17th Meeting of the EU-Azerbaijan Sub-Committee on trade, economic and related legal issues

17 February 2020, Brussels

Joint Report

The seventeenth meeting of the EU-Azerbaijan Sub-Committee on trade, economic and related legal issues took place in Brussels on 17 February 2020. It was chaired by DG TRADE, European Commission, and co-chaired by the Ministry of Economy of Azerbaijan. From the Azerbaijan side representatives of all relevant line ministries and other relevant bodies participated. Also, the main line DGs of the EU Commission as well as EEAS took part in the meeting.

1. Welcome & Opening statements

After welcoming each other, the EU, in line with its transparency rules, informed Azerbaijan of its intention to publish the agenda and a report of the meeting and that it will give Azerbaijan the opportunity to provide comments to the report. The EU also underlined the important role that WTO accession and a new EU-Azerbaijan bilateral agreement could play in Azerbaijan’s efforts to diversify its economy and expressed the hope that Azerbaijan will soon appoint a new chief trade negotiator to continue the discussions. Azerbaijan gave an update on the investment situation in the country, as well as on economic cooperation with EU Member States and on past and ongoing EU assistance programmes.

2. Adoption of the agenda

The agenda was adopted.

3. Adoption of the Minutes of the 2018 Sub-Committee meeting

The minutes of the 2018 Sub-Committee meeting were adopted.

4. Macroeconomic developments

4.1 Recent macroeconomic developments in Azerbaijan

4.1.1 Real economy – sources of growth; Budgetary execution in 2019 and main elements of the 2020 budget
The parties highlighted the ongoing economic recovery. GDP growth reached 2.2% in real terms in 2019 (up from 1.5% in 2018), supported by a 3.5% expansion of the non-energy sector. The latter was driven by strong performance of agriculture, industry and services, which offset a contraction in construction. On the demand side, growing household consumption in the context of rising wages and pensions, as well as increased credit, fuelled economic activity. On the external side, favourable terms of trade sustained a high current account surplus and ultimately led to a further increase in Azerbaijan’s strategic foreign reserves, to 105.9% of GDP at the end of 2019.

On the fiscal side, solid non-oil revenue growth and conservative capital expenditures helped keep the state budget deficit at a low level of 0.3% of GDP (0.4% in 2018), or well below the initial ceiling. The 2020 budget sets a deficit ceiling of AZN 2.8 billion, or 3.3% of the projected GDP for the year. In November, the authorities changed the fiscal rule to allow for adjusting expenditure growth in line with inflation.

4.1.2 Monetary policy; Financial sector developments

Azerbaijan highlighted the stable inflation environment. Consumer price inflation was 2.6% in 2019, within the target band of the central bank. This supported further monetary easing – the key policy rate was reduced by 250 basis points since the beginning of 2019 to 7.25% as of January 2020. With regard to financial sector stability, Azerbaijan highlighted the elevated capital adequacy and liquidity ratios. The assets of the banking sector rose by 11% on the year in 2019 on the back of strong credit activity. In particular, household lending surged by more than 30% on social reforms that boosted household income, measures to resolve problematic consumer loans as well as the offer of new innovative retail loans products by banks.

4.1.3 Progress with structural reforms

The parties stressed the importance of economic diversification for Azerbaijan, in particular in view of the high volatility of energy markets in recent years. In this context, Azerbaijan’s officials elaborated on various structural reforms such as increasing the number of industrial parks, work on the creation of agricultural parks, focus on increasing the share of the services sector and on maximising the transit potential of the country. The representatives of the Ministry of Finance and the Central Bank of Azerbaijan briefly presented recent structural reforms implemented by the two institutions, while the Ministry of Economy focused on progress with the privatisation and land administration agenda.

4.2 Recent macroeconomic developments in the EU: Autumn 2019 Economic Forecast
The EU presented the Commission’s Winter 2020 Economic forecast that was published on 13 February. According to the forecast, the EU economy is set to continue on a path of steady, moderate growth. Continued employment creation, robust wage growth and a supportive policy mix are expected to be the key drivers. At the same time, the external environment remains challenging as the emergence of new risks are expected to offset the relatively positive domestic factors.

4.3 Presentation of the Commission 2019 consultation on the international role of the euro in the field of energy

The EU made a presentation on the international role of the euro in energy transactions. While the EU is the largest energy importer, the use of the euro in such transactions remains modest. The presentation focused on various initiatives in order to promote the role of the euro in energy transactions, including structured consultations with various stakeholders.

