can you give us a brief overview of the development policy your ministry is implementing in the telecommunication sector in that respect?

As far as the privatization of the telecommunication sector is concerned, I would say that it has been completed a long time ago as 65% of the telecommunication services are currently provided by private companies, which is a significant figure. We have indeed completed the privatization of Backcell now belonging 100% to an Israeli company. Our strategy was to start privatizing joint-ventures. This plan, which was set up 2 years ago, took some delay but now we are trying to catch up and accelerate the process. We have around 10 JV in Azerbaijan: Azercell, AzEurotel and others.... Following the privatization of Backcell, we are now preparing the privatization of Azercell, which should be completed by end 2004. We are also confident that other JV's privatizations will be completed by the same time. Obviously, we give priority to the original private shareholder of the JV when it comes to sell the State's shares.

All companies in the sector are ready for privatization. They provide good-quality services but as far as the State-owned company is concerned, AzTelecom, the Government is fully involved in modernizing its infrastructure and services. Digital systems can be applied to our infrastructure and we target a 60%-implementation of digital systems by the end of 2004 and this will be the highest percentage among all CIS countries. We really feel that Azerbaijan is experiencing a transition period and we are doing our best to fully get involved in that process.

Being a Regulation Authority, does your Ministry plan to offer new telecommunication licences in the near future?

In Azerbaijan, we have 2 mobile operators and they can provide the country with the best services. But if anyone addresses to us in order to implement new licences, we would consider this opportunity. We actually think that within one or two years we can bring in new generations of mobile services in Azerbaijan. We will of course try to involve private companies in the process.

How do you plan the restructuring of the AzTelecom?

The privatization of AzTelecom will be done through a tender. We will open the market to existing Azeri operators as well as foreign companies or any individual. However, we will have to prevent the creation of a monopolistic situation. We want to enhance competitiveness.

What would be your personal message to our readers?

7 years ago, Late President Heydar Aliyev declared the Azeri market open to foreign investors. Today, for a foreign investor, there is no major obstacle to investing in Azerbaijan. The only concern is that there must be a clear mutual interest from both sides. We understand that foreign investors are coming here to make profits. But we need to be honest and protect Azeri people's interest. So, we are ready to cooperate with any foreign investor keeping in mind this principle.

On the other hand, one of our priorities is to get credit lines at low interest rates, around 7 or 8% for 3 or 5 years. The telecommunication sector has a need to set up companies that can produce modern equipment technologies and we can provide support to any foreign investor ready to set up production units in the country as well as to importers of new technologies.

Could you tell us more about your professional experience and how you became minister of Telecommunications?

Yes! I got appointed as Minister in 3 hours. I was Deputy Minister and I one day I got a call from the presidency. I did not know why the President Heydar Aliyev wanted to see me. Then the President started talking to me about his disappointment over the situation in the Telecommunications sector. He insisted on the need to dramatically improve the situation and then asked me if I could make it. His plan was to appoint me as minister. So I answered that if he really trusted me he could count on me to solve that issue. And half an hour later, the decree was prepared so that I could be officially appointed as minister of Telecommunications. Late President Heydar Aliyev gave a great contribution to the development of the telecommunication sector in Azerbaijan. A book has even been written but it is in Azeri. In the '80s, when he was 1st Secretary of the Communist party in Moscow he had drawn a plan for the telecommunication sectors but unfortunately it did not get applied. And it is upon his election in 1993 that he raised that issue again for Azerbaijan and personally instructed me to implement a new concept for the development of telecommunications in the country.

## ***AZERBAIJAN STATE RAILWAY***



Mr. Mehti Metiyev, CEO

The first rail system constructed in Azerbaijan was constructed back in the 19th century. The main reason for the construction of such rail system was of course the oil transportation from the country to the Black Sea ports and to Russia, when talking about railways development in Azerbaijan it is needed to talk also about the development of the oil industry.



In 1970 the railway industry of the country saw its biggest volumes with close to 14 million tones of products transported in that time, most of it oil and oil products. After the end of the soviet period the numbers dropped dramatically, and didn't improve since 1997.





Azerbaijan State Railways has a total of 2,932 kilometres of track and uses 2,117 kilometres, 815 kilometres are double-line tracks. The country's railways have 1,272 kilometres, or 60%, of electrified track and the remaining 845 kilometres, or 40%, are for diesel trains. There are 176 train stations. There are 12 stations that have container areas with the necessary machinery. Kishly, Ganja and Khyrdalan train stations handle operations with large freight containers. Azerbaijan's railways carried 14.407 million tonnes of freight in 2003, or 8.9% more than in 2003 and 8.3% higher than the year's forecast. Wagon turnover surpassed the respective 2002 index by 41.9% in 2003, and daily wagon loading was an average of 660.8 wagons, or 9.6% more than in 2002.



The railways carried 4.6 million passengers in 2003, which was 9.5% more than the forecast index. Azerbaijan State Railways plans to increase its freight transport to 18 million tonnes in 2004, Azerbaijan State Railways expects that oil transports will be 8 million tonnes in 2004, or 1 million tonnes more than in 2003.



### ***Interview with:***

### ***Mr. Ramez Nasri Owner (European Tobacco-Baku)***

European Tobacco-Baku

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First of all we would like you to give some brief information to our readers on why and how you established the company and what were the main steps that marked its development in Azerbaijan?

European Tobacco-Baku started its activity in 1998. In comparison with others companies with a long history it is a young one, but we actually started entering this sector in 1991 and we first

started as a trade company. We had our bases at that time in Turkey and we were present in two different countries. Afterwards we started to expand to Eastern Europe, i.e. Moldova, Romania, Ukraine, Georgia, Azerbaijan, Tajikistan till Mongolia. We established a very good distributing system; we supplied all these markets with international brands. Since 1995, positive changes have started in the political life and economic sphere of those countries and that is why we started thinking of establishing our own production companies in those countries. Then we decided to have a factory in Azerbaijan which is one of the most important ones as well as in Tajikistan, Jordan. We have also started small manufacturing in Romania and we'll soon have a very big factory in Turkey.

We used to have local partners and we have different markets. We started to expand to different markets; we have a market share in Middle Asia, Africa and in Middle East. These are the main regions where we are trying to stabilize ourselves.

What is the reason of your success in those regions as the competition is really tough in those markets?

As I mentioned we came to this industry from trade. We have been distributing it before and it is very important to have experience in that. But we were inexperienced in the industrial side. We have invested a lot in this side, now we have the know-how of manufacturing and we have the sales side so that is the reason of our success.

We have very strong relations with some of the multinationals that helped us developing our industrial side. We have very strong relations with Al-Tadis which is the match between Tabacalera and Setranse in France. And we also try to develop our relations and cooperation with them.

What is the story of that cooperation?

When we were a trade company we were in this market and were presenting safe products. We supply those markets with the safe products. And after we started manufacturing we expanded our cooperation. We have licences to manufacture these products now.

As most of our readers are businessmen, top decision-makers and as you are one of them could you provide figures in order to understand how important for the market this company is?

We have around 1500 salaries. Our market share is around 53% and according to the volume we are number one in the country. We are mainly trying to meet the demand in the market, so we have some other markets where we don't have factories but we are exporting our products. When we start a project we try to achieve the target capacity in the market and after that we have an extra capacity to export our products to some other markets as well.

What is your production capacity?

Our production capacity is 1.2 bn sticks which is around 100 ths master case per month.

What do you think would be the main benefit of the companies that would like to produce the same product here?

We are distributing our products to all the parts of the country. Our quality standards comply with the European ones and we have all the facilities from the primary and secondary side. We are very professional in manufacturing and distribution. We have been in this business for a long time and we know how to run it and we can offer all services.

What about the government? For example, in Europe, the tobacco companies are having a hard time, what is the situation here with the government?

There are some regulations in Azerbaijan that are not as strict as it is in America or Europe. According to the normal procedures there is health warning and everything, the government doesn't try to boycott our activity.

What about Pepsi? You are also managing this company?



It is our family business. We have different businesses besides tobacco but it is our main business. We have also a bottling factory here because we believe in Azerbaijan and we think this market is a very promising one. We think in the quick and efficient development of this country. There is also a political stability which creates a healthy atmosphere for the foreign investors. We feel comfortable to expand in Azerbaijan and that's why we have established a Pepsi bottling factory and we are increasing our market share. Things are very promising. These companies are independent but they belong to the same group.

What is your personal background? And how did you reach this position?

We are three brothers. Our professions are quite different. My elder brother is an architect by profession, the second brother is a doctor and I've finished from the architecture university. Before the cigarette business we started with beer, Pepsi in the Middle East market and then we came to the cigarette market. I was following the operational side of the company and then I started to manage the industrial side and I found it very interesting and challenging. And now we are going deeper and deeper.

We put our investment in those locations that we think is promising and we start to organize each location individually in order for it to get its own market share. We try to settle a factory and we have know-how and our standards comply with the European standards and our main goal is to organize each market where we are and to develop the business inside the country.

Are all the products that you manufacture your own brands?

We are manufacturing our own product, this is 95%, then we have cooperation with Al-Tadis and we have their licence. We are planning to open new brands and we can update the technology.

We have already started with the Slims and we have also introduced the Prestige line, in the local market these are very successful products and now we are going to introduce the brand which is called "Storm" which is targeting the medium segment of the market and we are preparing the campaign for it. In 2004 we have also introduced Gauloise in cooperation with Al-Tadis. We are also bringing "Brilliant" super slim, so we have quite many plans.

What was the process after you arrived in the country? You made the market research and made a decision to start your business?

In order to have the right decision you have to have the right information. First we analysed the market and after we saw the economic figures and indicators we made our decision.

And I think during this period we haven't had any serious failure. At present we have 53% of the market share which I think is success.

What is the reason of your success?

You have to understand the market and what customer wants. You have to decide on which consumers you are targeting and fulfil their requirements. There are consumers that target the low price and those who are targeting the high price and high image. Now we are targeting on the high-medium and the premium. We are leader in the volume compared with other multinationals in the country. Philip Morris and other big players are here in the market. Though the competition is not easy I think we are doing well.

What would be your message to our readers particularly about Azerbaijan compared to the neighbouring countries like Georgia and others?

Azerbaijan is much more advanced than all the neighbouring countries. The government is very well settling the country and it is very safe here. The economy is developing and the situation in the country is getting better and better. So there are great opportunities for other companies to come to the country and make investments in different fields. And I think after the country gets the oil revenues from the export pipelines the development is going to speed up.



