



DOING BUSINESS IN AZERBAIJAN



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COUNTRY PROFILE

Azerbaijan is the largest country of South Caucasus for the territory and population. Ever since regaining its independence from the Soviet Union in 1991, Azerbaijan has set a priority to build national economy and national legal framework. Pursuing this tagline, the economy was liberalized and entire legislation was rewritten to maintain market-based economy and free entrepreneurship.

Government Structure - The Constitution of Republic of Azerbaijan was adopted in 1995. Pursuant to the Constitution, Azerbaijan is a secular, democratic, presidential republic. A checks and balances system is maintained by the 3 branches of government: the legislative, the executive, and the judicial powers. The legislative branch is performed by the single chamber 125-member parliament (Milli Majlis), which is elected for a five-year period. The executive branch is executed through the Vice Presidents, Prime Minister and Cabinet of Ministers under the leadership of the president. The president appoints Prime Minister subject to the approval of the parliament. The president of Republic of Azerbaijan is head of the state. The judicial branch consists of the courts which will be defined further on.

Population - As of the January 1 2018, population of Azerbaijan is 9898.1 thousand. Majority of population are ethnic Azerbaijanis with 91,6% and the minorities include Lezgins, Russians, Talysh, Jews, Kurds, Georgians and others. Although, population in Azerbaijan is mostly Muslims, the Constitution of Azerbaijan maintains separation of religion from the state, preserves equal rights for all ethnic groups and religions.

The official language is Azerbaijani.

Geography - Area of Azerbaijan is 86,000 square km bordering the Caspian Sea on the East, Iran and Russia on the South and North respectively, as well as sharing border with Georgia, Armenia and Turkey on the West.

Climate - is slightly continental, with relatively cold winters and hot summers. Terrain is large and flat at Kur-Araz lowland in the middle of the country, mostly being below sea level. Azerbaijan is surrounded by mountains, namely, Garabagh upland in the West, Great Caucasus Mountains in the North and Absheron Peninsula in the East. More than half of the area is agricultural land. Agriculture products are mainly cotton, tobacco, grain, rice, grapes, fruit, vegetables, potato, tomato and tea.

Visiting Azerbaijan (E-visa) - Since 2016, foreigners and stateless persons may apply for electron visas (E-visa) for visiting Azerbaijan. E-visas are issued by “ASAN visa” service within 3 working days and urgent visas within 3 hours (not depending on non-working days) granting entry to Azerbaijan with permission to stay up to 30 days. Applications should be made at least 3 days in advance of traveling to Azerbaijan. E-visa is available for the citizens of 94 countries determined and listed by the Ministry of Foreign Affairs. Undeniably, the main advantages of E-visa is possibility to submit an online application, make online payment as well as the fact that the passport of the applicant does not need to appear at the consulate office for visa to be printed on it, instead receiving e-visa via email if successful.

Main Cities	Population (thousand)
Baku	2245,8
Ganja	331,4
Sumgait	339,0
Mingachevir	103,2
Nakhchivan	92,1



“ASAN Services”

ASAN is a groundbreaking Azerbaijani public service delivery model in a transparent, innovative and easy manner. User satisfaction with the ASAN services is usually very high.

ECONOMIC OVERVIEW

Indicators	2017	Indicators	2017
Population	9898.1	GDP - Agriculture:	6580,0 million manat
Economical active population	5073,8 thousand	GDP - Industry	39555,4 million manat
Unemployment	5%	Export	13811.62 mln USD
GDP:	70135,1 million manat	Non-oil and gas	1 386,7 mln USD
GDP Per Capita:	7205,0 manat	Import	8782.01 mln USD

SUPPORT TO BUSINESS

*It is noteworthy that, Azerbaijan enjoyed inflow of foreign investment due to its ample hydrocarbon resources. The Agreement of the Century in 1994 has become a major oil agreement and a critical milestone to exploit its oil and gas resources involving largest oil and gas companies. Under the main Production Sharing Agreement (PSA) operated by BP, a key oil production Platform is Azeri-Chirag-Guneshli (ACG) oilfield, oil of which is transported by Baku-Tbilisi-Ceyhan Pipeline (BTC).