5 Trade related issues

5.1 Bilateral Trade

- State of play and issues of concern

The EU and Azerbaijan briefly touched upon the state of play of current bilateral trade, noting that they remain important trade partners. Total trade in goods between the parties amounted to 14.2 billion EUR in 2018. Referring to the fact that Azerbaijan’s exports remain heavily dominated by fuels (over 98% of exports to the EU in 2018), the EU underlined that it continues to support Azerbaijan’s efforts to diversify its economy.

- EU assistance to structural reforms

As concerns EU assistance to Azerbaijan in the areas of economic diversification and trade related reforms, representing the highest share of EU funds under the bilateral envelope for Azerbaijan, the EU provided an update: there are three ongoing EU programmes in the areas of agriculture and rural & regional development, including in Lankaran as a focal region for EU assistance in Azerbaijan. The EU reminded that in order for all EU support activities to go ahead, Azerbaijan is expected to confirm the registration of the grants awarded.

The EU also explained that it is preparing for the next EU-Azerbaijan Business Forum in autumn 2020 and continuing its support to creating an enabling environment for SME development, with a particular focus on rural areas as well as through relevant justice and legal system reforms.
In the trade area, a number of Twinning and technical assistance projects are ongoing or under preparation including to support Azerbaijan’s WTO accession process. Future EU assistance will be focused on implementation of EU-Azerbaijan Partnership Priorities, including through a joint steering committee to be established under the Partnership Priorities Facility (PPF) of EUR 27 million, which can be launched once the related Financing Agreement between EU and Azerbaijan is signed.

Azerbaijan indicated that the draft Financing Agreement submitted by the EU was under approval process. Azerbaijan further expressed interest in also receiving support for privatisation of State Owned Enterprises under the PPF. The EU proposed that this suggestion be channelled through the Ministry of Economy’s overall coordination, so that it can be considered as part of the whole support package under the PPF.

5.2 Sanitary and phyto-sanitary (SPS) issues [PCA - Art.54]

The parties discussed achievements in the field of SPS. The EU welcomed the good cooperation with Azerbaijan and congratulated Azerbaijan with the recent expansion, with snails and frogs’ legs, of the range of animals and goods for human consumption that Azerbaijan is authorized to export to the EU. Azerbaijan now needs to take the necessary steps (authorized establishments) to fully benefit from this authorization and increase trade. The EU further recognized the ongoing consolidation of Food Safety (FS) control under the new independent Food Safety Agency (AFSA) and the opening of an electronic register for Food Business Operators as a basis for effective, risk-based inspection and the installation of a single window for SPS-related border controls.

Azerbaijan pointed at the country’s commitment to align SPS and veterinary rules with EU and WTO standards. The EU recalled that it is ready to provide assistance to Azerbaijan in its efforts.

5.3 Customs and taxation issues [PCA - Art.39, 43 and 67]

Taxation

The EU inquired about Azerbaijan’s approximation to EU legislation in the taxation area and about Azerbaijan’s latest amendments to the Tax Code. It reminded of the value of a Tax Administration Diagnostic Assessment Tool (TADAT) to get a clear view on strengths and weaknesses of the tax administration system.

Azerbaijan apprised that the Ministry of Taxes has already hosted TADAT workshop in 2016 conducted by TADAT Secretariat and used their methodology for internal assessment carried out by TADAT-certified staff of the Ministry of Taxes. As a result of the assessment a dedicated Peer Review Commission established within the Ministry
prepared a report intended solely for internal use. Azerbaijan confirmed that it has used the methodology of TADAT, but the report is not publicly available.

In reply to the EU question if there are excise duties levied on products other than cars and yachts, Azerbaijan mentioned that since 1 January 2019 excise duties are also imposed on energy drinks and liquids for electronic cigarettes and domestic companies and importers were granted an equal treatment in respect of these products. Furthermore, Azerbaijan informed that it is cooperating with several EU MS (Greece, Lithuania, Hungary and Finland) within the framework of EU Technical Assistance in order to approximate with the EU tax administration system.

Azerbaijan moreover confirmed that it has agreements on avoidance of double taxation with all EU MS except Slovakia, Cyprus, Portugal and Ireland. It further noted that negotiation rounds on the text of further double taxation agreements were held with Slovakia and Ireland in 2019 and Azerbaijan believes that agreement will be reached in the foreseeable future.