## V.I.P. INTERVIEWS

***Interview with:***

***Mr. Asim Mamedli, President of AB Finance.***



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22/12/03

The foundation of AB Finance one year ago (Dec 2002) came as a result of the restructuring of Mostbank-Azerbaijan and its investments in many sectors of the economy. Can you briefly come back on the main guidelines of your development strategy behind such a restructuring process? AB Finance Closed Joint Stock Company was registered at the Ministry of Justice on December 25, 2002. The main reason for establishing AB Finance CJSC was that at those times there were some companies that operated under the subordination of the Russian Mostbank in Azerbaijan. And after the collapse of the company the physical and juridical persons of Azerbaijan bought its shares and it became Mostbank-Azerbaijan. After the Mostbank Azerbaijan was established it began making investments in different sectors of the economy. Step by step it enlarged its activity and it created a necessity to establish a new and much bigger company.

AB Fin CJSC manages the company through shares. Presently, AB Finance holds 100% of shares of Mostbank Azerbaijan, 51% shares of Most Insurance, 100%-Siyazan Brick

Production, 100%-Most Trade, 70%-Legal Consulting Law Company, 100%-Ikar auto and also AB Travel Tourism Company, Most Industry and AB Construction.

Given the great number of JVs that have been created in Azerbaijan lately, it is very interesting to see such a holding with 100% Azeri shareholders?

You are right. AB Finance is a holding with 100% Azeri shareholders. They are the physical and juridical persons of Azerbaijan.

Even if you are very much diversifying, it is interesting to know on what business you focus on at present?

Presently we are focused on the construction material manufacturing.

We have also done initial work for preparation of the concrete production company and we plan to start constructing it in the near future.

As a linking strategy are you going to use your construction companies to build hotels and infrastructure as you are making investments in the tourism sector? Absolutely. In the management there is a concept of "synergy", if you are getting more inflow in some sector you are using it in another one. And we are going to use our construction companies to build hotels in the near future.

Now you are also investing in agroindustry?

Our first investment after the banking sector was agriculture. We have a tomato paste production company in Lankaran.

Do you intend to diversify in one of those branches that you invested or you are going to invest in other fields?

Presently, the most important for us is the top efficiency of the projects that we implement and also the construction of the concrete production company. The investing in other fields is not included in our near future plans.

When do you expect the return of the investments you have made?

We get the return of the capital from almost all the fields we have invested. As to the real income we have only forecasts on it and we don't know exactly when we will get it, but surely in the short term.

Regarding the extent of your business and your objectives, are you going to open your capital and welcome foreign investors?

We conduct negotiations with some foreign companies but we don't have exact proposals and projects yet. But we would like to have working partnership with foreign investors and companies. We are looking for it. But as I mentioned we haven't had exact proposals and projects yet.

Mostbank Azerbaijan is supposed to change its name to Standard Bank. I suppose this is because you want to differentiate it from the Russian bank...

Yes, we needed to get our own brand and decided to change the name of Mostbank Azerbaijan to Standard Bank Azerbaijan on January 1, 2004.

***Interview with:***

***Mr. Ilham Rzaev, Chairman of Azerbaijan Dairy Corporation***



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27/02/04

What were the main steps that marked the development of your company since its creation?  
Our factory was built in 1998 by a foreign company and it answers the European standards. The equipment is the latest one and has been brought from abroad. We get the recipes from Danisko company that sales it to all over the world. We cooperate with the German company on production of juice. There are a lot of companies that we have contacts with.

The technologists from Denmark have been training our staff for a year in Azerbaijan. The processing lines were installed by Dutch Scampro company (the installation of devices), and the factory was built by Italian Holdstor technical service supplier company from Middle East branch. We've got a lot of awards and certificates and among them the millennium 2000 prize from Madrid. We have been invited by many companies to some exhibitions but we cannot take part in all of them.

We are also a member of the council attached to the Presidency. We visited Vienna with the government delegation in 2003. In April, 2004 we are going to visit Stutgard with the Minister of Economic Development.

Where do you import milk from?

We mainly use full milk powder. Because there are a lot of problems like diseases and others. The fresh milk we use goes through high heating and is packed in aseptic conditions. Quality of these products is greater in comparison with pasteurized milk stored for a certain period of time. Now even in Russia or other countries first they dry fresh milk in order to kill all the microbes in it and then produce dairy products. These products are safer. At present there are recipes for dairy products from milk powder that don't concede fresh milk products in quality.

What is your view on development potential of the agro-business?

Our late president Mr. Heydar Aliyev created favorable condition for the businessmen and entrepreneurs. The council was established at the time of the late president. The agricultural sector was in a very bad condition. It had to be developed and this process goes step by step. At present we see the development potential of this sector. The reviving of this sector is a long process and development is going slowly.

On November 24 our new president Ilham Aliyev gave a decree on "Accelerating socio-economic development of the Republic of Azerbaijan" which will have a great impact on development of the sector.

On February 2004 we held the opening ceremony of the Business Center. We entrepreneurs believe and trust our president. At present the main direction of the economic development is the development of the entrepreneurship in the country. In order to do that the most important is demonopolization. And also granting long-term credits with low interest rates. IFC offered us to take credits when we were newly opened.

What is your investment policy for the next 5 years? Do you invest in new services or products?

We have got no problem with the quality. All our products answer the European standards. We produce new products. The shelflife of our products is 5-7 days. There are some products that we would like to produce but we need a lot of money to realize them. We distribute our products to Hyatt Regency, Grand Hotel Europe and others as well. A lot of factories buy our products. We also plan to install the Tetra Pak lines. These are the aseptic lines the cost of 2-2.5 mln euros. And we are still thinking to ask for new credits as soon as we pay back the first ones. At present we are working with US IP. (International Paper). They have got 2 branches: one in France and the other one in Israel. We are conducting negotiations.

We are also intending to get the ISO certificate. Because it is a quality indicator in the whole world and we need it.

What is your turnover as compared to your capacity?

We are able to produce 105 lt of product in 3 shifts a day. But at present we use only 10-15% of our whole capacity. We distribute our products to all our regions except Nakhchivan because we have no transport route there except airline.

What would be the major goal you would like to achieve?

Our president said that the government and the entrepreneurs should work together. If everything goes well I'd like the social welfare of my people to improve and subsequently the economy will also develop and people will come and buy my products.

What is your background?

I'm car engineer by profession. After I got my diploma in Baku I began to work as a businessman. I achieved all this by myself. Because of my work I've been travelling all over the world.

### ***Interview with:***

***Mr. Bulent Ilhan, Country Manager of Cargolux Airlines International S.A***



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19/02/04

You are one of the largest cargo transportation companies in the world. You control 1.2% of cargo transportation around the world. You arrived in Azerbaijan in 2001. What has been the main reason that motivated your setting up in Azerbaijan? In fact our project was to establish an office in Tashkent, Uzbekistan. Because we could see all the CIS countries' aircrafts land and operate there. Then I saw Baku and brought the idea to our head office that Baku would be more profitable for us and they agreed on it. 130 tons of cargo comes in Baku airport and the same can go out. The reason of our opening new offices in the region is that on the way to Far East our aircrafts should have some technical call for refuel. Previously the main route to Far East was Dubai-Abu Dhabi-Sharja, but now we use Baku more. By using Baku route we are gaining more than 2 hours to such destinations like Hong-Kong, Shanghai, Seoul, Komatsu in Japan. In August 2001 we started our first inauguration flight. Then we were bringing only about 25 tones of cargo per week. Now we are bringing 225 tons per week. And we are planning to increase the amount of cargoes. Perhaps the growth is not going to be so big but the graphic is still upwards. Though establishing a hub in Baku was a little bit tough at the beginning.

One of the main principles of Cargolux is try never to get in contact with producers. Our main customers have been forwarders for 33 years.

What makes up the major part of the cargo you bring in Baku?

The main part of it is oil equipment, consumer goods and drilling equipment because the technology grows paralelly with the oil business.

The fuel was our main task here and another thing is that I'm really more than happy with the conditions at the airport. At the beginning it was in a very bad condition. But soon it was reconstructed and within 7 months the construction of the 2nd category runway was completed which is a big achievement. They also renewed a lot of things in the navigation side, bought new computers and it has been already 2 months that they started building a cargo village and the speed of building process is very fast. As a cargo transportation company we are really happy to see all those changes.

They bought new aircrafts and the most important is that when they get money from the airlines they immediately invest in the airport or their own airline. They are really creating conditions to operate here.

Do you also cooperate with AZAL?

One of the reasons of our being here so successful is our very good cooperation with Azerbaijan Airlines. We decided to make a good commercial agreement with the Azerbaijan Airlines. We make exchange of services. Azerbaijan Airlines takes our cargo abroad and we bring a little cargo to AZAL as well. We are bringing cargo to AZAL from Europe, US, Japan and they are flying with our cargo to Tbilisi, Aktau, Alma-Ata, Tashkent, Ashghabad... all the CIS countries.

We both make our profits from the agreement. We can say that our project consisting of creating a hub has been realized.

What are the main routes you are currently flying and what is Azerbaijan's share in it?

Cargolux aircrafts make 32 flights on Dubai-Abu Dhabi-Sharji route and now we've brought 15 of them to Azerbaijan.

The far flights from Luxemburg are made through Luxemburg-Baku-Shanghai and Shanghai-Bangkok-Baku-Luxemburg on the way back. We also make flights to New-York and other parts of the world.

You intend to increase your presence on the Asian market?

We already increased a lot in 2003. We were flying 3 times to Shanghai now we are flying 6 times per week. We are actually flying combined with the Chinese airlines. We are still flying to Japan, Korea, Singapore, Vietnam, Hong-Kong, Thailand and so on.

We have got our offices there. We are planning to increase the flights after March 2-3, 2004.

### ***Interview with:***

***Mr. Mikayil Jabbarov, President of Azerbaijan Investments Promotion and Advisory Foundation***





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10/02/04

The idea of creating such a fund was born after the former president Heydar Aliyev met with foreign and local businessmen in spring 2002. At the time, did it really represent a major step forward for the local and foreign business community? What are the major challenges the Fund is facing today? There were several reasons for the creation of the Azerbaijan Investments Promotion and Advisory Foundation. But first was the acknowledgement by the government of the necessity to have a special body which would work on Azerbaijan's image as an investment destination. After the meeting of the late president Mr. Heydar Aliyev with the entrepreneurs, the Ministry of Economic Development was instructed to establish this foundation. At present, the Agency has 4 major functions: policy advertising, this part of our work needs a lot of communication and joint work with the government, the 2nd is the image building which comes together with the new generation of investors. This is important in order to target foreign direct investment. Most investors don't even know about the geographical location of Azerbaijan. They don't know about Azerbaijan. We establish relations with Europe and Asia as well. For ex, we have established relations with Singapore which is an investment exporting country unlike Azerbaijan that's an investment importing one. And we conduct negotiations and try to find such kind of synergies and coordinate our work. Geographically, Azerbaijan is located at the crossroads between Europe and Asia. But economically, we establish relations both with European and Asian companies.

