



CURRENT DEVELOPMENTS IN TRADE BETWEEN AZERBAIJAN AND THE EUROPEAN UNION

As one of the main global political and economic actors, the European Union (EU) has a special place in Azerbaijan's foreign policy, which adheres to a multi-vector cooperation and partnership. The relationship between the two parties dates back to 1991. These relations are based on the EU-Azerbaijan Partnership and Cooperation Agreement (PCA), which was signed in 1996 and came into force in July 1999. The agreement defines the legal basis and ensures the framework of political and economic cooperation between Azerbaijan and the EU, except military field. Since then, the EU has gradually expanded the scope of its cooperation with Azerbaijan. In 2004, the Council of the EU member countries made a decision on the accession of Azerbaijan into the European Neighborhood Policy (ENP), which governs the political, economic, and security relations between the EU and 16 its closest eastern and southern neighbors. The ENP's Action Plan for Azerbaijan was agreed in 2006. In 2009, in order to strengthen the bilateral cooperation with Azerbaijan, Georgia, Armenia, Ukraine, Belarus, Moldova and continue the multilateral cooperation within the framework of ENP, the EU launched the Eastern Partnership initiative, under which various agreements on deep and comprehensive free trade areas, visa-free travel, accession to the EU labor market, adaptation to the EU legislation and standards were considered. Moreover, in November 2016, the Council of the EU adopted a mandate for the European Commission and the High Representative for Foreign Affairs and Security Policy to negotiate a comprehensive agreement with Azerbaijan, which should replace current PCA.

Nowadays, according to the State Statistical Committee of Azerbaijan, the EU is one of the main trade partners of the country. In fact, the share of the EU reached one-thirds of the total Azerbaijani trade in 1999 and has been in an increasing trend since then. It is important to note that the trade volume

between the two parties peaked in 2008 when the share of the EU reached 53.87% or \$29.59 billion. In 2016, the share of the EU in Azerbaijan's total trade amounted to 34.93% or \$6.17 billion. Moreover, the EU's share in the country's total exports has been higher than 25% since 1999 reaching 43.22% in 2016. However, the volume of Azerbaijan's exports to Europe decreased. For instance, the exports dropped by 41.46% to \$3.95 billion in 2016 from \$6.75 billion in 2015 and by 37.39% in 2015 from \$10.78 billion in 2014. As for Azerbaijan's imports from the EU, its share totaled 26.04% or \$2.22 billion in 2016, which is 24.50% decrease compared to 2015. It is worth mentioning that the highest share of the EU in Azerbaijan's total imports (35.13% or \$3.76 billion) was recorded in 2013. Overall, the fact that the EU has a high share of exports but has relatively low level of imports means that Azerbaijan has a trade surplus with the EU.

In 2016, the total trade surplus of the country amounted to \$2.11 billion, including \$1.73 billion gained as trade surplus with the EU. Therefore, it appears that 81.99% of the country's trade surplus is a result of the trade with the EU, which purchased around 30% of oil and gas produced in Azerbaijan. For instance, according to the United Nations International Trade Statistics Database, in 2015, mineral fuels, lubricants, and related materials accounted for 96.95% (\$5.95 billion) of Azerbaijan's total exports to the EU, while in 2014 their share was 99.00% (\$11.45 billion). Mineral fuels, lubricants and related materials were followed by chemicals and related products accounting for only 0.99% (\$60.77 million) in 2015 and 0.26% (\$29.80 million) in 2014. The commodities that have the third place according to its share in Azerbaijan's export to the EU, namely, food and live animals, accounted for only 0.84% (\$51.64 million) in 2015 and 0.35% (\$40.41 million) in 2014. In contrast, Azerbaijan's imports from the EU are

more diversified. The highest share of imports from the EU is machinery and transport equipment, which accounts for 52.72% (\$1.55 billion) in 2015 and 41.82% (\$1.30 billion) in 2014. Manufactured goods which are classified mostly by materials are at the second place occupying 20.71% (\$0.61 billion) and 15.61% (\$0.48 billion) of the total imports from the EU in 2015 and 2014, respectively. Other commodities constitute less than 10% shares.

