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Regional and International Cooperation in Central Asia and South Caucasus: Recent Developments in Agricultural Trade"

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Samarkand, Uzbekistan



**Oil Price Fluctuations
Policy in Azerbaijan**

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Economy of Azerbaijan

- Azerbaijan has huge natural resources, which triggered the development of economy.
- Oil and gas resources are the most important wealth of Azerbaijan.
- In 2015, 85% of the export belongs to the energy carriers.
- This figure also shows the importance of the energy sector in Azerbaijan economy. For this reason,



Economy of Azerbaijan

GDP - real growth rate

1.1% (2015 est.)

2.8% (2014 est.)

5.8% (2013 est.)

GDP - composition, by sector of origin

agriculture: **6%**

industry: **59 %**

services: **35%** (2015 est.)

Budget

revenues: **\$16.74 billion**

expéditeurs: **\$17.36 billion** (2015 est.)

Country information

Establishment: 28 May 1918

Independence: 18 October 1991

Language: Azerbaijanian

Area: 86.6 ths. km²

Population: 9,7 million

Capital: Baku

**Currency: Manat * 1\$=1.65
AZN(01.11.2016)**

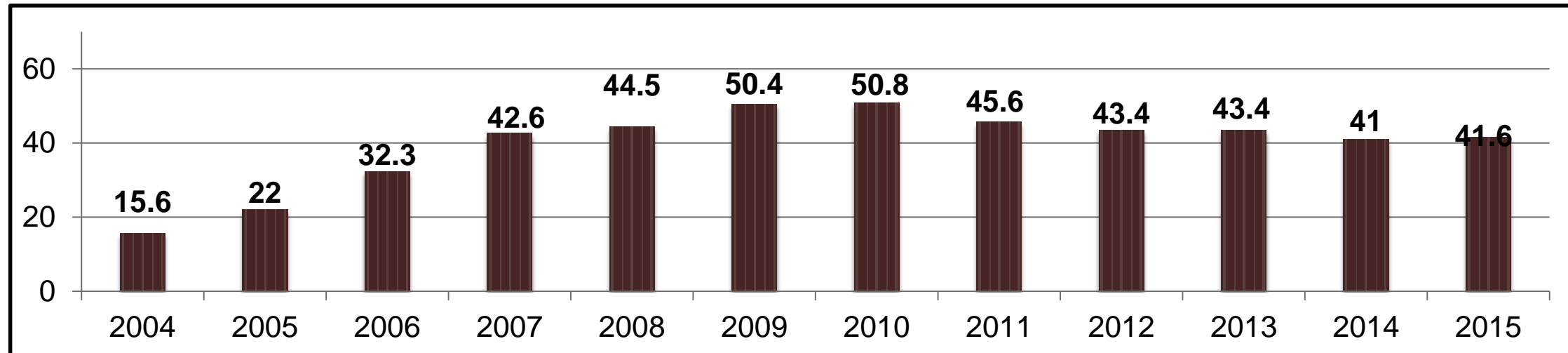
Economy of Azerbaijan

- Azerbaijan economy attained more achievements in comparison with the other former Soviet Republics during the transition period.
- The existence of rich natural resources caught the attention of foreign investors. Foreign investments were one of the most important factors which stipulate economic growth.
- The economic development continued in the stable environment in terms of the macro-economy.
- In 2015, the oil sector generated 31% of the country's GDP and oil revenues accounted for 63% of the state budget and amounted to 86% of total exports.

