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Exporter Guide

Annual

2002

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Report Highlights:
The Azerbaijan market provides some opportunities for U.S. food and agricultural exports in the retail and catering sectors. Establishing a good relationship with an importer is key to entering the market.

Includes PSD changes: No
Includes Trade Matrix: No
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SECTION I: MARKET OVERVIEW

Azerbaijan is a newly independent country located at the strategic crossroads of the Middle East, Asia and Europe. It's geographic location, and its legacy as a former Soviet Republic continue to influence its economic and commercial development. Neighboring countries are Turkey, Russia, Iran, Georgia and Armenia. Azerbaijan borders the Caspian Sea where oil and gas reserves are enormous. Azerbaijan is one of the countries where the TRACECA project (Revival of the Great Silk Road from the Far East to Europe) is being implemented. Proximity to Gulf area countries is also a plus for the strategic location of Azerbaijan. The population of Azerbaijan is about 8.14 million and its area is 86.6 thousand square km (about the size of Maine). Despite its small area Azerbaijan boasts 6 agro-climatic zones ranging from temperate to sub-tropical. Still in conflict with Armenia, Azerbaijan has lost about 20 percent of its territory. About 750,000 Refugees and internally displaced persons place an enormous political and economic burden on the Azeri government. Despite being energy-rich, GDP per capita in Azerbaijan is under $700 according to 2001 State Statistics Committee (SSC) figures.

Macroeconomic stability is one of the achievements of the government of Azerbaijan (GOAJ). The country maintains a healthy and exemplar external debt policy. The government is also dedicated to stability of the exchange rate and conducts strict monetary policy to keep inflation stable at about 2 percent. In general, Azerbaijan still remains a difficult place to do business due to arbitrary tax and customs administration, a week court system, monopolistic regulation of the market, and corruption. While the current economic and business environment of Azerbaijan is very challenging, the future seems to be rosy. The International Oil Consortium (BP, Statoil etc.) has made significant investments in the oil sector. Production of oil by the consortium has already started under PSAs (Production Sharing Agreements). Another significant achievement of GOAJ is the establishment of the Oil Fund, a mechanism whereby energy-related windfalls will be accumulated, efficiently managed and thus preserved for future generations. The estimated size of the Fund by the end of 2002 is $684 million. The Fund will be very large in less than a decade. Estimates put total profit oil from the flagship oil project (Azeri, Chirag & Gunashly oil & gas fields) alone at anything from $22.5 to $40 billion over its lifetime. Starting with 2005 oil profits are expected to grow exponentially. The Azeri government has given top priority to developing the oil sector, while other sectors have been severely neglected.

While energy is the largest economic sector, agriculture is the largest employer in Azerbaijan (about 35 percent of the total population is employed in this sector). Further agribusiness development, access to credit and investment in the food processing sector remain vital for Azerbaijan to achieve its agricultural potential. Azerbaijan could become an important regional exporter of crops such as cotton, grapes, tea, tobacco, fruits and nuts. The food processing industry is in stagnation, however, as most of the former state owned enterprises are technologically outdated and need substantial investment of capital. The GOA has not yet provided transparent and clear tax legislation, but this sector has improved after the tax law was unified into a single comprehensive Tax Code that is based on international tax principles. Still, the current contradictions result in a two-speed economy and create challenges for doing business in Azerbaijan.

Total agricultural commodity imports for calendar year 2001 were $236 million dollars according to SSC. U.S. retail food products account for a small portion of Azerbaijan's imports - approximately $2 to $4 million according to U.S. customs data, although this number does not capture third-country transits from Gulf area and other neighboring countries. Azerbaijan government and FAO data are much higher at $10.6 million in imports from the United States (4.5 percent of total food and agricultural imports). In recent years, imported products have included poultry meat, tobacco, wheat flour, rice, and non-fat dry milk (much of the last three recently arriving as food aid). Total U.S. exports to Azerbaijan have declined in recent years due to a reduction in wheat and dairy product imports in food aid programs. These products also face competition from Russia, where U.S. and other facilities have opened. Poultry meat imports also declined after government efforts to control the number of importers and establishment of an inflated minimum purchasing price ($1,600 per ton) which discourages imports. U.S. trade figures for poultry trade are somewhat understated as imports are also trans-shipped via Georgia or Dubai. Azerbaijan remains import dependent for wheat, meat, edible oils, feed stuffs, dairy products and sugar.

