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Strategic Roadmap for development of logistics and trade in the Republic of Azerbaijan

1 Contents

| | |
|---|-----------|
| 1. EXECUTIVE SUMMARY | 3 |
| 2. GLOBAL TRENDS | 5 |
| 3. ANALYSIS OF CURRENT SITUATION | 8 |
| 4. STRATEGIC VISION | 12 |
| 4.1. STRATEGIC VISION FOR 2020 | 12 |
| 4.2. LONG-TERM VISION FOR THE PERIOD BY 2025 | 12 |
| 4.3. ASPIRATIONAL VISION POST 2025 | 14 |
| 5. TARGET INDICATORS | 17 |
| 6. STRATEGIC OBJECTIVES | 18 |
| 7. STRATEGIC TARGETS | 19 |
| 7.1. STRATEGIC OBJECTIVE 1: CREATING FAVORABLE ENVIRONMENT TO INCREASE TRADE VOLUME THROUGH AZERBAIJAN | 19 |
| 7.1.1. Priority 1.1: STRENGTHENING THE leading role OF AZERBAIJAN as a regional logistics AND TRADE hub | 19 |
| 7.1.2. Strategic Priority 1.2: Completion of new Port of Baku complex situated at Alat settlement, Baku – Tbilisi – Qars railway and Astara – Astara railway projects | 26 |
| 7.1.3. Priority 1.3: Improving logistics operations | 35 |
| 7.2. STRATEGIC OBJECTIVE 2: CAPTURING HIGHER VALUE FROM TRANSIT TRADE | 44 |
| 7.2.1. Strategic Priority 2.1: Establishing Baku as a regional commercial zone | 44 |
| 7.2.2. Priority 2.2: Establishing a trade-focused processing hub | 48 |
| Expected risks | 51 |
| 7.2.3. Strategic Priority 2.3: Establishing logistics centers in Baku and throughout the country | 51 |
| 7.3. STRATEGIC OBJECTIVE 3: IMPLEMENTING KEY ENABLERS TO REALIZE LOGISTICS OBJECTIVES | 56 |
| 7.3.1. Priority 3.1: Increasing private-sector involvement in the logistics sector | 57 |
| 8. FINANCING MECHANISMS | 62 |
| 9. IMPLEMENTATION, MONITORING AND EVALUATION PRINCIPLES | 63 |
| 10. ACTION PLAN | 1 |
| STRATEGIC OBJECTIVE 1: CREATING ENABLING ENVIRONMENT TO INCREASE TRADE VOLUME THROUGH AZERBAIJAN | 1 |

1. Executive summary

“Strategic Roadmap for development of logistics and trade in the Republic of Azerbaijan” (further called – Strategic Roadmap) is developed as a part of an initiative to build a competitive, diversified, inclusive and sustainable economy.

The Strategic Roadmap sets short, medium and long term policy directions for economic development in logistics and trade of Azerbaijan for the periods by 2020, by 2025 and post 2025. It not only stipulates the development objectives and targets, but also defines a series of strategic priorities and actions to achieve those objectives and targets covering development prospect for the period by 2020, and a detailed action plan specifying main and other responsible persons, period of execution and indicator **sare** developed therein.

As a result of the actions implemented, it is forecasted that real GDP will grow by AZN 605 million, and 18900 new jobs will be opened in total in the Republic of Azerbaijan in 2020. It is expected that investment in the total amount of AZN 3160 million manat from public and private sources will be required in order to realize the proposed actions.

