

## State policy for industrial development in the Republic of Azerbaijan

First industrial extraction of oil in the world that happened in Baku in 1848 is considered the beginning of industrialization in Azerbaijan. Rapid increase of oil extraction volumes in the second half of the XIX century stimulated this process resulting in the establishment of oil-related industrial sectors and infrastructure. Azerbaijan's industry has entered a new stage of development since 2004. As a result of the State Programs for Socio-Economic Development of the Regions as well as other targeted measures, significant work has been done to address issues of special importance for industrial production, and the infrastructure of the industry has been significantly improved.

Industry has great importance in ensuring the sustainability of economic development and is a priority of the strategic development of the country's economy. Taking into account modern challenges and new initiatives, the "State Program for Industrial Development in the Republic of Azerbaijan for 2015-2020" was approved by the Order of the President of the Azerbaijan Republic No. 964 dated December 26, 2014. The State Program sets important goals such as modernization and improvement of the structure of industry, increasing the export potential of the non-oil industry, expanding energy-efficient, high value-added competitive industrial production, expanding scientific and innovative production and preparation qualified personnel for new industries. In terms of achieving these goals improving the regional structure of industry, improving the infrastructure of industry, the creation of industrial zones play an important role.

One of the main directions of the program was the creation of special economic zones-industrial parks and industrial estates. At the same time, the "Model Regulations on Industrial Parks" was approved by the Decree of the President of the Republic of Azerbaijan No. 865 dated April 24, 2013.

Industrial zones are especially important in terms of achieving necessary tasks such as expanding export capability of the economy as well as increasing competitive and import substituting products, ensuring employment in the regions, attracting investments and contemporary technologies.

Industrial Park is an area which has the necessary infrastructure and management structures for entrepreneurship, organization of logistics, production, processing (recycling) and sale of competitive products in the field of industry through the application of modern technologies, as well as it is intended as a territory used for the provision of services, which helps entrepreneurs in order to develop and work effectively.

Recently, real steps have been taken in this direction in our country, 7 industrial parks (**Sumgayit Chemical, Mingachevir, Garadagh, Balakhani, Pirallahi, Aghdam** and "**Araz Valley Economic Zone**"), as well as 5 industrial estates (**Neftchala, Masalli, Hajigabul, Sabirabad** and **Sharur**) have been established by the relevant decrees and orders of the President of the Republic of Azerbaijan. It is important in terms of supporting the activities of entrepreneurs in industry, including small and medium-sized businesses, creating a favorable business and investment environment, and creating new jobs.

According to the Tax Code of the Republic of Azerbaijan, residents of industrial parks are exempted from corporate income tax, property tax, land tax and VAT for imported machinery,

technological equipment and devices in industrial parks for **10 years from the reporting year of registration**.

According to the Law of the Republic of Azerbaijan on Customs Tariffs, based on the corresponding supporting document, residents of industrial parks for a period of **7 years from the date of registration** are exempted from **customs duties** on imported equipment, technological equipment and devices intended for the construction of production sites, research and development, as well as production goals in the industrial parks.

The main priority areas of activity in **Sumgayit Chemical Industrial Park** are chemical industry products, including inorganic chemistry, organic synthesis chemistry, polymer chemistry, household chemicals and pharmaceutical chemicals, products of machine-building industry, including products of electric power, machine tools and machine building, machinery and equipment for agriculture, products of the metallurgical industry, additives for metallurgical processes, including ferrous and non-ferrous metal products, various construction materials, information and communication technology products, light industry products, packaging products. The territory of Sumgayit Chemical Industrial Park is 583.5 hectares. Detailed information is available on the website of Sumgayit Chemical Industrial Park ([www.scip.az](http://www.scip.az)).

The area of **Balakhani Industrial Park** is 10.15 hectares. It is planned to process (recycle) household waste and establish service facilities in the park. The main purpose of the creation of this park is to create favorable conditions for potential entrepreneurs and investors interested in the field of reproduction. Detailed information is available on the website of Balakhani Industrial Park ([www.bsp.az](http://www.bsp.az)).