Did you actually look at other countries' Investment Promotion Agencies prior to finding your own model of development?

At the time when we were developing the concept of the foundation we definitely looked at the experience of other countries in this sector. We looked at countries like Ireland, Singapore etc. And we had a great assistance from the Foreign Investment Adviser Services. As a result I think we have quite an innovative model for the foundation. We have established the agency as a public-private initiative. Even though it was established by the government and founded by the Ministry of Economic Development, the Board of Trustees is the supreme authority of the agency. This board consists of representatives from 4 groups: the 1st one is composed of the

Ministry for Economic Development, Ministry of Taxes, Ministry of Finance, Ministry of Justice, State Customs Committee and the National Bank of Azerbaijan and we expect the Ministry of Foreign Affairs to join the group. The 2nd group consists of the international community: EBRD, IFC, UNDP and a number of others. The 3rd group: foreign investors working in Azerbaijan. 4th group: representatives of the local business community. We try to promote local investment as well. As you see we are using the public-private initiative which is innovative.

As the agency was established only recently, what still needs to be developed in order to get a fully fledged foundation?

Yes, we are very young as our agency was created only 6 months ago and we still have a long way to go. But we think we could settle the major issues pretty fast.

Every 3 months the president of the agency makes a report on the activity of the foundation to the Board of Trustees. We have already begun servicing the investors. We are the active participant of the transactions in the telecommunication sector, within the framework of the privatization process. Generally speaking, we are satisfied and we think that we provide a good support to investors. We also hold round-tables and we give suggestions to the government concerning different sectors of economy. We are working with the IFC project on developing the leasing sector. Several stages have been provided within the project and obviously the first stage is to provide the necessary regulation framework.

So, what are your priorities in the short run?

Development of non-oil sectors and regional development are the top priorities. The reason is that the oil & gas sector attracts most of the attention from the world investment community. Traditionally, the energy sector requires long-term investments. And it gives out a good message about stability in Azerbaijan. But on that basis we need to put much more effort to achieve the same results in the non-oil sectors. The most important of them is the agricultural development. Azerbaijan has a great potential and can become a major exporter of agro-food to Russia or any nearby country. One of our main priorities is the privatization of large state-owned enterprises which used to be the major enterprises of the soviet time. But today they have low-production versus capacity and there is a need to identify strategic investors.

We are preparing the overview of the agricultural sector in Azerbaijan as a short presentation that we will address to potential investors. This work requires a lot of efforts as we have to convince foreign investors to come to Azerbaijan. We also work actively on training our staff in order to improve our services. As it is a new service in Azerbaijan, it is very important to have high-quality specialists. Currently, our number of employees is 80. We don't like to overstaff. The educational background of our employees is diversified. Among them are lawyers or bankers but also people with experience in government services... our agency must be like a bridge between the government and the investment community.

Can you tell us more about your professional background?

I was born in Baku and got my first education at the international law faculty at Baku State University. Then I got my master's degree in the USA. I spent some years in the USA as practitioner and then I returned to Azerbaijan. I worked in different positions. I also completed my study in economics. I worked as an adviser to the minister of Economic Development. And after the establishment of this agency I was appointed as its president.

### ***Interview with:***

***H.E. Mr. Nadir Akhmedov, Minister of Communications***



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10/02/04

The telecom sector has been undergoing a significant transition phase for the past 10 years. Can you briefly come back on the main achievements reached by your government over that period? 15 years ago, the telecommunication sector was suffering from underdevelopment and corruption. But today, we don't have anymore corruption and anybody can install as many lines as he wants. We even provide credit facilities to allow the people to get access to our telecommunication services. We also try to provide the same service anywhere in the country. There is no region of Azerbaijan where you cannot have access to a telephone. This development could only happen through gaining the country's independence and the high commitment of late President Heydar Aliyev to the telecommunication sector.

15 years ago, the telecommunication sector was suffering from underdevelopment and corruption. But today, we don't have anymore corruption and anybody can install as many lines as he wants. We even provide credit facilities to allow the people to get access to our telecommunication services. We also try to provide the same service anywhere in the country. There is no region of Azerbaijan where you cannot have access to a telephone. This development could only happen through gaining the country's independence and the high commitment of late President Heydar Aliyev to the telecommunication sector.

Also, you will find an internet club anywhere in Azerbaijan. Internet service providers are growing. In Baku, you have high speed connections (up to 90Mbit) but unfortunately still a lot of people don't use this service. The penetration is only around 35%. That's because we are in our transition period. Also, one important factor is the fact that computer technology is still too expensive for Azeri people and students. So we are trying to buy those computers and provide them to the population at a lower price and now we can feel that internet users are increasing. At the Ministry of Communications, we pay special attention to e-communication. We provide services through our cables to the 15 existing ISP in the country and our wish is to develop the internet faster.

We are witnessing the privatization of Backcell as well as Azercell on the GSM market. Can you give us a brief overview of the development policy your ministry is implementing in the telecommunication sector in that respect?

As far as the privatization of the telecommunication sector is concerned, I would say that it has been completed a long time ago as 65% of the telecommunication services are currently provided by private companies, which is a significant figure. We have indeed completed the privatization of Backcell now belonging 100% to an Israeli company. Our strategy was to start privatizing joint-ventures. This plan, which was set up 2 years ago, took some delay but now we are trying to catch up and accelerate the process. We have around 10 JV in Azerbaijan: Azercell, AzEurotel and others.... Following the privatization of Backcell, we are now preparing the privatization of Azercell, which should be completed by end 2004. We are also confident that other JV's privatizations will be completed by the same time. Obviously, we give priority to the original private shareholder of the JV when it comes to sell the State's shares.

All companies in the sector are ready for privatization. They provide good-quality services but as far as the State-owned company is concerned, AzTelecom, the Government is fully involved in modernizing its infrastructure and services.

Digital systems can be applied to our infrastructure and we target a 60%-implementation of digital systems by the end of 2004 and this will be the highest percentage among all CIS countries. We really feel that Azerbaijan is experiencing a transition period and we are doing our best to fully get involved in that process.

Being a Regulation Authority, does your Ministry plan to offer new telecommunication licences in the near future?

In Azerbaijan, we have 2 mobile operators and they can provide the country with the best services. But if anyone addresses to us in order to implement new licences, we would consider this opportunity. We actually think that within one or two years we can bring in new generations of mobile services in Azerbaijan. We will of course try to involve private companies in the process.

How do you plan the restructuring of the AzTelecom?

The privatization of AzTelecom will be done through a tender. We will open the market to existing Azeri operators as well as foreign companies or any individual. However, we will have to prevent the creation of a monopolistic situation. We want to enhance competitiveness.

What would be your personal message to our readers?

7 years ago, Late President Heydar Aliyev declared the Azeri market open to foreign investors. Today, for a foreign investor, there is no major obstacle to investing in Azerbaijan. The only concern is that there must be a clear mutual interest from both sides. We understand that foreign investors are coming here to make profits. But we need to be honest and protect Azeri people's interest. So, we are ready to cooperate with any foreign investor keeping in mind this principle.

On the other hand, one of our priorities is to get credit lines at low interest rates, around 7 or 8% for 3 or 5 years. The telecommunication sector has a need to set up companies that can produce modern equipment technologies and we can provide support to any foreign investor ready to set up production units in the country as well as to importers of new technologies.

Could you tell us more about your professional experience and how you became minister of Telecommunications?

Yes! I got appointed as Minister in 3 hours. I was Deputy Minister and I one day I got a call from the presidency. I did not know why the President Heydar Aliyev wanted to see me. Then the President started talking to me about his disappointment over the situation in the Telecommunications sector. He insisted on the need to dramatically improve the situation and then asked me if I could make it. His plan was to appoint me as minister. So I answered that if he really trusted me he could count on me to solve that issue. And half an hour later, the decree was prepared so that I could be officially appointed as minister of Telecommunications. Late President Heydar Aliyev gave a great contribution to the development of the telecommunication

sector in Azerbaijan. A book has even been written but it is in Azeri. In the '80s, when he was 1st Secretary of the Communist party in Moscow he had drawn a plan for the telecommunication sectors but unfortunately it did not get applied. And it is upon his election in 1993 that he raised that issue again for Azerbaijan and personally instructed me to implement a new concept for the development of telecommunications in the country.

***Interview with:***

***H.E. Mr. Ziya Mamedov, Minister of Transport***



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06/02/04

In 1998, after the Summit on the Great Silk Road, a Presidential Decree established the Ministry of Transport. It is still a very young Ministry since you got appointed on spring 2003 only. What has motivated the creation of this ministry and what are the main challenges you are now facing as first Minister of Transport in Azerbaijan?

On August 5 1998, due to the presidential decree No 743 the Ministry of Transport of the Republic of Azerbaijan was established. Being a central state executive body, the Ministry of Transport pursues the transport policy of the Azerbaijan Republic, regulates the activity of the transport modes. As you know there are several modes of transport. All of them excluding pipeline transport are under the control of the Ministry of Transport. The Ministry of Transport is empowered to take measures to develop the transport means, regulate the transport tariff policy, join international conventions on this field. The Ministry being the central executive state

body works out projects serving the interests of the transport policy of the government and submits it to the latter. But the challenge is that as it is a newly established ministry we need financial means to complete its formation. The government supports us in solving these issues. We have already hired the staff. Previously, "Azerbaijan avtomobil yollari" (Azerbaijan highways) and "Avtomobil yollari" (Motor transport) were closed. The Ministry took care of it and presently they function as juridical persons and the ministry regulates their activity.

To what extent does the Ministry cooperate with international financial institutions and the European Union?

The Azerbaijan Ministry of Transport has joined several international conventions. We are cooperating with the international financial institutions and organizations such as EBRD, EU, WB, ADB, Kuwait Fund, Asian Development Bank etc. We are open to cooperation. We take an active part in the EU projects. We are also participating in the TACIS and TRACECA programs. Within these projects a bridge was built, 500 km fibre-optic communication cable has been installed along the east-west corridor up to the Georgian border. EU gave us \$6 mln credit line for this purpose. The EU also provided us with a \$500,000 grant to buy boilers for washing and cleaning oil tanks. Those boilers have already been installed in Bilajary railway station. The total amount of the grants within the framework of these projects makes up \$24 mln.

