

National Report of the Republic of Azerbaijan on Ten Year Review of the Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries

Introduction

The Republic of Azerbaijan shares land borders with the Russian Federation to the north, Georgia to the north-west, the Republic of Armenia to the west, the Republic of Turkey to the south-west and the Islamic Republic of Iran to the south, which forms a total of 2,648 km. Azerbaijan also shares boundary extending to about 825 km with the hydrocarbon-rich Caspian Sea to the east - the largest enclosed inland body of water on Earth by area, variously classed as the world's largest lake or a full-fledged sea. The country measures 400 km from north to south and 500 km from east to west. As a landlocked developing country, Azerbaijan is dependent on transits from neighboring countries. Although the Caspian Sea is landlocked, its main tributary, the Volga river, is connected by important shipping canals with the Don river (and thus the Black Sea) and with the Baltic Sea, with branch canals to Northern Dvina and to the White Sea. Therefore, for the country, Volga-Don canal, which crosses the territory of Russian Federation, is one of important access links to major seaports. Transit through Georgia and Turkey provides access to the Black Sea and the Mediterranean. Moreover, owing to its location at the intersection of the East-West (TRACECA) and the North-South transport corridors, the country is crossed by the shortest transport linkages, providing transport connectivity from Scandinavian countries to Persian Gulf and Indian Ocean, from Europe to Central Asia and China.

The national development planning process, assessment of key economic, social and environmental development trends

The process of integration of the national economy into the world economy, which started right after signing of oil contracts in 1994, has been continuing along with the realization of political and economic reforms, increase of foreign investments year by year, stabilization of financial situation, ensuring inflation stability, increase of social welfare of population.

Over the past ten years, GDP grew by 3.4 times, revenues of the state budget by 16 times, industrial output by 2.7 times, fixed capital investments by 4.7 times. During this period, the average annual economic growth was 12.7%, and this success of Azerbaijan was recognized as one of the world's best results.

In the last decade, the volume of the country's strategic currency reserves increased by 31 times. The ratio of foreign exchange reserves to GDP was 68%, more than 8 times higher than the foreign debt.

During the last decade, over 160 billion US dollars have been invested in country's economy. 65 % of it was allocated to non-oil sector.

Over the past 10 years, the ratio of budget deficit to GDP was less than 1%. The external debt of the country to GDP ratio did not exceed about 8.3%. It once again proves the sustainability of the country's economy to global challenges.

Over the past 10 years, income of the population increased by 6.5 times, average monthly salary by 5.5 times. 1.2 million new jobs were opened, unemployment rate dropped to 5% and poverty rate to 5.3%.

Economic Promotion Activities

In accordance with goals to diversify national economy, to integrate into world economic system and develop non-oil sector, Azerbaijan Export and Investment Promotion Foundation - "AZPROMO" was founded by the Ministry of Economic Development in 2003, with the aim to contribute to the economic development through attracting foreign investments in the non-oil sectors of economy and stimulating expansion of country's exports of non-oil goods to the overseas markets.

Planned Measures

In order to meet the goals and challenges set out in the Millennium Declaration, the "State Program on Poverty Reduction and Economic Development in the Republic of Azerbaijan for 2003-2005" was adopted in 2003. Its implementation resulted in maintaining overall macroeconomic, as well as inflation stability, ensuring dynamic economic growth. These achievements contributed to implementation of substantial activities to solve existing social problems, as well as tackling poverty.

The implementation of the "State Programme on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008-2015" plays an exceptional role in eradicating the poverty level and further developing well-being of population. The following 9 strategic goals were identified in the programme: ensuring sustainable economic development through maintaining macroeconomic stability and balanced development of the non-oil sector, increasing income-generating opportunities and achieving substantial reduction in the poorest sections of population, reducing social risks for older age groups, low-income families and vulnerable groups of population by developing effective social protection system, continuing systematic implementation of activities aimed at improving the living conditions of refugees and IDPs, improving the quality of and ensuring equal access to affordable basic health and education services, developing social infrastructure and public utilities system, improving environmental situation and ensuring sustainable management of environment, promoting and protecting gender equality, continuing institutional reforms and ensuring good governance. It is intended to reduce

unemployment rate by 3-4%, and poverty rate by 2 times within 2008-2015 as a result of the these measures. The Action Plan on implementation of the programme in 2011-2015 is being implemented successfully. Thus, the poverty level consequently dropped from 46.7% in 2002 to 5.3% in 2013.

