

# AZERBAIJAN

## PART TWO

Monday, August 13, 2007

### ECONOMIC BOOM

# The world's fastest growing economy

**F**ueled by the rapidly increasing amount of oil being pumped from offshore rigs in the Caspian Sea, the former Soviet state of Azerbaijan has become the world's fastest developing economy. Gross domestic product increased by 26 percent in 2005 and 35 percent last year. In the first three months alone of this year, it rose by a staggering 40 percent.

Production of premium quality Azeri crude, currently heading for 800,000 barrels per day, is expected to exceed one billion bpd next year. With oil prices high, petrodollars have been flooding in. The state budget has swelled from \$1.5 billion in 2003 to more than \$6.5 billion this year. Revenues are being reinvested in growing and diversifying the economy.

Azerbaijan is being modernized, and the government is pursuing intensive economic and political integration into Europe.

The booming economy has created half a million jobs since Ilham Aliyev took over as president in 2003. Over the same period, poverty has been reduced from 49 percent to 20 percent. A wide-ranging reform program has been



Baku, the capital of Azerbaijan, located on the Caspian Sea, is a gateway for businesses seeking access to the markets of the region.



**ILHAM ALIYEV**  
President  
of Azerbaijan

under way with support from the World Bank.

For Aliyev, the extraordinary progress being made is a vindication of government policy. "It shows that economic reforms currently under way are proving to be productive," he says.

Azerbaijan is forecast to receive approximately \$150 billion from oil over the next two decades, plus another \$160 billion over the next 30 years from the recently inaugurated Baku-Tbilisi-Ceyhan oil pipeline.

On top of that, it has become a gas exporting country and major gas production is due to commence soon.

Today's bright prospects could hardly have been dreamt of during the political and economic crises of the country's first years of independence, following the collapse of the Soviet Union.

Aliyev says, "Ten years ago it was impossible to imagine it would happen in our country. But it is reality now."

Today, Azerbaijan is the leading destination for foreign direct investment in the region, currently attracting around \$4 billion a year; the United States has a

major presence in the oil and gas sector, and also in transportation. Most FDI takes place in the oil and gas sector, but the country's long-term future depends on the development of a wider economy that will remain sustainable when the oil bonanza eventually comes to an end.

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## AZERBAIJAN

# Diversification is the key to sustaining long-term prosperity

**Azerbaijan is seeking to develop its the non-oil sector and reduce its dependence on oil. Revenues from rising exports of petroleum are being spent on infrastructure, while foreign companies are being encouraged to look at the potential of a range of economic activities**

A varied economy is crucial if Azerbaijan is to avoid the negative effects of overdependence on the oil and gas sector—the so-called Dutch disease leads to a decrease in the competitiveness of a country's manufactured goods and an increase in imports. The government is seeking to promote diversification and the socio-economic development of the regions of the republic through a combination of state spending and encouragement of foreign direct investment. This year, the government has allocated \$1.5

billion to jumpstart activity in non-oil sectors, where the annual growth rate is currently around 8 percent.



**HEYDAR BABAYEV**  
Minister of Economic  
Development

Heydar Babayev, Minister of Economic Development, says that the government's core effort is focused on improving public infrastructure. "As Azerbaijan has achieved a breakthrough in its economic development, public spending has increased accordingly," says the minister. "This year alone, we are committing over 26 percent of our budget revenues to improving the infrastructure: buildings, new roads,

new power stations, utilities, water supply, and other economic and social projects."

As the state agency responsible for managing Azerbaijan's oil revenues, Sofaz has a central role to play in the development of a sustainable economy. Samir Sharifov, Executive Director of the fund, says, "Azerbaijan's oil fund is intergenerational. The revenues will be used for both current and future generations."

Over the next few years, Sofaz will invest in the construction and rehabilitation of highways, power generation and distribution facilities, schools and hospitals, as well as in Azerbaijan's human capital, in order to gain the expertise required for a successful market economy.

Small and medium enterprises are seen as key elements for sustainable development. Special SME support programs provide soft financing, technical assistance by the state, and other means of support.

The government invests directly in the development of the non-oil

sector through the Azerbaijan Investment Company (AIC). Set up last year, it is mandated to make minority equity investments in companies and projects outside the oil and gas sector.

A more investment-friendly environment is being created. "We are working on continuous improvement and development of the legislative framework, both for local and foreign investors," says Babayev.

Mikayil Jabbarov, Deputy Minister of Economic Development, highlights telecoms, agricultural processing, transport, trade and tourism as the sectors where the country has a competitive ad-

vantage and where the government is investing to promote foreign cooperation and investment.

