

Economic cooperation between Azerbaijan and Italy

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Since restoration of its independence in 1991 Azerbaijan has paid particular attention to development its political and economic ties with developed countries. This cooperation was necessary instrument for achieving sustainable development. It provided technical assistance for development of legislative basis of reforms towards transition to market economy and helped to attract multibillion dollar investments, especially in oil and gas sector. Currently, the Government of Azerbaijan continues to strengthen its ties with developed market economies shifting its priorities to non-oil sector in order to move from resource driven economy towards innovation driven one.

One of the countries with became strategic partner for Azerbaijan is Italy. During recent years Italy and Azerbaijan created good basis for economic cooperation. To develop further bilateral relations it is very important to understand current stage of development in Azerbaijan and to find the ways for expansion of bilateral cooperation. Bilateral trade and investment agreements and policies, as well as activity of relevant government institutions can play important facilitating role to this end. Italian companies can suggest equity and non-equity forms of cooperation in Azerbaijan. Azerbaijani companies can also consider Italy as possible market for trade and long-term investment.

Legislative basis for cooperation

Azerbaijan and Italy signed a number of bilateral documents related to development of economic relations. We could particular mention Investment promotion and protection agreement (1997), Agreement for the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income (2004), Agreement on air transport (1997), Agreement on cooperation in the field of tourism (1997), Agreement on the prevention of customs violations (2005), Joint declaration on economic cooperation (1997),

Memorandum of understanding on cooperation in the field of small and medium-sized enterprises (2002).

This legislative basis created opportunities for expansion of economic cooperation and according to Ministry of taxation in 2011 32 Italian commercial legal entities were registered as tax payers.

Major body aimed at promotion of bilateral economic cooperation is Intergovernmental Economic Commission (est. 2006) and co-chairman of this Commission Azerbaijani side is Minister of Industry and Energy Natig Alyev. Business development related government and private agencies also actively cooperate. Italian Institute of Foreign Trade (ICE) has its branch in Azerbaijan and contributes to the development of economic and commercial relations. Chamber of Commerce in Azerbaijan and Italian Union of Chambers (UNIONCAMERE), AZPROMO and ICE has developed their cooperative relations.

Economic cooperation and its perspectives

Italy is major trading partner of Azerbaijan due to the fact that Azerbaijan exports its oil through Italy. In 2011 trade volume between Italy and Azerbaijan amounted 9,495 million USD (export of Azerbaijan amounted 9,341 million USD, import amounted 254.57 million USD). The major export product of Azerbaijan is crude oil and natural gas. Currently, Italy being as a major trading partner of Azerbaijan accounts for 27% of Azerbaijan total trade turnover with 2.61% for import and 35.15% for export. Italian import prevails by machinery, mechanical devices, spare parts, as well as medicines, transformers, building materials, furniture, food, textiles.

Currently, Italian oil companies are actively engaged in development of oil and gas sector in Azerbaijan. The Italian "ENI" has 5% share of the BTC consortium. "Eni" recently have shown an interest in the exploitation of the deposits from the "Dan Ulduzu" and "Ashrafi" offshore perspective oil fields, suggested its services in transportation liquefied Turkmen gas via the Caspian Sea by ferry. Saipem S.p.A has been actively working in Baku for years – it is involved as an oil and gas subcontractor in complex onshore and offshore projects, mainly for the construction and maintenance of platforms, pipeline infrastructure, etc. In

perspective, Italian companies can be more engaged in large projects – including oil refinery development.

Cooperation between Italy and Azerbaijan most probably will continue in oil and gas sector, including oil and gas refinery and transportation. However, Italian companies can be also actively involved in non-oil sector of economy. Azerbaijan is keen also in developing of its non-oil economy based on certain priorities and they perfectly matches strength of Italian companies who can more boldly engaged in this sector. Forms of cooperation can include 100% FDI, joint ventures, sub-contracting, license agreements, franchising.

Italian companies have been involved already in subcontracting in Azerbaijan. Thus, such companies as "Saipem Spa", "Todini", "Impresa", "Codest ", "IRD" and others have been chosen as subcontractors for implementation of various infrastructure projects. However, Italian FDI in non-oil sector in Azerbaijan could bring more benefits. Among sectors of non-oil economy matching strength of Italian industry and Azerbaijani developmental priorities we could mention agriculture, food-processing, transportation, tourism, construction, information technologies and other sectors. Enterprises and joint ventures established in these areas are be totally in line with policy of import substitution and export oriented policy supported by the Government of Azerbaijan.

Italy and Azerbaijan can also cooperate in the area of small and medium size enterprise (SME) development. According to European Commission Enterprise and Industry division SBA Fact Sheet 2010-2011 Italian economy is mostly driven by SMEs and share of small firms in overall number of firms is substantially higher than EU average (www.ec.europa.eu/enterprise/policies/sme). Taking into account that SME development is integral part of numerous programs initiated by the Government of Azerbaijan, such as development of regions, diversification of economy, poverty reduction, support of entrepreneurship, etc. - experience of Italy in SME development could very useful for Azerbaijan. SME development covers all areas of non-oil sector, although Italian SME development experience in light industry, agriculture (food processing) and services (ICT, transportation, tourism) could be of special interest.

Conclusions

Cooperation with economically advanced countries will help Azerbaijan to further increase its competitiveness. Besides technical assistance, cooperation with developed market economies will allow Azerbaijan to attract more FDI, portfolio investment, technology and know-how.

Italy and Azerbaijan have very good basis and instruments for cooperation. However, Italian companies have to be more proactive in finding areas for investment and considering participation in various developmental projects aimed at modernization of priority sectors of economy, including manufacturing, services and agriculture.

Italian companies have already shown their ability to work in oil and gas sector. The question today is how effectively Italian companies can be involved in non-oil sector. Cooperation both on equity and non-equity basis could be good option. Italian experience in developing of SMEs could be very important area for cooperation taking into account that SME development is integral part of various developmental programs which are under implementation by the Government of Azerbaijan.

Summary

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Since restoration of its independence in 1991 Azerbaijan has paid particular attention to development of its political and economic ties with developed market economies. One of the countries which became strategic partner for Azerbaijan is Italy. During recent years Italy and Azerbaijan have signed a number of bilateral documents related to development of economic relations thus creating solid legislative basis for bilateral cooperation.

Italy and Azerbaijan made remarkable achievements in developing bilateral cooperation in oil and gas sector, including oil and gas refinery and transportation. Cooperation in this area will definitely continue due to the strategic locations both Italy and Azerbaijan. On the other hand, Italian companies can be also actively involved in development of non-oil sector of economy of Azerbaijan. Forms of cooperation may include 100% FDI, joint ventures, sub-contracting, license agreements, franchising. Cooperation on equity and non-

equity basis taking into consideration experience of Italy in developing of small and medium size enterprises (SMEs) could be right direction for expansion of bilateral economic relations.

Cooperation with such economically advanced country as Italy would help Azerbaijan to increase further its competitiveness. Besides technical assistance, cooperation with developed market economies will allow Azerbaijan to attract more FDI, portfolio investment, technology and know-how and gradually increase competitiveness of its economy.

Key words: Bilateral cooperation, legislative basis for cooperation, investment promotion and protection agreement, development priorities in non-oil sector, bilateral trade and investment agreements, joint ventures, sub-contracting, license agreements, franchising