

The Japan Times

AZERBAIJAN

One of the world’s biggest emerging markets showcases its huge potential

Toward diversification

With exponential growth averaging 34.6 percent, the Republic of Azerbaijan is one of the world’s fast-growing economies, and has enough natural resources to keep on growing. Rich in oil and gas reserves, and precious metals, the former Soviet republic is now one of the most attractive destinations for international business.

Azerbaijan sits on the most southeasterly border of Europe, a geopolitical position that makes it a natural bridge between Europe and Central Asia and the Middle East. The country’s proximity to the Caspian Sea, and its well-connected, modern capital Baku, makes it a convenient logistical hub for the region’s markets.

President Ilham Aliyev, who was elected to power in 2003, is committed to diverting the huge revenues generated from the energy sector into other arms of the economy. “Oil generates money,” says President Aliyev. “It does not generate knowledge or new jobs, and it does not result in a diversified development of the country unless used properly.”

With a population of 8.4 million, and an average age of



Ilham Aliyev,
President of
the Republic of
Azerbaijan

28, Azerbaijan has important human resources too, something the president is keen to exploit through improved education and IT development programs. “We have enough oil and gas to last us another 100 years and an inflow of tens of billions of dollars, which is a great opportunity,” he says, “Education therefore receives around a billion dollars every year. When we started this program three years ago, we had one computer for every 1,000 students. Now we have one for every 29 students.” Of the 640,000 jobs

created in the past four years, most were in the up-and-coming sectors of finance, construction, telecoms, transport and tourism. A state oil fund, awarded by the United Nations, ensures the trickle-down effect is well managed and transparent.

Aliyev is keen to change the global perception of his country, which is not completely accurate, he says. “Now we have achieved so many great things domestically, it is time to invest a bit more in promoting the country on the international scene.”

Japan, he points out, is already an important economic partner and has become one of the country’s biggest investors in energy. “We have many Japanese contractors here and they are very integrated, not just in business

circles, but in society at large. Our political stance on bilateral relations between various countries coincide and we treat each other as friends and equals, despite the fact Japan is a leading economy and Azerbaijan is still small in global terms.

“I believe the country is now more attractive in terms of investments in general. We have the financial resources, so what we need now is know-how, modern technologies and professionalism. Japanese companies can provide all of this.”

Azerbaijan is now on track to becoming an open market, thanks to a restructured financial sector, a flurry of privatizations and some important investment reforms, but Minister of Economic Development Heydar Babayev, recognizes the need to convince global economies like Japan. “We only have 15 years of history, so we cannot create the same institutions and mentality as a developed country in one day. The country, and its democracy are very young. However, the returns can be higher as it is an emerging market.”

Babayev points to Azerbaijan’s creativity as one of its major strengths. “Our entrepreneurs are creating factories and plants, they are very active in the agri-processing sectors. Foreigners are also investing a lot in this sector as they are the potential buyers of these products. There is an excellent market in Kazakhstan and Russia for our products. Japanese investors can provide services to the whole region using Baku as a center.



We have passed a law to allow tax incentives to facilitate this. Baku is the only capital on the Caspian Sea with a high quality of services.”

Azerbaijan’s performance in the last 10 years has been nothing but impressive. Reeling from the collapse of the Soviet Union, and a war with Armenia, the country effectively had to build up its economy from scratch. As Minister of Finance Samir Sharifov points out, GDP growth in 1996 was 1.3 percent, but a sign that things were finally going in

benefits for everyone so we are harvesting the welfare policy.”

Indeed, last year’s growth was \$3,600 of GDP per capita, according to Minister Sharifov. Banking assets have gone up 50 percent on an annual basis and the combined reserves of the Central Bank and Ministry of Finance are more than \$5 billion. The budget for this year will focus on Defence, schools, health and infrastructure. “We have \$3.5 billion in the capital expenditure budget that will be directed toward the three major highways connecting Baku to Georgia and Russia. I am very proud to say that financing for these projects will not only be provided by the Azerbaijan budget but we have also attracted some loans from international financial institu-

investing substantially in irrigation, land reformation, and of course, in education.”