Finally, Azerbaijan indicated that its parliament passed two amendment packages related to the Tax Code in the period of 2019-2020. The amendments are geared towards supporting the development of entrepreneurship, reducing the scale of the shadow economy and increasing the transparency of the economy, expanding the tax base, improving tax administration and increasing the economic efficiency of tax incentives. Additionally, Azerbaijan provided highlights of its tax revenue statistics and of the performance of its tax system for the year of 2019.

**Customs**

Azerbaijan is implementing the Green corridor project, aiming at facilitating traders at the border. All payments are made by electronic means. Azerbaijan explained that it is approximating its national legislation to the Union Customs Code.

The EU handed over the updated list of EU contact points for mutual administrative assistance in the field of customs and asked Azerbaijan to share its updated contact list with the EU. Finally, the EU recommended that Azerbaijan consider accession to the Protocol to eliminate illicit trade in tobacco products to the WHO Framework Convention on Tobacco Control (FCTC Protocol).
5.4 Public procurement [PCA - Art.49]

The EU and Azerbaijan exchanged on the latest developments in public procurement policy. Azerbaijan presented the developments of the e-procurement system in the country following recent changes in the legal framework, underlining that the e-procurement system is already operational and greatly enhances transparency. Azerbaijan further explained that the system incorporates a complaints review mechanism. It also presented the plans for future legislative changes. This will include allowing other selection criteria than price (e.g. green criteria, innovation, etc.). The EU emphasized the importance of the public procurement chapter in the trade negotiations and, for this purpose, of the use of non-discriminatory measures to support SMEs' participation in public procurement and of avoiding offsets. The EU invited Azerbaijan to take this into account in its legislative changes.

5.5 Intellectual property rights (IPR) [PCA - Art.42]

Azerbaijan explained that during the period of reference it improved the protection of intellectual property. Notably, Azerbaijan considers that thanks to the establishment of the new IP Agency, it is in position to implement the new legislation. Furthermore, the EU repeated that it stands ready to assist Azerbaijan in this process. In this regard, the EU, in particular, welcomed cooperation with the Intellectual Property Rights Agency on the ongoing Twinning "Strengthening the Institutional Capacity of the Intellectual Property Agency to Manage and Protect Intellectual Property Rights in Digital Networks".

The EU also emphasized that it is still crucial to improve enforcement at the border against goods infringing IPR and counterfeit goods, as the control systems at the borders remain too weak. Customs authorities in Azerbaijan should be effectively empowered to seize, detain or suspend the release of goods suspected of infringing any IP right.

Azerbaijan confirmed that it would clarify the rule on the exhaustion regime, which is currently blurred, and that it will soon install a clear national exhaustion regime.

Finally, Azerbaijan complained about the use of the geographical name Aghdam by Latvian trademarks. The EU explained that it is not clear at this stage that IP rules are at all infringed and it suggested this may rather be approached from a consumer protection perspective.

5.6 Competition [PCA - Art.43]

The EU and Azerbaijan exchanged on recent amendments in Azerbaijan’s competition/antimonopoly legislation and recent institutional changes, in particular the creation of the State Service for Antimonopoly and Supervision of the Consumer Market under the Ministry of Economy. Azerbaijan explained that a number of
Presidential Decrees related to the antimonopoly legislation include the Competition Code as part of the Strategic Road Map goals.

The draft Competition Code covers cartels, concentration/mergers, market research and complaint handling and regulations regarding subsidies. It has passed two hearings in parliament, but a third draft version is under preparation. There is no clarity to date when the new Competition Code will be adopted. Azerbaijan agreed to keep the EU informed of legislative developments.

Referring to the liberalization of the energy market, Azerbaijan expressed its intention to actively use renewable energy sources, attract private and foreign investments in the process, transit to a liberalized market based on free competition in the energy sector and to implement environmental commitments as one of the main tasks of the Ministry of Energy.

The EU expressed its general support to Azerbaijan’s efforts in actively promoting the liberalization of the energy market. It also highlighted the need to take all necessary measures to adopt secondary legislation that develops the provisions enshrined in the Competition Code.

5.7 Standardisation, technical regulations [PCA - Art.50]

Azerbaijan expressed its commitment to approximate with the European system of technical regulations and standards. It informed that the State Service for Antimonopoly Policy and Consumer Rights Protection has been abolished and a new service was established under the Ministry of Economy, which will cover, among others, standards and accreditations. Azerbaijan also informed that the Law “On Standardization” entered into force in October 2019; that the Law “On Technical Regulations” will enter into force in March 2020 and that the adoption is expected of the draft amendments to the “Law on accreditation in the field of conformity assessment”. Further, it informed that the “State Programme on harmonization of the national standardization system to the international requirements for 2020-2027 years” has been drafted in accordance with international standards and is under adoption. Azerbaijan also informed that the mandatory standardization system will be replaced by a voluntary one.