It can be observed that Italy is the biggest trade partner of Azerbaijan with \$1.89 billion turnover in 2016 (\$2.84 billion in 2015), which constitutes 30.65% (29.32% in 2015) of total trade between Azerbaijan and the EU. Italy is followed by Germany and France, the shares of which totaled 16.36% (\$1.01 billion) and 10.43% (\$0.64 billion), respectively. Thus, Azerbaijan has a significant trade surplus with these three countries (\$1.78 billion in 2016), which exceeds the total trade surplus with all countries of the EU. On the other hand, in 2016 Azerbaijan has a trade deficit with countries such as Estonia, Romania, Latvia, Slovenia, Finland, Lithuania, Greece, Slovakia, Denmark, the Netherlands, Bulgaria, Hungary, Belgium, Poland, Sweden and the United Kingdom. However, the share of all these countries in Azerbaijan's total trade is less than 1%.

In conclusion, since the EU is an important partner of Azerbaijan, Baku is strongly interested in further development of economic relations. However, since oil and gas are the top exports products for Azerbaijan, the country's trade with the EU highly depends on the world oil prices. For instance, due to the fact that global oil prices have fallen sharply since the middle of 2014, the trade turnover between two parties decreased from \$13.89 billion in 2014 to \$6.17 billion in 2016. Therefore, the trade between Azerbaijan and the EU will not increase significantly in near future, if oil prices continue to stay at their current low level.

Politics, Foreign Affairs and Security

- During his official visit to Moscow, the President of Belarus, Alexander Lukashenko, and the President of Russia, Vladimir Putin, discussed further prospect of developing bilateral relations within the framework of the Union State. The leaders chaired the meeting of the Supreme State Council of the Union State of Russia and Belarus summing up the results of trade and economic cooperation between the two countries in 2016. The parties adopted a number of documents including resolutions on preservation of the potential of the machine-building complex and cooperation in the agro-industrial complex. The Presidents also attended the 4th Forum of Russian and Belarusian Regions, which focused on interregional cooperation in high technology, innovation and information society.
- During his official visit to Moscow, the President of Vietnam, Tran Dai Quang, and his Russian counterpart, Vladimir Putin, discussed cooperation in trade and economy, investment, and cultural and humanitarian area, as well as practical implementation of the Free Trade Agreement between the Eurasian Economic Union and Vietnam. As a result of the visit, the Joint Statement and other documents including agreements on the exchange of confidential financial information related to money laundering and financing of terrorism, on establishing a nuclear science and technology center in Vietnam, on developing space sector cooperation between 2017–2022 and on railways cooperation were signed.
- During his official visit to Baku, the President of Poland, Andrzej Duda, and the President of Azerbaijan, Ilham Aliyev, discussed a wide range of issues of mutual interest focusing on strengthening economic cooperation. As a result of the visit, the parties signed the Joint Declaration on the Road Map for Strategic Partnership and Economic Cooperation between Azerbaijan and Poland.
- During his official visit to Ashgabat, the Deputy Prime Minister of Turkey, Tugrul Turkes, and the Foreign Minister of Turkmenistan, Rashid Meredov, discussed the topical issues of interstate cooperation, and expressed their mutual interest in further development of the dialogue in trade, economic, cultural and humanitarian spheres.
- During the meeting of the Council of Ministers of the Interior of the CIS Member States held in Dushanbe, the Ministers of Interior Affairs of Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan, Moldova, exchanged views on strengthening bilateral cooperation in combating transnational organized

crime, including terrorism, extremism, and illicit drug trafficking.

- Within the framework of the Shanghai Cooperation Organization (SCO) activity, China and Kyrgyzstan frontier forces held a joint anti-terrorist exercise in Kizilsu Kirgiz Prefecture, Xinjiang Uygur Autonomous Region, in northwest China. The drills, which were witnessed by the representatives from all the SCO member countries featured simulated weapon smuggling by armed terrorists from Kyrgyzstan to China testing the joint action ability in checking terrorism in the border region.