*Azerbaijan was regarded as the world's fastest growing economy in 2006, mainly which was due to its oil production industry. Although the worldwide economic crisis in 2008 affected Azerbaijan as well, its growth remained above 9% in 2009.

*Azerbaijan attracted significant foreign investment in the oil and gas fields. In fact, BP exploration of gas from Shah Deniz brings significant economic and political advantages to the country. The South Caucasus Pipeline operates to transfer its gas from Baku to Erzurum of Turkey.

*It is quite notable that, Azerbaijan ranks 18th in starting a business, 10th in protecting minority investors and overall 57th in 2017 World Bank Doing Business Report.

*Due to subdued demand and low oil prices, GDP growth decelerated from an average 13% in 2004-2013 to average 0.1 in 2014-2016. As a result, oil output declined Azerbaijan furthered diversification of the economy and targeted to drop the economy's dependence on hydrocarbon revenues placing a special emphasis on the agribusiness sector, promoting "Made in Azerbaijan" brand to increase export, supporting tourism, stimulating entrepreneurs and providing guarantees to foreign investors.

*Enjoying government subsidies, a centerpiece of the agribusiness sector was production of cotton, tobacco, silk, tea, paddy etc. Production of cotton increased 3 times in 2016 and it is forecasted to increase 6 times in 2017.

*Manat - national currency of Azerbaijan was denominated into the New Azerbaijani Manat (AZN) since January 2006. From February 2015, the Central Bank shifted manat to a floating regime. In the last two years exchange rates for translation of foreign currency balances were as follows:

Foreign currency	2017	2016
US Dollar 1	AZN 1.7230	AZN 1.7707
Euro 1	AZN 1.9423	AZN 1.8644
Pound Sterling 1	AZN 2.2160	AZN 2.1745

Striving to carry out deep institutional and regulatory reforms with the task of to escape 'resource curse' by modernizing and diversifying economy away from reliance on oil revenues, Azerbaijan developed 12 Strategic road maps for the national economy and main economic sectors aiming to define the country's development goals and priorities and ensure their implementation.

*Since the end on 2015, new regulation was signed to issue Licenses through internet & "ASAN Services". The same regulation cancels requirement of licensing for certain type of business such as tourism (hotels), retail of alcohol and tobacco etc.

*Since October 2017, foreigners and stateless person can register limited liability companies (LLC) with foreign capital through electronic signature within two days. The relevant Regulation also revoked, among others, the requirement of having permanent registration. Electronic signatures are obtained based on temporary residence permit from ASAN and other relevant state authorities. LLC with foreign capital is defined as an entity established by foreigners and stateless person as well as legal entities registered in jurisdictions other than Azerbaijan.

*Since November 1, 2015, Government extended suspension of inspections of businesses until 2021 with exceptions of tax audits, quality inspections of medicines and food products.

*By passing the Presidential Decree dated January 18, 2016, endorsing regulations on stimulating investment in Azerbaijan using investment certificates foreign individuals and legal entities are granted tax and customs privileges (through confirmation of payment at least 10 % of the statutory minimum investment under the investment project and submitting its business plan supplemented with a copy of a taxpayer registration certificate. Government initiated issuance of Investment Incentive Certificate to investors who make investments beyond determined thresholds on production of products related to agriculture, pharmaceuticals, construction,

IT, foodstuffs, metallurgy, clothing, wood, tourism, alternative energy etc. Under the Certificate 50 percent of revenue of investors is exempted from income tax, import of equipment is exempt from VAT and customs duties, they are exempt from property and land taxes. The Certificate is issued by the Ministry of Economy and exemptions are applied for seven years.

*There is a National Fund for Entrepreneurship Support under the Ministry of Economy that has been operating since 1992 to provide preferential loans from the state budget for small and medium businesses in an effort to develop entrepreneurship. The Fund allocated 146 million manat for financing projects of local business in 2017. In addition to this, Agency for development of Small and Medium Entrepreneurship and the Credit Guarantee Fund were established in 2017.

*On 7th of November 2017, law on amending Criminal Code was published, under which committing certain economic and financial crimes for the first time, including avoidance of customs and tax payments are not crime anymore if damage are indemnified. On the other side, the law brings alternative pre-trial detention and electronic monitoring as opposed to incarceration.