Azerbaijan praised the continuous cooperation with the EU/EU Delegation and requested assistance for the new legal framework adopted in Azerbaijan and the reform of individual/sectoral technical regulations, as necessary. The EU clarified that new Twinning is in the pipeline and that implementation is expected to start from May 2020.

5.8 Statistical cooperation [PCA - Art.68]

The EU emphasised the importance of reliable, timely, quality statistics for policy making and expressed its satisfaction with the progress on the new draft law on statistics, which is compliant with the Generic Law on Official Statistics (GLOS).
EU further underlined major achievements in cooperation (Twinning programme, TAIEX, participation in the High Level Seminars and training courses) with the State Statistical Committee of Azerbaijan (SSC). Attention was drawn to the need for very good coordination of assistance activities provided by various donors in statistics and good communication about those activities in the context of the regional programme in statistics – STEP (Statistics Through Eastern Partnership), which is currently being implemented.

Azerbaijan expressed gratitude for the very good and fruitful cooperation with the EU in statistics and explained that the draft law on statistics is still in the process of discussions and agreements with the other statistical data producers concerned by the law. Thus, the date of its adoption cannot be precisely indicated at this stage. Azerbaijan ensured that the STEP programme shall be implemented in an efficient manner and that it will be useful in further enhancing the national statistical system of Azerbaijan.

5.9 Azerbaijan’s WTO accession negotiations: state of play

Azerbaijan gave an update on its WTO accession process that started in 1997 and the progress it made in adopting legislation in particular in the fields of standardisation, technical regulation and SPS, in line with the WTO TBT and SPS agreements. It informed that two rounds of negotiations were held in 2019 comprising consultations with many WTO members (15 members). In particular with Japan, the negotiations on goods and services are almost concluded and the bilateral Protocol is expected to be signed soon. Azerbaijan also informed that according to Presidential Decree No 811 of March 1, 2016, the export subsidies component of the Export Promotion Programme remains only in force from 01.03.2016 to 31.12.2020.

The EU reiterated comments it made regarding Azerbaijan’s last offer and the parties discussed next steps as well as possible further technical assistance in monitoring and coordination of the legislative work of different agencies. In this regard, WTO follow-up technical assistance is in the pipeline and is expected to start in the third quarter of 2020. Azerbaijan (Ministry of Economy) supported the idea, proposed by the EU, to better monitor and coordinate legislative initiatives of other ministries on trade legislation (to be in line with WTO requirements) and stated that it will investigate possibilities of such mechanism during implementation of the technical assistance project.

5.10 Investment climate

Azerbaijan gave a brief overview on the investment climate, informing that more than 13,000 foreign companies operating in different sectors have been registered in Azerbaijan from 1995 to 2019 (first 9 months). The total volume of investments made in Azerbaijan’s national economy from 1995 to 2019 (first 9 months) amounted to 271.6 billion USD. In addition, 8.7 billion USD was invested in the economy of Azerbaijan in 2019 (first 9 months).
According to Azerbaijan, the top five countries that invested in Azerbaijan are the UK, the US, Japan, Norway and Turkey. Bilateral Investment Treaties were concluded with 49 foreign countries. Moreover, Azerbaijan mentioned that a new draft law “On Investment Activity” has been prepared in order to realize more favourable business and investment climate, improve the legal framework for protection of investors’ rights, establish a system of state guarantees of investment activity in line with international standard, and to increase investment flow into the economy and promote investment activity.

The EU welcomed the positive improvements in the business climate but drew attention to the need for further reforms in spurring economic diversification. The EU referred in particular to the challenges identified by EU business in the 2019 EU Business Climate Report, notably in the financial sector and in the area of tax, the legal and customs systems and the educational sector. The EU reconfirmed that it continues to support Azerbaijan in its efforts to tackle the stumbling stones providing a wide range of assistance to Azerbaijan for this purpose.

The EU and Azerbaijan agreed to follow up on opportunities offered under the EU COSME programme. In this regard, the EU also referred to a meeting at the Ministry of Foreign Affairs of Azerbaijan on 8 November 2019 in which the EU Delegation updated on all regional programmes, including COSME.

6. Any Other Business

There were no items under AOB.

7. Closing Statements

The Parties thanked each other for the fruitful meeting and agreed to stay in contact to pursue implementation of the PCA and inform of legislative developments.