Schedule 1. Amount of investment required for the actions to be taken within the frame of the strategic roadmap and expected results

| No | Description of priority | Real GDP impact (2020), AZNmln | Employment, (full-time employment, , 2020) | Investment, AZNmln |
|------|--|--------------------------------|--|--------------------|
| 1.1. | Strengthening the leading role of Azerbaijan as a regional logistics and trade hub | 380 | 5500 | - |
| 1.2. | Completion of New Port of Baku complex situated at Alat settlement, Baku – Tbilisi – Qars railway and Astara – Astara railway projects | - | 6700 | 1200 |
| 1.3. | Improving logistics operations | - | - | 1400 |
| 2.1. | Turning Baku into a trade hub of regional importance | 145 | 2900 | 430 |
| 2.3. | Establishing logistics centres in Baku and throughout the country | 65 | 3800 | 130 |
| 3.1. | Increasing share of the private-sector in the logistics sector | 15 | - | - |

Note 1: Only strategic priorities that will have GDP impact more than AZN 10 million and will allow to open more than 100 new jobs are shown in this table. Other priorities play supportive role in achieving the envisaged results.

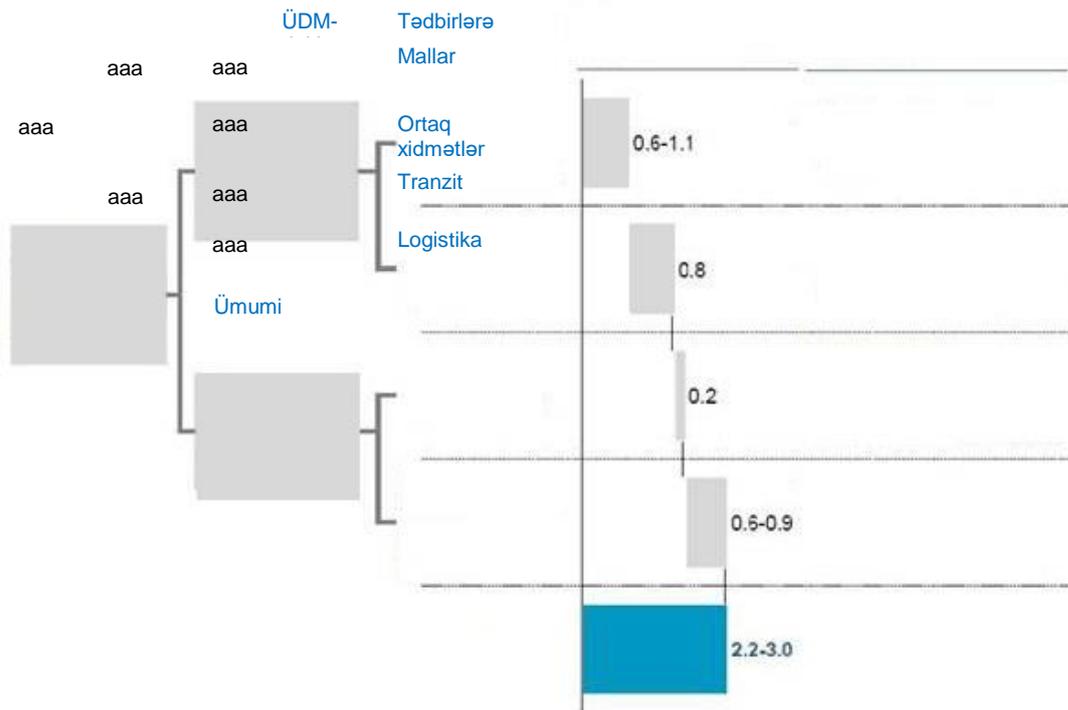
Note 2: These figures are provided merely with purpose of giving of the impact. It is important to carry out detailed analysis and ascertain numbers for each and every priority during implementation of the measures.

Strategic priorities defined in the Strategic Roadmap underscore the importance of investments by public-private partnerships and has preliminary impact estimation attached to them. Nevertheless, detailed feasibility studies need to be conducted before implementation of any measure. At the same time, the activities of the relevant bodies assigned as responsible bodies in those priorities need to be coordinated and continued within defined time frame.

2. Global trends

Having become an important driving force of economic growth, logistics and trade allow increasing the volume of foreign direct investments in the main sectors in rapidly globalizing world. Estimates show that developed transport and logistics system allows up to 3 percent direct growth in the GDP (Exhibit 1).