In order promote the development of the non-oil sector in the country, to achieve diversification of the economy, balanced regional and sustainable social and economic development as well as improvement of living standard of the population the “State Program on social and economic development of the regions of the Republic of Azerbaijan 2014-2018” was recently approved. The document which is a next round after two relevant state programs for 2003-2008 and 2009-2013 periods implies strengthening the achievements made in regional development field.

The state programs encompass complex measures for development of non-oil sector, creation of public utilities and other infrastructure objects, new production and processing enterprises, strengthening of production activity in the existing enterprises, acceleration of the application of communication and information technologies, improvement of social infrastructure as well as building and reconstruction of educational, scientific, medical, cultural and sport centers meeting international standards and construction of residential buildings for the people with disabilities and martyrs’ families by using the existing potential in all the regions and capital of the country more efficiently. As the result, the quality of public services and social infrastructure in the regions has substantially improved, the business environment has become more favorable, investment has increased, thousands of new enterprises have been commissioned and more than 1.2 million jobs have been created, including 900,000 permanent ones. Over the last 10 years, production of goods in the districts has increased 3.2 times and industrial production 3.1 times. All Azerbaijani districts and residential settlements have been modernized.

Social-economic development in Azerbaijan during for the last ten (2003-2013) years also included macroeconomic stability, increase in strategic currency reserves reached 46.5 billion USD (by 31 times), rise in foreign trade turnover by 6.6 times (whereas export by 9.3 times and import – by 4.1 times), growth of non-oil export by 4.7 times, and on the whole, non-oil sector of economy increased by 2.6 times. Social development indicators included decrease in unemployment rate approximately by 1.9 times (to 5%), increase in population income by 6.5 times with the average monthly salary increase by 5.5 times; poverty rate decrease by 7.8 times (from 46.5%-to 5.3%). Creation of more than million new workplaces also contributed to improved standard of living and welfare of population and increase in population savings by 33.3 times. Other sectors also posted positive developments, such as increase in information and communication sector by 8.2 times, construction by 4.7 times; tourism by 10.6 times, agriculture by 1.5 times, transport by 2.5 times.

Targeted measures to promote enabling business environments resulted, inter alia, in the following:

- 160 billion USD has been invested in the economy of the country during 10 years;
 - Oil sector – 54.5 billions USD
 - Non-oil sector – 105.5 billions USD
 - Domestic investments –85.3 billions USD
 - Foreign investments –74.7 billions USD
- Azerbaijan is the only country to have investment rating among the South Caucasus countries.
- International credit rating agencies (“Fitch Ratings”, “Standard & Poor's” and “Moody's”) have confirmed forecast on rating stable.
- Azerbaijan has been 70th out of 189 countries according to report named “Doing Business 2014”.
- According to “Global competitiveness report 2013-2014” Azerbaijan has been 39th out of 148 countries. It is the first amongst former Soviet Union countries for last five years.
- Position of the Azerbaijan in group of countries having upper middle income has strengthened
- Azerbaijan was 82nd out of 187 countries according to United Nations report on “Human Development” in 2012.

Industrialization is one of the priorities of economic policy carried out in our country. Azerbaijan has huge potential and rich traditions in industrial sphere. Implementation of successful oil strategy and transnational projects resulted in development of oil, gas and other fields of industry. Only in 2013 more than 30 industrial enterprises with new technologies started their activities. For instance, shipbuilding – in Garadagh region of Baku, cement – in Qazakh, steel pipe – in Sumgayit, gold – in Dashkesan, wine factories in Gabala, textile park in Sumgayit, ceramic slabs – in Hajigabul, carton plates – in Absheron, “Janub” power station project, etc. At the present time, construction of more than 90 industrial enterprises is under way.

Announcement of the year 2014 as the Year of Industry and ongoing works under the “State Program for the development of industry in the Republic of Azerbaijan in 2015-2020”, that is in the process of preparation, will form the new stage in the industrial development of Azerbaijan.

In the future, special attention will be given to the development of innovation-based industry, diversification of non-oil industry, widening of competitiveness and export and establishment of necessary infrastructure. At the same time, together with traditional industrial spheres, measures aimed at utilization of existing natural and economic resources, creation of new spheres of production in metallurgy, chemistry,

light industry, food sectors, will be carried out. According to this policy, enforcement of industrial potential, will be further promoted. Currently, establishment of Sumgayit Chemical Industry Park, Balakhany Industry Park, Pirallahi High Technologies Park is going on. In Ganja, Mingachevir and Garadagh region of Baku modern industrial parks and industrial zones in other cities and regions are to be opened.

