



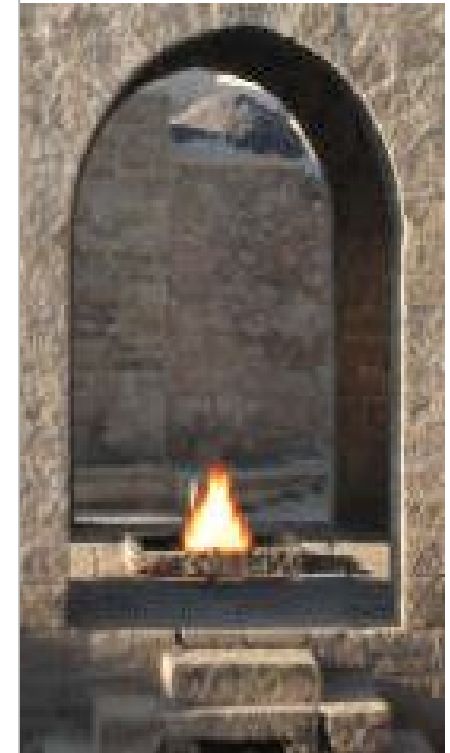
Azerbaijan: Recent Investment Promotion Initiatives

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Azerbaijan – Essential Facts

- Population : 8.7 million
- GDP (PPP): 78 billion USD (2008 est)
- Per Capita Income (PPP): 9 500 USD
- Phenomenal Growth Rates: 26% (2005), 35% (2006), 25% (2007), 10.8% (2008), 9.3% (2009)
- Stable Political System
- Growing Middle Class
- Resistance to Resource nationalism
- Minimal External Debt
- State Oil Fund of the Azerbaijan Republic (2000)
- Extractive Industries Transparency Initiative



Azerbaijan – Investment Environment

- World Bank/IFC Doing Business Project 2009/2010
 - ▶ In 2009 Azerbaijan jumped 64 places from no. 97 to no. 38 (of 181 countries) in an objective assessment of the ease of doing business
 - ▶ In 2010 no. 38 (of 183 countries) ranking was maintained (Registering Property-9, Starting a Business-17, Protecting Investors-20; NB: Dealing with Construction Permits-158, Trading Across Borders-177)
 - ▶ Main areas of improvement: reduced bureaucratic delays to start a business and transfer/register property, flexibility of employment laws and simplification of tax payment
 - ▶ Average time for obtaining company registration shortened from 4-6 weeks to 5-7 days
 - ▶ NB: Corruption : 2009 Transparency International Corruption Perception Index: No. 143 out of 180 countries)

Foreign Investment Promotion

- 1992 Law on the Protection of Foreign Investments
- 1992 Law on Foreign Investment Activity
- Bilateral Investment Treaties
- Azerbaijan Investment Company
- Law on the Special Economic Regime for Export Oil and Gas Activity (2 February 2009)
- Law on Special Economic Zones (14 April 2009)
- Law in Concessions (forthcoming?)



Law “On the Special Economic Regime for Export Oil and Gas Activity,” dated 2 February 2009

- Law of the Azerbaijan Republic “**On the Special Economic Regime for Export Oil and Gas Activity,**” dated 2 February 2009
 - ▶ Special **tax, customs, currency** and other benefits
 - ▶ For **local contractors** (i.e., **Azerbaijani entity**, with or without foreign investment) and their **local or foreign sub-contractors**
 - ▶ Carrying out **oil and gas activities** (including the **exploration** for and the **sale and purchase** of oil and natural gas)
 - ▶ **Oriented towards exports** (e.g., the supply of goods, work and services in connection with oil and gas operations)
 - ▶ In connection with **oil and gas activities** conducted **outside of Azerbaijan**
- Contract by contract basis
- Does NOT apply to activities under **PSAs/EPAs**
- Law to lose force after **15 years** (unless extended)

Export Oil and Gas Activity - Tax Benefits

Tax Benefits

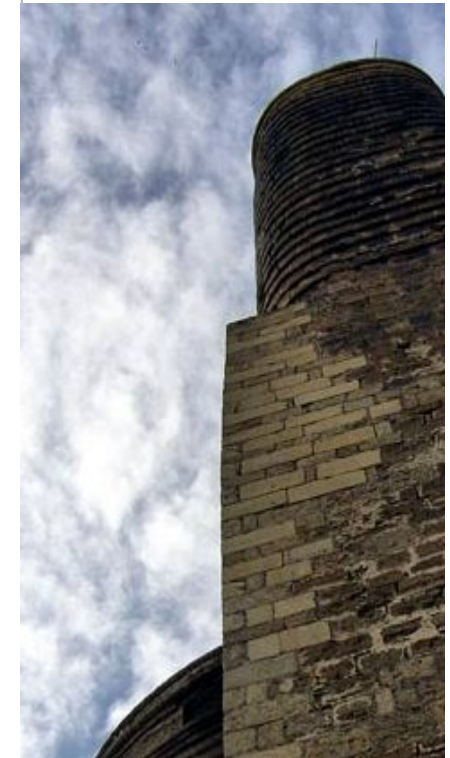
- Local contractors - choice between: i) taxation **under the existing Tax Code** regime, or ii) the payment of profits tax by **withholding at 5% of the aggregate price** under a particular contract (i.e., no deductions)
- Foreign subcontractors – the **5% withholding** applies
- Other Benefits:
 - ▶ **No withholding tax on dividends or interest** payable by Contractors and foreign subcontractors
 - ▶ **No net profit remittance tax** (branch tax) for foreign subcontractors
 - ▶ **No property (assets) tax**
 - ▶ **No land taxes**
 - ▶ **Not Mentioned: State Social Protection Fund** Contributions, Which Apply
 - ▶ **Not Mentioned:** Personal income tax benefits
- **Zero-rated VAT** for Contractors;
- **Reimbursement of VAT** for Contractors (without a state audit)
 - ▶ Within 20 days; otherwise, interest is payable
- **No customs duties** for Contractors and subcontractors