Azeri-Japan relations have been revitalized in recent years. In February, Azerbaijan’s Deputy Prime Minister Abid Sharifov visited Tokyo for the fifth Intergovernmental Commission on Economic Partnership with Japan, where he discussed a wide range of cooperation matters between the two countries including the financing of infrastructural projects (mainly water-supply and energy) and to sign a final protocol. To date, Japan has given Azerbaijan in the region of \$700 million in loans.

Tadahiro Abe, the former Japanese ambassador, is proud that Japanese companies were among the first to be investing in the country. He says: “Japan highly appreciates Azerbaijan’s efforts toward democratization. Since Japan is a peace-oriented country, the main pillar for our foreign policy is for regional and global peace, and in doing so, we have been supporting various countries to make an effort toward development, social cohesion and stabilization.”

Ali Abbasov, minister of communications and IT, adds: “The key area in which the Japanese can invest is with the regional innovation zone project. This will be a tax-free innovation zone where there is special protection for intellectual property. We would be interested in teaming up with Japanese companies to produce new high-tech products in bio- and nanotechnology.”

“Oil does not result in a diversified development of the country unless used properly.”

Ilham Aliyev, President

“Japanese investors can provide services to the whole region using Baku as a center.”

Heydar Babayev, Minister of Economic Development

Kapital Bank: Aiming for the sky

When Kapital Bank Board C chairman Rauf Rzayev made a short presentation on the bank as part of a banking forum in London last year, many asked him how Azerbaijan’s only remaining state-owned bank had achieved so much in such a short period. “One of the drivers was corporate governance, introducing 52 different procedures. The bank went through a re-engineering process in 2004, and a new structure was adopted,” explains Rzayev.

2004 was the year Rzayev was appointed chairman, and he immediately began the task of transforming the bank’s work culture. The bank itself was undergoing the most profound transformation since its foundation in 1874 as the United Universal Joint-Stock Bank, or BUS Bank. In 2000, it was merged with three other state-owned banks and re-branded as Kapital Bank in 2005. Although the bank is still fully state-owned, an officially approved privatization process has been under way since March 2005.

“Our bank is in the process of privatization,” says Rzayev. “To develop market relations in the banking sphere, the president of Azerbaijan signed a decree to reduce the number of shares in the ownership capital belonging to the state by 50 percent in Kapital Bank. We did our best and in June 2007, a 50 percent privatization was successfully completed. Now we are preparing for full privatization in line with another decree signed by the president on Oct. 19, 2007. We went through an audit process and they priced the bank at \$ 60 million. Compared to 2004, we have grown ten-fold. Our bank has become stronger and more profitable.”

After assessing the bank’s income, cash flows and changes in shareholder equity, the audit, by PricewaterhouseCoopers, noted that the bank delivered a full range of services, including deposits, loans, currency exchange, currency transfers, safe-deposit boxes, cash transfers, sale of credit cards and brokerage services at the Baku Stock Exchange. Also mentioned were Kapital Bank’s correspondent relations with international



Rauf Rzayev,
Chairman
Kapital Bank



Kapital Bank’s H.Q. in Baku

ATMs and, eventually, “fast cash” money transfers by cell phone. All these factors have helped the bank strengthen its profile among the international banking community.

As the country opens up to the global economy and foreign companies operating in Azerbaijan rise, Kapital Bank is also open to the opportunities of foreign business. “Azerbaijan has an open market that attracts businesses. We pay very special attention to the energy and the infrastructure sector, and the labor force is cheaper over here. Our economy is growing quickly. We can see every day economic reforms that are possible because of the country’s political stability. I am sure we will develop good relationships and, in the future, close and friendly relationships with many countries.

If we didn’t have this ambition, we wouldn’t be No. 1. We shall see to what extent we will be successful in Kapital Bank but this is our main goal.

Rauf Rzayev, Chairman, Kapital Bank

financial institutions such as Citibank, American Express, Commerzbank and HSBC.

Rzayev’s goal is to turn Kapital Bank into nothing less than “the Citibank of Azerbaijan.” Right now, he qualifies the current situation at the bank as a re-engineering operation requiring a supervised top-down modernization, to eventually control the open market and lead the country’s banking sector. So far, the internal restructuring of the organization has included the aforementioned corporate governance procedures and priority on effective risk management. Meanwhile, the bank’s network has been widened to include 88 branches and 90 cash-desk offices. The recently signed contract with the I-FLEX Group, of which Citibank is also a participant, is allowing Kapital Bank to widen the range of its products and services with

Although we are a Muslim-dominant country, our development style is Western,” says Rzayev.