Stanley Escudero,

the former president of the American Chamber of Commerce in Azerbaijan, comments: "This is a rapidly developing economy offering the opportunity to get in on the ground floor in many areas."

The task of attracting foreign direct investment rests with the Azerbaijan Export and Investment Promotion Foundation (Azpromo), established in 2003.

Emil Mejidov, the President of Azpromo, describes Azerbaijan as one of the most dynamic places in Europe. "There are substantial opportunities for American companies to work with both the Azerbaijani government and private companies in the implementation of public investment programs, and also for cooperation between small and medium-sized American and Azerbaijani companies—especially in the food sector."

Azerbaijan's geographical location makes it a natural bridge between Europe and Central Asia, as well as a convenient route to the Middle East.

**"We are working on improvement and development of the legislative framework, both for local and foreign investors"**

## Demand for cement outstrips supply

In one of the largest foreign investments in Azerbaijan's non-oil sector, the European Bank for Reconstruction and Development (EBRD) is laying out \$10 million for a 10 percent equity stake in the country's largest cement producer, Garadagh Cement.

Meanwhile, moves to acquire a 20 percent holding in the firm are also being made by the Azerbaijan Investment Company, which was established last year to boost development outside the oil sector.

Privatized in 1999, and now part of the Holcim Group, the world's biggest cement producer, the Garadagh plant has been operating for 56 years. Last year, it won the National Business Award for Company of the Year, and it is known for having the best laboratory in the CIS.

The EBRD's investment will finance an environmental and efficiency upgrade of the plant's existing facilities to reduce dust emissions. "By the end of it we will be compliant with European norms," says Horia Adrian, Garadagh's General Director.

Adrian says Garadagh would welcome a second cement producer in the industry. Domestic demand for cement is currently around 2.5 million tons. Garadagh's output is a maximum 1.3 million tons, and an additional 300,000 tons is imported from its sister plant in Russia.

The company has four kiln lines, and plans to start an additional one, while refurbishing another. "Demand will continue to grow year by year," Adrian predicts.

**AZERBAIJAN**

# Quality at the forefront of the food sector

*A prime example of diversification in the non-oil sector, Azersun Holdings has built a strong presence in the national economy by putting its emphasis on high standards*

**W**hen Abdolbari Goozal set up business in Azerbaijan, there were practically no private enterprises operating in the food manufacturing. The Turkish-born entrepreneur's Azersun Holding was the first foreign company to incorporate several businesses under its control and establish the concept in the industry of a group of companies.



**ABDOLBARI GOOZAL**  
President  
of Azersun Holding

the development of the economy has been acknowledged with a string of honors and awards.

Employing more than 3,000 people, Azersun's activities now encompass trading and distribution, construction, banking, insurance, cardboard production, canned meat and vegetable products, packaging, metal packaging, storage and transportation, and import-export. It is

Today, Azersun Holding is at the forefront of Azerbaijan's food sector, and Goozal's contribution to

recognized as a leading food producer in CIS countries, Syria, Iran, and Iraq.



Azersun is continuing to invest and to improve its installations.

Goozal says, "One of the keys of my brand is quality. People believe in Azersun. They know that if we produce something, it's above standard and it's always a quality product. Azersun is the reflection of my life and my beliefs."

Azersun is continuing to invest and to improve all its installations.

One of the group's most recently established subsidiaries, the \$87 million Imishli Sugar Factory, commenced operations in February. Annual production, which is expected to be 300,000-350,000 tons, will reduce Azerbaijan's need to import sugar and could even turn the country into a sugar exporter.

The Azersun Holding Group of Companies brings 14 years of experience to the foodstuffs and packaging industry in Azerbaijan. ISO 9000 and 14000 certified, Azersun comprises 6 subsidiaries involved in all aspects of value-added products and services in compliance with the highest global standards.

Trusted and respected throughout Azerbaijan, Azersun Holding operates for the benefit and advancement of the Azerbaijani state and population by expanding its areas of operation and continuing its development of profitable international partnerships.

## Working in partnership with Azerbaijan



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## AZERBAIJAN

# Leading group further diversifies into tourism and iodine reserves

In 1994, when Azerbaijani entrepreneurs living abroad were urged by the president to contribute to the development of the economy, Iskender Khalilov was quick to respond. He switched his business interests to Baku and set up ISR Holding

The largest corporate taxpayer in Azerbaijan, ISR Holding has invested heavily and widely in the Azerbaijan economy since it was established in 1995. Today, its highly diversified areas of operation extend from oil and gas services, minerals and chemicals, to financial services and investments, food processing, hotels, and textiles.

Now with eight associated companies, the group owns the ISR Plaza office building, which houses the luxury Radisson SAS hotel. It represents the giant

Turkish company Koc through Ramstore supermarkets, and even built Azerbaijan's first McDonald's in Baku.