*Baku-Tbilisi-Kars rail route connecting Baku to Tbilisi in Georgia and Kars in Turkey is the biggest regional project after Baku-Tbilisi-Ceyhan pipeline. It is the latest effort in Azerbaijan's drive to strengthen its role in connecting China directly to Western Europe along "silk road". The first cargo train loaded with grain from Kazakhstan arrived to Kars on November 03 2017. To this end, Baku International Sea Trade Port was recently modernized to become regional transport and logistics hub in Eurasia.

*In early 2018, President signed an Order assigning Cabinet of Ministers to draft a new law on investment for building favorable investment protection. The new law will regulate mechanisms of protection, state guarantees, indemnification of investors, alternative dispute resolution and to be drafted based on international experience, existing laws on investment and law on protection of foreign investment.

BUSINESS OVERVIEW AND FOREIGN INVESTMENT

Forms of business - There are several ways to operate a business in Azerbaijan. A distinction can be made between entities with legal personality (corporate entities) and entities without legal personality (non-corporate entities).

Corporate entities - The law distinguishes various forms of commercial entities such as Joint Stock Companies, General Partnerships, Limited Partnerships, Limited Liability Companies, Additional Liability Companies, and Cooperatives. Notwithstanding the foregoing, Limited Liability Company (hereinafter: LLC) is the principal form used by foreign investors due to flexible management, liability limits, simplified procedure for registration, and etc. The introduction of the one-stop-shop system has significantly simplified the process of registration in Azerbaijan. Registration of legal entity can be divided into the following stages: (i) Collection and notarization of all necessary documents, (ii) Submission of documents (iii) Obtaining a company seal and opening a bank account.

In principle, there is no legal requirement concerning the minimum capital for establishing LLC. It is up to the discretion of the founders to determine the issued capital and required paid-up capital. The issued capital will be laid down in the articles of association.

Non-corporate entities- Branch and Representative Offices - Another possibility to start up activities in the Republic of Azerbaijan is to create a branch or representative office of a foreign entity. Being a mere part that governed by a foreign legal entity, a branch or representative office is not a separate legal entity. Unlike a representative office, which only represents interests of a legal entity, a branch may perform the commercial activities that the head office does. Registration requirements for setting up a representative office of foreign legal entity are identical with the registration

requirements for a Branch under the law of the Republic of Azerbaijan.

Taxation - The main legislative act regulating taxation in Azerbaijan is the Tax Code. The tax system of Azerbaijan is divided into the following tax regimes: i) statutory tax regime; and ii) special tax regimes which are accordingly a) Production Sharing Agreements (PSAs) existent in the oil & gas sector, and b) Host Government Agreements (HGAs) regulating the agreements exclusively dealing with Baku-Tbilisi-Ceyhan and South Caucasus pipelines.

Basically, the statutory tax regime applies to all legal entities (including the industrial and technological parks) except those falling under the PSAs or HGAs. Foreign legal entities shall establish their representative or branch office in order to conduct business activities in Azerbaijan.

Corporate Income Taxation (CIT) – Both resident and non-resident entities (through their permanent establishment, such as representative or branch offices) are subject to CIT (profit tax) in Azerbaijan. Residents are those who are present in Azerbaijan for more than 182 cumulative days during a calendar year, or those establishing a permanent residence in Azerbaijan. Both entities are taxed on profit, which is determined as gross income from business activities minus deductible expenses at a flat rate of 20%. CIT for non-resident entities which do not have their permanent establishment in Azerbaijan is taxed from its gross profit without deductions for expenses at the rate of 10% (“Withholding tax”).

Unless otherwise specified in the double taxation treaties which Azerbaijan is party to, foreign legal entities with no permanent presence in Azerbaijan are subject to the withholding tax on income from Azerbaijani sources for the following:

Dividends - 10% ; Interest - 10% ; Rent and royalties - 14%; Telecommunication and transport services - 6%; Risk insurance and re-insurance fees - 4%; Income received from performing works and rendering services - 10%; and Other income – 10%.

Simplified tax – legal entities or persons with annual turnover not exceeding AZN 200,000 can be registered as a Simplified taxpayer. Simplified tax

rate in Baku is 4% while in any other cities including in Nakhchivan is 2%. Notwithstanding with the preceding, the simplified tax rates differ depending on the business activities, as such the simplified tax rate for trading is 6%, while it is 8% for catering services.