Fundamental transit policy issues

Landlocked developing countries (LLDCs) face economic challenges deriving from transit dependence on neighboring countries, as well as insufficient connectivity, higher transport costs and consequent impact of these factors on economic performance. There is an urgent need for LLDCs to develop a transit strategy that contributes to their economic development, by establishing better connectivity, maintaining relevant transport infrastructure and simplifying border-crossing procedures.

As a landlocked country, transit dependence has caused vulnerability for Azerbaijan, which makes it necessary to diversify transport routes to gain access to international markets. Therefore, Azerbaijan's transit policy is largely focused on benefiting from the full potential of the geographical location to increase the transit potential of the country, through implementing strategies that encompass the development of all modes of transport, especially inland transport, facilitation of border-crossing and promoting the shortest rail and road linkages via its territory. This transit policy has a crucial impact on the country to become one of the most competitive transit routes in international transport and diversify its access to foreign markets.

The country's economy has the fast growing tendency in recent years. At the turn of the new stage of socio-economic modernization of the country, the international trade volume also increased, what consequently contributed to the development of all fields of economy, as well as to the creation of favorable conditions for investing in the improvement and modernization of transport sector, to ensure its competitiveness in the global market and thus stimulate growth of trade flows through the country. Bringing national transport legislation to conformity with international standards and integration into international transport system is also a significant step in this respect.

During the last years there has been positive growth of cargo transit through the territory of the country, with an average increase of 6% per year. This is mainly due to the increased transit volume timber, oil and oil products, fruits, vegetables and other goods transported by rail. Thus, the increase in transit by rail only for 2009-2012 amounted to more than 16% (2009 - 6.4 million tons, in 2012 - 7.4 million tons). In 2013, the share of transit in the total rail traffic through the country was 31%.

In general, increase in transit traffic has been made possible due to ongoing activities in the field of modernization, renovation and development of the main

railway network, highways, airport infrastructure, as well as the development of international cooperation.

Azerbaijan participates in the development of international transport corridors. Activities in this area are also realized within international organizations and initiatives, such as the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the United Nations Economic Commission for Europe (UNECE), Black Sea Economic Cooperation Organization (BSEC), the Intergovernmental Commission TRACECA, the Economic Cooperation Organization (ECO), the Organization for Cooperation of Railways roads (ORC), the Cooperation Council of the Turkic Speaking States (Turkic Council), the Central Council for Rail Transport of CIS countries, etc.

Azerbaijan attaches importance to regional transit cooperation within TRACECA corridor, which is involved in gradually developing trends of trade and economic development. The Intergovernmental Commission (IGC) TRACECA is open for all the initiatives promoting the development of regional transport dialogue and ensuring the efficient and reliable Euro-Asian transport links, promoting the regional economy on the whole. At present the TRACECA countries are gradually implementing the IGC TRACECA Strategy for development of the international transport Europe-Caucasus-Asia corridor for the period up to 2015, aimed at creation of a sustainable infrastructure chain ensuring multi-modal transport with step-by-step integration of the corridor into the Trans-European Transport Networks (TENs). Major traffic flows passing through a corridor formed on the one hand, in Western and Central Europe, and on the other - in Central and South-East Asia, while Azerbaijan's territory serves as the main segment for this transportation.

With a view to facilitate transit on the East-West corridor, by fostering cooperation among transit countries, Azerbaijan, Turkey, Kazakhstan and China put efforts to realize Silk Wind project, aimed at attracting additional traffic flow to the TRACECA corridor, through establishing regular, efficient container route and providing complex logistics services and applying information exchange system between customs administrations and participants of shipping chain. The container block train is envisaged to run Dostik/Altinkol-Jezkazqan-Aktau port-Baku port-Tbilisi-Kars railway line route. In order to develop transit transport on TRACECA corridor, Azerbaijan applies concessional tariffs (20%-50%), exempts excess tolls and taxes for goods transportation by railway on this corridor.

Azerbaijan is an active participant of the Model Highway Initiative within International Road Transport Union (IRU). The project, which an important step to further boosting regional transit potential, includes creation of modern highway and complementary roadside infrastructure along Baku-Tbilisi-Batumi-Trabzon road (1135 km). It is also not excluded that, given Turkemistan's interest in the project, the route may also be extended to the port of Turkmenbashi.

The country undertakes to improve the international legal framework, resulting in more than 100 concluded international treaties.