The Republican Commodity Exchange is supposed to play an important role in importing and exporting grains (mainly wheat). It is an organization with branches all over Azerbaijan. Its main purpose is to assist local producers and importers in the marketing of wheat. The exchange is planning to establish an information center which will connect to regional branches and at the same time to other Commodity Exchanges all over the world.

The following is a summary of the advantages and challenges facing U.S. Exporter in Azerbaijan.

ADVANTAGES	***CHALLENGES***
Azerbaijan plays an important role in the Transcaucasus region as the most developed country. (Relative to Georgia and Armenia).	Azerbaijan does not have clear and transparent tax and customs legislation. The current economic & legal environment presents difficult challenges for prospective traders and businessmen.
Its strategic location offers re-export opportunities to third countries.	Current re-export cost are high due to VAT and tariffs. Shipping costs are also high from the United States.
Future projection of economic growth is very promising.	Azerbaijan has untapped production capacity and can be self sufficient in many food items.
U.S. products have a good, strong image and U.S. tastes are welcomed by the younger generation of consumers.	Many U.S. products are too expensive for the average Azeri consumer.
Azeri consumers are used to imported food and agricultural products.	Transport costs for nearby suppliers are much lower than for U.S. exporters. Due to proximity, Azeris are used to Turkish and Russian products.
Current production capacity is at very low	Many U.S. products lack promotion, a

ADVANTAGES	CHALLENGES
levels, and a lack of value-added processing provides opportunities for U.S. exporters.	necessary component of successful marketing in Azerbaijan. First-time entry into the market can be daunting.
Potential importers show interest in marketing American food and agricultural products in the Azerbaijan market.	Local supermarket managers know little about U.S. products, and assume they will have prohibitively high prices. Many U.S. exporters are risk adverse when it comes to entering new markets.
Azerbaijan has one of the highest bread consumption rates in the world. The wheat market is fully deregulated in efforts to keep wheat products as cheap as possible for Azerbaijani people.	In recent years, regional production has been available at a significant discount to U.S. wheat, especially considering the freight disadvantage faced by U.S. suppliers.

SECTION II: EXPORTER BUSINESS TIPS

Local business considerations
Azerbaijan's food retailing sector is in a period of sharp transition, moving from state-owned outlets to individually-owned small and large outlets. Doing business in Azerbaijan is similar to doing business in other former Soviet Union countries; there are opportunities, some challenges and local contacts are necessary for success. Enforcement of the guidelines and regulations presented below may vary greatly. Suppliers should always confirm with the importer that documentation requirements are met prior to product export.

General Consumer Tastes preferences/food safety issues
The Azeri consumer prefers fresh foods which are prepared at home. Azerbaijan is self-sufficient in most fresh agricultural products and the consumer is accustomed to fresh products. Azeris have one of the world's highest bread consumption rates and also high fresh fruit and vegetable consumption rates. Meat and fish consumption depends household income, and pulses are the primary protein source for many people. Meat products are relatively expensive compared to other foods.

Food Standards and Regulations
Note: This section provides an overview. Please refer to FAS report AJ2005 FAIRS Country Report for more detailed information on the topics below.

Azerbaijan is a member of FAO, but has not joined Codex Alimentarius. Imports are still regulated by GOST (Government Standards of former the Soviet Union), although the main organization on standards – Azerdovletstandart (Azerbaijan Government Standards) has been closed for five months due to a restructuring of Ministry and government agencies. Azerbaijan has signed an agreement with other CIS countries to adopt common standards, although this is not yet universally applied.

Labels
Azerbaijan has labeling requirements although they are not universally applied. Information provided on the label must in Azeri. Labels in English and Russian are permitted only if the information in Azeri is also provided. Exporters must have the necessary information on the label; name and brand of the product, name and address of the producing company, country of origin, expiration date, nutrition and caloric values, net weight, list of ingredients and additives, usage instructions, name and type of packing material and special warnings as appropriate.