Value Added Tax (VAT) – supply/import of goods and the provision of services in Azerbaijan are subject to VAT at the rate of 18% for each taxable operation. Legal entities and individuals with taxable transactions exceeding AZN 200,000 during in a consecutive 12 month period shall register as VAT payers. Other companies carrying out business activities in Azerbaijan may voluntarily register. Only registered VAT payers may charge VAT or claim a credit for the VAT contribution. All VAT tax payers shall issue electronic VAT invoices in Automated Tax Information System.

Transfer Pricing - From 1st January, 2017, rules on transfer pricing have been passed to the legislation being applicable for the related party transactions which exceed AZN 500,000 during a calendar year. Transfer pricing rules apply to the transactions concluded between following persons: (i) resident of Azerbaijan and non-resident in a related party relationship; (ii) permanent establishment of non-resident in of Azerbaijan and that non-resident or its any representative office, branch office or other unit located in other countries; (iii) resident of the Azerbaijan and (or) permanent establishment of non-resident in Azerbaijan and legal entities incorporated in countries with favorable tax regimes. Any of the above persons must submit a certificate in a form determined by the Ministry of Taxes regarding the transaction exceeding AZN 500,000 during a calendar year no later than 31 of March after the reporting year.

Administrative penalties may be applied for noncompliance with tax legislation which vary from 50% up to 100% of the amount of taxes due.

Production Sharing Agreements (PSAs) – The

Tax Code also recognizes the special tax regimes applicable to contracting and subcontracting parties in oil and gas production sharing agreements (“PSAs”) which provide for lower withholding tax rates (around 5% to 8%), exemption from VAT and customs duties, and simplified reporting and accounting procedures.

Other taxes: Property tax - Companies are levied with property tax at the rate of 1% on average annual value of fixed assets. Non-residents with permanent establishment (PE) in Azerbaijan are also subject to property tax on the average annual value of fixed assets connected with the PE.

Land tax – Except for agricultural lands, a land tax is imposed on legal entities or individuals owning or using land plots, the rate varying between 0.1-20 AZN, which depends on the purpose of use and location of the land.

Production of excisable goods in and/or import of those goods to Azerbaijan are subject to excise tax. Legal entities and individuals involved in extracting mineral in Azerbaijan shall pay mining tax at rates from 3% to 26% its total wholesale price.

All individuals producing or importing petrol, diesel and liquefied gas in Azerbaijan are subject to road tax. Rates for the Road tax vary depending on vehicle engine, number of axles, weight carried and how long the vehicle is supposed to be in the country.

Employment taxes and social contributions – Income Taxes - Personal Income Tax ranges from 14% (for monthly income up to AZN 2,500) up to 25% (AZN 350 + 25% of the monthly amount exceeding AZN 2,500).

Social Insurance Fund – Both employers and employees shall make the contribution to the Social Insurance Fund. The rate for the employer is equivalent of 22% of an employee’s gross salary, while the rate for employees it is equivalent to 3% of their gross salary.

NOTE: Since January 2016, annual interest income for individuals placing bank deposits on banks in Azerbaijan, including the discounts and dividends as well as interest income on investment

securities paid by the issuers, are exempt from the withholding taxes for 7 years. The Tax Code also recognizes taxes applied in special economic zones.

Accounting - General requirements on accounting are defined by the Law “On Accounting” (the “Accounting Law”).

(i) *IFRS Standards* -IFRS Standards are required for the companies which are public interest entities, more specifically, credit organizations, insurance companies, private pension funds and legal entities with stock market share listings. Entities with: (a) revenue of AZN 120 mln; b) an average of 1,500 employees, and c) a total balance sheet of AZN 300 mln are also considered as public interest entities.

(ii) *National Standards* -Commercial entities must either follow IFRS, or the National Accounting Standards for Commercial Organizations (NAS) which are largely based on IFRS.

(iii) *Simplified Accounting Rules* - Small businesses are allowed to follow simplified accounting rules approved by the Ministry of Finance. Alternatively, they may choose to follow NAS.