Azerbaijan is a party to a number of international conventions and agreements, including, but not limited to “Basic Multilateral Agreement on International Transport for Development of the Europe – the Caucasus – Asia Corridor (TRACECA)” of 1998, “Agreement on the development of Multimodal Transport TRACECA” of 2009, “European Agreement on Main International Traffic Arteries (AGR)” of 1975, “Convention on the Contract for the International Carriage of Goods by Road (CMR)” of 1956”, “Intergovernmental Agreement on the Asian Highway Network” of 2003, etc. Works are underway for joining the Intergovernmental Organization for International Carriage by Rail (OTIF) and accession to the “Convention on International Carriage by Rail” (COTIF).

For optimizing transport management systems, ensuring safety, alleviating traffic congestion and increasing transport flow on urban roads, “The System for Intelligent Management of Transport Operations” was established in 2012. In the future, this system will be extended beyond the city of Baku to cover the whole Absheron peninsula.

As the continuation of implemented programs and projects since independence, it is envisaged to accomplish important steps - including, but not limited to the following measures - to ensure sustainable functioning of transport-road complex and increase transit potential of the country until 2020:

- Integration into the international transport system;
- Accession to international transit transport agreements and application of international norms and standards;
- Supporting entrepreneurship in the field of transport, promotion of “public-private partnerships”, “Build-Operate-Transfer” (BOT) principle;
- Creation of roadside infrastructure along highways;
- Creation of transport-logistics management centers;

Facilitation of the transit operations and management thereof in accordance with international requirements are regulated by the new Customs Code which has been approved by the Law of the Republic of Azerbaijan number 164-IVQ and dated 24 June 2011 about “Approval of the Customs Code of the Republic of Azerbaijan” and entered into force on 1 January, 2012.

In accordance with the requirements of the Customs Code according to the international experience on export (import) of goods and free trade, implementation of simplified procedures is being defined.

Customs control is carried out by the submitting of two documents (transport documents and customs declaration depending on customs procedures) according to the “Rules for the implementation of customs control” which has been approved by

the Decree of the Cabinet of Ministers of the Republic of Azerbaijan number 7 and dated 18 January 2013.

The issues such as facilitation of transit operations, simplification and development of customs procedures, as well as the use of new technologies have been included in the Action Plan of the State Customs Committee of the Republic of Azerbaijan for 2012-2016.

Increasing of awareness level of the national traders and transport operators regarding the transit operations and deliveries, as well as all the necessary information for the implementation of export-import operations are placed in an electronic database and thus the opportunities were created for the economic subjects in obtaining this information.

In order to minimize the interaction between the citizens and officials within the Customs to Business cooperation, “Personal Cabinet of the participants of Foreign Economic Activity” section established in the official website of the Committee in order to provide for the implementation of different customs operations by the participants of the Foreign Economic Activity without directly coming to the customs authorities and to carry out this activities on 24/7 working regime. Currently it is possible to carry out the following operations via this system:

- Obtaining the necessary information on customs clearance and customs rules by the participants of Foreign Economic Activity
- Electronic presentation of application for customs clearance
- Admission of certain citizen requests, applications and complaints;
- Preliminary declaration of goods and vehicles;
- Application to the Central Customs Examination Department about customs clearance.

At the same time, in the result of these amendments requirement of registration and examination of contracts in the Ministry of Economy and Industry (excluding the state-owned enterprises and enterprises with more than 50% of share with the state property) during import and export of specific goods and services, also intellectual property imported and exported upon obtaining opinion letter of relevant state bodies is eliminated.

A number of training activities have been carried out to provide detailed explanation of legislation elaborated in accordance with the newly adopted Customs Code, to the private sector.

In accordance with the requirements of The Decree of the President of the Republic of Azerbaijan number 12, dated 11 November 2008, concerning the application of Single Window principle during the inspection of the goods and transport means pass through the border crossing points of the Republic of Azerbaijan, electron control system which is the initial stage of Customs Automated Management System and designed for the inspection of the goods and transport means pass through the border crossing points and their delivery to the destination

customs point has been elaborated and exploited at all border crossing points in 2009. In accordance with the legislation and based on the “single window” principle customs, veterinary, phytosanitary, sanitary control have started to be conducted on the goods and transport means pass through the border crossing points of the Republic of Azerbaijan by the customs authorities. The basic objective of the “single window” principle is to develop small and medium-size enterprises and to strengthen then business environment, as well as to increase the trade turnover. On the other hand, one of the main goals of “single window” principle is to further simplify border-crossing procedures and to achieve the minimum time limit for the procedures. Namely, as a result of the implementation of “single window” during the examination of the goods and transport means pass through the border crossing points of the Republic of Azerbaijan, the time needs for the border procedures has been decreased from 2 hours to 15-20 minutes.

For the purpose of increasing effectiveness of control of goods and transport facilities and reducing time spent on such controls, stationary control systems have been established in state border-crossing points.