What do you consider as your main priority, creating a new legal base for the sector or investing in the rehabilitation and upgrading of transport infrastructure?

No sector of the economy may exist and develop without a legal base. Legal base is created and we make amendments to the existing laws or we give our proposals to the government. We work out legal-technical documents, give them for approval and we consult on these issues with the international financial institutions and organizations. And we also make efforts for development of the infrastructure. For ex., as I already mentioned the installation of the fiber-optic communication cable along Baku-Boyuk Kasik corridor (on Georgian border). And the EBRD has granted \$20 mln for the reconstruction of the railways and we have already reconstructed 65 km of the railways and part of it we directed towards the putting into operation the boilers for the cleaning and evaporation of the tanks. We pay great attention to the repair and reconstruction of motorways. We have worked out the motorway development (reconstruction) strategy. Not only we but also the foreigners are also concerned about the state of the motor ways. As we have already become an independent country we want our roads to comply with international standards, but for that we need money and time. Besides, 46 km of the four-line western motorway has been rebuilt and we are going to hold its opening ceremony. Since 1998 up to present the budget allocated for rehabilitation of roads makes up \$400 mln.

Do you invite foreign companies to participate in this development plan?

We have done all the works I mentioned before with the foreign companies through tenders. And the winners of those tenders are mostly the foreign companies. For ex, the reconstruction of the 46 km motor way has been done by a Turkish company. German Siemens won the tender for the installation of the fiber-optic communication line and they brought all the equipment. The Italian company is carrying out the reconstruction of the boiler house in Bilajary station.

We are against monopolism. We want to create a competitive environment. We realize that fair and free competition is one of the main factors for the economic development. Now that we are an independent country, our target is to develop and hold our decent place in the international world.

How do you allocate your budget?

The Ministry is financed from the state budget. The budget of the Ministry is meant only for the Ministry itself. The budget for this year makes up 2.5 bn manats. Repairs and reconstruction of motorways make up 83 bn manats (\$17 mln). The government has allocated money for the reconstruction of the Nakhchivan airport. Air transport, waterways, railway are self-financing companies. They work, get profit, finance themselves and pay taxes. The Ministry only regulates their activity.

What do you expect from the privatization of the state companies within the transport sector?

I have signed and submitted to the president a list of more than 30 companies to be privatized. The motor transport has been completely privatized. A number of construction companies in the railway sector have been privatized. The education centers or enterprises within the railway sector have been brought to subjection of the Ministry of Education.

The railway sector is a natural monopoly in Azerbaijan. But we regulate the tariffs in order to be ready for the competition. Some of the air transport companies have also been privatized and the list on privatization of the rest has been submitted to the government. We are for the privatization. Maybe no one would like to buy the railways but if anyone proposes it we can privatize it too.

Some of the air transport companies have been privatized and we have decree on their privatization. We have done works for the privation of the CSC too. As the Caspian is a closed basin the privatization of the CSC is a delicate issue. We need to be very careful on this question.

As the Minister of Transport, is there a personal project that you would like to carry out?

We are very much interested in the realization of the North-South corridor. Eastern Europe-Russia-Azerbaijan-Iran-Near East. It may be a corridor that joins Europe with Asia. Iran, India and Russia are the founders of the project. We have officially addressed to them to accept Azerbaijan into this transport project and Iran has agreed on it. We have to wait for Russia's and India's answer. If we take part of the project, then Azerbaijan would become a transit country and millions of tones of cargoes will transit through this route.

I also want the whole construction and rehabilitation works of the Azerbaijan motorways to be completed. We conduct negotiations with a Czech bank for the reconstruction of the Baku-North route. The Iranian side is also interested in allocatting \$40 mln for the reconstruction of the Southern route.

You were previously the general manager of the

Azerbaijan State Railways for a long time. And now you are the Minister of Transport. Can you compare those 2 experiences?

I have a lot of experience in the Railways. I started as Secretary under the communism era. I worked in quite different positions. I worked as deputy chairman of the State Railway for 4 years. In July 1996 I became the chairman of that company. And after the establishment of the Ministry of Transport I got appointed Minister in April 2003 .



***Interview with:***

***Mr. Elman Rustamov, Chairman of the board. National Bank of Azerbaijan.***



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22/12/03

Over the past months, the government has engaged reforms within all the different sectors of the economy. In this regard can you give our readers a brief overview of the economic and financial performance of Azerbaijan?

Though we gained independence in 1991, reforms began 5 years later because of the conflict with Armenia and foreign aggression. After President Heydar Aliyev came to power in 1993 army, economy began to develop in a stable environment.

Beginning 1995 we began reforms in the banking sector with the support of the international financial institutions. I have to note that we had a very old style soviet banking system that was a centralized planned banking model from structural point of view. After gaining independence as all of the post soviet republics we had to create our own and new banking system and currency. IMF and the World Bank joint mission has completed the financial sector assessment programme. And they highly evaluated the financial sector including the banking sector. Our main achievement after 8 years of reforms is the establishment of the financial-banking sector that fully comply with the requirements of the world market. And the financial-banking sector exists and operates within the real market economy that has been established in the country.

We have passed through 3 generations of bank legislature in Azerbaijan and very lately we introduced a draft law on banking in Azerbaijan which totally answers the standards and European directives (New Law on Banks passed in January 2004). The banking sector is the only sector of the economy of Azerbaijan that has been completely standardized.

So it means that you have set up all the infrastructure in terms of legislation in order to use those international standards. When do you expect those new laws to be enacted for the banking sector and the National Bank itself?

We have all the legislation and legal basis corresponding to the European standards. The laws under the discussion of the Parliament have been worked out based on the systems of IMF and they fully answer the European directives which are set for the whole European Union and starting from January 1, 2004 this law will be in force. The second law is the European model law. The main principle of the law is the independence and transparency of the National Bank as a central bank. These are the third generation laws. By enacting these laws we can say we have fully completed the standardization of the banking system legislature to the international standards.

Deposit insurance system will be introduced in the new law January 2004.

The second direction of our reforms is the restructuring process of the State banks. Before we had 4 State banks and now we have only 2 and we are going to start the privatization over those 2 banks. We want to carry out the privatization with the support of the international strategic investors which is very important for Azerbaijan.

At the beginning about 250 banks with very little capital were established in Azerbaijan. Those were unstable financial institutions. Now we have significantly consolidated this system. The total capital of the banks now makes up \$2.5 mn though at the beginning it was \$10,000. Now we have only 45 banks.

Therefore, we shall witness more concentration and mergers between banks in the near future?

We think that the banking system must be consolidated and capitalized. At the same time we are for the institutional difference within the banking system. We establish microfinancial institutions for poor people in the regions, create mortgage institutions to stimulate the construction process. We seriously think about it and we support its establishment and expansion.

Private banks presently dominate in this sector and we think that these banks will be the major source of economic development in Azerbaijan.

Do you believe banks currently have the means to be more flexible and adaptable to the small and medium size companies' needs?

Resources are not enough. But the banking sector is the most dynamic economic sector in Azerbaijan. We have higher dynamics in GDP growth rates, people's deposits. But fast growing private sector needs more resources. That's why we are thinking of consolidating of the banking sector and creating potential for attraction of foreign resources to the economy, capitalization of the banks. Lately we have removed all the limits for foreign bank capital participation in our local banking system and we are the only CIS country taking this measure. The law on it passed in the Parliament in December.

We also assume that great oil revenues of the country will stimulate the resource capacity growth in the banking system. The government will introduce new funds through commercial banks for distribution of oil revenues for development of the private sector. The volume of the money distributed through the commercial banks will increase in near future. We use all the opportunities of the international financial institutions such as the IMF, EBRD, IFC and others for this purpose.

How would you assess the contribution of the Oil Fund to the socio-economic development of the country?

I think the money allocated by the Oil Fund for the economic development is enough.

We consult with the IMF in terms of macroeconomic objectives. And you know that too rapid use of oil revenues for the economic development may lead to the Holland disease. And we also know that too small use of the money may not satisfy the demand for it. That's why we support the optimal use of oil revenues. Presently by the president's order we are working together with

IMF on the strategy for the use of oil revenues of the country. Our global strategic objective is to minimize our dependence on oil revenues and diversify the country economy.

Today we have up-to-date electronic payment system in Azerbaijan corresponding to the world standards. The representatives of banking system of some developing countries have lately been in our bank and they got interested in this system. We implement this system with the help of the international financial institutions.

Today the banking system is the only sector in Azerbaijan answering the international standards in accounting and financial reporting.

Do you think it will improve significantly the efficiency within the interbank system?

On one hand it enables us to build a supervision system based on world standards, on the other hand it lets us implement our project on meeting international corporate standards in banking sector and we have already worked out this project together with PRICE.

We implement the institutional reforms through the technical cooperation and integration.

Is the National Bank satisfied with the current level of foreign exchange reserve?

Some years ago we had only \$10 mn of foreign exchange reserves and now it is more than \$700 mn. At present it is more than \$1.5 bn together with the Oil Fund's reserves. We expect significant increase of it in the coming years. And we have a very efficient management of foreign exchange reserves. We think that foreign exchange reserve is very important factor for the national currency stability and for the economy on the whole.

Do you believe the privatization process will enhance inflow of foreign investment and at the same time enable a further increase of foreign exchange reserve?

I think we have a very good opportunity for that because we are on the way of new generation of economic reforms. We consolidate our technical base to carry out those reforms. Our ideology is that the state sector must be optimal and not too large. The government should not be directly involved in commercial activity. Even in the developed countries the government is a very bad businessman and banker. That's why we are planning to carry out the privatization of the big state banks and the main goal is to develop market economy in this sector and foreign investment.

To what extent do you expect total actives of the Azerbaijani banks to grow over the next 5 years?

We are seeking for our own economic miracle. Some countries have reached this economic miracle.

By 2015 we are planning to increase our GDP by 4 times. The first increase by 2 times will happen in 2008. Of course the oil sector will play a crucial role in it. But we want non-oil sector to play a significant role in GDP growth. Our task is to increase the bank assets up to \$8-10 bn. We plan to do it in the coming 10-12 years. For example I would say that such volume of investments have been attracted by the oil industry. We will get the main part of the resources by ourselves but in order to attract foreign investors we have begun implementation of the 2nd generation of reforms the aim of which is to standardize all the elements of the business climate in order to make it very attractive for the local and foreign investors.