"ISR's success demonstrates that there is more to Azerbaijan than just oil and gas, and that there is potential in other sectors of the economy," says Iskender Khalilov.

As well as being the President of ISR Holding, Khalilov is also Vice-President of Lukoil Overseas, the operator for interna-



**ISKENDER KHALILOV**  
President  
of ISR Holding

tional projects of one of Russia's largest private oil and gas companies. He is confident that the country has a bright future ahead and that ISR will continue to invest in new projects.

Tourism is one sector in which the company is expanding its interests. ISR has plans to build four and five-star business center hotels, and recently opened a travel agency.

"We intend to develop busi-

ness tourism," says Khalilov. "Currently, we offer three hotels to business and tourist clients, but I would like to see tourism develop, not only in Baku, which has the sea, sun, historical sites and good cuisine, but also in the regions with their deep forests, high mountains, lakes, and rivers."

ISR has already contributed to regional development by opening two factories: one a pomegranate plant in Goychay, the other a nut factory in Zaqatala. Its largest project is the rehabilitation of the Novo Neftechali Iodine Plant, in partnership with an American firm.

"Iodine reserves in Azerbaijan are virtually unlimited," says Khalilov. "If within a couple of years the plant reaches its rated capacity of 500 tons per year, then our country will be the fourth largest producer in the world."

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## AZERBAIJAN

# Azercell increases investment as mobile market takes off

**Azerbaijan's cellphone sector has huge potential for growth. Market leader Azercell Telecom is bumping up its investment to boost its subscriber base and ensure that it remains ahead in an increasingly competitive industry**

Use of cellphones is rising fast in Azerbaijan, where penetration of the market rose from 27 percent to 37 percent last year. With three operators now competing for business—one a newcomer, launched earlier this year—a further sizeable overall increase in subscribers is guaranteed.

The industry is dominated by Azercell Telecom, which covers approximately 77 percent of the national territory, and controls about 80 percent of the market. Last year, Azercell's subscriber base rose by 33 percent to 2.3 million users, and the company is continuing to spend mega-bucks to strengthen its position at the head of the field.

Since it was established in 1996, it has invested around half a billion dollars. The AZN120 million (\$139 million) spent last year is being followed by a further AZN130 million (\$151 million) this year, as Azercell extends its coverage, installing more than 350 additional base stations across the country. Azercell Express centers have been opened in Baku and in the provinces as one-stop shops for the company's services, selling cellphones and receiving subscriptions.

Halim Ates, Azercell's General Manager, attributes the

company's dominance, and the string of awards it won last year, to "doing the right thing at the right time." He says, "Our focus is on giving customized solutions to the customers. We don't believe in bulk solutions. Every individual is different and has different needs. We offer alternative services to allow people to choose."

Azercell is committed to offering its subscribers the latest technology, and the company is looking forward to launching 3G services once it is given the green light from the Ministry of Communications and Information Technologies. "We need to



**HALIM ATES**  
General Manager  
of Azercell

implement 3G technology to be at the same level as Europe and the Far East," says Ates. "We have applied to the ministry and as soon as we get the frequencies, we will implement it. It will enable us to offer our customers more services and solutions."

He expects demand to be high. "Azerbaijanis are surprisingly open to new things. When the first GPRS service came, the results were surprising. We did not expect so much demand. We launched our interactive infotainment service, Simurq, last year, and now we have more than 15,000 users. There is always a period of customer education in the technology markets. In Azerbaijan, the



Azercell has signed roaming agreements in 135 countries, including the United States.

education period is fast. Customers know what they want," he says.

Azercell wants to be recognized as an international company, and has signed 310 roaming agreements in 135 countries, including the United States. An international element is already present in Azercell's ownership. Its majority shareholder, Fintur Holdings, is a leading provider of mobile telecommunications services in the Eurasian markets, and is itself a joint venture between TeliaSonera, the largest mobile operator in Scandinavia, and Turkey's leading operator, Turkcell.

The companies meet to discuss high-level strategies, but each decides its approach to its own market. "The things that

work in Sweden don't necessarily work here, because the market, customer profiles, everything, is different," the general manager points out.

The Ministry of Communications and Information Technologies has plans to auction off its 35.7 percent stake in Azercell to the private sector. As Azercell is the largest company with a state interest in Azerbaijan, and one of the largest taxpayers, it would be the country's biggest-ever privatization deal.

Ates comments, "It is up to the government to make the final decision about privatization. From Azercell's management point of view, we are not expecting any change that will affect the success or the structure of the company."

**"We don't believe in bulk solutions. Every individual is different and has different needs. We offer alternative services to allow people to choose"**



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