Packaging
American exporters should consider exporting bulk products to Azerbaijan, and packaging them there, (if necessary), to achieve great flexibility in accessing the market and to take advantage of relatively lower labor and packaging costs. Details should be discussed with the importer.

Trademarks
Trademarks are registered by Standardization, Metrology and Patents Government Agency which was established on 27 December 2001 and replaced the Licensing and Patents Department, at the State Science and Technology Committee. To register a trademark, the applicant must submit fifteen samples of the product logo and complete a number of forms. Although a product with a clearly unique trademark can, in principal, be registered within a month, the registration is generally reported to take 6-7 months and costs in the range of $280 to $1,680. The Azerbaijan Trademarks Committee is member of World Intellectual Property Organization.

Import Process
In order to import any foods an importer must first submit a written application to the Ministry of Agriculture (MOA). Attached to the application letter must be the following documents:

1. A completed import permit form, obtainable from MOA.
2. Certificate of Origin (to avoid double taxation). In case of absence of CO the importer will have to pay retail VAT in addition to import VAT (retail VAT will not be reimbursed to the importer). The Certificate of Origin should be obtained from the country of origin.
3. Certificate of Quality (from the appropriate authority in the country of origin) must be provided by the exporter and will be confirmed upon entry.
4. Contract (either purchase or consignment) and Tax Identification Number.
5. The importer's company charter from the Ministry of Justice.
6. The importer's company charter from the State Statistics Committee.
7. Bank requisites.

Normally, all imports must also be registered within the Ministry of Trade where the importer has to provide his contract with the supplier, information about the transaction's financing, and a bill confirming the price on the invoice. Registration should take about three days.

Customs Process
For customs clearance, the importer is required to submit the following information in addition to normal import documents such as bill of lading and etc.:

1. Import licence from the Ministry of Agriculture

2. Certificate of Origin
3. Certificate of Quality
4. Veterinary Certificate for animal products from the country of origin
5. Phytosanitary Certificate for plant products from the country of origin
6. Analysis report from the exporter company, containing information on physical, chemical, microbiological and heavy metal content under the exporting company letterhead or relevant government authorities and a phyto-sanitary certificate.

After the Customs Authorities receive the required documentation, they will examine the product for quality compliance. The cargo is transported to a warehouse where representatives of the Customs Control and Ministry of Agriculture Veterinary or Sanitary-hygiene service take samples of the products for laboratory analysis. The procedure is done at the importer's expense. Previously, the representative of Azerdovletstandart (Azeri Government Standards) also examined the product for compliance with local standards and issued the Certificate of Confirmation to the importer. Since Azerdovletstandart is closed, the procedure has been suspended.

Azerbaijan has adopted International Veterinary Codex, which is regulated by International Epizootic Bureau (OIE), located in Paris. Two documents are required by State Veterinary Committee to import animal products: Veterinary Certificate (both local and from the country of origin) and Veterinary Affirmation (which indicates that the products have been produced in favorable and not dangerous environment and is provided by OIE. Azerbaijan has a series of protocols (veterinary agreements) with foreign countries on compliance of products exported to Azerbaijan with Azeri requirements. Also there is an agreement between the Governments of Azerbaijan and the United States on imports of poultry products. Animal products do need a Certificate of Quality from the country of origin which must be confirmed by State Veterinary Committee of Azerbaijan Republic. Certificate of Quality is a necessary component for exporting food and agricultural products and usually contains information on different product parameters like calories, proteins content, moisture and etc.

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

Azerbaijan has fertile land, a uniquely diverse climate and a long history of agriculture. Azerbaijan is largely self-sufficient in basic foodstuffs but it is dependent on imports for grain, poultry and many processed foodstuffs. Since Azerbaijan's economy is developing very slowly and small businesses face great challenges, many small retailers buy goods on consignment and in very small quantities. An increasing number of large outlets (supermarkets) provides more opportunities for U.S. exporters in Azerbaijan. Also the HRI food service sector -- especially the catering sector serving oil and gas workers -- will provide good opportunities. These sectors, however, are at the beginning of a growth curve and will need time to develop and mature.