We are very optimistic and we think to accomplish all these tasks together with our new president.

***Interview with:***

***Mr. Amir Adeli, Managing Director of Londongate Azerbaijan Insurance Company.***



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20/12/03

Londongate is a British-Azeri joint venture. What motivated to establish such a JV?

Londongate was established in 1997 in London. It was a market need of some British companies such as BP and other subcontractors that have made investment in Azerbaijan. That is why we created Londongate in London and established it not only in Azerbaijan but also in most CIS countries. In 1998 we established the company in Azerbaijan and started work in 1999 actually. In 2000 we became #4 insurance company in Azerbaijan and we are still going up.

Insurance market in Azerbaijan is quite new. Do you think the sector still needs any major restructuring to make it more transparent and competitive?

Actually, insurance market in Azerbaijan has experience and it is growing very well and very fast in comparison with other CIS countries. We have less problems than the companies in other CIS countries because the structure of the law is much better in Azerbaijan. The insurance sector is growing much faster in Azerbaijan. For ex: In 1998 the insurance market in Azerbaijan was \$5 mn USD. Now it is almost \$40 mn. Private sector insurance is growing very fast in Azerbaijan. These are life insurance, medical insurance which government is working very hard on it.

What kind of insurance you are trying to develop?

We are trying to develop life and medical insurance and we have been working on it for the last two years.

Are you more working on the voluntary insurance than the compulsory insurance?

There is not too many compulsory insurances in Azerbaijan. The Parliament has approved to have medical compulsory insurance and property compulsory insurance for an employee which is going to increase insurance market almost by 70% or even more.

What are your expectations in terms of new premiums that you expect to sign for the next year?

Every year we have a 15-20 percent increase in income and premium. And if the law on compulsory property and compulsory medical insurance passes in the Parliament we are going to have about 600 000 new clients coming to insurance industry and you don't know how much percentage you can get. But there is a very high potential of increase.

Do you think new insurance companies are going to be established or the existing companies in insurance sector are going to merge to create more competitiveness?

We already have enough insurance companies with the small market. \$40 mn is not a big money for big companies. It is just 1 day insurance they may take somewhere else. In 2000 we had 60 insurance companies and now we have 29. Because some of them are gone or have merged. And now we have more solid insurance companies. But even \$40 mn is not a big capital for 29 companies. I hope to increase the capitalization at least by \$1mn next year. If the capitalization goes on then we are going to have only 10-15 companies in the coming years.

Since you have a JV with British company do you have any special agreement on re-insurance?

We don't have any special agreement. We are working with most British companies and subcontractors here. And they know what is the re-insurance and they ask us to certificate our re-insurance. We mostly do re-insurance through Loyds of London. We have our own broker in London which is a part of our group K International (?) and we re-insure mostly in London with the triple security (?)

The Minister of Finance has declared that each insurance company should prepare to develop new services according to requirements of market economy. Do you think most companies have the proper means to thoroughly adapt to the current evolution of the market?

If you want to stay in the market you have to have all kinds of services. We have a very tight and small market. If you don't have enough and necessary services you lose your market share. Everyone tries to get as much as service they can have. It is good because it makes companies more professional and better servicing their clients.

Do you think it is up to the companies to create a market or the government has responsibility to do that?

No, I think it is all up to the companies. If for ex, I don't want to do life insurance nobody can force me to do that. First I realize the kind of the service I want to have and then I put the service in the market.

Are new insurances like a new concept for the Azerbaijanis?

It is not a new concept. During the soviet union people knew what was the insurance. But there was only one company which always got the premium and never paid it back. People in Azerbaijan are educated about insurance. But they don't trust it. But we work with foreign companies and the employees of those companies. And when it is necessary we pay back and we get the client back.

The clients begin to trust insurance companies and they start to insurance their household, cars, etc.

Are you more geographically focused on Baku or also outside?

When we are in London we are thinking about the whole group. We have some experiences because all the CIS countries have the same mentality.

How many people work in your company?

We have sixteen people.

Do you have local agents inside the country?

We don't have agents. The market is very small and 90 percent of the \$40 mn comes from Baku not from the other cities. That is why it is not creative to have an agent to go to other cities.

***Interview with:***

***Mr. Avaz Alekberov, Minister of Finance of the Republic of Azerbaijan***



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17/12/03

In 2003, the president signed a few decrees for strengthening social protection of the population. You have mentioned that 58% of the State Budget would be focused on social

matters. Are social issues the main focus of the 2004 budget? Indeed, almost 60% of our 2004 budget will be focused on social matters. The 2004 budget has been increased by 14% in comparison with that of 2003. But GDP increase is planned to reach 10%. As you see the budget increase is more than GDP increase. About 49% of our population lives in poverty. Our main target is to strengthen the social protection of the population. Wages distributed in organizations financed by the budget have been increased by 50%. In order to continue this process in 2004 we need about \$130-140 mln. We have also allotted money to increase scholarships and wages of scientists. The improvement of the material-technical resources of educational centers is of great importance to us. Another important goal is to increase the government support to SMEs.

We also understand that one of your top priorities is to support regional development. Is the latter going to represent a significant part of the budget?

We have planned to allot \$20 mln from the budget towards the development of the regions. In 2004, we are planning to increase the financing of infrastructure, especially roads. We recently implemented tax-customs reforms and we decreased the tax rates to stimulate the business climate in the country. In 2004, for the first time, the Budget system law will come into force. It includes the state budget and those of the Oil Fund and State Social Protection Fund. Moreover, the peculiarity of the 2004 budget is its transparency. The 2004 budget was approved in the parliament due to both functional and economic classifications. For the first time the draft budget was published in the press and proposals and viewpoints from the public have been taken into account. Therefore, I suppose the 2004 budget will be very efficient. It is based on tough tax policy and the budget specifies a 1.5-2% inflation rate. Thus, the population's real income will increase by 25-30%, which is the requirement of the Poverty Reduction Programme. In 2004 we'll complete the last phase of establishment of the state treasury system and the control policy over the latter.

How do you intend to cover the 2004 budget deficit?

When we try to cover a budget deficit we try to avoid inflation. We direct funds coming from the privatization towards covering the budget deficit. We take long-term credits from WB with 0.75 interest rates for 35-40 years. We take all this into consideration in the general discussion of the macro-economic problems. That's why we don't face serious problems in solving these issues.

You are also responsible for the external debt. What are the main indicators you would like to underline in order to show that Azerbaijan is on the way to sustainable economic growth? The most important is the non-oil sector development. It is the main point of our development programme. Our infrastructure doesn't comply with today's standards. Therefore, foreign direct investment and credits must be directed towards the non-oil sector. At present, the reserves of the country make up \$1.6 billion. Our foreign debt makes up \$1.5 billion and it is \$185 debt per capita in the country or 22-23% of the GDP. Due to the international practice, if the foreign debt makes up 45-50% of the GDP it is normal.

We have projects to get credits which will mainly be directed to the development of infrastructure, energy, gas and water supply, roads, utilities and SMEs. The world community and international institutions realized that Azerbaijan is a good partner. Our goal is to get soft credits, i.e. long-term credits with low interest rates for 20-40 years. In this regard we are working with the WB, International Development Association, EBRD, Asian Development Bank, Black Sea Bank, IDB. We have also worked out a legal base for getting credits. We apply procedure rules on the credits taken under government guarantee and there is a State control over it through the Ministry of Finance. We open special accounts, we monitor those organizations and I must say we haven't met any serious problems over the past 2 to 3 years. But there is a direct control by banks over the credits taken without government guarantee. During 2005-2007 we'll have large money inflow in the country due to the export oil to World markets through Baku-Tbilisi-Ceyhan pipeline. We have to think about making investments with those funds. And that's why we are working out a strategy plan for long-term management of the oil revenues. We will both get credits from the international financial institutions and the Oil



Fund as well. We have to take measures in order for it not to affect our macro-economic indicators. What is the growth rate that you are expecting for the next 10 years?

If from now on the GDP increases by 10%, and considering that we are going to put into operation the BTC pipeline, it means there is a great potential for economic growth. You can get the exact figures and indicators from the Ministry of Economic Development.

We know that Ministry of Finance is supervising the insurance market in the country. According to you what are the priorities in terms of creating better conditions for insurance companies in Azerbaijan?

Yes, it is one of our priorities. We are interested in improving and consolidating the insurance companies in order for them to be more competitive. Currently, we have about 30 insurance companies in the country. Few years ago it was about 50. We increased the amount of the authorized capital.

I think the authorized capital of the insurance companies will increase in the next few years. They will take more risks. We are also creating favorable conditions for foreign investors to operate in this sector. We already have such kind of companies. We have JVs with Great Britain, Turkey and others. As a result, insurance premiums increase dramatically every year. We are also taking measures to inform people about the insurance activity in the country. Special faculties dealing with insurance have been opened at the universities under my proposal.

What can you say about the privatization of Azersigorta?

We are getting prepared for it through due diligence, analysis... we are still working on some concrete proposals.

### ***Interview with:***

***Mr. Oivind Wigand, General Manager of Radisson SAS Plaza Hotel.***



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17/12/03

Obviously, your hotel targets foreign businessmen. But where are they coming from, what are they doing?

I would say that for our hotel here 99% are business individuals. Only 1% comes here on leisure. 50% of our guests are from Europe, approximately 30% from America, 20% are from Caucasus and Middle East.

You have been here for two years or even more. Among your guests and the foreign community present in Baku, have you seen many changes since you arrived?

No, actually the only change that I see here is increasing occupancy. Regarding the mix of nationalities it is very stable, due to the same key players in the market over several years. So you have a lot of people coming in from the oil capital of America, Houston, Scandinavia, United Kingdom, Germany and France. There are many subcontractors, either based in England or Norway due to the experience they have from the North Sea. So from Europe we have big percentage of visitors.

How many French people do you have here?

France has its own representative in the person of TotalFina company and from the Diplomatic relations. Italy is less represented. Summing everything up, number one is United Kingdom, number two is Scandinavians and number three is French and Germans.

You were talking about your occupancy rate. How has it evolved exactly? Are you at 100% today?

We have increased from 2002 when we had 75%. This year we will end at 85% and we are budgeting 87% for 2004.

How many rooms do you have?