At all customs border crossing points the information booths have been installed. Physical persons can declare the goods and currencies they bring into or take out of the country by using those information booths. Electronic customs service provided by the mentioned information booths further facilitates the crossing of citizens through customs borders and at the same time provides the transparency in customs control. Persons might also use those kiosks in order to obtain the necessary information related to customs clearance and customs rules. Activities are continuously carried out towards the facilitation of the passenger flow. The mechanism on the declarations to be submitted in an electronic form by the physical persons in the customs control process was established and simplified procedures on customs clearance are being applied.

With respect to transit special customs procedure, “electron customs service” initial declaration opportunity has been provided for the participants of foreign economic trade. This in turn, provides an opportunity to inform customs authorities about the goods and transport means in advance and also enables to issue an uncial code for the participants of foreign economic trade and as well as simplifies the registration.

Since 2011, the integration was implemented through the “Real Timesafe TIR” system as well as gathering the information on expiry of TIR related operations in the centralized manner and transfer to the International Road Transport Union online was provided.

Payments related to customs procedures have been started to be done online by the participants of the foreign economic activity in 2013.

A number of issues such as facilitation of transit operations, provision of all the possibilities to make the transit corridor more attractive, exchange of information in

advance and ensuring the security measures in trade chain are reflected in the bilateral, sub regional and regional agreements that customs service of the Republic of Azerbaijan signed with neighboring countries.

Representatives of customs authorities regularly participate at international conferences, seminars, trainings, workshops, with a view to strengthening capacities

The Republic of Azerbaijan acceded to the following Conventions that contributed to the international transit system:

- Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), of 14 November 1975
- The International Convention on the Simplification and Harmonization of Customs procedures (Kyoto Convention 1973)
- Customs Convention on Containers (1956)
- International Convention on the harmonization of frontier controls of goods (1982)
- Customs Convention on Temporary Admission (1956)

In accordance with the requirements of these Conventions, international procedures are implemented to provide favorable conditions for transit operations.

Infrastructure development and maintenance

Development of transport infrastructure – including international transport corridors passing through the territory of the country – is significant for increasing transit potential.

Azerbaijan attaches great importance to the joint efforts aimed at improving transport links and the implementation of priority regional transport projects, and in particular, to increase the competitiveness of international transport corridors, to rehabilitate and develop infrastructure.. Azerbaijan actively participates in the implementation of projects aimed at the development of infrastructure on major transport corridors "Europe - Caucasus - Asia " (TRACECA) and "North - South".

In the framework of the State Programme on modernization of railway transport in 2010-2020, envisages development of railway infrastructure on East-West corridor, meeting the international requirements. Works include track renewal, installation of electrification, signaling and communication systems, purchase of new locomotives and railcars, establishing centralized dispatching system with a view to upgrade speed of passenger trains to 140 km/hour and increase cargo capacity to 50 million tones/year.

It is of paramount importance for Azerbaijan to foster regional cooperation with neighboring countries. Azerbaijan is realizing Baku-Tbilisi-Kars new railway link project together with Georgia and Turkey. The project aims construction of 101 km railway connection linking Trans European and Trans-Asian railway networks and the

rehabilitation of 160 km existing railway infrastructure in Georgia, for which the Government of Azerbaijan has allocated 775 mln. U.S.dollars. This project is the best example in financing infrastructure development in neighboring countries with a view to overcoming bottlenecks and missing links, to creating critical infrastructure for regional transport operations. The Project also includes the rehabilitation of 503 km Baku-Georgian border railway route. The project includes, among others, reconstruction of upper structure of the railroad, improvement of signaling and communication systems, establishment of centralized dispatching control system, increase of existing traffic speed. This new railway line will be able to handle 1 million passengers and 6.5 million tons of freight at the first stage. This capacity will then extend to 3 million passengers and over 15 million tons of freight. The project is envisaged to be commissioned in 2015.

Azerbaijan's participation in the international "North - South" corridor project is also significant, given the favorable geographical location and transit potential of the country. Works has started in order to rehabilitate and develop the existing infrastructure along this corridor as well. The project implies transport of goods through Azerbaijan in North-South direction by rail, which envisages transportation of high volume of cargo in a short time by one mode of transport to longer distances.

In terms of railway transport, planned works include the construction of 8.7 km long railway line that will connect the railway networks of Azerbaijan and Iran. Currently, on the territory of Iran Gazvin-Rasht-Astara new railway line is under construction. As soon as the two mentioned segments are commissioned, it will provide access to the ports of Persian Gulf.