Customs - Import and export tariffs are predominantly calculated based on commodity nomenclature of foreign economic activity and methods of evaluating price of goods. As of 1st January 2018 the commodity nomenclature of foreign economic activities have been updated by the Cabinet of Ministers defining classification of goods, rate of import/export duties and non-tariff measures. Under the Customs Code and the Law on Customs Tariffs import duties are ranging from 0% to 15% of the value of the goods as well as the value of the goods is determined primarily based on transaction price which comprises of its actual price paid plus related expenses.

Since 2009, one-stop shop system is applied for veterinary, phytosanitary and other customs inspections at the border checkpoints and accordingly electronic submission of information is used when submitting customs declarations to the customs authorities for goods.

From 28th of October 2016, Green Corridor system was included to the Customs Code and Rules for Green Corridor. In fact, the Green Corridor Rules system enables importers to submit short import declaration electronically before arriving at customs checkpoints and thereby enabling the goods to enter into the border without physical examination.

Banking Regulations – Basically, loans are issued by Banks and Non-Bank Credit Organizations. Unlike banks which are allowed to accept deposits, issue loans and make money transfers, Non-Bank Credit Organizations are not allowed to accept deposits. Postal Service is also allowed to render banking services, including accepting deposits, issue credit cards and make money transfers. Banks, Non-Bank Credit Organizations and Postal Services are licensed by the Chamber of the Control over the Financial Markets*. The license is given on a perpetual basis. Minimum charter value requirement for the Banks is 50 million manat.

Pursuant to the law on Deposit Insurance, deposits are insured by the Deposit Insurance Fund and are compensated up to 30 thousand manat. In 2016, this limit was revoked by a law on Full Deposit Insurance for three years term.

The Chamber regulates the limit for participation of foreign bank capital in banking system of Azerbaijan. Operation of foreign banks in the form of branch and representative office are licensed by the Chamber.

Notwithstanding with the fact that the Chamber is the main regulatory authority of the credit organizations, the Central Bank of the Republic of Azerbaijan fulfills functions of a state bank and implements state monetary policy, maintains cash circulation and regulates foreign exchange rate of manat.

- Non-life (general) insurance companies-5 million manat;
- Life insurance companies-10 million manat;
- Re-insurance activity (exclusive)-20 million manat;
- Re-insurance activity of insurance company-5 million manat.

Limit of the share of foreign capital in the overall capital of all insurance companies and the procedures of calculation of this share is determined by the Chamber. The limit is 100% since 2017. Foreign insurance companies are not allowed to operate in Azerbaijan through branches.

The Chamber of the Control over the Financial Markets was established in 2016, which received the powers of licensing, regulation and control over securities market, insurance companies and credit institutions (banks, non-bank credit organizations, postal services and payment systems).

Securities Market – Under the Civil Code, stocks and bonds are investment securities which are principally traded securities in primary and secondary markets.

In 2015, changes in Civil Code and adoption of new law on Securities Market brought many changes in the structure of securities market. Under the Civil Code securities are a document recognizing contractual relations between issuing company and the owner. Securities can be uncertified and registered electronically.

Investment securities are issued publicly or privately. Public offering is an offer to more than 50 people or offer through media. Initial Public Offering of investment securities is subject to approval by Chamber of the Control over the Financial Markets. IPOs and public offering of derivatives are to go through stock exchange.

Securities are registered in the National Depository Centre under the Chamber. Trading with the securities in the primary and secondary markets is subject to change of register at the National Depository Centre.

Both in primary and secondary markets, securities can be traded through Investment Companies. Investment Companies are organized in the form of Joint Stock Companies and licensed by the Chamber.

Insurance – Under the law on Insurance Activity, insurance companies are established as a life insurance or non-life (general)

insurance companies.

To operate as an insurance company, insurance companies must be established as an Open Joint Stock companies and licensed by the Chamber of the Control over the Financial Markets. Apart from the licensing, insurance companies are required to get separate permits for any type of insurance activities such as voluntary insurance, compulsory insurance and reinsurance.