40 rooms. The pressure is during weekdays, where we are very often fully booked and it is a little bit slower during weekends. Due to frequent flights from Europe by British Airways, Lufthansa, Azerbaijan Airlines and Austrian Airlines, people tend to plan their trips to be back "home" for the weekends. Due to lack of leisure traffic in Azerbaijan, weekends are not easy to fill up, which normally is the main business for hotels during this period.

As part of your activity, do you also provide offices to companies?

The building our hotel is situated in also provides office space, but this is under the management of ISR Plaza. The hotel occupies 14th to 16th floor. The business center is situated from 2nd floor to 13th floor. Even though we are two separate companies operating within the building, we work very closely to optimize business for both parts benefit.

How do you attract foreign delegations? Are you working with the Ministry of Trade/Foreign Affairs or the Chamber of Commerce in order to get the attention from international businessmen to come to the Radisson?

We do. But over the years normally I have to say "No" due to the fact that we only have 40 rooms, making it difficult for us to except delegations larger than 15 to 20 persons.

It means that currently you are on the position when you have to refuse clients most of the times?

For sure I admit that we have a bit of lost business. Nevertheless we have good contact with the various Government agencies, American Chamber of Commerce, the German Chamber and others. We do get our fair share of business, but more on an individual basis.

I would like to come back to the tourism sector. Would you have any opinion or even recommendation in order to make this sector grow? May be you think that there are some statements or diversifications that can be necessary...

The main issue for Azerbaijan is to develop their infrastructure in the future, in order to accommodate more tourism, from markets like Asia, Europe and USA. Azerbaijan is a beautiful country to travel in with a very rich culture. You have beautiful places like Sheki, Guba and Xinaliq, as well as others that which are all potential tourist destinations. I believe there is a big market out there.

You have been here for two years. What is your impression from the beginning and now. Do you notice the revolution that has happened with this country? I mean when you first arrived what you have been thinking and what is your point of view now?

There is a steady development of new jobs for the locals, entertainment such as restaurants and bars/pubs. When I arrived for over 2 years ago I did not know what to expect. The Azeris are very friendly and open people and curious towards your interest in their country and culture. I have met a lot of very nice people around my trips in Azerbaijan. Many of them inviting you for a cup of tea in their house and to have a small conversation. This I do not experience in my own country, Norway.

***Interview with:***

***Mr. Heydar Babayev, Chairman of State Committee for Securities.***



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19/12/03

You have been responsible for the creation of the Baku Stock Exchange, which is still very young. As compared to your forecast at the beginning, how satisfied are you with its performance so far?

We have a very short history of the market economy. We are trying to establish the modern financial system in Azerbaijan and the securities market as one of the most important part of this system. We are cooperating with the National Bank of Azerbaijan, with the Ministry of Finance and Ministry of Economic Development. As you understand this process can't be passed through in short period of time. But it has to be mentioned that the main part of the basic procedures are already done. We have created the infrastructure of financial service market and especially securities structure in it. In this regard the Baku Stock Exchange has been established and it has a real potential to become a source of development of the securities market in the whole region. There are also financial intermediaries and custodians in the country. As you see the securities market infrastructure in Azerbaijan is now ready for development of investment process. We can mention Russian market as an example. The infrastructure of the securities market was created after the creation of the market instruments in Russia. It caused turmoil in the Russian economy afterwards, and that's why we have chosen another way: we have completed the creation of the legal base for the activities of securities market participants. As the main part of this we have presented to the Parliament amendments to the legislation on securities market and joint stock companies, keeping in mind the recommendation if the EU experts. The main problem is small quantity of instruments in the market at the moment. When you say the infrastructure in the market is ready it seems like you still in the waiting position for the companies?

You are absolutely right. First of all we are waiting for the creation of the accounting standards which are very important. The Ministry of Finance is preparing some necessary measures in this field. There are about 2000 companies in Azerbaijan at the present time. Providing of transparency of the corporate activity is a necessity for the development of the financial market. Besides this the development of the corporate governance is also very important and some steps have been taken in this regard as well. We hope that the new legislation will be helpful for solving of the given questions. Strategic privatization, of course, can also be of great assistance for achieving our goals.

Major privatizations are still under process. When do you expect the blue chips to appear on the stock market?

The Ministry of Economic Development is in charge of the privatization process in Azerbaijan. Nowadays the level of interest of the foreign investors is not very high. First of all, they are looking for investing in telecommunication and oil industry. But I think in the nearest future the privatization of the telecommunication sector will start and that is very important for the country. Foreign consultants and experts have been invited to Azerbaijan for this process. We are sure that during the second program of the privatization the Ministry of Economic Development will do its best for the successful implementation of the program. We are waiting for the secondary market of the shares issued during the privatization.

You have close cooperation with the NBA and the Ministry of Economic Development. When do you think blue chips should actually start coming into the stock market? It is difficult to tell exactly right now. We predict it to happen in quite a short period of time, perhaps in the next 3 months. As I mentioned earlier the infrastructure of the market is almost ready. The companies belonging to the Ministry of Communication can be shown as an example-each of them can be easily sold on the stock market. The development of the secondary market is not a problem at all, but the most important thing for the economy of the country is the improvement of the primary market. In this regard it can be very helpful to use the Baku Stock Exchange in privatization process.

How would you explain the BSE evolves as compared to the neighboring countries?

There is no sense to compare Azerbaijan with other countries, because of different levels of economic development. There are no stock markets in Georgia, Armenia and Turkmenistan. Regulatory body in Georgia is created through the USAID, which pays all expenses, created legal base and even established the stock exchange. But the results are not satisfactory. There are some normal companies in Russia. But there is also the risk of turmoil, for example YUKOS-SIBNEFT merger.

To what extent SCS plays a role to get those players?

There are many things to do in this field. As we mentioned some mistakes were made during the privatization program. Due to those mistakes only 10 percent of the companies' shares are circulating on the market. If the companies were able to trade with securities they would realize that it is much more helpful to trade the securities via the Baku Stock Exchange. The most important thing for them is to get some experience. Actually they are making steps in this direction.

And also they may be waiting for others make steps?

The next step for them is to become the participants of the market. It is possible for some of them to establish companies and to get licenses for professional activity. The knowledge of these guys is higher than the knowledge of some dealers working for banks.

How many deals are usually made per day? How can we measure that?

There is only one national depository center. We can observe the deals with the shares. National depository center changes the names of the owners 10 times more often than the deals in Baku Stock Exchange. We know that market is about 30 mln US dollars per month.

Unlike FSA in the UK and Securities and Exchange Commission in the USA who only regulate securities markets, our task is to facilitate the creation of the market and then regulate it.

We heard that you have been the representative of the Most-Bank in London. What did you learn from this experience?

Before representing Most-Bank in London I had gained much experience from working for the Bank for Foreign Economic Affairs of the USSR and later the Bank for Foreign Trade of Russian Federation.

***Interview with:***

***Mr. Ahmed Jehani, Country manager of World Bank.***



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12/02/04

For the past 10 years it is said that the World Bank has been giving to Azerbaijan a total amount of loans of \$500 million. How would you describe the co-operation that has been created between the Azeri government and the WB over the past 10 years?

I think the cooperation between the Azerbaijan government and the WB has developed a lot and has become a successful partnership. We are widely accepted in the country and are

working with all ministries as partners. We feel the government and the people have a good understanding of our role here.

Now the people see the benefits since the projects we have been supporting have already yielded good results and we provide not only the financial but also the technical assistance.

The bank mission is very targeted towards fighting poverty. We have also been increasingly expanding the outreach. We carry out programmes to talk to a broader range of people and try to keep the dialogue both with the government and the private sector in order to work out our strategy. We travel a lot to the regions and focus on communicating with the people.

Can you mention one or two of your major achievements so far?

Azerbaijan was going through an economic crisis and a big depression in all sectors of the economy with a very poor fiscal and financial management. Through WB collaboration with the International Monetary Fund and work with the government in order to establish sound economic stability was basically a progress by itself and have yielded striking results such as full stabilization since 1995, very low inflation rate, very low depreciation of the exchange rate, annual double digit GDP growth and the last couple of years were very good in terms non-oil GDP improvement. These are the most important contributions of the WB to the economic and structural reforms that have been carried out in the country. We finance some very important projects concerning different sectors, especially regarding the environment , poverty reduction and social protection that already have given tangible results in sectors such as agriculture, social matters,, water supply, and reconstruction..

What are the government bodies you are in closest contact with?

We keep contact not just with one but with all ministries. It is the nature of our institution. Our agenda includes the social economic development. Obviously, the main contact is the Ministry of Finance as the official representative of the borrower, i.e. the country. We also deal with the Cabinet of Ministers, that is the office of Prime Minister. Our other important counterparts are the Ministry of Economic Development and the National Bank of Azerbaijan, head of which is the Bank's Governor in Azerbaijan.

But as to the projects such as irrigation or agriculture as a whole we deal with the relevant ministries.

On January 21, 2004 a mission from the World Bank came to Baku. The basic purpose of the visit was to prepare a new project on development of the private sector. What does that project consist of exactly?

This is the usual checklist we do in each country. We try to help the Government set fair competition, de-monopolize the market (economy) by setting up the legal framework. We are mainly working on the legal regulatory side, as well as creating free entry policy. We also provide technical support to some institutions. At the moment the features of the program have not been worked out yet.

As to the government, one of their priorities is the development of the private sector, which we are supporting. You have to see the whole program but not a particular project. It is the government that sets up the priorities. On November 24, 2003, the President of Azerbaijan issued a decree. That was the first decree of the new president. The decree is called "On measures to accelerate socio-economic development in Azerbaijan". And it basically provides the picture of the strategic priorities on the medium term. And the WB tries to support it. You can classify these issues into 3 categories: 1) creating opportunities, jobs in the non-oil sector, 2) transparency, accountability, efficiency in terms of public sector, 3) equity and sustainability of social services on the market. These are the main challenges that Azerbaijan faces in terms of medium-term development. We fully support the government's efforts in reaching the overall goals which are the improvement of the business environment in the non-oil and private sectors.

The government is obviously trying to create opportunities that will generate a sustainable development. But what are the main hindrances or setbacks that still deter a potential investor from investing in Azerbaijan especially in the non-oil sector?



I think the legal infrastructure must be improved. The obstacles other than the legal ones are demonopolization, competitions, free entry, and registration. There is sensitivity towards this issue. Our role is always to make sure there is coordination with the technical assistance needed.

As a foreigner would you say that it is a right time to invest in Azerbaijan?