Exhibit 1. Directions for increasing the share of logistics and trade sector in GDP



Source: Estimates by independent experts

There are three major trends that shape the current global patterns of trade, and these trends need to be followed closely to capture additional value.

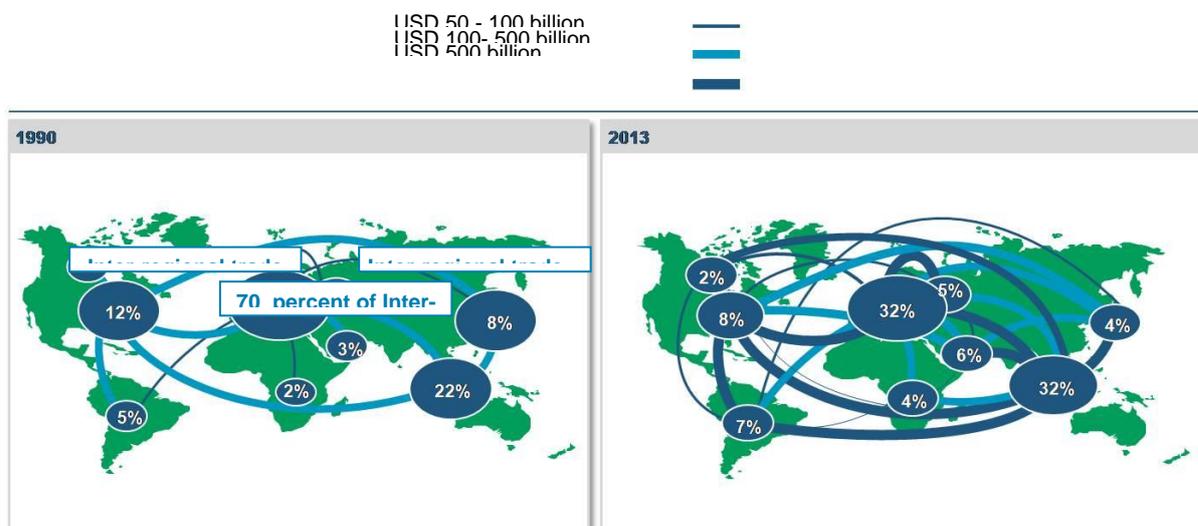
First, macroeconomic factors contribute to growing trade across borders. In last two decades, open markets and trade facilitated growth has been a dominant model for economic growth. These trends have been markedly expedited by the global agreements to ease trade, through reforms facilitated by World Trade Organization (WTO). As a result, trade has grown faster than the GDP growth globally. As seen from the World Bank national accounts data and Organization for Economic Cooperation and Development National Accounts data files, special weight of goods and services exports as a percentage of global GDP has grown to almost 29.5% in 2015 (after a slowdown with the economic crisis), in contrast to 21% in 1995 (and 16.5% in 1975). Another factor contributing to this growth has been the strengthening of middle class in the emerging markets. In accordance with data from "The Economist" magazine total population living in households and earning more than \$5,000 per years has increased from 550 million in 2005 to 1,450 million in 2015.

Second, sector and firm level factors also promote geographical distribution of production. Companies, in general, have been motivated to expand operations internationally due to two factors. On one hand, they are expanding into new geographies to tap into new growth opportunities, especially in emerging and developing markets. On the other hand, companies expand production operations to take advantage of low cost production opportunities. These trends are strengthened by the development of global value chains and rising vertical specialization. Firms focus more and more on core areas, while outsourcing of intermediate or finished products becomes a common business practice.

Third, macro and micro level factors are supported by development of certain driving mechanisms. Without doubt, advances in information and communication technologies (hereinafter referred to as the ICT) can be considered as the primary factors. Scope and scale of services that can be traded across borders have increased drastically, which enable creation of global value chains. Another enabler is the increase in range of regulatory and advisory bodies that facilitate international trade, as discussed in the case of WTO above. These bodies define rules of engagement for international trade and also promote bilateral agreements, which in turn resulted in reduction of tariff and non-tariff barriers globally. Third strong supportive mechanism is the technical improvements in the transportation systems. As a result of necessity to meet additional demand, major improvements (such as in carriage of goods by containers) have brought about significant increase in trade volumes. Lastly, growth of trade financing and development of new financing tools has made the rapid expansion possible.

