



Chairman's Statement

I am honoured to serve as Chairman of the Alat Free Economic Zone Authority (AFEZ Authority) following the Decree of the President of the Republic of Azerbaijan dated May 22, 2020.

And now it is time to share with you our vision for the Alat Free Economic Zone (AFEZ), the strategic intent in developing AFEZ, the type of investors it will attract, the rationale for choosing this location and the economic benefits that will flow from this for our investors, our country, and our people.

Competitiveness: Azerbaijan's Economy

Azerbaijan's economy has been on a steady upward trajectory since 2005. It has positioned itself as a strategic transportation hub between Europe and Asia. The economy grew 6.3 times between 2004 and 2021. During same period strategic foreign exchange reserves grew 28.4 times.

Twice Azerbaijan was recognized as a top business-reformer country in the Doing Business 2009 and 2019 reports. Recently, a Collaboration Agreement was signed between the World Economic Forum and the Government of Azerbaijan, which provides a framework for cooperation on matters of common interest. According to the World Economic Forum's "Global Competitiveness Report 2019", in relation to the electricity supply subcomponent, Azerbaijan ranks 2nd in the world with a maximum score of 100 percent.

The existence of modern infrastructure in Azerbaijan creates ample opportunities for the promotion of economic activity. According to the Doing Business 2019 report, the country ranks 9th out of 190 countries on the Starting a Business sub-indicator. In the "Global Competitiveness Report 2019", Azerbaijan ranks 31st on the transport infrastructure sub-index and 27th on the quality of road infrastructure sub-index.

We have attracted more than \$US146 billion in foreign direct investment since 1995, which has contributed to the development of all sectors of the economy in order to further improve the competitiveness of Azerbaijan.

The social-economic and political stability in the country creates a friendly environment for further sustainable economic growth.

Strategic Context: Why AFEZ?

Our President's vision has set Azerbaijan firmly on the road towards a knowledge-based and internationally competitive economy, where Azerbaijan will:

- become a diversified and export-oriented economy creating high added-value;
- become a competitive participant in international economic relations;

- establish a world class business environment with modern energy, transport, and logistical infrastructure;
- further strengthen the role of non-oil sector in the economy.

AFEZ Authority is a central player in transforming this vision into reality.

AFEZ is being established in the vicinity of the Baku International Sea Trade Port. This strategic geographic location will serve as a regional investment hub and boost competitiveness in the East-West and North-South international transport corridors. It will intensify local and foreign investment in the country's non-oil sector.

Strategic Intent: What will AFEZ do?

It is time to turn the concept of AFEZ into reality. To do this AFEZ Authority will focus on and meet the needs of investors by delivering a world class place to do business:

- with a strategic geographic location next to global transport corridors;
- using multi-modal transport connections to create a sustainable regional advantage based on a regulatory, operating and business environment that is investor-friendly.

Most important of all is our investor-centric mind set and approach.

We will be selective and careful in our application of this approach to investors. At the same time, we will select and meet investor needs in a way, which adds value for the economy and the people of Azerbaijan. This means that AFEZ will serve the needs of national and foreign investors who will:

- engage in high value-added and export-oriented manufacturing and internationally traded services, using innovative technologies and approaches to work in accordance with best international standards;
- generate additional value to non-oil sectors of economy.

To ensure this vision is brought to reality, the President of the Republic of Azerbaijan has given full backing to the development of the AFEZ as a world class investment location. The task of planning, developing, and managing the AFEZ has been entrusted to the AFEZ Authority, which has been established for this purpose.

What is the Legal Basis for AFEZ?

The legal framework for the development, operation, and governance of AFEZ based on the LAW OF THE REPUBLIC OF AZERBAIJAN on the Alat Free Economic Zone (AFEZ Law) adopted by the Parliament and signed by the President of Azerbaijan as a prevailing law of the Republic of Azerbaijan and internal regulations of AFEZ issued by the AFEZ Authority, and these internal regulations are integral part of AFEZ legislation. The Law of the Republic of Azerbaijan on the Alat Free Economic Zone declares that AFEZ legislation, which consists of AFEZ law and internal regulations, taking precedence over base economy legislation.

The AFEZ legislation has been prepared from the perspective of potential investors and best international practice.

To clearly demonstrate precedence of AFEZ legislation over base economy legislation and exclude possibility of any conflicts, misunderstandings, contradictions in the interpretation of the provisions of AFEZ legislation and base economy legislation, relevant amendments were made and adopted by our Parliament in constitutional law on normative-legal acts, in tax, customs, licensing, labor, dispute resolution and other (more than 80) laws of the Republic of Azerbaijan and these amendments clearly acknowledge that

AFEZ legislation takes precedence over those laws of base economy.