The full use of the corridor also includes upgrading Russian border – Guba – Baku – Alyat – Astara - Iranian border highway to 1st category, for which works are underway.

For increasing quality of transport services, 7 new airports have been constructed in pas 10 years, 5 of which have international status. Baku, Ganja, Lankaran, Gabala, Zagatala and Yevlakh airports have already been commissioned. These airports provide both domestic and international flights. A new terminal was launched at Heydar Aliyev International Airport in April 2014. Combined with the existing terminal capacity of 3 million passengers, Baku airport will handle 9 million passengers yearly.

Port development

Construction of New International Sea Trade Port Complex in Alyat settlement of Baku is also underway. The new port area – Alyat settlement of Baku city is about 70 km distance from the capital and is located on the intersection of “East-West” and “North-South” transport corridors with direct access to main railways and highways

of the country. The Port will cover the 400-hectare territory, including 100 ha for the International Logistics Centre. Construction of the port will be conducted by three phases. At the first phase its total capacity will reach 10 million tons of cargo and 50,000 containers a year. This phase includes construction of two ferry and three cargo bridges for acceptance of containers, Ro-Ro and usual dry-cargo (universal) vessels.

Construction of the next phases will commence, subject to traffic growth in the port and the total port capacity will reach 25 million tons of cargo and 1 million containers.

Ensuring unhindered and uninterrupted maritime transportation on East-West corridor is an important issue. In this context, 12 tankers with 13 000 tons capacity and 6 ferries with 52 and 54 railcar capacities were purchased.

The overall length of motorways of the country is 18 994 km. 1915 km has international, 2725 km has republic significance. The 14 354 km of the rest is of local importance. During 2003-2013, the major highways of international importance on Baku-Iranian Border, Baku-Georgian border, Baku-Russian Federation border have been constructed and rehabilitated with application of modern engineering technologies. In the last 10 years, over 7 thousand kilometers of motorways were constructed and renewed. The construction and reconstruction works are implemented from both budget resources and loans of international financial institutions. Since 2003, \$13,6 billion have been invested for road transport development. This includes \$3,2 billion loans from international financial institutions, while the rest was allocated from public funds.

To ensure the better quality of transport services, lately, 4 modern international airports were commissioned and international bus terminal was built to provide the passengers with necessary services.

In total, during the years 2003-2014, the investment in transport sector has amounted to \$21 billion, including \$13,6 billion to road transport, \$1,3 billion to maritime transport, \$2,7 billion to aviation.

Azerbaijan strives to ensure that the outcomes of implemented projects contribute to the development of competitiveness and attractiveness of the transportation through its territory to facilitate further trade liberalization and reduction of barriers in the path of goods along the whole corridor.

Nevertheless, Azerbaijan faces major challenge in using and improving transport infrastructure in its territory within internationally recognized borders, as the result of occupation of 20% of the territory of the country – Nagorno Karabakh region and seven adjacent districts – by Armenia since 1988. This occupation has inflicted significant damage to the economy of Azerbaijan, and resulted, inter alia, with complete destruction of transport infrastructure, including 220 km of existing railways and about 3 000 km of roads remaining in the occupied territories. Such a situation

significantly reduces the transit potential of the country and negatively affects the development of regional transport links. Starting from 1992, Baku - Julfa – Nakhichevan road and railway line with access to Iran and Turkey is not functioning.

It is deeply regrettable that continuing occupation of the internationally recognized territories of the Republic of Azerbaijan endangers regional peace and security and impedes regional cooperation. Withdrawal of armed forces of the Republic of Armenia from the occupied Nagorno Karabakh region and other occupied territories of the Republic of Azerbaijan will create conditions for restoration of communications and infrastructure, thus increasing the transit potential in the region and improving opportunities to get access to open seas.

Pipelines

An opportune and strategic location linking Europe with Asia, and rich energy reserves have further enhanced geostrategic significance of Azerbaijan. These factors also reinforced the need to pursue a policy of energy diversification and ensuring direct access to the European energy market.

The establishment of new alternative export routes such as Baku-Supsa, Baku-Tbilisi-Jeyhan oil pipelines, Baku-Tbilisi-Erzurum gas pipelines, has opened new perspectives for long-term trans-regional cooperation.

Rising demand for energy in Europe and discovery of new energy fields in the Republic of Azerbaijan, once again brought the partners-producer, transit and consumer countries together to contribute to the development of the Southern Gas Corridor, which aims to deliver natural gas produced by the Republic of Azerbaijan and Middle East region to Europe.