Increased trade at global scale, driven by these three factors, led to a drastic increase in maritime transportation as well. Inter-regional trade has grown from \$1.8 trillion in 1990 to \$17.2 trillion in 2013, according to UN database information on trade of goods, 70% of which is done via maritime transportation (exhibit 2). Main driver of this growth has been increase in production and consumption in China and India, which push Asia based maritime trade upwards.

Exhibit 2: Strengthening of trade relations in the world countries and increase of turnover



Source: UN database on trade of goods; Global Development Indicators; World Bank; International Monetary Fund Balance of Payments; Telegeography

To capture opportunities in maritime trade, countries around the world have invested in creating hub ports. Typically, three main factors determine the competitiveness of these hubs. Firstly, hubs focus on increasing port efficiency to best practice levels. Meanwhile, improvements in operational excellence, pricing optimization and investment, new IT systems play the main role in advancing port efficiency.

Secondly, availability and development of hinterland access is a key factor. So that hubs typically develop hinterland connectivity through investments in railroads, and by creating industry clusters in the port and truck areas. Partnerships with neighboring ports to create synergies in marketing and operations also contribute to the connectivity.

Thirdly, availability of value-added services at the port boosts trade intensity.

Some global and regional hubs in the world have managed to develop all three dimensions and turned into bench marks as best practices. Examples include Jebel Ali, Hamburg, Singapore, Antwerp, Rotterdam, Tanger Med, and Montreal ports. Certain ones among these examples and other ports followed model of establishing free trade zones to accelerate development of connectivity with farther territories and to provide value-added services. That is because free trade zones provide targeted services and incentives to investors and private sector companies of export oriented industries.

Rapid increase in global trade also fueled growth in railroad transportation, in addition to maritime. During this growth, emergence of rail hubs around the globe are affected by two key trends. On one hand, intermodal transportation has become the growing mode of

transportation and after development of port hubs intermodal railway transportation has exceeded regular railway transportation. For instance in the European Union, its annual growth rate in first decade of the millennium has been 2.6% per year, compared to overall growth rate of regular railway transportation at 1.2% per year¹. This trend is driven by on-going containerization of worldwide trade flows and strong investment by port operators and national government to improve port access and terminal capacities of railroad network.

Both in maritime, overland and railroad transportation, countries around the world aim to capture value through establishing hubs, to capture the aforementioned benefits to the economy. Logistics centers based on best practices around the world signal three critical key success factors to create value from logistics hubs:

First, given that balanced development brings more benefit in a selected supply chain, creating value requires equal development of infrastructure and services. An overemphasis on infrastructure can limit the upside by falling short on providing necessary services for trade. On the other hand, too much focus on service orientation may cause capacity problems.

Second, logistics hub investments require clear strategy and careful upfront planning. Incorrect capacity and revenue plans can lead to delays in construction and problems in startup and ramp-up. Given that building a hub above critical volume requires massive investments with respective risks, it is important to conduct prior risk assessment. As a result, careful planning and feasibility studies become critical.

Third, typically, there is no natural owner from private sector to drive total supply chain optimization in building a logistics hubs. Fragmented planning and optimization at company level can lead to inefficiencies while at the development phase of logistics hubs. In addition, there is often lack of strong domestic third-party logistics companies that understand how to optimize logistics for entire supply chains, or that have market power to do it. Presence of key supply chain components such as customs and foreign direct investment framework under government control also contributes to the establishment and development of logistics system.