Having taken the bank through the first phase of internal transformation and a re-branding process, Rzayev explains the one mission that he would like to see done in the bank during his tenure. “When I was vice president of the International Bank of Azerbaijan, someone from Kapital Bank asked me what my ambition was. I replied that I wanted to control the open market. They said that aside from the International Bank of Azerbaijan, there were 45 more banks. I replied that if we didn’t have this ambition, we wouldn’t be No. 1. We shall see to what extent we will be successful in Kapital Bank but this continues to be our main goal.”

KAPITAL BANK

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BAKFEM LLC. is an award-winning hazlenut processing factory that has been manufacturing the versatile nut in many forms since 1996. Using the most up-to-date technology, the company produces 10,000 tons per year, and its commitment to professionalism, high working standards and quality means it is now a serious international player.

Since 2000, Bakfem has honed its image of being a stable, top-quality nut producer in the world market and has been awarded with various diplomas and prizes in recognition of the fact. In 2003, it became a limited liability society with a view to increasing its export potential, as well as establishing branch offices in the Gakh, Oguz, Balakan and Khachmaz regions. More significantly, Bakfem began manufacturing its Hazlenut Chocolate Creams line which has become immensely successful.

The company was awarded the ISO 9001:2000 in 2005, after meeting International Quality Standards requirements. It is now a market leader in hazlenut production, producing hazlenut kernels, roasted hazelnuts, chopped hazelnuts, hazelnut flour, hazelnut chocolate creams, under the “AZIZA” and “BAGIRA” brands, hazelnut dragee under the “MIRVARI” name, and hazelnut paste.

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A wealth of potential

Despite having huge oil and gas reserves, the Azeri government is taking a responsible stance and opening up the non-oil sectors. We take a closer look at the full range of investment opportunities that includes banking, agriculture, energy and tourism.

The State Oil Fund of Azerbaijan (SOFAZ), which began in 1999 and became operational in 2001, was an integral part of former President Heydar Aliyev's mandate to safeguard Azerbaijan's future, its purpose to stabilize the vast inflows of capital from Azerbaijan's oil revenues and invest them for the country's socioeconomic development.

The Azeri government and SOFAZ have played a key role in the Extractive Industries Transparency Initiative. Shahmar Movsumov, SOFAZ's executive director, says, "Today the fund stands at \$2.2 billion and we are investing in three different currencies: the U.S. dollar, the euro and the pound. We expect to grow significantly, and when we do, we will slowly invest in riskier assets with higher returns."

The Azerbaijan Investment Company (AIC) was founded two years ago using capital from SOFAZ. Its main remit has been to invest in long-term projects within the open economy, provide support to local businesses, and to attract foreign investment. "We provide foreign investors with a pure equity investment in Azerbaijan," says executive director Anar Akhundov. The AIC works closely with the Azerbaijan Export and Investment Promotion Foundation



Jahangir Hajiyev,
Chairman of the
Board, International
Bank of Azerbaijan

(Azprom). Headed by President Emil Majidov, Azprom serves as a bridge between investors, local producers and the government.

Growing financial markets

The country's financial sector is growing dynamically. Despite being in a process of modernization in negotiation with the World Bank, the sector is completely open and transparent with foreign investors present in 21 out of 44 banks. Five of them are 100 percent foreign-owned, while eight banks have a 50 percent or more foreign ownership.

Dr. Elman Rustamov, chairman of the National Bank of Azerbaijan says: "I believe that Azerbaijan is one of very few emerging countries that has no limit on foreign capital. We are experiencing a banking boom due to our dynamic macroeconomic background, economic growth, economic development and we have consistently implemented economic reform over the last 15 years. In terms of banking, all our economic indicators have increased two-fold. The sector registered growth of more than 60 percent last year.

There is a serious consolidation process under way in the banking system, and today we have many banks representing the U.S., Russia, Europe and Asia. Even our neighbors Georgia and Iran have shown interest. We are glad to see this, and welcome it, as it will improve the competitiveness in the sector and bring new technology and innovation into the system."