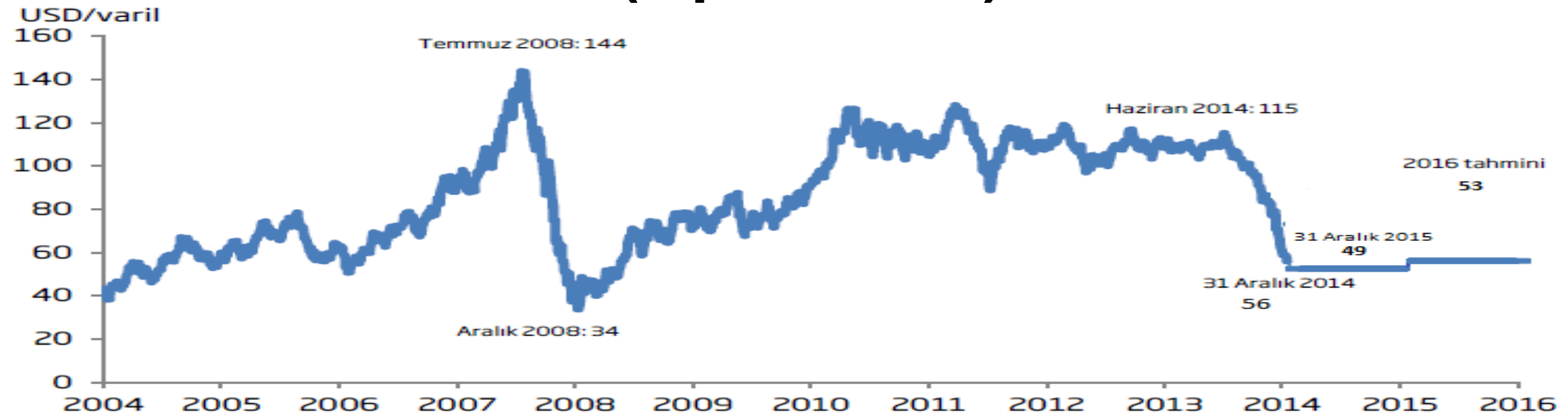
THE IMPACT OF THE OIL PRICE FLUCTUATIONS

- Despite the accumulation of significant revenues from crude oil exports and remarkable economic growth over the past 25 years, Azerbaijan's economy has been hit hard by the recent drop in global oil prices and has experienced a period of painful economic adjustments.
- The government has attempted to change the traditional distributive approach that is based largely on oil revenue distribution in favor of a new earning –oriented model that is expected to benefit from a robust non-oil sector.
- Clearly, it will be difficult to build a new model of development quickly and thoroughly in a short period of time.

The Volume Of Oil Production In Azerbaijan In 2004-2015 Years (Million Tons)



Oil Prices (\$ per barrel)



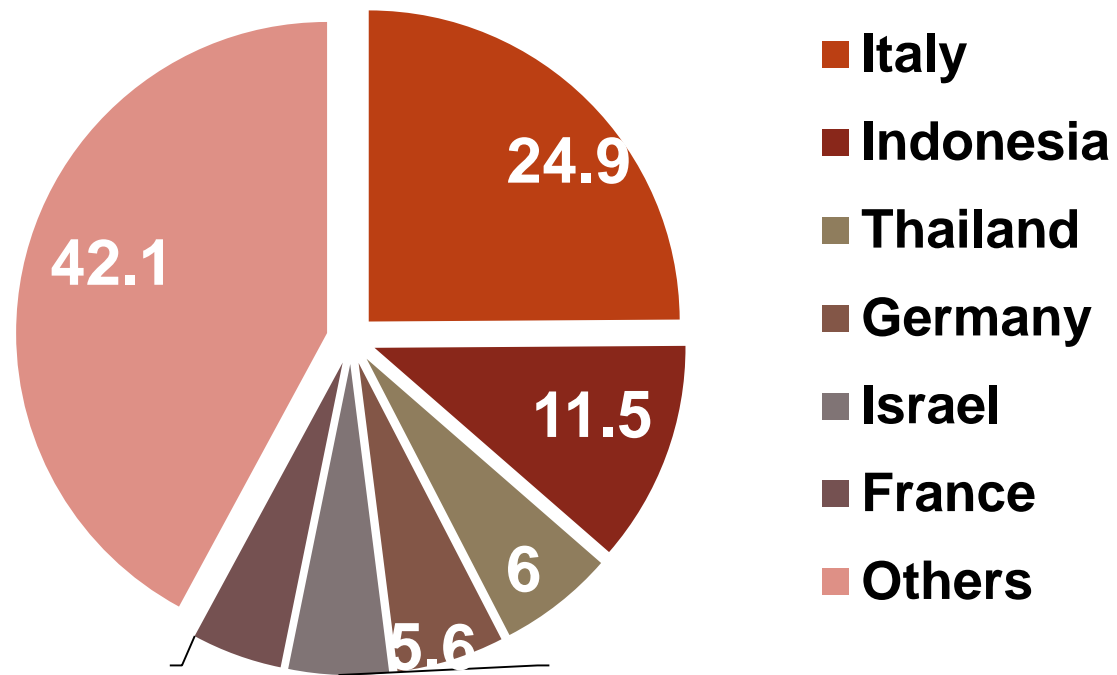
THE IMPACT OF THE OIL PRICE FLUCTUATIONS