**Garadagh Industrial Park** specializes in the field of production of tankers, dry cargo ships, tugboats, passenger ships, crane carriers, diving ships, various types of fishing vessels, multi-purpose platform supply vessels, liquefied gas tankers, coastal safety boats, ship fleets of various sizes, production and repair of other types of large, medium and heavy tonnage ships and equipment

**Mingachevir Industrial Park** specializes mainly in light industry. Two factories for the production of cotton yarn from Mingachevir Textile LLC with a total production capacity of 20,000 tons (using the "Ring" and "Open End" methods) were put into operation on February 27, 2018.

**Pirallahi Industrial Park** established for the development of the pharmaceutical industry in our country. Appropriate work is being carried out in the park to build production facilities for various forms and purposes of pharmaceuticals and medicines (tablets, capsules, etc.), intravenous, dialysis and injection solutions, medical equipment and devices, processing and packaging of medicinal plants, veterinary drugs, Other auxiliary materials used in pharmaceutical (sterile gloves, systems, embroidery, umbilical clamp, bandage, gauze, sticking plaster, cotton, thermometer, clysters balloon, RKQ ribbons, sterile spatulas, scarifier, X-ray films, fluorography tape, contrast items etc.) as well as light industry products and food industry products. Total area of Pirallahi Industrial Park is 30 hectares.

**Aghdam Industrial Park** was established in Aghdam region in order to successfully implement construction and improvement works in the liberated territories, as well as to form a competitive and sustainable economy, to develop public-private partnership in this field and to

apply the necessary incentives. Currently, work is underway to build the necessary infrastructure in the Aghdam Industrial Park.

In addition, **“Araz Valley Economic Zone” Industrial Park** was established in East Zangazur economic region (Jabrayil) in order to restore economic activity in the liberated territories, to ensure the settlement and employment of the population, as well as to create appropriate conditions for the production of competitive products. Currently, work is underway to build the necessary infrastructure in the Industrial Park.

Establishment of industrial estates determined by the Decree of the President of the Republic of Azerbaijan No. 288, dated October 8, 2014 **“On the establishment and organization of the activities of industrial estates”**.

By the decision of the Cabinet of Ministers of the Republic of Azerbaijan No. 186, dated May 13, 2015, the **“Model Regulation on Industrial Estates”** approved.

In accordance with the legislation, the following incentives are applied in industrial estates:

- Determination of the minimum rent prices for land and buildings in accordance with Law of the Republic of Azerbaijan “On Land Lease” and Law of the Republic of Azerbaijan “On Lease”;
- Issuance of soft loans for residents;
- Simplification of the administrative procedures;
- Organization of services for effective implementation of entrepreneurial activity.

**Neftchala Industrial Estate** established on 10 hectares of land and will produce cars, fish feed, plastic products, irrigation systems, polyethylene irrigation pipes, paper cups and beverages, install modular school buildings, fish processing and canning. The vast majority of these production areas have already been established and production activities have commenced.

Necessary external and internal infrastructure, including electricity and heat, gas, water, sewerage, communications, transport, fire protection, production, administrative, social and other infrastructure facilities for the effective implementation of entrepreneurial activities have been built in **Masalli Industrial Estate**. Entrepreneurs are carrying out work on the construction of mattresses and their parts, children's, kitchen and upholstered furniture, textiles, decorative coatings for exterior and interior walls, woodworking, roofing and accessories, plastic doors and windows in Masalli Industrial Estate. Some of these production areas have already been established and enterprises have started operating.

**Hajigabul Industrial Estate** was established on an area of 20 hectares. Work is underway to build plastic containers and water containers, automobiles, equipment for the production of construction materials and their spare parts, various types of fertilizers, polypropylene bags, insulation materials and bio proteins. Part of the mentioned production areas has been established and relevant works are being carried out in the direction of construction of other production areas.