In addition to that, AFEZ Law clearly declares that base economy authorities:

- shall not have any jurisdiction in the AFEZ and,
- shall not have any power to regulate or oversee the activities of AFEZ Authority or AFEZ Legal Entities (i.e., businesses established by investors) and owners, creditors, employees of these legal entities.

In short, the legislation of base economy of Azerbaijan is not valid in the AFEZ and for subjects of the AFEZ (of course, except criminal law and anti-money laundering law).

As I said before, internal regulations, developed and approved by the AFEZ Authority are integral part of AFEZ legislation; and main purpose of these internal regulations is to create best possible business environment for our investors.

As the regulator of AFEZ, I am ensuring that we have a set of fit for purpose regulations, which will guide day-to-day activities in AFEZ in compliance with both policy goals and the AFEZ Legislation.

Target Clients: What type of Investors do we welcome at AFEZ?

As I have already stated, the AFEZ Authority will be selective and careful in its approach to investors and will attract businesses engaged in high value-added and export-oriented manufacturing and internationally traded services, using innovative technologies and approaches to work in accordance with best international standards.

The masterplan for the AFEZ has also been designed to allow easy movement of people and goods to and from the AFEZ. The main entrance and exit points will use smart technology to allow efficient customs control of people and goods.

In summary, while most of the investment, export and employment will be generated by AFEZ legal entities, success of the AFEZ will come from a planned mix of foreign and local investors and people, all combining to deliver an investor-friendly and value-added business location.

Benefits for Investors

The business-friendly environment and access to large international markets available from AFEZ's multi-modal location creates real value for investors. In addition, and in line with international benchmark locations, the AFEZ Authority will offer a package of fiscal and non-fiscal incentives to businesses established in AFEZ:

Tax exemption

One of the key benefits is the absence of any tax on a business in the AFEZ. A qualified business in the AFEZ is not required to pay a value-added tax, withholding tax or any other corporate taxes. AFEZ legislation exempts foreign skilled personnel from personal income tax, social security payments and other similar taxes and payments. This is intended to reduce investor costs as well as attract foreign skilled personnel. Local personnel will be exempted from personal income tax if the monthly salary does not exceed 8000 manat – approximately 4700\$. Import of any products or services by AFEZ legal entities from a foreign country to the AFEZ and export of any products and services by AFEZ legal entities from the AFEZ to a foreign country are exempt from customs duties and taxes, including value-added taxes.

No restriction on foreign ownership

There is no restriction on foreign ownership of AFEZ legal entities. A foreign parent company can own 100% of the shares in the AFEZ legal entity. A foreign company can successfully carry-on business without a requirement for a local partner.

Additional benefits

- trade facilitation-based customs regime;
- investor property is immune from nationalization or other restrictions;
- no restrictions on foreign currency or profit repatriation;
- voluntary participation in state social protection fund for foreign employees;
- ease of access to visas for foreign nationals;
- on-site one-stop shop business centre for appraisal and licensing, permitting, etc. (without any base economy authorities or agencies involvement);
- industrial training centre;
- independent regulatory authority;
- independent dispute resolution procedures in accordance with best international standards;
- internal regulations in accordance with best international standards;
- full investor protection;
- full protection of intellectual property rights.

Continuing investor support

These incentives will also be available to support the subsequent expansion and growth of our clients' businesses into the future. The success of the AFEZ will arise from attraction of new investors, but also from a consistent programme of engagement and aftercare with companies after they locate at the AFEZ. Remember what I said earlier: we are investor-centric in our approach. That is a core principle for the AFEZ Authority from the most junior to the most senior staff member and all in between. In our eyes, a client of the AFEZ is a client for life.

Access to skilled labour

Azerbaijan's energy, light and heavy manufacturing industries have helped to create an army of individuals with professional skills and competencies. Further, Azerbaijan's educational system and, generally, its business environment has encouraged attaining the level of education required for any work condition. This labour force, committed to investor's business needs, is part of our incentive package.

In summary, the combination of the AFEZ fiscal incentives, trade facilitation measures, industrial skills development opportunities and a business-friendly operating environment will provide companies from around the world with a cost competitive and strategic location for serving regional and international markets.

Benefits for the people of Azerbaijan

AFEZ also provides opportunity for the people of Azerbaijan. Indeed, anything that is done in AFEZ is really done for the benefit of the entire country of Azerbaijan and its population.