- Unsurprisingly, as in other oil-dependent economies, the drop in world oil prices has had a significant impact on Azerbaijan's economy. Moreover, the consequences turned out worse than expected. The development of agriculture and diversification of the country's exports increased its significance due to significant decrease in oil prices in the world market.
- However this situation was changed in line with the severe dropping in the oil prices in 2015.
- In February 2015, the equivalent of \$1 dollar increased from **0.79 AZN** to **1.05 AZN**. In December 2015 new devaluation was realized and the equivalent of \$1 dollar increased from

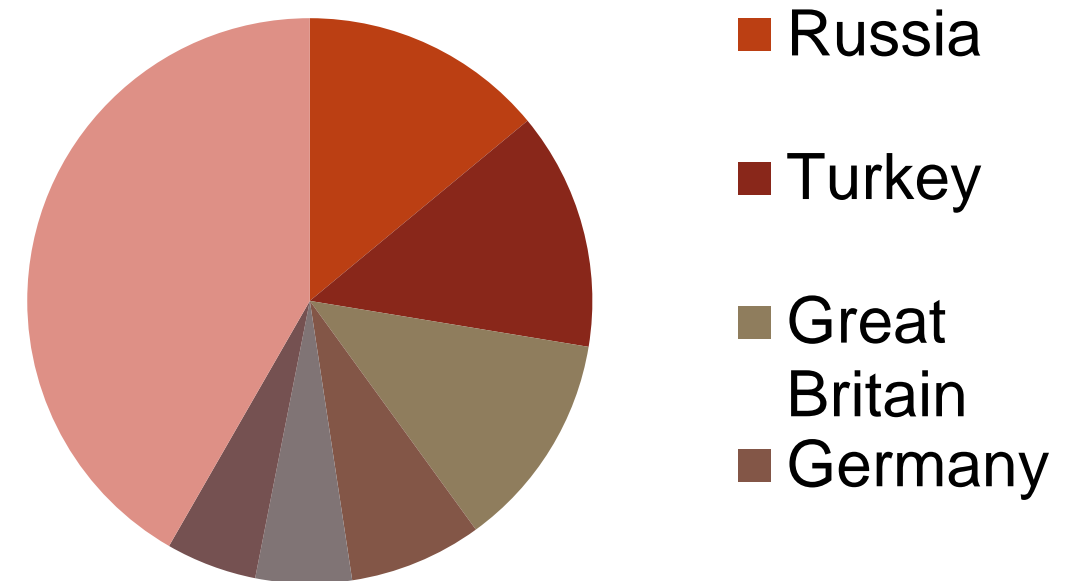
Main Countries in Export (2015)

- Azerbaijan has business relationship with more than 160 countries.
- Italy, Israel, Russia, Georgia, Turkey, Iran, Turkmenistan, Indonesia, Croatia and France provide 87% of the export.
- The volume of the foreign trade : *Italy (25%), Russia (12%), the United Kingdom (6%), Turkey (6%), Israel (4.6%), Turkmenistan (3.6%), Kazakhstan (3.5%), Germany (3.3%), Iran (3%), Georgia (3%), France (2.6%), China (2.5%), and the Netherlands (2.3%).*
- Italy is in the first place in terms of export because of the oil transportation via Trieste port. As a result of the financial crisis in Russian Federation in 1998, and the

Main Countries in Export (2015)