Under the law on Compulsory Insurances, owners or holders of the property must have the following insurances:

- Compulsory insurance of real property;
- Compulsory civil liability insurance associated with use of real property;
- Compulsory civil liability insurance of motor vehicle owners;
- Compulsory personal accident insurance of passengers

Among other compulsory insurances, all employers are required to obtain compulsory insurance against loss of professional work capacity of employees as required by the Labor Code and the relevant law.

Protecting Foreign Investment in Azerbaijan - Applicable laws on Protection of Foreign investment in Azerbaijan are the Law on Protection of Foreign Investment, the Law on Investment Activity, the Law on Privatization of State Property (including the “Second Privatization Program”).

Any individuals and legal entities including foreign entities, governments, international organizations, and individuals permanently residing outside Azerbaijan may carry out any business activities not prohibited by Azerbaijani law. The law recognizes the following forms of foreign investment including both tangible and intangible rights, as well as intellectual property rights: (i) participation in interest and shareholding with Azerbaijani legal entities and citizens; (ii) establishment of legal entities with full foreign investors; (iii) acquisition of enterprises, immovable properties, buildings, structures, and other kinds of property which is allowed in law.

It is worth to note that, Azerbaijani legislation provides “not-less-favored” regime for foreign investors which include the following guarantees:

- ✓ Guarantee against profit repatriation - the right to repatriate profits, revenues, received in connection with investments, subject to complying with all applicable Azerbaijani tax legislation;
- ✓ Guarantee against deterioration – the assurance that even when Azerbaijani legislation will change in adversely affects an investment, the application of that change will not come into force for a period of ten years of the initial investment;
- ✓ Guarantee against nationalization - foreign investors are entitled to prompt, adequate and effective compensation and confiscation is possible only under circumstances of natural disaster, epidemics, and other extraordinary situations;
- ✓ Access to Alternative Dispute Resolution (Arbitration) - unless otherwise prohibited in law, any dispute can be submitted to the competence of arbitral tribunal.

Furthermore, Azerbaijan has ratified over 47 bilateral treaties on the mutual protection of investments. It is noteworthy that bilateral investment treaties (BITs) prevail over local law regulating the same issue (except for the Constitution and acts adopted by referendum).

Employment law and migration - The labor market in the country has shown a constant increase in participation rate. It is worth to note that the educational attainment of the population is one of the most important conditions for an effective labor market. Generally, people seek jobs that closely match their education background and experience.

Azerbaijan legislation grants employees a range of protections that create obligations for employers. These include but not limited to:

- ✓ receive or demand extra salary for overtime;
 - ✓ receive the appropriate social allowances to improve housing and daily living for family members;
 - ✓ work those hours established by law (normal weekly working hours corresponding to normal daily working hours may not exceed 40 hours)
 - ✓ refuse to perform work or services not included in the job description defined by the employment contract and to demand additional salary appropriate for such work;
 - ✓ enjoy vacation days established by law;
 - ✓ to receive compulsory social insurance paid by the employer as established by law, as well as other insurance.
- The Code of the Azerbaijan Republic on administrative violations introduces quite high-amounted fines for the violation of the above-mentioned rights.
- Migration - migration procedures must be executed for foreign nationals who want to work and stay in the Republic of Azerbaijan. Azerbaijan has a less restrictive admittance policy for highly skilled workers. It is also noteworthy that the following foreigners are exempt from work permit requirement:
- ✓ invest at least 500.000 manats in the economy of the country;
 - ✓ possess real estate which is worth at least 100.000 manats on the territory of the Republic of Azerbaijan or funds in the same amount in the banks of the Republic of Azerbaijan;
 - ✓ are highly qualified specialists in the spheres of economy, industry, defense, science, culture, sports, etc;
 - ✓ are family members of foreigners and stateless persons temporarily or permanently residing on the territory of the Republic of Azerbaijan;
 - ✓ engage in entrepreneurship activity in the Republic of Azerbaijan;
 - ✓ hold positions of head or deputy head in the branch or representation of a foreign juridical person in the Republic of Azerbaijan;
 - ✓ hold positions of head or deputy head in the legal entity established in the Republic of Azerbaijan that at least one of its founders is foreigner;
 - ✓ engage in entrepreneurship activity in the Republic of Azerbaijan;
 - ✓ obtain work permit in a way envisaged by this Code to carry out paid labor activity on the
- ✓ working under conditions which meet safety and health requirements and to exercise the right to demand such conditions;
 - ✓ compensation no less than the minimum established by law;

- territory of the Republic of Azerbaijan;
- ✓ get full-time education at institutions of higher education and technical schools and in case they get education at secondary schools in the Republic of Azerbaijan;
- ✓ engaged in professional religious activity at officially registered religious institutions;
- ✓ fall under the grounds envisaged by the international agreements of the Republic of Azerbaijan are entitled to get a temporary residence permit.