The Trans-Anatolian Natural Gas Pipeline (TANAP) project, jointly developed by Azerbaijan and Turkey , has become a strategic midstream component of the Southern Gas Corridor, while creating a certainty and predictability of regulatory and commercial nature. The project demonstrated our political commitment to further explore the opportunities to increase/ensure European energy security.

The selection of Trans Adriatic pipeline project (TAP) by the Shah Deniz Consortium in late June 2013 has also marked an important step towards the opening up of the Corridor, through which Azerbaijan will gradually and substantially increase its role and share in European energy market. The project is of particular importance for us and our partners as this is the first time when gas from Azerbaijan will be directly delivered to European buyers.

Azerbaijan's rich energy resources are becoming an important parameter for the formation of wider economic relations with neighboring countries and ensuring the energy security of these countries as well. Considering the fact that Georgia and Turkey are the main transit countries for oil and gas to world markets, it should be noted that the two countries are direct partners in the strategic projects. These projects

also have a positive impact on the overall development of the region. Additionally, increased funding opportunities of the State Oil Company of Azerbaijan Republic (SOCAR) over many years have allowed the company to make huge investments not only in neighboring countries, but some European countries.

ICTs

Information and communication technologies (ICT) are significant enablers of socio-economic development and one of the powerful tools for empowerment and income generation in developing countries.

At present, citizens of most Eurasian and neighboring countries share a common problem in connectivity and have become a part of the “digital divide”. Undersupply of international connectivity and the resulting low broadband penetration levels in the region lead to a risk of “isolation” from the connected world of today. Long-term risks can include a wider gap in social and economic development.

It has become apparent that establishing the right infrastructure to provide international connectivity is a must for the region. Against this backdrop, some countries of the region have discussed possible options for an enhanced regional connectivity and took note of the decision of the Government of Azerbaijan to set an initiative between Eurasian and neighboring countries to jointly build and manage a Transnational-Eurasian Information Super Highway (TASIM). TASIM is expected to serve as a major element of the East-West transport corridor and to facilitate the supply of 20 countries of the region with internet, telecommunication systems, e-information resources and e-economies.

Its main objectives are improving connectivity of central Eurasia to the international internet backbone by increasing connection speed and lowering access costs. The project aims to establish a major new transit route between Asia (Hong-Kong) and Europe (Frankfurt).

The immediate benefit is the improved global topology for international backbone networks that high capacity, low latency, disaster-resilient TASIM routes will provide. Developed countries will benefit by better connecting their operating companies abroad, developing and implementing applications for the emerging economies, enabling effective provision of multimedia and cloud computing services to the expansive Eurasian markets.

Strategically, the project will be implemented in two major stages. In the first stage, key regional countries and operators will build major transit and transport infrastructure, connecting the East and the West. This transit infrastructure will allow TASIM to become commercially viable and address the rapidly growing market of international IP transit. TASIM will eventually become the nexus of regional telecom interconnectivity.

Major relevant international organizations and initiatives expressed their support to and interest in TASIM project, including International Telecommunication Union, United Nations, Black Sea Economic Cooperation Organization and others.

Implementation of TASIM involves consultations with different stakeholders across the region, where the UN system organizations have significant outreach and expertise beyond the capability and the mandate of the commercial operators. The support of the UN system at this stage of the project could be very beneficial for the engagement of the international development and financial institutions.

International trade and trade facilitation

Foreign trade policy

The structure of Azerbaijan's trade in terms of its growth, product composition, and relative importance of trading partners has changed in an important way since 2003 as a response to improved policy environment and investment climate in general and trade policies in particular.

Azerbaijan continues to shape an optimal structure of the country's economy, reducing its dependence on the oil sector. According to the country's long-term development strategy, one of the priorities of economic policy is the diversification of export, including increase of non-oil products export.

New enterprises have been built, technological infrastructure has been renewed and strengthened with the imported technological equipment. The export of competitive local products to the global markets has been increased. Furthermore, the expansion of the export geography and access to new markets along with traditional ones are important achievements of the last 10 years. Now, Azerbaijan is conducting trade operations with almost 150 countries. During this period, (2003-2013) the foreign trade turnover increased by 6.6 times, including 9.3 times in exports, while imports grew by 4.1 times. Also, the range of export products increased by 1.7 times, the number of trade partners by 20 units. Non-oil exports grew by 4.7 times,

Non-oil exports are well diversified both by products and markets. The fastest growing non-oil exports include a mixture of resource based manufacturing products (iron/steel structures, parts, tubes, chemical products), a wide range of agricultural goods (fruits and vegetables) and agro-processing products (vegetable oil, beverages, dried fruit, fodder bran) as well as other labor-intensive final and intermediate goods (furniture, sheepskin).