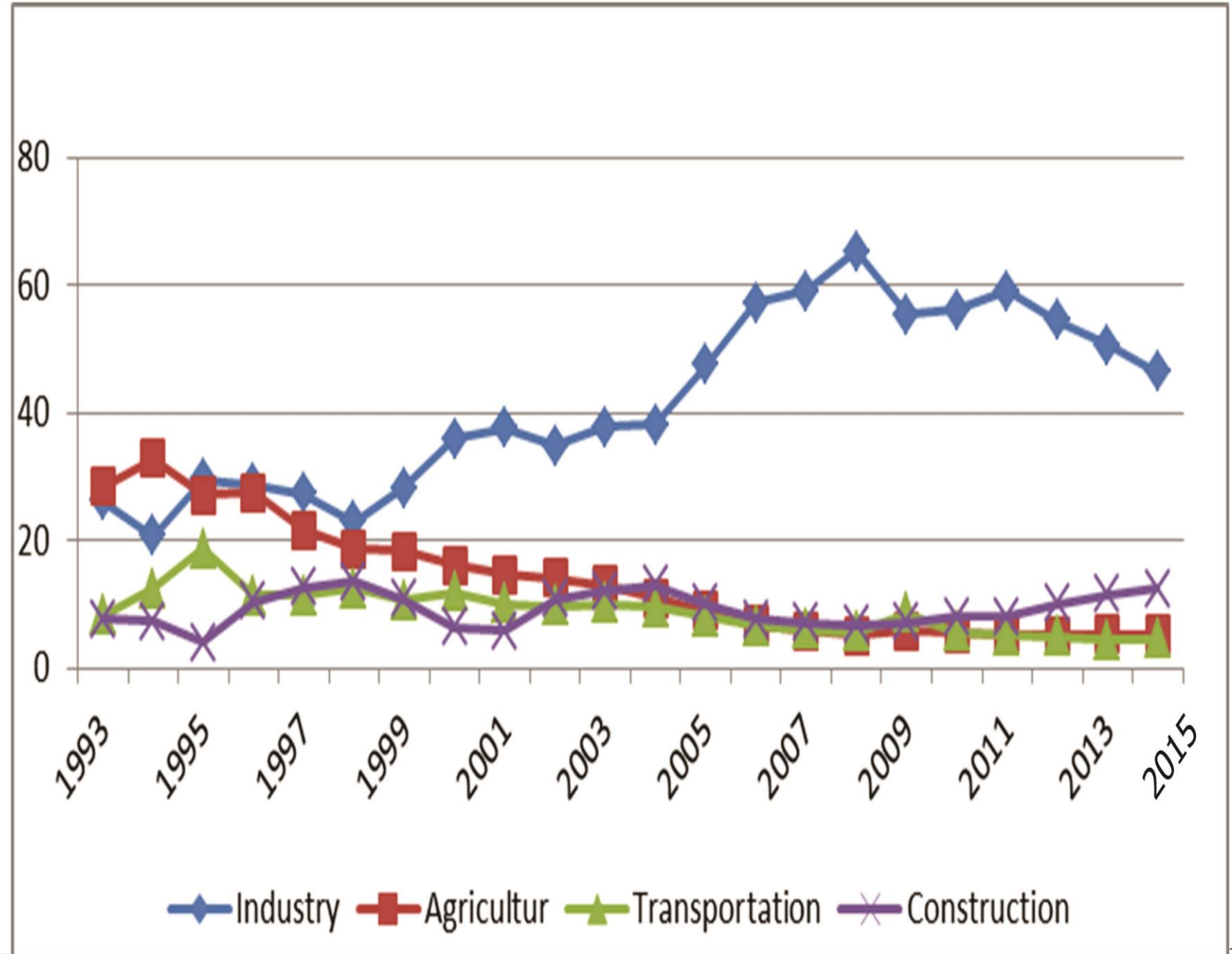
Main Countries in Import (2015)



In 2015, the trade of agricultural products accounted for 2.5% of total exports and 7% of total imports. Russia, Turkey, The United Kingdom, Kazakhstan, Germany, Ukraine, the Netherlands, China, the United States and