In certain areas it is the right time to invest. There are problems naturally. The most important is that there is a process or trend. If you compare the economic indicators of 1998-1999 with those of 2003-2004 you'll see the real picture, the improvement. The government is better structured and more efficient, corruption has lowered, the legal framework has improved and there is more transparency.

It is really up to the businessmen to decide whether they should invest or not. This is really the right time otherwise it will be too late. So when I speak about Azerbaijan today I can talk about stability, economic growth. We are very positive about that.

The WB is going to finance the creation of a Cultural and Information Center in Icheri Sheher (Old City) in Baku. It seems there is a great need to protect and let people know about the great cultural heritage of this country?

We finance a project called "Cultural Heritage Support". We agreed with the government on some activities that would help to strengthen the performance through the community development and also help the communities living around the four e cultural heritage sites restored under the project in various part of the country. . An Information and Services center in Icheri Sheher could help the poor communities of this old part of Baku, improve their living through, say, offering various kind of services to tourists or visitors. Icheri Sheher is the cultural heritage of Azerbaijan as well. It is related to community development. The people that come here must be very careful not to damage this cultural heritage that has been included in the list of the UNESCO.

### ***Interview with:***

### ***Mr. Fazil Mammadov, Minister of Taxes. The Republic of Azerbaijan***

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Before coming to the latest amendments can you give us a brief overview of the major tax

During the soviet period all the economic system was planned. As there was no market economy there were not taxes, no entrepreneurship. But after the late president Heydar Aliyev determined the economic development directions the economic reforms were launched and formation of the market economy and entrepreneurship began. All the process led to the formation of the market economy and it nececcitated to create the national tax system. And the reforms in the agrarian sector is already completed. 99% of the enterprises of the sector have been privatized. The trade has been privatized by 98%. The first stage of the privatization program was completed and the second stage has been launched. SMEs have been fully privatized. We already have the local entrepreneurs. It was very important to have a legislative base in the tax system as it is in all the sectors of economy. But the government considered the

improvement of the tax legislature as an integral part of the improvement of the tax system itself. The government determined the main strategies for the consolidation of the tax system. Since 1997 by the order of the president a relevant commission was set up and it began to work out the Tax Code of Azerbaijan. The code passed in the parliament in June 2000 and it was signed by the president. It came to force in January, 2001. A number of decrees, orders have been issued on the basis of the Tax Code. Foreign experts have also been involved in working out of the Tax Code. The experts from the IMF, WB and a number of the audit and consulting companies have been involved in it. And I think that presently we have a Tax Code in Azerbaijan that corresponds to the international standards.

What are the main items of the Tax Code? And what is envisaged in it for the foreign investors?

The Tax Code contains items that are really of great importance for the local entrepreneurs and foreign investors. According to the Tax Code the number of the taxes have been reduced from 16 to 9. It is very important that the taxes are clearly clarified, and the highest level of them is fixed. The most important is that due to the Tax Code the level of the taxes may only decrease but not increase. But the Tax Code and tax legislature is not the only basis for the development of the tax system in the country.

What measures do you take to inform people about the tax system and in this way contribute to the development of the system?

The second direction for the development of the tax system is the training. As before there was no market economy, no entrepreneurship there is a great necessity to inform and educate the local entrepreneurs about the tax legislature. That's why there are two directions of the trainings. First is the training of the tax-payers and the second the training of the tax service employees. We conduct consistent work on it.

We also have an agreement with the Ministry of Education on conducting lessons about taxes at the secondary schools. We published books for the secondary schools.

Beginning December, 2003 we have opened a free line for the tax-payers with the number 195. The tax employees answer the questions of the tax-payers during 24 hours a day. The question and answer is in 3 languages.

The Ministry of Taxes has opened its web-site. And it issues its magazine and newspaper in order to inform the tax-payers about the ongoing changes in the tax system. Our newspaper is issued weekly and the magazine once a month. We conduct special services for the tax-payers. The tax-servicers meet the tax-payers and answer their questions. The purpose is the increase the level of tax responsibility and tax education of the people.

We also put posters and boards in the different parts of the city advertising and emphasizing the importance of the tax system and tax payment. All the taken measures yield positive results.

As to the second direction of the trainings we have established the Tax Educational Center.

We have also established tax and tax levying chair at the Azerbaijan State Economics University. We also started preparing specialists for the tax system.

The third direction of the tax system improvement is the tax control system. Presently we have operative tax control, documented inspection control of the tax system and the camera control system. The more people know about taxes, the more taxes are paid the less we have the tax control. We'll shift from the operative control system to the general control system.

Can please tell us what are the main structural changes you have made in the tax system?

More than 60 regional tax offices have been closed and 13 regional tax offices have been established. The number of the tax employees have been 40% reduced. The main goal is to prepare and submit the tax reports without the direct contact with the tax-payers.

I want to mention that though 60 regional tax offices have been closed, the tax payment in 2003 in comparison with 2002 increased by 717 bn manats. It makes up about \$170. On one hand it is the indicator of the economic growth, on the other hand it is the effective work of the Tax Ministry. In comparison with the previous years it is 21% increase. If we take into account the GDP increase by 9-10% and the inflation rate of 2%, 21% increase is a big indicator.

Do you provide specific incentives to the foreign investors that make investments in the country economy?

Such kind of incentives are only provided in the oil sector. The oil contracts are regulated on the basis of the quite different laws.

We have made some incentives for the agricultural sector as well. The debts of the privatized enterprises to the state enterprises and the government have been completely removed. When the state enterprise is privatized their debts are fully abolished. The agricultural enterprises are exempted from all taxes excluding land taxes. Azerbaijan is an agrarian country. There is a great potential for the foreign investment in this sector.

We also know that the IMF put some pressure to remove the tax differentiation between the regions. Do you think it is going to hinder the government program on the development of the regions?

We agreed with the IMF on it. We really applied the income taxes differentiation system of the regions for a year. But as a result of the monitoring it became clear that it is of no use for the development of the regions. Complex measures should be taken. The results showed that the the system we applied in the regions was not efficient and that's why we agreed on it with the IMF.

Do you think that the tax system is going to be stable or changes are expected to do in future?

Not fundamental but technical changes may be made to the Tax Code. It shows that every item of the law works and there is no need for the fundamental changes. For ex: there can be misunderstanding only on the technical of the code by the tax payer or the tax servicer. Buon the whole the Tax Code is very effective.

### ***Interview with:***

***Mr. Abulfaz Garayev, Minister of Youth, Sports and Tourism.***



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12/02/04

You participated in the elaboration of the State program on Development of Tourism for 2002-2005. What has motivated your undertaking such a program and can you remind us what are the main guidelines of the project?

During the first few years after Azerbaijan gained independence the political and economic situation in the country was so that there was no chance and time to think about tourism as a potential for the development of economy in the country. And there was no state body responsible for tourism in the country. Only in April, 2001 the president gave an order to establish this ministry on the basis of the Youth and Sports Ministry existing at that time.

Before there was only the state council and it was responsible for issuing licences for the companies that were dealing with international tourism. At that time there was not even a chance for the tourism to be born, the time itself did not permit us to develop tourism, because there were a lot of problems in the country to solve and still much to do. But after the situation changed and economy of Azerbaijan became more stable, the necessity of the alternative kind of activity in economy besides energy occurred. It was seen as one of the opportunities to increase the variety of the business within the private sector. But we had the possibility to benefit from the experience of neighbouring countries as Turkey and others to start tourism by using the existing potential of the nature, traditions, culture and hospitality.

As Azerbaijan became a stable country, the government gave a permission for further development of tourism. Unfortunately, we did not have a chance to do it earlier but nevertheless it is better late than never.

We were required to bring a clear understanding of tourism in the social life of the country, like an important economical activity, to show the profitability and necessity of developing tourism like an economical activity both to the government and private sector as well. We also took some political steps, one of which was applying to the president to issue the decree about the necessity of developing tourism.

Since 2001 almost every year Azerbaijan has been participating in international tourist affairs in Moscow, Berlin, London, Turkey, Spain, Kazakhstan. Azerbaijan has applied for the International World (?) Organization responsible for tourism.

A strategy of tourism development for 2003-2020 has been worked out. What is the main long-term objective behind this strategy?

We are interested in building up the tourism development strategy for next 50 years and more but it does not completely depend on us, we agreed with the US government through the Trade Development Agency, that they will finance the creation of the masterplan of development of tourism in Azerbaijan. If foreign experts have already agreed to finance the creation of the masterplan it means that the tourism in Azerbaijan has a big potential.

But now we are just fulfilling the first plan for development of tourism that we issued for the short period of time till 2005 which was the political document bringing an understanding of tourism into society.

As it was mentioned most investors tend to look at the development of the tourism sector in the country, to what extent are you in contact with the president himself or the Ministry of the Economic Development in order to organize all those issues?

Tourism after being approved as a very important sector of development in the country presents all the documents connected with the regional development. Moreover, tourism is one of the essential parts of the programme signed by the government of Azerbaijan with the World Bank and United Nations Development Programme as one of the means to reduce the poverty and increase the number of work places.

I think there must be a unique international tourist organisation that unites all the relevant organizations in the world. The Ministry of Ecology and Natural Resources of Azerbaijan also helps tourism to grow. The more parks are being opened the more opportunities for the green

tourism to grow up and the more green and ecologically clean places we have the more ground will be for the tourism.

There are already 7 projects financed in Azerbaijan. We are preparing 15 more projects and I should notice that they are all from the private sector.

Do you think there is enough interest and attraction today for the foreign investors to invest in that sector?

I hope that in 5 years there is not going to be even "place on the shelf". Today we feel a great interest from the foreign investors. United States are already involved in investment in the preparation of the masterplan, Turkish investors already are investing in Azerbaijan, we are negotiating with investors from Israel, as well as England and Germany. These all countries understand that Azerbaijan has a very big potential. We already put forward our proposal to Chinese partners about developing tourism with us. Both sides feel the necessity and see the profit. What is most important that our local people after bringing the tourism to the agenda started to invest, as a constructing hotel. The attraction of the foreign investors is very big as you can see as example of modern hotel Hayatt Park, it is not property of Azerbaijan, it completely belongs to the foreign investors, but it is a big investment. At the moment we feel lack of good hotels, three stars hotel, lack of good services in the hotels, restaurants, we have opened a special colleges for training our staff. We are trying to organize things for the tourists to make it easier even to get to our country, so the problem with getting a visa in airport is fixed by now. We have put a big reduction in prices for visa for the collective entry of 20 tourist, but at the moment we had to put off this discount because there is no rush, and usually tourist are coming in a small groups. According to the law all foreign investments are protected by the government as much money has been brought in, the same amount can be easily taken out, without any obstacles, the government secures it.