Retail Food Sector

Azerbaijan has about 2,500-3,000 retail outlets, 250-300 of which are supermarkets and mini-markets. (See Retail Sector Report, AJ2003) The store types include kiosks, corner stores, convenience stores, mini-markets, supermarkets and wholesale stores that offer goods both in wholesale and retail quantities. These stores sell a variety of products including food products.

Although food shops and stores are becoming more familiar, most Azeris prefer to purchase foods at traditional bazaars which offer low prices, but little convenience. Currently food retailing is transforming into new forms which still reflect national buying patterns – bazaars are not disappearing, but becoming more modern and provide more convenience to the customers. These processes mostly take place in the capital city of Baku. Other cities are lagging behind and despite their size, larger supermarket chains still have not opened affiliated stores outside the capital. Other cities include; Ganja, population 300,000; Sumgait, population 255,000.

Though some larger supermarkets have recently established themselves in Baku, they still account for only five percent of total retail food sales. Most of were established in anticipation of an economic oil boom, which could begin by 2005. The biggest supermarket chain is Ramstore (Turkish). Sixty percent of the goods they sell are locally produced, and the rest is imported from Turkey. Other supermarkets specialize in different products. For example, one sells mostly food products from Russia and Azerbaijan, and one mostly German products. Citimart, serving the expat community, handles Indian, U.S., and European products. With relatively low sales volumes, the supermarkets' core activity at the moment is providing wholesale services to smaller shops, mostly on a consignment basis which is preferred by the retailers. This can be challenging as local shop owners are not the most reliable, and may not comply with the terms of sale. A few supermarket/distributors are planning to launch e-service facilities for their customers.

The greatest competition the supermarkets face is not from other supermarkets, but from smaller stores which import the same or similar items and don't pay the required taxes. With lower operating expenses, the corner stores are able to price their products considerably cheaper than supermarkets. They are also disbursed throughout the city and located closer to the consumer's residence which makes them much more accessible. In general, supermarkets are interested in marketing U.S. products, but relatively high costs, transport problems, and lack of familiarity with product lines are limiting factors. U.S. exporters are best advised to sell through intermediaries such as distributors (wholesalers) and agents.

Food Processing

A wide variety of crops are grown in Azerbaijan including fruits (apples, cherries grapes, olives, lemons, persimmons, melon, raspberries, strawberries, currants, plums, peaches, pears, and pomegranates), vegetables (tomatoes, potatoes, carrots, beets, cabbage cucumbers and onions), grains (wheat, maize and barley), tea and various types of high quality exportable nuts. However, due to the lack of a functioning processing and storage industry, a large amount of fruits and vegetables spoil. There are 43 canning factories in Azerbaijan producing primarily tomato paste, natural fruit juices and apple concentrates. Most are idle, technologically outdated, and in urgent need of working capital and investment. New joint-ventures are appearing in the Food Processing Sector. "Nabran" food processing plant which produces fruit juices under the brand name SAF, exports some of its products to markets as far away as California. "Nabran" is an exception, since most of other fruit and vegetable processing companies sell their produce at open air markets.

There are several dairy processing companies equipped with new European equipment with substantial production capacity. However, due to low purchasing power, these plants operate well below their full capacity.

Fish processing also has a promising future in Azerbaijan. A major fish processing company in the Azeri market is the Caspian Fishing Company which processes caviar, filleted, dried and smoked sturgeon, fish oil, and fishmeal used for animal feed. The company can process 300 tons of fish per day.

Value-added processing has potential, however the investment climate must improve to attract adequate capital. In the meantime, imported processed foods are most common.

Food Processing Industry Sub-sectors	Total Number of Firms	Number of Joint Ventures and Foreign Enterprises	Sales at Market Prices ($ million) CY 2001	Sales by JV and Foreign companies $million CY 2001
Meat products	115	6	20.3	0.0695
Fish Products	25	3	3.82	2.3
Vegetable and Fruits	104	6	2.48	0.53
Vegetable and animal oils	19	1	10.3	9.8
Dairy Products	101	12	149.26	0.124
Flour Products	167	33	42.11	9.4
Animal Feeds	13	2	0.08	0.002
Other Food Products	515	37	168	4.3
Alcoholic Beverages	219	21	24.7	18
Tobacco	18	-	49.5	49.5
Total	**1297**	**121**	**472**	**34.8**