3. Analysis of current situation

3.1. Current situation in logistics and trade

Logistics and trade sector as the foundation for development of all the sectors plays an important role in new job opening and increase in profitability. There will be ensured the integration into regional and global value chain and provision of the value adding services with a view to generating high income from transit trade based on the benchmarks of international best practices in logistics and trade area, which is built on the prospect of improvement of quality and quantity indicators in Azerbaijan.

¹Source: International Transport Forum and calculations of independent experts

Azerbaijan's geographical position allows increasing the trade capacities regularly. Continued development of the logistics assets of the country will give a boost to increase its role in regional and international trade. Azerbaijan's favorable geographical position on both the East-West Corridor and the North-South Corridor offer significant potential to capture both transit trade and import and export volumes. Several major infrastructure projects in connection with new port and railroad connectivity projects, are already underway. In consideration of these assets and advantages, a number of initiatives will be taken for the purpose of increasing trade volume through establishment of intermodal and multimodal (by various types of transport) logistics infrastructure in the territory of Azerbaijan and creating more value from transit trade and increasing the level of participation of the private sector in logistics.

Current status of Azerbaijan's trade-transportation assets

In Azerbaijan, the share of freight transportation services as a percentage of total service exports has grown by approx.10 percent in recent years, while peer countries' shares ranged from 8 to 52 percent². International transportation through the territory of Azerbaijan is mainly done by railroad. In these freights, the transport volume is dominated by imports and exports, with a relatively low transshipment—the shipment of goods to an intermediate destination before shipping to their final destination—ratio. According to information of “Azerbaijan Railways” Closed Joint Stock Company, a total of 17.1 million tons of cargo was transported by railways in Azerbaijan in 2015, of which 23,4 percent (4 million tons) account for internal freights, 32.2 percent (5.5 million ton) for imported freights, 21.4 percent (3.7 million tons) for exported frights and 23 percent (3.9 million tons) transit freights. So, the transshipment ratio for those goods traveling by rail in Azerbaijan was 23 percent in 2015, compared with 71 percent for railways in Georgia³.

Azerbaijan's ports, however, are dominated by the transit of goods. The country saw 0.5 million tons of import-export goods volume in 2014 and 5.6 million tons of goods in transit—a transshipment ratio of 59percent⁴. Most commodity flows consist of dry bulk such as coal, refined oil products and coke, mineral products, and agricultural products, and liquid bulk such as crude petroleum. However, in both railways and ports, container traffic is relatively limited.

To achieve the goal of becoming a major regional logistics hub and capitalize on growth on these main trade routes, Azerbaijan will set high targets to increase its share of logistics business and trade, coordinate government institutions to execute a coherent and effective strategy, and prioritize public investments and facilitate private investment to capitalize on opportunities

Theoretically, the amount of additional trade volume that Azerbaijan could capture by tapping into East-West and North-South corridors is estimated to be total of 230 million tons of dry

² Source of the data is International Trade Center. Peer countries referred include Kazakhstan, Iran, Romania, Georgia, Bulgaria, Russia, and Turkey.

³ Source: Annual Report of Georgian Airways .

⁴ Source of the data is the State Statistical Committee

bulk, liquid bulk, and containers⁵. Many of the most lucrative routes involve trade with China, where—as described earlier— Azerbaijan’s participation may bring vast opportunities in terms of trade volume increase.

Containers. Out of a total of 110 million tons of container freights, most are between China and Europe—52 million tons from China to Europe and 29 million tons from Europe to China. China also sends 9 million tons each to the Black Sea region and North Africa (For container, dry bulk, and liquid bulk calculations, the Black Sea region includes Turkey for only Central Asia and China directions)⁶.

Dry bulk. Most addressable dry bulk flows originate in Europe or the Black Sea region and flow to China—10 million tons from Europe to China and 30 million tons from the Black Sea region to China. China, in return, sends back a total of 8 million tons to Europe and the Black Sea region. Russia also sends a significant volume of dry bulk to Iran and India—3 million tons and 5 million tons, respectively.