The European Bank for Reconstruction and Development (EBRD) has invested directly into natural resources, financial institutions, energy, transport, property, agribusiness and industry. "In addition, we have attracted about €2.6 billion from other investors, sponsors, commercial banks and other stakeholders," says Valeriu Razlog, principal banker. "The country is undergoing immense change at this moment; it has completed a number of large infrastructural programs for the export of hydrocarbons, crude oil and natural gas.

"Our country strategy defines the following priorities for the country: fostering development of the non-oil sector through providing loans, equity and guarantees, with a special focus on developing micro and SME companies, supporting the development of financial and non-banking institutions and assisting the state in implement-

ing large-scale infrastructure development in roads, railways, power plants and municipal infrastructure. The bank will also improve its policy dialogue and involve other stakeholders in order to accelerate the reforms with a view to creating a sustainable business environment."

The Azerbaijan Banks Association (ABA) has seen vast changes in the sector since it was established in 1992 to promote self-regulation. "When we started our activities, there were 234 different banks here," says ABA President Eldar Ismayilov. Ismayilov knows 44 banks is still too high, although he is sure that with the Central Bank reforms for consolidation and transparency, this will change. He says: "The ownership structure is still a problem, for example. During the Soviet period, we only had state ownership, so we had, and still are undergoing a transition phase. The Central Bank's approach is very democratic, and I think it will continue over the next five years."

The International Bank of Azerbaijan (IBA) was the first to establish an international branch and today has a presence in some of the major financial capitals of the world, including London, New York and Dubai. The biggest financial institution in the south Caucasus region, IBA's professional standing has been recognized by both Euromoney Magazine and the Geneva Business Institute.

The bank is undergoing a profound economic renaissance and is very much open for international business. Annual GDP grew 35.1 percent by mid-2007

— likely the fastest rate in the world— due in large measure to strong energy exports. While growth will stabilize at lower levels over time, it anticipates double-digit growth for the near future. As a national development bank, IBA plays a unique role in stewarding the economy's future.

Jahangir Hajiyev, chairman, explains the IBA's background: "The IBA, which used to be a subsidiary of a Russian bank, emerged after the collapse of the Soviet Union. Since 51 percent of the company belongs to the Ministry of Finance, it is a semi-state-owned bank. The rest belongs to a diverse number of households and companies that are mainly local Azeri shareholders. IBA takes very seriously its dual responsibilities as a national development bank and a private sector first-mover. It has used its market position to establish world-class financial and technological infrastructure for a financial service industry spanning banking, credit cards, insurance and reinsurance and leasing. IBA did this deliberately to safeguard the framework for a modern economy."

The bank has helped to develop Azerbaijan's financial system over the past 16 years by providing guarantees for other local banks to join international payment systems such as Visa, and introducing innovations such as chip cards to the market. IBA provides clients with all kinds of banking activities, via more than 30 branches. It has the biggest international insurance company and one of the largest local leasing companies.



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"The country is undergoing immense change at this moment."

Valeriu Razlog,
Principal Banker, EBRD

IBA seeks to demonstrate to all sectors of the Azeri economy that transparency and good governance enhance value and profit. Hajiyev says: "We have unilaterally committed to global accounting standards: publishing online annual reports and auditing reports by PricewaterhouseCoopers, and concentrated on the fundamentals to build our Moody's and Fitch international ratings to assure global partners that we offer a safe harbor for doing business in the region, and to lead by example in our own local community.

"A strong marketplace, stable financial position and the excellent future prospect of IBA are highly evaluated by international rating agencies Fitch (BB+) and Moody's (Ba2)."

Last year, IBA underwrote half the refurbishment of the Baku-Tbilisi-Kars rail line through to Turkey's Eastern Kars region on the Black Sea. For \$200 million, it has reconnected the Caucasus and the Caspian to Western Europe by direct rail for the first time since the 19th century.