Land ownership - Foreign citizen can buy any property in Azerbaijan, except the land. Pursuant to the Land Code, foreigners, stateless persons, foreign legal entities, international communities and organizations as well as foreign states may be parties to land relations by observing restrictions provided with legislation. Thus, in accordance with article 48 of the Land Code, foreigners may obtain a land only by rent. On the other hand, foreign investors may take part in privatization of state property as buyers in accordance with rules defined by legislation and in compliance with Law of the Republic of Azerbaijan “On Privatization of State Property” and “II State Program on Privatization of State Property in Republic of Azerbaijan” adopted by decree number 383 of the President of the Republic of Azerbaijan dated 10 August 2000.

Intellectual Property Rights - In such fast-paced age of advancements in scientific research, technological progression and business endeavors, it is increasingly important to adequately protect intellectual property (IP).

Copyright - Generally, the right is granted throughout the lifetime of the author and for 50 years after his death. No formalities are required for protection to exist, and this protection also applies in other countries.

Trademarks and Geographical indications - In order for a trademark to be protected in Azerbaijan it has to be registered at the newly established Intellectual Property Agency of

the Republic of Azerbaijan. The term of the trademark protection is 10 years from the date on which the respective body of executive power received the application for registration. The term of the registration may be renewed for further periods of 10 years at the request of the owner of the sign, on condition of paying the prescribed state fee. Trademarks and geographical indications, which have not registered in the Azerbaijan Republic, but having force under the international treaties to which the Azerbaijan Republic is party, or bearing the status of a well-known are granted protection as well.

Patent Protection, Utility Models, and Industrial Design - A standard patent generally has a term of 20 years from the date on which the application was filed to the respective body of executive power. If the subject matter of an invention patent is a product or process subject to administrative procedures the validity term may be extended for five years. Unlike patent, utility model should not meet the requirement of inventive step. In case the invention is new and “industrially applicable”, it shall enjoy 10 years protection under the law of the Republic of Azerbaijan. Art-constructive solutions determining outward appearance of an article refers to industrial design. Industrial design can be constituted by in the picture or model or in a combination of those features. If the industrial design meets the criteria of novelty and originality, it can enjoy the protection for the term of 10 years.

Personal Data Protection - issues are regulated by the Constitution of the Republic of Azerbaijan (“Constitution”), international agreements which the Republic of Azerbaijan is a party to, the Law on Personal Data dated May 11, 2010 (the “Personal Data Law”), and other relevant legal acts.

Personal data shall mean any data which *enables to identify*, directly or indirectly, the person. Worth to know that Personal Data Law specifies 2 categories of personal data:

- public (surname, given name and patronymic is regarded as public data);
- data of specific category (data related to race or nationality, family life, religion and religious belief, health or conviction).

Consent requirements - Collection, processing, dissemination and transfer of personal data is allowed with *written consent of the person* only. The consent could be in the form of electronic

document with reinforced electronic signature or on the basis of written data submitted by the person which shall meet the requirement set out in the Personal Data Law. It should also be noted that the Labor Code of the Republic of Azerbaijan prohibits employers from releasing information relating to its employees without the employees' consent.

Cross-border transfer - Regardless of level of legal protection of personal data in the country to which data is transferred cross-border transfer is possible with the written consent of the person.

Registration requirements - Except the cases provided by law, including information systems regarded to persons who are in labor relationships with the owner or operator of the system or required for their access to the working territory, other information systems of personal data are subject to the state registration.