Liquid bulk. Most liquid bulk flows originate in Central Asia and go to Europe (35 million tons) and the Black Sea region (6 million tons). However, the return route is not as robust, with Europe sending just 0.1 million tons to Central Asia and the Black Sea region sending just 1 million tons.

Based on the existing strengths and opportunities, Azerbaijan aims to become a logistic and trade hub of regional importance through logistics centers efficiently operating with strong relations with the other countries in the period post-2025. The realization of this prospect requires quite high investment funds. That is, the main target is to turn Azerbaijan into the most attractive part of the region in terms of investments in logistics and trade sector by 2025 through infrastructure improvement and regulatory incentives. As a part of this prospect, logistic and trade centers will be established in Azerbaijan with good relations with the international markets. the most advanced digital operating models will be applied in order to ensure the efficiency of the operations in these centers and private sector participation in this sector will be further incentivized and direct foreign investments will be promoted with the purpose of accelerating the transition process.

It should be noted that strategic objectives and priorities in the Strategic Roadmap covers international trade. Domestic logistics infrastructure and services are also of great importance in terms of accelerating economic growth and expanding its scope in the country. With a view to improving domestic logistics area, new programs will be continued by implementation of the initiatives through other state programs, if necessary.

3.2 SWOT analysis of logistics and trade sector

| Strengths | Weaknesses |
|-----------|------------|
|-----------|------------|

⁵ Source: IHS and UN Comtradedatabase (datafor 2015)

⁶ Source: IHS and UN Comtradedatabase (datafor 2015)

| | |
|--|--|
| <ul style="list-style-type: none"> • implement a number of important infrastructure projects in the country such as construction of new port complexes and establishment of railway relations with the neighboring counties; • existence of various concession mechanism in line with the legislation. | <ul style="list-style-type: none"> • small potential for qualified personnel in logistics; • low labor productivity; • financial shortage, obsolete equipment; • inadequate level of marketing, sale and distribution services; • establishment of modern business model in the enterprises; • lack of innovative activities; • Low potential load bearing capacity of the ships sailing in the Caspian Basin, abundance of the windy days in the Caspian sea and small depth of the sea. |
| Opportunities | Threats |
| <ul style="list-style-type: none"> • Opportunities to create added value in transit freights on account of establishing a free economic zone in the territory of new Baku International Sea Trade Port located in Alat settlement, Garadagh district, Baku city and logistics hub in the territory of Haydar Aliyev International Airport; • Opportunities to ensure macroeconomic stability in the country; • Government support to development of logistics and trade sector; • Opportunities to attract foreign investors to support the proposed projects; • Human resources, specially, existence of the potential young generation; • suitable geographic position of the country and potential to turn into logistics and trade hub of regional importance; • increased trade volume and competition in the region and world; • proximity to large regional markets; • existence of the general infrastructure for entrepreneurial activities and continuation of the works in improvement of infrastructure; • Commissioning of the North –South transport corridors joining Iran with Russia and Iran with Europe by removing the economic sanctions from Iran and establishment of opportunities to transport goods from Iran, India and Pakistan to Europe through this corridor over Azerbaijan. | <ul style="list-style-type: none"> • stagnation in financial markets; • likelihood of weakening investment activity as a result of sharp decline in oil prices; • increase in the requirements for environmental protection; • the issue of exchange rate stability which is one of the main factors for foreign investors; • delays in construction – completion of infrastructure projects; • Strong competition in the corridor by means of the routes such as the Trans-Siberian - Kazakhstan, and Sea freights which are an alternative to East – West corridor joining Europe with Middle Asia and China, as well as the combination of the railways of Iran and Turkmenistan. |

4. STRATEGIC VISION

4.1. STRATEGIC VISION FOR 2020

Azerbaijan's strategic vision for the period by 2020 in logistics and trade sector is to achieve creation of added value over the regional transit freights in addition to attracting these freights.