HRI Food Service

The changing economy in Azerbaijan has brought rapid development of two niche sectors – institutional food service and fast food. Both have boomed in the past five years. Institutional food service is mostly provided by catering companies which serve large companies in oil field development and construction. Some supermarkets also provide food service to smaller companies. CATERMAR and ARAMARK are among the largest local catering companies. It should be noted that at the catering business has peaked for the moment and its future development depends on expansion of the oil sector. Catering companies purchase some of their food products at local bazaars, and the rest is either imported directly or purchased from local importers and wholesalers.

The fast food sector has also experienced rapid growth in Azerbaijan. The market share of worldwide fast food chains is negligible – there is only one McDonald's and one American Fast Food restaurant. Most fast food services are provided by local restaurants which sell local cuisine to go. Other fast food industry participants are small and efficient units which sell "*doner*" (Turkish-style fast food of flat bread with meat, potatoes, and vegetables and spices). The number of *doner* selling units is incalculable. They use local products to produce the *doners*. It is so efficient that most of the traditional restaurants incorporate doner producing units (made in Turkey) in their core services.

According to State Statistics HRI Food Service Sector is USD21.1 million and has grown as fast as 8 percent in recent years.

SECTION IV: BEST HIGH VALUE PRODUCT PROSPECTS

Rice
Beef and other meat products
Butter
Vegetable oils including corn oil
Poultry
Breakfast Cereals
Margarine
Pineapples
Avocado
Mango
Coffee substitutes containing caffeine
Milk
Ground nuts
Protein meal/feed grains
Sausage products
Sugar
Chocolate and other products containing cocoa

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

Foreign Agricultural Service
Embassy of the United States
110 Ataturk Bulvari
Ankara, Turkey
Tel: (90-312) 455-5555 x2406
Fax: (90-312) 467-0056
Internet: agankara@fas.usda.gov
Homepage: www.fasturkey.org

The Foreign Commercial Service office in Baku can be contacted at:
Commercial Service

Embassy of the United States
83 Azadlyg Avenue
Baku, Azerbaijan
Tel: (994 12) 98 03 35
Fax: (994 12) 98 61 17

Government of Azerbaijan Contacts:

President of Republican Commodity (Wheat) Exchange (Mr. Rauf Samedov)
Market Structure Control and Marketing Office
Ministry of Agriculture
Phone: (994 12) 98 99 60

Formal Head of Standardization
Metrology and Patents Government Agency (Mr. Miryagub Seidov)
Phone: (994 12) 97 08 81

Ministry of Trade
Phone: (994 12) 929390
(994 12) 989267
Fax: (994 12) 385587

Other Local Contacts

IMPORTERS

Banvit Importer of Turkish Foodstuffs (mostly poultry) 25 Nobel Ave., Baku, Azerbaijan
Contact Person: Nigar Yusufova
Tel/Fax: (99412) 470442
Mobile: (99450) 2123570
Email: nigar_banvitaz@azdata.net

RIG (Atlantic Trade Co) Imports of German Hungarian, Russian foodstuffs.
(meat, dairy, confectionery respectively). 85 Salatyn Askerova St.,
Contact Person: Azer G. Mammadov, Director Tel: (99412) 956995
Fax: (99412) 959076
Mobile: (994 12) 2121208

Fortuna Imex Imports of meat products from Poland, Chech Republic, Germany.
(mostly from Poland)
Contact Person Vagif Agayev,
Phone: (994 12) 986831, 936718

Victory Ltd.
Contact Person: Jeyhun Mammedbeyli
Phone: (99412) 985222

Atlas
Contact Person: Baba Mamedov, Director Phone (994 12) 930121, 981819.

Nurgun Holding Imports from Europe & America. Look in distributors list below.