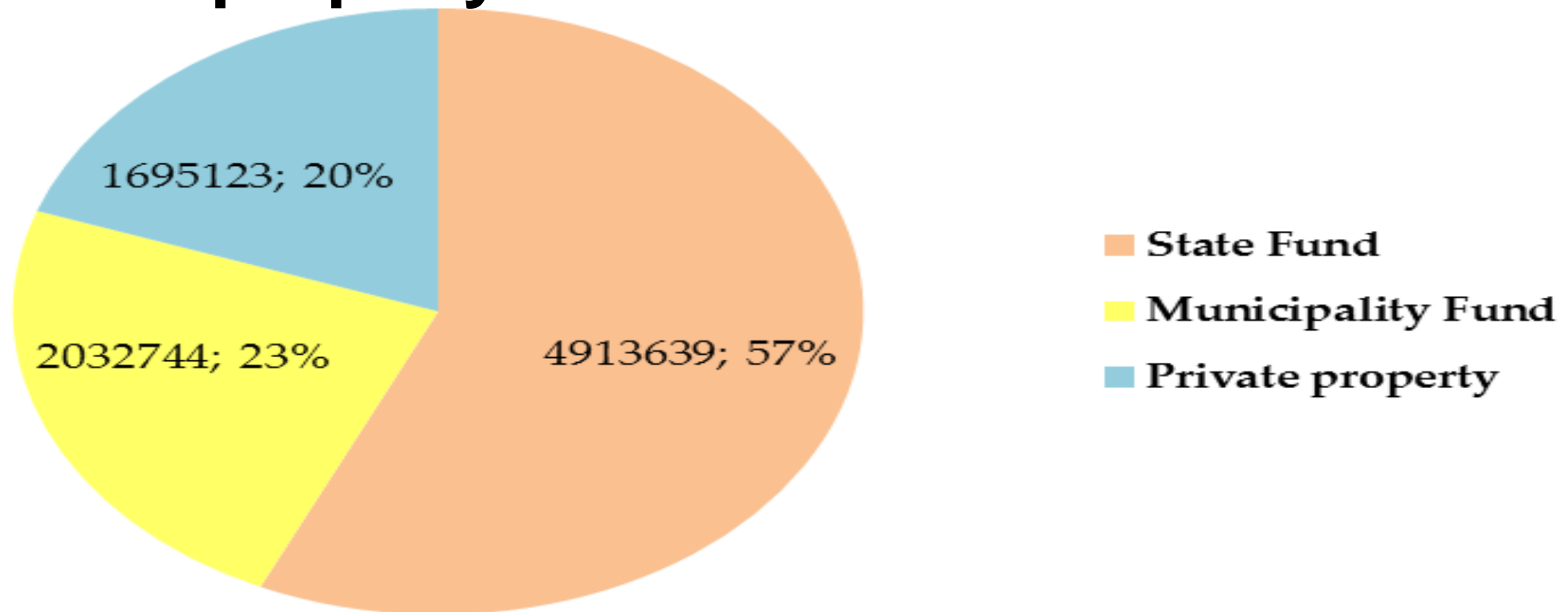
Agricultural Sector Of Azerbaijan

- The volume of contribution of Agriculture and food processing sector to country GDP is 6,2 % (31 December 2015).
- Sector employs 37 % of labor force .



The Structure Of Lands In Azerbaijan

| | |
|-----------------------------|---------------------|
| Total Land Fund: | 8.641.506 ha |
| - State Fund: | 4.913.639 ha |
| - Municipality Fund: | 2.032.744 ha |
| - Private property: | 1.695.123 ha |



Agricultural Sector Of Azerbaijan

- The 53% of total production establishes cattle-breeding products and 47% are plant-raising products.
- In terms of economic categories, 92% of agricultural products produced by individual entrepreneurs, family and households, 8 % of them were produced by agricultural enterprises and other organizations.
- Although the share of agriculture in GDP is little, it plays an important role in ensuring employment in the country. According to official statistics, 36.6% of the employed the agricultural sector.



Agricultural Sector Of Azerbaijan

- Agriculture, tourism, information and communication technologies, processing industry are considered to be basic priority areas in the development of non-oil sector in Azerbaijan.
- The agricultural sector has good potential to make important contributions to economic growth, diversification, poverty reduction and employment creation in rural areas of Azerbaijan.
- A major challenge for Azerbaijan today is to diversify its economy away from oil and to spread the benefits of economic growth to rural areas.
- Agriculture can help the country to reach these goals because it is the largest economic sector in Azerbaijan after oil, and is

SUBSIDIES TO AGRICULTURAL SECTOR

- The agricultural sector in the Republic of Azerbaijan is strongly supported by the government. Apart from the tax incentives, support covers financial and technical assistance. Individual entities are exempted from income tax revenues from the production of agricultural products.
- In 22 November, 2013 implementation of tax incentives in agriculture were extended for 5 years and has been launched since January 1, 2014.
- “State Program on socio-economic development of the regions of the Republic of Azerbaijan in 2014-2018- agriculture is a sector that will ensure non-oil exports and food security, and

SUBSIDIES TO AGRICULTURAL SECTOR

- 40 AZN aid to wheat and rice producers for each ha of planted areas
- 50% government subsidy to farmers for seed purchase
- 70% government subsidy to wheat producers for the purchase of mineral fertilizers
- 50% discount for the purchase of cattle pedigree
- Soft credits to agrarian producers
- 50% discount to producers for the purchase of fuel and motor oils
- 50% discount to producers for sale of machinery to producers at