Interpretation of the strategic vision

Pursuant to the identified strategic targets, it is proposed to implement seven strategic priorities covering the following issues by leveraging its key strengths and fully capturing the relevant opportunities:

- Strengthen respective efforts to make the transit corridors crossing the country's territory competitive with a view to turn Azerbaijan into a regional logistics and trade hub in the long-term;
- Put into operation the free trade zone including the territory of new Baku International Sea Trade Port located in Alat settlement, Garadagh district, Baku city and launch feasibility analyses for increased number of free trade zones;
- Increase volume of trade and capture higher added value from transit trade towards diversifying Azerbaijani economy

As a result of the achievement of the strategic objectives identified for the period by 2020, it is forecasted that real GDP will grow by a total AZN 605 million including AZN400 million direct and AZN 205 million indirect, and 18900 new jobs will be opened in total, including 10900 direct and 8000 indirect jobs, in the Republic of Azerbaijan in 2020. It is expected that investment in amount of a total of AZN 3160 million will be required using public and private sources in order to realize the actions proposed within the Strategic Roadmap which will be provided on account of public – private financing sources following conduct of respective feasibility studies.

4.2. LONG-TERM VISION FOR THE PERIOD BY 2025

Azerbaijan's long-term vision for the period by 2025 is to significantly improve the logistics and trade infrastructure, driven by regulatory incentives to become more attractive in this sector in the region and to turn into an important hub.

Comments on the long term vision

With the view to turn the country into a logistic and trade hub of regional importance by 2025, works will be performed to incentivize regionally-operating companies to establish their base in Azerbaijan, conducive environment for investments will be ensured and optimized initiatives and proposals will be made in this area. This way, by ensuring strong growth in its logistics sector Azerbaijan will transform towards becoming a logistics and trade center for regionally-operating companies. At the same time, by thorough assessment of the potential of

enterprises with strong capabilities in logistics and trade, the works towards engagement of the private sector into this area will be continued.

By 2025, Azerbaijan will have a strong logistics platform backed up with the benefits of a free trade zone in its recently launched free economic zone including the territory of new Port of Baku established in Alat settlement. The experience of domestic and international trade partners will be used in establishment regional wholesale trade zone in this center. In order to receive more benefit from global value chain more efforts will be made to achieve growth through North-South and East-West corridors. Consequently it will create a favorable environment between the local wholesalers and these logistics partners over trade fairs and business showrooms, in an effort to facilitate increased cooperation towards efficient joint operations in logistics. To reach this envisioned trade level, Azerbaijan will not only focus on new Port of Baku, but also expand its logistics centers and potentially free trade zones into other regions.

First, it will strengthen road and rail connections of Baku International Sea Trade Port to enable seamless integration to the Baku Heydar Aliyev International Airport and domestic trade network of the country. To improve its connectivity between the regions, road connection will be the initial priority, while rail connections will be established once a certain level of volume is reached to ensure economic feasibility. Thereafter, Azerbaijan will initiate development of new logistics and trade centers along its border cities (e.g. Qirmizi Korpu, Astara, Khachmaz etc.) to further move towards its aspirations.

In line with this direction, Azerbaijan will also launch targeted campaigns to incentivize foreign companies operating in the region to physically base their headquarters in Baku. It will target to do so through improved conditions on ease of doing business (see “Strategic Roadmap for National Economy Perspective of the Republic of Azerbaijan” for more details). Azerbaijan’s geographically advantageous location would trigger such positive change. Another supportive factor here is the convenience of the business environment. In addition, simple access to utilities, conducive business space, relaxed import and export conditions and talented human resources will make this center favorable for international companies to invest further in this logistics hub. Similarly, the domestic enterprises will be directed into this region to foster development of a strong local network of companies growing competitively in their respective sectors.

As a priority within this logistics and trade hub, Azerbaijan aims to excel in processing of original and intermediary food, pharmaceuticals, commodity plastics and fertilizers by 2025, and it will further explore opportunities in broadening its sector focus as a preparation for its vision beyond 2025.