**Sabirabad Industrial Estate** was established on an area of 20 hectares. A wool supply point and a honey packing plant have already started operating in the industrial estate. At the same time, appropriate work is being done to establish seed processing and food production areas.

Measures related to the organization, management and development of the industrial parks and industrial estates are implemented by the Economic Zones Development Agency under

the Ministry of Economy of the Republic of Azerbaijan and “Tamiz Shahar” OJSC (Balakhani Industrial Park).

The Regulation on the issuance of the “Investment Promotion Certificate” was approved alongside with the Decree of the President of the Republic of Azerbaijan of 18 January 2016 “On additional measures to encourage investments.” Their overarching purpose is to ensure expansion of investment activity, improvement of business environment, boosting industrial production, and improvement of mechanisms for the promotion of investments in accordance with Item 5.2 of the Action Plan for the implementation of the “State Program for the Development of Industry in the Republic of Azerbaijan for 2015-2020.” The Investment Promotion Certificate provides the right to receive benefits reflected in the Tax Code of the Republic of Azerbaijan and the Law “On custom tariffs.”

These benefits are as follows:

- an exemption of legal entities from the profit and income tax in the amount of 50% for a period of 7 years;
- based on the Certificate of the Ministry of Economy, import of technical and technological equipment, and plants, is exempted from VAT for a period of 7 years;
- respective types of property are exempt from property tax for a period of 7 years after the receipt of the Investment Promotion Certificate;
- respective types of land parcels, owned or used, are exempt from the land tax for a period of 7 years after the receipt of the Investment Promotion Certificate;
- based on the Certificate of the Ministry of Economy, the export of technical and technological equipment, and plants, are exempted from customs duties for a period of 7 years.

To receive the Investment Promotion Certificate for any project, entrepreneurs should submit appropriate documents to the Ministry of Economy of the Republic of Azerbaijan, in accordance with legislative requirements.

At the same time, the “Center for Analysis and Coordination of the Fourth Industrial Revolution” public legal entity under the Ministry of Economy was established by the Decree of the President of the Republic of Azerbaijan No.1245 dated January 6, 2021.

The decree stipulates that the Center is a public legal entity which carries out cooperation and coordination between the Republic of Azerbaijan and international organizations operating in the field of the Fourth Industrial Revolution, as well as analysis and coordination of challenges, initiatives, strategies and projects in the digital economy.

Various organizational-economic models of entrepreneurship development are applied in the leading countries of the world. One of these models is special economic zones (SEZ). Its overall goal is to support the acceleration of the development of priority areas of country's economy, creation of more available condition to attract domestic and foreign investment, introducing new competitive manufacturing and service areas on the basis of special legal regime and modern technology.

For this purpose, in connection with the establishment of a port-type special economic zone in Alat settlement Azerbaijani President Ilham Aliyev signed a decree on March 17, 2016, “On measures to create a Free Trade Zone type special economic area covering the territory of Baku International Sea Trade Port in Alat township of Baku’s Garadagh district”.

The Law of the Republic of Azerbaijan No. 1143-VQ dated May 18, 2018 “On Alat Free Economic Zone” was passed by the National Assembly of the Republic of Azerbaijan and the President of the Republic of Azerbaijan signed Decree No. 107 dated June 4, 2018 on the application of this Law.

The total area of Alat Free Economic Zone will be 850 hectares. The planning of 60 hectares of the total area of the economic zone has already been completed, construction work has begun, and necessary steps have been taken to establish the entire infrastructure.

A groundbreaking ceremony of Alat Free Economic Zone was held on July 1, 2021 with the participation of the President of the Republic of Azerbaijan Ilham Aliyev.

Finally, we would like to invite residents of your country to invest in economic zones operating in Azerbaijan in order to develop the existing cooperation between our countries.