“Year of Agriculture “

- President has declaring 2015 the **“Year of Agriculture”** in the country . The order hails agrarian reforms in the country, saying they paved the way for the rapid development of agriculture in the country.
- It lauds the role of electronic agriculture system in increasing effectiveness and transparency in management.
- **“Year of Agriculture”** is aimed at giving a new stimulus to the development and modernization of agriculture, ensuring a complex and systematic approach to settlement of problems in the agrarian field, involving the government`s administrative and financial resources in this sector, and

The Law On "Agricultural Cooperatives"

- In this regard, the National Assembly began to adopt appropriate decisions and laws. On June 14, 2016, the law on "Agricultural cooperatives" was passed in the plenary session of the National Assembly.
- Cooperatives should be based on the principles of volunteerism, rather than the methods applied in the establishment of collective and state farms (*kolkhoz and sovkhoz*) system.
- *For this* purpose, targeted programs with definite financial capacity should be developed and implemented with a view towards establishing large farms in the lands belonging to the state and municipalities and consolidating lands that are divided into small pieces

Export Promotion

- Exporters in non-oil sector can get incentives from government **till 2020**.
- The **promotions** differ by type, by local components of final product, and by volume of value of non-oil production in the country, but will be given at least **3%** of value of product shown in custom declaration.
- The key limitation for non-oil export is that local products are less competitive, and with high cost that can be solved with such subsidies.

Increasing Customs Duties

- The Azerbaijani government has decided to change the import procedures of certain goods to protect the domestic production. The changes, which were taken with a view to stimulate growth in the volumes of local production, will enter into force on November 1, 2016, issue of increasing customs duties, should increase of domestic production in other spheres be recorded.
- The customs duty to be applied in reference to the import of chicken meat is defined at the rate of **\$1 per kilogram**, while the rate for **1,000** chicken eggs will stand at **\$100**.
- The duty of **\$0.2** and **\$1.5** per kilogram will be imposed on import of onions, cucumbers and nuts respectively. Grapes and persimmon will be imposed by the duty of **\$0.4** and **\$0.3** per kilogram.
- Currently, a number of imported goods are subject to the maximum rate of customs duty (**15 percent**) to protect domestic products from the negative impact of foreign competition.

"Supply and Provision of Agricultural Products"

- On April 11, 2016 "Supply and Provision of Agricultural Products" under Agricultural Ministry of Republic of Azerbaijan were established for stimulate production and manufacturing of agricultural products, assist to develop agro-products producers, improve quality of food products, increase efficiency in government purchases, improve social welfare of population work in agricultural sector in rural area, to centralize government purchase of food products.
- The main purpose of this society is to purchase food products from producers and farmers and sale in market in one hand.
- First work of this new society was to buy cotton by **0.5 manat** . Because main intent is to assist agro-product producers which

'Made in Azerbaijan' Brand

- Azerbaijan's President signed a decree on October 5 "The rule of defining and regulating the mechanism of paying a part of the expenditures from state budget, organizing export missions to foreign countries, exploring foreign markets and marketing activities, promoting **'Made in Azerbaijan'** brand in foreign markets, local companies' receiving certificates and patents in foreign countries for export, research programs and projects for development of export."
- The decree also approves the form of the report "On the work carried out to encourage the export of non-oil products of Azerbaijani origin."
- In order to finance the support measures envisaged in the above-mentioned rule, **3 million manat** have been allocated

RECOMMENDATIONS

- It is important to involve foreign partners and foreign investment for the development of the agricultural sector.
- The government should provide incentives, impose tax discounts on foreign investments, and technologies imported in this sector should be exempted from all customs duties
- The Ministry of Agriculture should provide funding for the establishment of such centers and support to train specialists;
- Prices of agricultural products are low, and as a result the sector has been unable to make the most of its comparative advantages.
- Farmers need a place to sell their products and need good prices so that they can make necessary investments to

A nighttime photograph of a city skyline across a body of water. A large, illuminated fountain is the central focus, with its water jets reflecting the city lights. The city skyline is filled with numerous lit-up buildings, and the lights are reflected in the water. In the foreground, there are some trees and a walkway. A red-bordered box is overlaid on the image, containing the text "Thank you for your attention".

**Thank you for your
attention**