In terms of exports destination, oil is exported primarily to developed countries (Italy, U.S., France and etc.). Non-oil exports go to the emerging market economies and developing countries in the region led by Russia, Iraq, Turkey, Afghanistan, Switzerland and Kazakhstan.

There is considerable potential to diversify non-oil exports to developed country markets, particularly to the EU.

In order to use the export potential of non-oil sector more efficiently and increase access to foreign markets in whole, Azerbaijan acceded to the "Generalized System of Preferences" ("GSP") program of the USA, Canada, Japan, Norway,

Switzerland, Turkey and GSP plus of the European Union since 2009, which allows local producers and entrepreneurs to export a large number of goods to the big part of world import market on preferential terms. According to the World Bank classification, Azerbaijan has been “upper-middle income” country for last 3 years, thus not being qualified to benefit from preferential treatment under the EU and Canada GSP since February 2014.

Legislation

- Improvement of legislation, development of free competition, simplification of tax and custom procedures, creation of exclusive economic zones, increasing awareness of entrepreneurs, ensuring access for Azerbaijani products into foreign markets with preferential conditions, application of a “single window” system to simplify border-crossing procedures are significant elements of the development process.

- “Action Plan on stimulation of export of non-oil products for 2011-2013 years” approved by the Instructive Order of the Cabinet of Ministers of Azerbaijan. According to this Action Plan relevant executive authorities are carrying out appropriate measures within the areas of improvement of the legislative framework, enforcing export coordination policy, stimulation of export oriented production, improvement of quality control system, export promotion and enlightenment of entrepreneurs.

- In this respect, foreign experience has been learned in the field of export stimulation. Given the character of economic policy, the Cabinet of Ministers has affirmed the “Action Plan on Stimulation of Export of Non-oil Products for 2011-2013” with the decree № 40s dated 8 February, 2011. The Action Plan envisages measures for improving legislation, strengthening coordination of export policy, stimulating production of export goods, improving maintenance of infrastructure and quality control system and promoting of export.

In line with the government’s policy agenda for transition to a new stage of development and implementation efforts so far, “Azerbaijan - 2020: Outlook for the future” Development Concept was adopted. The document sets the target of boosting diversification of economy, increasing GDP at the expense of non-oil sector. Furthermore, it is planned to turn the country into the region’s commercial centre and to bring the volume of per capita non-oil export to 1,000 US dollars. Conducting reforms and bringing legislation in line with the international trade system in order to join the World Trade Organization (WTO) will ultimately open new opportunities for the development of local companies and the country’s economy in general. Activities related to Azerbaijan’s membership to World Trade Organization are underway. The government has undertaken a number of steps to liberalize foreign trade. As of the end of 2013, the average import tariff in Azerbaijan was 9,0% i.e. significantly below the international average figures. WTO accession process is continuing in the

framework of multilateral, plurilateral and bilateral negotiations. The 11th meeting of the Working Group was held on February 2013. As a result of the bilateral negotiations 5 bilateral agreements were signed and Azerbaijan still conducts bilateral negotiations with 17 countries. Issues related to the level of domestic support to agriculture and the negotiations on the market access are still being discussed. The main goal in the negotiations for Azerbaijan is to obtain flexibilities provided in WTO agreements for the developing countries and to achieve membership on favorable terms for the economy.

The way forward

Since its adoption, the Almaty Programme of Action has contributed to re-defining economic development and transit transport cooperation priorities of landlocked developing countries. These have resulted in prioritization of major points of transit transport and diversification policy, by providing clear steps to be taken on institutional reforms, infrastructure and connectivity development, transit procedures facilitation, including border-crossing. However, the economies of LLDC's still remain vulnerable in a number of areas.

New plan of action should, inter alia, focus on development and implementation of a set of measures enabling to establish a common system of technological, customs, information and logistics service process for ensuring freight transportation on international corridors; to regulate the tariff policies aimed at ensuring the free movement of goods and passengers, develop legal framework governing the pricing principles for transport in international traffic, set systems of multimodal transport and logistics centers as the main backbone network elements of the international transport corridors providing coordinated interaction of all participants in the international transport and optimization of distribution.

According to the World Bank classification, Azerbaijan has been “upper-middle income” country for last 3 years, thus not being qualified to benefit from preferential treatment under the EU and Canada GSP since February 2014. It will negatively impact non-oil export of Azerbaijan to these countries. It would be desirable to have this decision reconsidered for an LLDC.