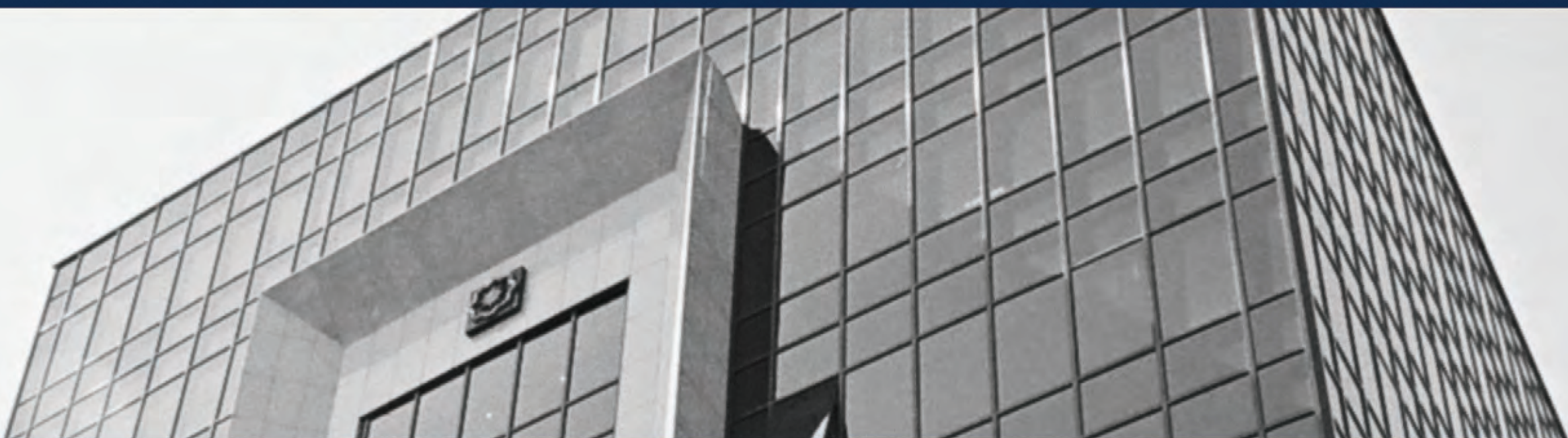
"The rail project is a success," says Hajiyev. "In some ways an even bigger success is the deepening of political and commercial cooperation with our neighbors in Georgia and the development of a Baku-Tbilisi business corridor.

IBA uses state-of-the-art banking technology and has around 485,000 customers, the majority of which are individuals.

Texnika Bank was founded in 1993 and is one of the largest



THE INTERNATIONAL BANK OF AZERBAIJAN



The International Bank of Azerbaijan is the largest financial institution in Azerbaijan and active in commercial banking, consumer lending, online banking, credit cards, insurance and leasing. IBA has 36 domestic branches, a national electronic payments system including over 600 ATMs, and international branches in Moscow, St Petersburg, Yekaterinberg, London, Frankfurt, Luxembourg, Tbilisi and Dubai.

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private banks in Azerbaijan. Over the past few years, it has made great strides to maintain robust growth, through thorough risk management. As well as providing a full range of modern banking services, Texnika Bank was selected by the State Program for the Development of Entrepreneurship to help the financing of SMEs in many parts of the country. Chairman of the supervisory board, Etibar Aliyev, says: “If Japanese banks invest in Japan and earn 3 percent per year, it will be interesting for them to come to Azerbaijan because it will be much higher. Our banking economy is growing at between 50 percent and 100 percent per year. We cooperate with international financial institutions.”

Unibank is also involved with financing the non-oil and gas sector SMEs, and its clients include furniture producers, food-processing companies, trading companies and construction companies, among others. During the next one to three years, the bank wants to strengthen its presence, especially in the retail market, due to the huge wealth coming into the country. Chairman Faig Huseynov says: “We can see how the purchasing power is rising among the population and so are expanding our branch network very sharply.

“Today, we are the only bank with EBRD on board. Unibank was their first investment in the financial sector and it has been very successful. Today our bank is the largest in the country, apart from the IBA, and we are the largest mortgage and loan provider.”

Sowing the seeds of the future
As the second-largest sector in Azerbaijan, agriculture involves more than 40 percent of the population. The country has nine climatic zones and more than a million hectares of arable land



Dr. Aboulfas Garayev, Minister of Culture and Tourism

irrigated by more than 40,000 canals and pipelines. A wide variety of crops can therefore be cultivated. Cotton is the country's most important cash crop, and Azerbaijan also produces most of the world's caviar. Over 90 percent of the country's agricultural land is privately owned and characterized by smallholder farming. Broad growth across the board is needed.