Azersun Holding
Ziya Bunyatov Ave., District 2084, Dernegul highway (Shosse) Contact Person: Kaya Karsly, Chief of Marketing Department, Tel/Fax: (994 12) 982398
Mobile: (994 12) 2101291
E mail: reklam@azersun.com

DISTRIBUTORS:

Azsharg Marketing (distributor of Fazer-Finnish Confectioner) 12/13 M. Mushvig Str, Baku Azerbaijan
Contact Person : Elchin A. Jabiyev, Director. Tel/Fax (99412) 975 775 / 396 666

Nurgun Holding (Official Distributor of Julian and Mozart brands of confectionery).
Nurgun Group:
Contact Person: Ramiz Maharramov, Executive Director 2054th hood, M. Narimanov Str.
Tel (994 12) 47 96 49, 47 95 69,
Fax: (994 12) 96 66 31

RETAILERS:
SUPERMARKETS

Ramstore Supermarket
(Limited Liability Turkish Food Enterprise)
Hood (Mahalle) # 1129, Hatai district, Baku, Azerbaijan. Contact Person: Anar R. Mammadov, Marketing Manager Telephone: (99412) 90 32 00, 90 24 11, 90 33 06
Fax: (994 12) 90 32 01,

Chinar
Ataturk Ave 2,
Phone: (99412) 90 67 49,

CityMart
19 Samed Vurgun St.,
Phone (994 12) 987338

Continental
68 Nizami Str., & 51 Inglab Str.,
Phone: (99412) 937541

New World Center
31 Inshaatchilar Ave.,
Phone: (99412) 381183

Progress
103 Azadlig Ave.,
Phone: (99412) 400316

World Market
135 Nizami Str, 370000
Tel: (994 12) 98 51 44

S market
136 Fatali khan Khoyski St., 370025
Phone: (994 12) 66 02 28

Anadolu
53 Fizuli St., 19 Huseyn Javid Ave.
Phones: (99412) 94 20 94, 39 02 44.

Rus
116 Azadlig Ave,
Phone: (99412) 90-64-14

For more information on high value food and other agricultural sector reports for Azerbaijan or other countries around the world, please refer to the FAS homepage, URL address: *http://www.fas.usda.gov*

APPENDIX 1. STATISTICS

A. OVERVIEW OF KEY TRADE & DEMOGRAPHIC INFORMATION FOR AZERBAIJAN

KEY TRADE AND DEMOGRAPHIC STATISTICS	YEAR	VALUE
Food and Agricultural Imports from all Countries ($mil)/ US Market share %	2001	235,9 /4.5%
Total Population (millions)	2001	8.1
Urban Population (mil)	2001	4.1
Number of Major Metropolitan Areas	2001	5
Per Capita Food Expenditures	2001	$184-$245 (est.)
Per Capita Income	2001	$500
Per Capita Gross Domestic Product	2001	$674
Exchange Rate US$1 = Azerbaijani Manat	2001	4850

Source: Azerbaijan State Statistics Committee

B. 25 TOP SUPPLIERS OF FOOD AND AGRICULTURAL PRODUCTS IMPORTING TO AZERBAIJAN IN 2001.

Name of Countries	Value (In $1000)	Market Share (%)
World	**235,887**	**100.00%**
Including:		
1. Kazakhstan	54,042.9	22.91%
2. Turkey	31,149.0	13.21%
3. Russia	27,896.7	11.83%
4. Ceylon	18,301.2	7.76%
5. Iran	17,562.2	7.45%
6. USA	**10,603.5**	**4.50%**
7. New Zealand	8,501.5	3.60%
8. France	6,994.5	2.97%
9. Ukraine	6,555.5	2.78%
10. Brazil	6,456.3	2.74%
11. Denmark	5,226.3	2.22%
12. Germany	5,218.2	2.21%
13. Italy	4,985.2	2.11%
14. Greece	4,519.3	1.92%
15. India	3,658.2	1.55%
16. Zimbabwe	3,496.3	1.48%

17. Portugal	2,214.1	0.94%
18. Hungary	1,758.1	0.75%
19. Poland	1,441.6	0.61%
20. China	1,368.5	0.58%
21. UAE	1,317.2	0.56%
22. Switzerland	1,285.4	0.54%
23. Thailand	1,254.8	0.53%
24. Australia	986.8	0.42%
25. Spain	940.6	0.40%
Other	8,916.5	3.78%

Source: Azerbaijan State Statistics Committee