But we are hoping and waiting for the foreign investors mainly coming from people who knows Azerbaijan not only due to tourism activity, it is people coming due to oil rush, credibility of business and stable situation of the economics of Azerbaijan.

Foreigners know that Azerbaijan has a very hospitality population, it has warm and soft climate, people that tried our vegetables and meat, will come back here again. So that is also how we know that our land attracts the tourists. The ecosystem of Azerbaijan is very variable, even during the Soviet time we had 17 national parks, on very small territory of land, due to the climatic possibilities created the natural resources as fishing, hunting. Nature to Azerbaijan is given by God and it is our aim to protect it. There is a big attraction in human potential, our people are very educated and friendly, our traditions of hospitality are coming from anxious time. Azerbaijan has a huge history, you can see it though the monuments we have.

Azerbaijan has beautiful music, talented writers and national as well as modern theatres. You can see a combination of Western and Eastern cultures through many different ways. In my opinion Azerbaijan grasped the best from these two different cultures, and it is important for the development of tourism in our country.

The oil attracted foreigners the most, the development of Baku and generally Azerbaijan at the beginning at the previous century was also connected with oil sector. Everybody admires Noble Prize, but no one knows that the basis of the noble prize was started in Azerbaijan in Baku, because Noble Brothers came to Azerbaijan and opened here very perspective kind of economy, they started their business here and the money taken from Azerbaijan had been put further. Noble Brothers came here to sell the weapons, because they constructed weapon in Sweden and they wanted to sell it overseas. When they came here, they saw that here is much more attractive things to do.

From the historical part Azerbaijan has place called Gobustan, it is 70 km away to the South of Baku the case with the rocky mountains, just close to the city, with the wall paintings of the anxious people, the oldest date is 9019 centuries before the Christ, so the settlement of people even at that time were in Azerbaijan, this was proved by scientists. One of them was a scientist from Norway, well known traveller Thor Heyerdal, the man who initiated first Asian trip from Europe, America. He has visited Azerbaijan several times, he opened this case for himself and said that the roots of modern Norwegian people comes from this settlement here. Because the boats, the temper of the people painted on the walls in Gobustan resembles the same

things in Nother part of Europe. Azerbaijan was always on the crossroad of all the trips from Europe to Asia, Silk road is business road, but people who came to open the new ways, they usually passed through Azerbaijan, specially at that time everyone knew that Azerbaijan was land of fires, although there was not oil at that time. Thousands of fire-worshippers were coming to Azerbaijan just to worship to the fire. There are a lot of things to be recovered, to be opened by the newcomers to Azerbaijan and i think our main aim is to create economical and hospitable climate attractive for investments for tourism , in development level of services of bringing tourism to the number one economical sphere of activity in the country, although it is difficult , it takes time. Turkey managed to do it in 25 years, i hope that we will manage in 10.

### ***Interview with:***

### ***Mr. Vilayet Guliyev, Minister of Foreign Affairs of the Azerbaijan Republic.***

Within the framework of the OSCE Minsk Group, your Ministry is at the heart of the negotiations around the settlement of the Nagorno-Karabakh conflict. Can you update our readers on the current situation and the position of the members of the Minsk Group and on the resolution of the consequences on the refugee problem?

OSCE Minsk Group has already been operating for 12 years. The direct mandate of this group is to be the intermediary for the solution of the conflict. On May 12, 2004 it will be already be 10th anniversary of the cease-fire. It has been 10 years we have not been conducting active military operations. But current situation in the region is neither the war nor the peace which is a very dangerous situation for the whole region. Because you can very frequently hear callings for the war in both countries. Therefore, it is very important to solve the problem. Azerbaijani is a main zerecheken side. The conflict began as a result of the Armenia claims and aggression to the Nagorno Karabakh. The territory of the Nagorno Karabakh is 4400 square km. The population of it was about 160 ths people at the beginning of the conflict. 70% of the population were Armenian and the rest 30% Azeris. Besides Nagorno Karabakh Armenian military troops occupied the neighboring territories 3 times as big as Nagorno karabakh. 100 thousands of people were forcedly moved from those regions. Those regions have been under tghe Armenian occupation for more than 10 years. All cities, villages, cultural-architectural monuments have been destroyed there. Of course the uncontrolles zones are the source of danger for the whole region. Because the uncptrolled zones are used to cultivate the drus bitkileri and drug trafficking, the atomic wastes are buried in those zones. If we take into account that the occupied Azeri regions are on the border with Iran and the intervene of the terrorist groupings in our territory is not excluded as well. The Armenian agression is also a great hindrance for the economic and humanitarian development of the region. The people forcedly moved from Nagorno Karabakh and other regions have been living for 10 years in very bad conditions in different regions of Azerbaijan. These people have lost everythong their property working places. Azerbaijan is a small country with only 8 mln population and 1mln of them living in a very bad condition which affects the whole econmic situation in the country. The war must be solved on the peaceful way because even if the military operations are launched it doesn't give us a guarantee that the conflict will be resolved. That's we have been conducting negotiations through Minsk Group diuring all these years. There was conductred direct dilaogue of the heads of the states of the 2 countries since 1999. Since 2003 there were conducted talks between the representatives of the 2 presidents. We are planning to hold meeting of the Foreign Ministers of the 2 countries. On March 19, 2004 I met with the Minsk Group co-chairs in Slovakia. The thing is that the Minsk Group co-chairs couldn't prepare any proposal that makes possible the solution of the problem. The position of the Minsk Group is like there was a war and there are consequences and they have to solve the problem taking it account. Of course we realize that the results of the Armenian aggression to Azerbaijan will affect the peaceful solution process. Bugt is we take into account that both Azerbaijan and Armenia are the EC members and we are living in a civil world. And gives us opportunitiews tomsolve the problrms due to the

international norms and laws. The international law excludes the forcedly change of the borders. 4 resolutions adopted by the UN in 1992-1993 it is demanded to withdraw the Armenian troops from the Azeri territories. There some resolutions of the OSCE as well. All this creates enough legal base to solve the conflict in a civil way. But unfortunately the main objective of Armenia is to separate karabakh from Azerbaijan and join it to itself. But Azerbaijan will never agree to that.

At present Azerbaijan develops faster. Azerbaijan's economic opportunities are much more. We have been producing more than half of the GDP of the 3 South Caucasian countries.

One of your country's main objectives is its integration into NATO and the EU. What are the main steps still to be undertaken in order to reach that goal?

One of our main objectives is Azerbaijan integration to the NATO. We consider possible to use the Azerbaijan position in the South Caucasus not only for our country and for the other 2 South Caucasian countries. We also consider possible to use these opportunities by Armenia as well. At present we are implementing big projects with Georgia.

In 2005 Baku-Tbilisi-Ceyhan main export pipeline will be put into operation and we'll get the opportunity to export the oil resources of the Caspian to the world market. In 2005 will be launched the construction of Baku-Tbilisi-Erzurum gas pipeline. If Armenia wouldn't have laid claims for the Azerbaijani territories and wouldn't occupy our lands it would have also benefited from these projects. On the other hand there is no foreign military base in Azerbaijan. At present Georgia fights to withdraw the military basis from its territory. And you already know there are the Russian military bases in Armenia and the Armenian borders are protected together with them. In that sense Armenia pursues a different policy than the other South Caucasian republics in the region. Of course it damages the integrity of South Caucasus.

The stability in the region is necessary not only for Azerbaijan but for the whole as well. If there wouldn't be these conflicts in the region the situation would be much better.

Azerbaijan, Kazakhstan and Russia have agreed on the seabed delimitation of the Caspian sea, except Iran who is challenging Azerbaijan's hydrocarbon exploration in disputed waters. What can be said today about the current situation of the status of the Caspian sea?

Some days ago there was held the meeting of the working group for delimitation of the Caspian Sea with all the five coastal countries' representatives together in Baku. The main purpose was to work out the convention on the legal status of the Caspian Sea. We have already reached agreements with Russia and Kazakhstan. There are problems with Iran and Turkmenistan. We have begun to conduct more intensive negotiations with Turkmenistan recently and there are some positive changes. Iran's position is the same, it still wants 20% of the Caspian insisting on its being shared in 5 equal lumps. But it is an unrealistic approach to the issue. Because the share of each country in the sea is also defined by its land territory. Russia is one of the powerful countries in the region and its share in the Caspian is about 18% which is less than Kazakhstan's. Kazakhstan's share is 29%. Kazakhstan is not going to share its portion with any country. Iran's share is about 12% it has to agree on it otherwise it may cause a conflict in the region. We refer to the international practice on delimitation of the Caspian and consider that. On April 5-6, 2004 there will be held the meeting of the 5 Caspian littoral countries in Moscow. First of all we'll conclude all the things done. Issues like the forming of Caspian biosphere, its demilitarization, joint use of the Caspian water basin and others. We'll also sign the Convention on the legal status of the Caspian. We believe the second summit meeting of the heads of the Caspian littoral states in the Caspian. Azerbaijan is the first country exporting the reserves of the Caspian sea to the world market. Kazakhstan and Turkmenistan also began to use our experience. Therefore we are absolutely for the peaceful and stable situation in the Caspian. There are opportunities because the wealth of the Caspian can be enough and sufficiently shared between all the littoral countries.

The Eurasian Transport Corridor is a major focus of the International development policy of your country. To what extent is the Ministry of FA involved with its neighbours in the implementation of that corridor?



Azerbaijan is a unique country due to its geographical position and the corridor between east and West and the Great Silk Road goes through it. We also have the office of the TRACECA programm in Baku. At present we are working on Azerbaijan's joining North-South corridor. We have an agreement with Russia and Iran on that. As a result of the realization of the project there will be laid a transport corridor between North Atlantic and Indian Oceans. Azerbaijan will become a main transit country in the region. Azerbaijan also realizes the transportation the oil from Turkmenistan and Kazakhstan through the Caspian , then railway to the Black sea. The total volume of the transported oil from Kazakhstan will make up more than 10 mln tns in the next 2 years. As a transit country we have big opportunities. We can also establish wide transport relations with Iran and Turkey. But 140 km of the railways going to Iran and Turkey are in the occupied territories. And it creates obstacles for the 3 South Caucasian republics exit to the Mediterranean Sea. Wouldn't have been the war the 2 countries could have easy access to the oceans.

## LINKS

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