Local Content

Qualifying contractors and subcontractors are required:

- To engage **local employees as 80% of workforce** within 1 year of obtaining a Certificate
- Exceptions:
 - ▶ Activity will be **completed in less than 6 months**
 - ▶ **Absence of relevant specialists** and professionals locally
 - ▶ Necessary training of local employees for the relevant work would require **more than 6 months**
 - ▶ **Cost of training** of local employee will be more than 20% higher than the cost of employing an expatriate worker



Law on Special Economic Zones, 14 April 2009

- Provides a **legal basis and framework** for the establishment and operation of territorial zones
- To accelerate development of **entrepreneurial activity** in connection with the **production of highly competitive goods** and the **rendering of highly competitive services** using modern technology
- Features
 - ▶ Simplified customs regime
 - ▶ Customs duties exemptions
 - ▶ Simplified income tax
 - ▶ Exemption from most other taxes



Special Economic Zones - Eligibility

- Ineligible Activities:
 - ▶ Extraction, production, processing of oil, petroleum production, natural gas, precious metals and mineral resources
 - ▶ Television-radio broadcasting activity
 - ▶ Production of alcoholic beverages and tobacco products
 - ▶ Production, storage and sale of goods prohibited or restricted for civil turnover

- Any other activity that is legal under Azerbaijani law is eligible



Law on Special Economic Zones

■ Establishment

- ▶ By decision of the relevant central executive body, stating the objective, type, fixed term and sources of financing for the SEZ
- ▶ A Competent Body shall make proposals and prepare draft Regulations on each zone for approval

■ Administration

- ▶ The SEZ is administered by the local territorial structure of the Competent Body, grants land use rights, issues certificates to Residents and maintains register, regulates relations among Residents and between Residents and the Operator

■ Management

- ▶ An Operator for each SEZ is to be selected by competitive tender
- ▶ The Operator, which must be experienced, concludes a remunerated management contract with the Competent Body, invests in infrastructure, transport and ensures the management and development of the SEZ

■ Beneficiary

- ▶ A Resident of the SEZ receives certificate from the Administration, is obliged to carry out the intended activities by agreement with the Operator, benefits from the favourable tax and customs regime



Special Economic Zones - Benefits

■ Customs

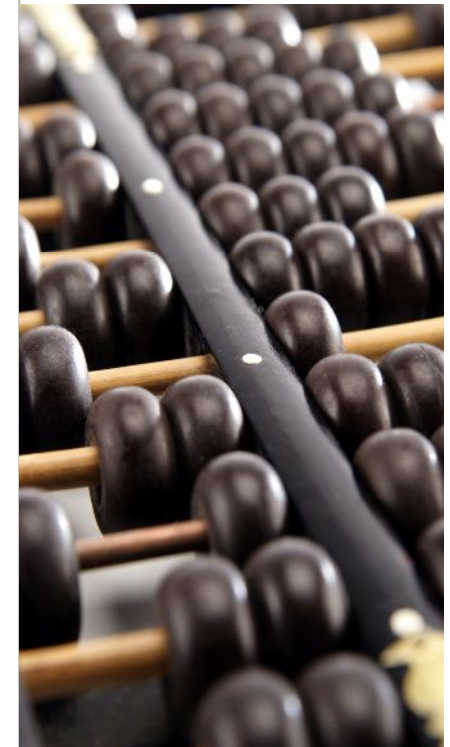
- ▶ Simplified customs regime
- ▶ Indefinite exemption from import duties upon import into and export from zone (unless imported into the customs territory of Azerbaijan)
 - Exception : excised goods
- ▶ Possibility of duty free temporary import for finishing, repair, display for goods produced with within the zone
- ▶ No time limits for re-export from SEZ

■ Tax

- ▶ A simplified tax regime applies
- ▶ Profits Tax assessed on basis of 0.5% of gross turnover, payable quarterly
- ▶ No reductions in personal income tax, social contributions

■ Employment Law/Currency Regulation

- ▶ No special benefits



Special Economic Zones

- State Guarantees
 - ▶ The rights of Residents of SEZ's to investments made, profits received and repatriation of legally earned profits
 - ▶ The Special Economic Regime shall apply for the entire period in which the SEZ is in operation