SPECIFIC REGIME FOR NON-OIL INDUSTRY

Agriculture and Food - Agriculture is one of the crucial sectors of the economy with main segments in:

- Fruit and vegetable growing;
- Meat and meat foods production;
- Dairy production;
- Alcoholic and non-alcoholic beverages production

Tax benefits - The producers of agriculture products are exempt from property tax, profit tax and VAT until 01 January, 2019. Import and sale of wheat, production and sale of flour and bread, as well as sale of poultry meat are not subject to VAT for three years from 1 January 2017. Moreover, import and sale of breeder animals; seeds and seedlings; mineral fertilizers, pesticides; equipment for seed breeding, poultry and beekeeping, as well as laboratory equipment and machines for cleaning, sorting or calibration of seeds, grains and legumes; direct agricultural irrigation and other facilities, vehicles, equipment and techniques are exempt from VAT.

Industrial Parks - To provide the speedy progress in different non-oil industry spheres, several industrial parks has been established. These parks, alongside with different infrastructure opportunities, offer the residents tax benefits. The main industry spheres:

- chemical industry (Sumqayıt Chemical Industry Park);
- eco-industry (Balakhany Eco-Industry Park);
- high technologies (High Technologies Park, Mingachevir High Technologies Park, High Technologies Park under the Azerbaijan National Academy of Sciences);
- machinery (Neftchala Industrial Park, Masalli Industrial Park)
- shipbuilding (Garadag Industrial Park)
- textile (Mingachevir Industrial Park)
- pharmaceutical (Pirallahı Industrial Park)

Tax benefits - The residents of the industrial and technological parks are eligible for certain privileges and exemptions. Thus, they are exempt from property tax and profit tax for the period of 7 years since registration as resident of such parks. All types of goods imported by the residents of industrial parks for the purposes of their activities are exempt from import VAT for 5 years starting from May 1, 2016 on the basis of a document issued by the relevant executive authority. Machinery, technological equipment and plants imported by the residents of the industrial or technological parks for the construction of production facilities of industrial or technological parks, research and development works are exempt from import VAT for 7 years from the date of registration of the resident in the industrial or technological parks. In addition, VAT at the rate of 0% is applied to the provision of goods, performance of works and services for the purposes of the same activities by contractors to the residents of these industrial parks, or by subcontractors to the contractors of such residents for a period of 5 years starting from May 1, 2016.

Free Trade Zones - (Alat free-economic zone) - The Law of the Republic of Azerbaijan "On Special Economic Zones", which became effective in April 2009, sets a preferential tax regime applicable to residents of special economic zones (however no such zones were established until now). The companies operating in special economic zones shall have the following tax

benefits:

- 0.5% tax levied on overall turnover from supplied goods, performed services, or works;
- 0% VAT rate;
- customs exemptions.

It is worthy to note that following corresponding order of the President of the Republic of Azerbaijan dated March 17, 2016, draft law “*On Alat free-economic zone*” is now on agenda of the Parliament of the Republic of Azerbaijan which is expected to be adopted in 2018. Alat settlement is located in Garadagh district of Baku (65 km south of the capital) where Azerbaijan intends to build a major trading hub as a *tax-free zone* covering the territory of the *Baku International Sea Trade Port*, with such components as Truck Parking, International Logistics Centre and Domestic Logistic Centre, as part of a special economic regime. The Port will act as a major logistics hub in the Caspian region, serving both European and Asian markets, as well as being part of an extensive international logistics network linking Europe and Asia.

LEGAL SYSTEM

The Legal system of Azerbaijan is based on civil law.

Courts - There are three-tiered court system, namely General Jurisdiction Courts, Administrative-Economical Courts, and the Supreme Courts, all hear the cases within their competence respectively. Pursuant to the amendments made to the Civil Procedure Code (effective as of January 1, 2017), any statements of claim and complaints as well as any other documents in economic disputes may be submitted to the courts either in written form or via an electronic cabinet established within the Electronic Court system. Additionally, any court notices to the parties using electronic cabinet can be served by means of placing the notices into the electronic cabinets.

International arbitration – Pursuant to the Civil Procedure Code and the law on Protection of Foreign Investments, investment disputes may be resolved with the dispute resolution procedures agreed by the parties. International arbitration in Azerbaijan is regulated in accordance with the law on International Arbitration. Azerbaijan has ratified the New York Convention on Enforcement of Arbitral Awards as well Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States, which provides for arbitration at the International Centre for Settlement of Investment Disputes (ICSID).