Bakfem, the region's premier hazelnut company, was set up in 1996 and now sells across the world, including Hong Kong, Australia, Europe and the Middle East, and has a strategic partner-

are probably three years behind where we are in the market. This gap gives us a great competitive advantage and forces us to improve. Our organization is large and sometimes it is a challenge to stay ahead. We are taking specific measures to deal with this. We would be able to produce twice as much as we do and would have no problems selling it.”

Javadov believes there is great potential for Bakfem's quality product in Japan, adding: “We are impressed by Japan's ability to be able to compete on a top global level and at the same time maintain its strong traditions and culture,” he says.

The ADA Group, meanwhile, operates in transport, trade and real estate. Its leading concern is the Almali food retailer, which has 25 stores — 23 in the capital

ing investment to the country's fledgling tourism industry.

The country has incredible potential in tourism: It boasts a fascinating cultural and historical backdrop, 250 lakes, including the great Caspian Sea, mountains, nature reserves and UNESCO World Heritage sites, and nine climatic zones ensure tourists can travel there year-round.

Minister of Culture and Tourism, Dr. Aboulfas Garayev says, “In 2001 and 2002, we had 400,000 people crossing the border of Azerbaijan. Last year, we had 1.3 million and this year we expect 1.4 million visitors. Of course not all of them are tourists. According to our calculations, tourists account for close to 1 million. We have different types of tourism: congress, sport, relaxation, cultural tourism... In comparison with five years ago it is double. We consider 11 percent growth this year and last year a good result.

“At the moment Azerbaijan is a new country on the map of destinations for tourism all over the world. Most people have already been to a lot of places, and usually after going to the same place several times, people like to find new destinations. The number of travelers around the world is so high that we are now close to the point when they will look for new destinations, and definitely in this region, not only for Azerbaijan but also Georgia, Armenia, Middle Asia and the Silk Road.”

Now that Azerbaijan can compete with the world's most stable countries, the ministry is developing international relations and has launched a major advertising campaign to raise its profile, promoting the country at international fairs around the world and on CNN and Euronews.

“We need to improve our infrastructure,” Minister Garayev says. “The number



Palatial views from the Boulevard, Baku's main highway.

of hotels has tripled in the last five years, but the number of places to stay has only doubled. We need more international chains to come here. We have opened our doors to facilitate an international presence: We have reduced taxes, for example, and we are working on different international programs, such as our first winter sport resort. The government has also started a new road transportation system. All of these actions are part of our infrastructural development program.”

The Grand Hotel Europe is a first-class luxury establishment in Baku, offering 96 deluxe rooms and excellent views of the Caspian Sea. Run by Gunesh Inkaya, general manager, the hotel is in great demand from business travelers, mainly from Europe, the U.S., Russia and Turkey. The hotel's two-level Grand Exhibition and Conference Center offers 800 sq. meters of exhibition space, and

there is also a modern business center, with health club and spa.

Azerbaijan's competitive edge in tourism is its diversity, the minister says. “Baku offers a lot of attractions such as theater, monuments, old and modern architecture and traditions. Silk Road tourism is an asset for us; Japanese tourists have already started to come by this route by train or bus. Ecological tourism is also interesting; Azerbaijan has various protected areas for birds and animals, offering great opportunities for wildlife observation.

“The other part of Azerbaijan is separated because of the war we had with Armenia; we can only fly there, which makes it difficult for us to attract new visitors. The cultural and historical heritage is really important there, however. The majority of our musicians and our artists come from there. We also have mountain climbing, ice climbing, extreme sports

locations.

“The most important thing for tourists to know about Azerbaijan is that we are coming from a very interesting mixture of traditions due to the geographical situation. It brings an understanding of the mentality of people today and also a great tolerance toward all the religions and beliefs. Originally, Azerbaijan was located at the middle of different flows of cultures passing by.

“At the beginning we were polytheist, and then came Christianity; after seven centuries Islam arrived. We had new traditions and architecture but keep in mind respect for other religions. We have also been influenced by Japanese and Chinese traditions.”

The minister notes that for the future, in line with world trends, Azerbaijan will be a perfect setting for wellness and spa breaks. “We have many natural spas and caves with excavated salt that have a curative effect

“We consider 11 percent growth this year and last year a good result.”