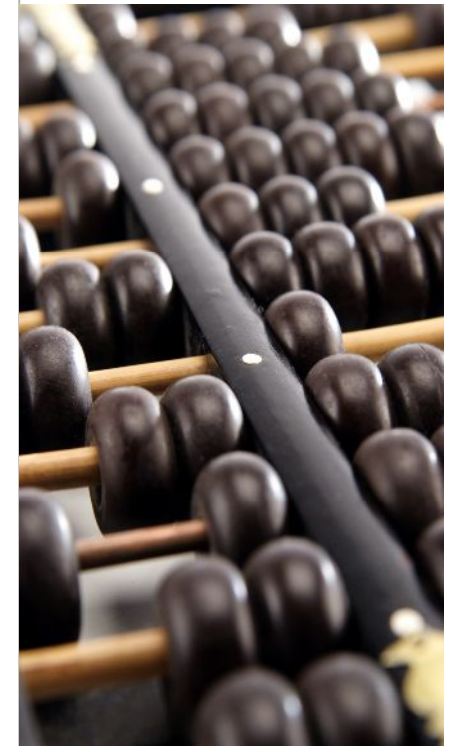
Special Economic Zones – Implementing Regulations

- **Presidential Decree № 257, On Rules on Conducting a Tender for the Selection of Operators of Special Economic Zones Presidential Decree, dated 20 April 2010**
- **Decisions of the Cabinet of Ministers № 193, dated 18 December 2009, On Approval of:**
 - ▶ **the Registration of Residents of SEZs and Maintaining the Register;**
 - ▶ **the Form of Registration Certificate for SEZs; and**
 - ▶ **the Application Form for Registration with the Administrations of SEZs and the List of Accompanying Documents**
- **Decision of the Cabinet of Ministers № 199, On Approval of Simplified Rules for Crossing the Customs Borders of SEZs, dated 25 December 2009**
- **Decision of the Cabinet of Ministers № 16, On Approval of the Rules for the Preparation of Balance Sheets for the Residents of SEZs, dated 25 January 2010**



Special Economic Zones – Implementing Regulations

- **Approvals by Various Ministries and Departments:**
 - ▶ **On the Form of the Agreement between the Operators and Residents of SEZs, dated 5 January 2010**
 - ▶ **On the Reporting Rules for the Operators of SEZs, including Rules on External Audit Reports, dated 5 January 2010**
 - ▶ **On the Form of Lease Agreement between the Administrations and the Operators of SEZs in relation to State-Owned Land, dated 5 January 2010**
 - ▶ **On the Form of Lease Agreement between the Administrations and the Residents of SEZs in relation to State-owned Land, dated 5 January 2010**
 - ▶ **On the Rules for Statistical Data Collection and Monitoring the Activities of SEZs, dated 5 January 2010**
 - ▶ **On the Form of Letter of Intent to be Concluded between the Operators and Legal Entities and Physical Persons for Operating in SEZs, dated 5 March 2010**



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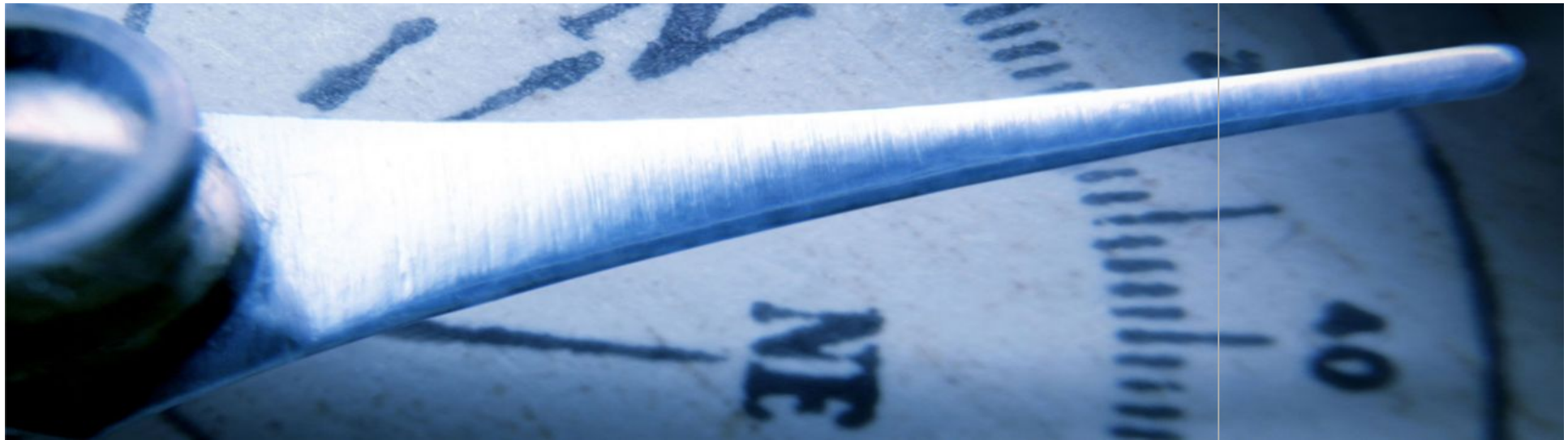
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