Economy, Finance and Energy

- The state oil company of Azerbaijan, SOCAR, announced that as of January 2017 it invested almost \$4.49 billion in projects abroad. It was also noted that the greatest share of the company's investments, namely, \$3.334 billion, accounted for projects in Turkey, while \$414.5 million, \$386.9 million and \$281.7 million were invested in projects in Switzerland, Georgia and Ukraine, respectively.
- The state-owned energy company of Uzbekistan, Uzbekenergo, announced its plans to increase the prices for electricity by 6.9% from 191 soums to 204.3 soums per 1 kWh starting from 15 July 2017. It was noted that the tariffs would be changed in connection with the growth of prices for fuel-energy resources. The last time when Uzbekistan increased prices for electricity was October 2016.
- The Deputy Prime Minister for Transport and Communications of Turkmenistan, Dadebay Amangeldiev, reported that the country is completing the construction of an automobile bridge across the Tejen River at the Serakhs-Sarakhs (Turkmenistan-Iran) checkpoint. It was noted that the length of the bridge is 96 meters, and the width is 15.1 meters. The capacity of the facility is about 2,000 cars per day.
- The President of Uzbekistan, Shavkat Mirziyayev, signed a Resolution on Urgent Measures to Reliably Provide the Population with the Main Types of Socially Significant Foodstuffs, under which the State Fund for Support of Business Development is to be established in the country. The Fund will provide businesses access to loans to support the implementation of projects in the production of industrial, food and agricultural products.
- According to the amendments to the Law on State Budget of 2017 approved by the Parliament of Azerbaijan, the revenues in the revised state budget are forecasted at \$9.94 billion, which is \$303 million or 3.1% more than the initially approved amount, while the expenditures are expected to stand at

\$10.64 billion, which is \$0.62 billion or 6.2% more than the initial forecast. The state budget deficit is expected to stand at \$0.70 billion (an increase by \$314 million), which accounts for 1.8% of the expected GDP of Azerbaijan in 2017.

- The Prime Minister of Russia, Dmitry Medvedev, stated that the country's budget deficit would total around \$25.4 billion in 2018, while at the end of 2017 the budget deficit is planned at \$33.2 billion. It was also noted that in 2016 Russia's budget deficit totaled \$50.8 billion.

Society and Culture

- Tajikistan marked the 20th anniversary of the signing of the Tajik Peace Accord that gave an end to a five-year civil war between the secular government and the coalition of opposition groups led by Islamic forces. The town of Vahdat, 25 kilometers east of the country's capital hosted official celebrations.
- In accordance with the Law on Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Social Security Issues signed by the President Nursultan Nazarbayev, pensions and allowances for Kazakh citizens were raised since 1 July, 2017. The law comprises 20% increase of pension and 20% increase of one-time maternity aid over the level of 2016. Moreover, in July 2017 the Compulsory Social Health Insurance System was launched in the country, under which employers, individual entrepreneurs and other citizens started to pay insurance contributions in the amount of 1%. The contribution amounts will grow every year such as 2% in 2017, 3% in 2018, 4% in 2019 and 5% in 2020.
- The OSCE experts conducted an anti-corruption assessment mission in Kyrgyzstan. The OSCE experts met with the representatives of the country's government institutions responsible for developing, implementing, enforcing and monitoring the implementation of anti-corruption policies and action plans as well as with business community and civil society representatives.
- During his official visit to Tashkent, the Minister of Foreign Economic Relations and Foreign Affairs of Hungary, Peter Siyarto, and the Minister of Foreign Affairs of Uzbekistan, Abdulaziz Kamilov, participated in the official opening ceremony and raising of the flags of Hungary and the European Union over the building of the Hungarian Embassy in Tashkent. The parties expressed the wish that the Hungarian Embassy will play an active role in linking two countries to promote further strengthening of close and mutually beneficial cooperation.