Dr. Aboulfas Garayev, Minister of Culture and Tourism

ship with a holding company. Azad Javadov, managing director, says: “Today our share in the market of Azeri hazelnut exports is 35 percent. We are working with a turnover of \$35 million.”

Quality is the key focus of this company. Javadov says that: “We were ISO 9001 certified by a German company which is the best known in the world. As a result, we have improved our products, and this has helped us enter more demanding markets and achieve further credibility. We have never had a problem selling our products as we have achieved a high level of brand awareness and a high level of demand for our products on a general basis. Improving quality and control is a continuous process.”

Javadov notes how production capacity will be a challenge for the future. “Other companies

— and plans to double capacity by the end of this year. It is 100 percent foreign-owned, and 100 percent Azeri-managed. ADA's ambitious expansion campaign — to open one store every two weeks — will make an important contribution to the agricultural sector and help the people living in the rural areas. “We have signed agreements with many local farmers, which has marked the beginning of cooperation between our company and the agricultural mechanisms.”

Building on tourism potential
Azerbaijan's stable socioeconomic conditions, its membership of the World Travel Organization, participation in the transcontinental Silk Road tourism line — organized by UNESCO — and the recently signed oil agreements provide an excellent framework for attract-

Azerbaijan, centuries to explore

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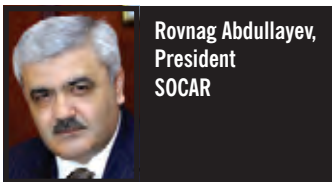
Next on the minister's agenda will be the establishment of Regional Tourist Information Centers to focus attention on areas outside the capital.

Keeping engines running

As a small country sitting atop massive oil and gas reserves, the emergence of oil- and gas-exporting capacities is raising Azerbaijan's global profile as an influential regional player.

While economists will argue that oil is the lifeblood of any economy, this is even more true of a country like Azerbaijan, which has large reserves of this most valued commodity. With reserves estimated at 3 billion to 5 billion tons of oil and 5 trillion cubic meters of gas, this republic was the first in the region to open to international investment in 1994, with the active participation of several Japanese companies. Now, having consolidated its extraction capacities, Azerbaijan is opening its own markets by means of the national oil company, and encouraging neighboring states to take on joint energy-distribution projects like the Baku-Tbilisi-Ceyhan (BTC) pipeline inaugurated in 2006.

Given the growing push of the energy sector, the government of Azerbaijan is making a priority of bringing the non-oil sectors up to par, and looks toward Japan as a natural ally. "I think that



of oil, SOCAR is now moving to raise its international standing, opening offices in Britain, Switzerland, Romania, Turkey and Georgia, and researching refining presence in Central Europe.

"One of the main objectives of these offices is to inquire into the local markets for the purpose of investment in the oil and gas sector and to develop further cooperation with those countries," explains SOCAR president Rovnag Abdullayev. "Another important issue is exportation of gas extracted in the Azerbaijan sector of the Caspian Sea to the European market, since we have reached a consensus with Turkey to extend the Baku-Tbilisi-Erzurum pipeline to Greece and Italy."

Indeed, over the 14 years since opening to the world markets, the state-owned company has made a concerted effort to establish a strong distribution network of pipeline, rail and ship transport. When in late 2006 gas imports from Russia were terminated, Azerbaijan was able to respond rapidly and pass from importing to exporting gas in less than a year, as the rich Shahdaniz gas-condensate field came on stream with its 7.7 billion cubic meters' reserves.

SOCAR's first steps in foreign

of its gas production, while construction of a \$5 billion oil refinery in the Turkish port of Ceyhan, situated near the terminus of the BTC pipeline, is planned for late 2008.

Company President Abdullayev explains that the \$4 billion BTC pipeline, 1,769 km in length and passing through Azerbaijan, Georgia and Turkey, plays an important role in strengthening regional ties and projecting the country's international profile through the strategic involvement of SOCAR.

"The operation of the BTC pipeline has facilitated access to the open seas and created an alternative transit route to the pipelines leading to the Black Sea passing through the territory of Russia," says Abdullayev. "It has also created favorable conditions for SOCAR, as a representing company to be involved in the regional energy projects of strategic importance

for Azerbaijan. Today, SOCAR is a reliable partner not only for the companies from the neighboring countries, but also for well-known companies of the world."