Firstly, AFEZ intends to create jobs for thousands of citizens of Azerbaijan. The number of new jobs is expected to multiply every year. But not just any jobs - the jobs that pay well and allow people to work and improve in a business environment that encourages innovation and new management styles.

We have plans for industrial training facilities on-site at the AFEZ. These facilities will train local personnel and prepare them for new challenges. In the meantime, we

will be working with vocational and higher education training institutions in the rest of Azerbaijan to ensure that they are producing the skilled workforce needed by the AFEZ investors. This will enable us to create and provide potential and existing clients with an active database of current and available skills.

This approach will ensure that citizens of Azerbaijan, who are active in the AFEZ gain training and valuable experience necessary to be successful in internationally competitive businesses.

Both on-the-job and off-the-job training is intended to produce important positive spill-over effects. The knowledge and skills gained by local personnel will help them to create new internationally competitive businesses not just in the AFEZ, but more importantly in the base economy. In this environment, the sharing of knowledge and experience is inevitable.

This is how, as mentioned earlier, we will achieve the strategic goal of introducing changes in business culture, technology and innovation and create real value for the economy and the people of Azerbaijan. It also provides a foundation for generating internationally competitive "Made in Azerbaijan" products.

Investor - Friendly Property Solutions

In addition to business-friendly services and incentives, AFEZ will provide to investors and their employees a modern and fit for purpose-built environment and property solutions.

AFEZ will initially occupy a total site area of approximately 719 ha, spread over three zones. Zone 1 (206 ha), Zone 2 (302 ha) and Zone 3 (211 ha) are in the vicinity of the Baku International Sea Trade Port, adjacent to internationally connected railway, and highway lines.

The development strategy being implemented by the AFEZ Authority is to build out AFEZ infrastructure and facilities in phases. The first phase of development covers initial 60 ha (Phase 1A) area of FEZ 1 that was constructed on a high-profile site adjacent to the highway, railway and the Baku International Sea Trade Port. Phase 1A includes five distinct components:

- The Customs Plaza and main entrance to the AFEZ;
- The AFEZ Authority Building, and one-stop shop business centre;
- Advance office accommodation for investors;
- Shovel-ready plots for investors to lease;
- Utility Services centre.

The physical development program is on schedule, and some of the legal entities registered in the AFEZ will commence construction works on the reserved industrial land plots of Phase 1A in October 2022.

After the completion of construction works on Phase 1A, it is planned to start construction works on 138 ha area at the end of 2022 in order to provide our investors additional industrial land plots not later than by the end of the next year.

In addition, to meet the needs of our customers in logistics-transportation services, we will establish two logistics-transportation centers: one on the territory of 50,000 square meters for goods, transported by road and the second on the territory of 210,000 square meters for goods transported by rail.

Also, by the first quarter of 2026, a Cargo Airport, which is currently under construction, shall be operating, with an initial capacity of 500,000 tons annually, and with further gradual increase reaching up to 1.5 million tons per year.

Bringing positive experience from the oil and gas industry to AFEZ

Azerbaijan's approach to its oil and gas industry is a testament to how we keep our promises to investors.

To regulate the relations between foreign investors and the state in the oil and gas industry, Azerbaijan has adopted special laws - primarily, by giving production sharing and other agreements with foreign investors the status of prevailing law of the Republic of Azerbaijan.

For over 25 years they have provided solid protection to investors and their investments in oil and gas projects. This principle has never been violated and stood the test of time. This approach is a positive proof that Azerbaijan has previously created a favourable regime for the investors and does not violate its obligations.

We will bring this principle and practice from the oil and gas industry to the AFEZ.

Concluding Remarks

We have two goals, both of which are crucial.

First, we will create the best possible business environment for the AFEZ clients, so that they have all they need to successfully establish and develop their businesses in the AFEZ and at the same time we will support expansion and growth of businesses of our clients into the future.

Secondly, we want to demonstrate to the people of Azerbaijan what the transition to an internationally competitive and knowledge-based economy means in practice, to support and assist our entrepreneurs, our business entities to learn and practice a new business culture, new technologies, generate innovative enterprises to create real value for the economy and the people of Azerbaijan.

As a Chairman, I will ensure that AFEZ will deliver value to investors, and I am confident that investors selected by us will deliver value to the economy and people of Azerbaijan.

Further Information and Contacts

If your business or network could benefit from locating in the AFEZ, or you just wish to be kept informed of developments as they proceed, please make the use of the contact options below.

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