Since 1994, SOCAR has gained valuable experience in international partnerships as foreign investment flowed into the country, bringing the technology and infrastructure of Azerbaijan's oil industry up to date, improving transportation and services, and training the local workforce to occupy the thousands of jobs created.

"In the past 14 years, SOCAR has signed 28 production contracts with 33 companies for investments totaling \$30 billion in the oil sector of Azerbaijan. Currently, there are 34 oil and gas companies representing 15 different countries successfully operating in Azerbaijan. Moreover, 27 joint ventures and seven alliances established by SOCAR and its structural units

are successfully operating in all sectors of oil and gas industry," says the company president.

Last year marked a milestone for SOCAR — whose activities and revenue generation account for approximately 15 percent of the country's GDP — not only in oil production but in a record-breaking 5 billion cubic meters of gas production, quantity which is expected to reach 8 billion cubic meters in 2008. The company, with more than 50,000 employees, keeps minority stakes in all 13 production-sharing agreements for oil and gas exploration in Azerbaijan, as in the case of the country's largest energy producer, the British Petroleum-led Azerbaijan International Operating Company (AIOC).

SOCAR sees clear the path to continue expanding in production and in opening to the global markets, moving forward on the road map laid out in 1994. "That was the first time in the history

"In the past 14 years, SOCAR has signed 28 production contracts, totaling \$30 billion."

Rovnag Abdullayev
President, SOCAR

of the country that Azerbaijani oil was exported to international market in a considerably large volume. Now, only during the last year, Azerbaijan sent 40 million tons of oil to customers in Northern and Southern America, the Near and Far East, Europe and Japan. We are encouraging effective cooperation with any country, in both the oil and the gas sectors," says Abdullayev.

With the price of oil at historic highs and the global energy hunger rising steadily, Azerbaijan is confident it can provide what the world wants, and is ready to do so.

Engineering the future

ENCOTEC is a 100 percent local company providing multi-discipline design engineering and full support services to clients mainly within the oil and gas sector. It employs multilingual, degree-qualified specialists and is the fastest-developing Azeri

managed operation within this activity base. "We started as a design engineering company, and, as is natural in this industry, we grew more into project and construction management. We are now fairly equally balanced in the design engineering professional services and project management," says Faik Rzayev, general director and founder. "It takes us into bigger and riskier projects but it is a natural progression of this company.

"Our objective is to be the leading company in the sector in the Caspian region. Being a local company with 25 years' experience, we have the ultimate knowledge of the society, customs and how things work, which can take foreign companies a long time to work out. The advantage is that we are always here."

All of which shows how Azerbaijan is open for business and with a warm welcome from its people guaranteed.

"We have reached a consensus with Turkey to extend the Baku-Tbilisi-Erzurum pipeline to Greece and Italy."

Rovnag Abdullayev, President, SOCAR

in the energy sector Japanese companies are very active and a lot has been done but what we are waiting for from Japanese companies now is to develop the non-oil sector with the best technologies in the world," says Minister of Industry and Energy Natiq Aliyev.

The State Oil Fund for the development of the non-oil sector grows rapidly with the influx of oil revenues, holding \$5 billion and expected to double this year alone, powered by the growth of the State Oil Company of Azerbaijan (SOCAR).

After posting record oil and gas production results in 2007, exporting almost 8 million tons

markets began in the neighboring state of Georgia with the acquisition of the Georgian Black Sea port of Kulevi and the opening of 20 gas stations throughout the country, while also participating in the privatization of the Georgian gas distribution network.

Developing regional ties

Another target of investment for the Azerbaijani oil company is Turkey, a country to which it is culturally and linguistically close. SOCAR has obtained a majority stake in the Turkish petrochemical Petkim for \$2.04 billion, providing an already-existing customer base for part



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In recent years, Azerbaijan has risen up to secure its place as a global player. A billion-dollar oil and gas industry has not only improved infrastructure and services, it has also created important opportunities for young people. SOCAR is proud to have been a vital part of this change. With 25 major production-sharing agreements with foreign oil consortiums already in existence, and more in the pipeline, SOCAR is ensuring a brighter future.

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