According to the findings of the feasibility studies, creation of a new logistic hub in Haydar Aliyev International Airport with a view to get more benefits from trade volumes crossing through Azerbaijan will be considered.

By 2025, logistics and trade sector in Azerbaijan would be driven mostly by private sector investments. In this direction, Azerbaijan will continue its efforts in increasing private sector

participation, prioritizing its state-owned enterprises. There will be explored various models such as public-private partnership (PPPs) and build-operate-transfer (BOP) to identify the best approach into managing this transition with the main goal being transformation of the public institutions into more profitable institutions.

Actions will be taken to allow its major logistics companies to advance their operations towards internationally-recognized standards. This would give freight and transportation industries in the country a sectoral maturity that in turn would attract further foreign direct investments. For this purpose, logistics companies will be incentivized to acquire relevant international accreditations. Consequently, Azerbaijan's logistics companies may participate in the international markets as the reliable companies. This effort for improved standardization will be managed directly by the companies themselves, in coordination with relevant business associations and relevant government bodies.

In addition to works conducted in standardization, efforts will be made for improvement of the trade environment within the country. Thereby an incentive for optimizing the activities will be created with a view to ensuring competitiveness in terms of costs and improvement of transactions in logistics.

4.3. ASPIRATIONAL VISION POST 2025

Azerbaijan in long-term aspires to become a regional logistics hub through its efficiently operating logistics centers with strong connectivity to other countries.

Comments on aspirational vision

In addition to organizing its Alat free trade zone, Azerbaijan will continue to expand its logistics and trade centers to different regions and sustain a well-developed logistics infrastructure. It will incentivize more private sector participation and attract foreign direct investments into the industry. With the purpose of operational excellence, these logistics and trade centers will implement best-practice operation models with increased applications of digitalization. Through these steps, Azerbaijan would step up its logistics sector to a regional-leader level in its envisioned state.

As part of its post-2025 vision, Azerbaijan would have a strong logistics hub located in the territory of Baku Heydar Aliyev International Airport and free trade zone included in Baku International Sea Trade Port complex in Alat settlement (further called new Port of Baku complex). Following the initial build-up, Azerbaijan will expand this hub in capacity and transform it into a regional logistics and trade center progressively over the years. In addition to main transportation companies, this hub would accommodate operational centers and factories of complementary logistics sectors, such as packaging, storage and processing. Through the benefits of the free trade zone, these companies will enable Azerbaijan to process locally-produced or imported goods next to the trading center and to conveniently export them to other regional countries. They will receive tax incentives and be exempted from customs duties, which will give rise to an output-oriented mindset and increase in competitiveness.

Such a favorable logistics environment in Alat will catalyze development of other sectors that in turn will contribute to Azerbaijan's non-oil GDP in significant amounts. Azerbaijan aspires to transform its growing enterprises into regionally competitive companies beyond 2025 in its high-value sectors, and having favorable logistics environment will accelerate this transformation.

Azerbaijan targets to expand the variety of successful businesses within this hub, specifically towards labor intensive commodities (e.g. textile) and innovative high-technology products (e.g. pharmaceuticals and machinery). In addition to these sectors, Azerbaijan will explore further opportunities in others to optimally utilize this logistics hub, in coordination with relevant stakeholders.

Azerbaijan will continue to expand its logistics network into other regions as part of its post-2025 vision. In this direction, it aspires to complete construction of its second wave logistics and trade centers along the borders by this period, and focus on incentivizing logistics and trading enterprises to move into these regions. These additional logistics and trade centers will further facilitate increased volumes of international trade through Azerbaijan especially for the companies trading with the neighboring countries,.

There will be taken actions to direct the international trade conducted through logistics and trade centers located in new Port of Baku complex located in Alat settlement and in other territories and provided support to the whole development of transport, service, supply and procurement companies for the purpose of upholding enlargement of the domestic markets. This sector will be allocated with more attention as logistics and trade centers are the future directions of state priorities. Through the development of the railway infrastructure of Azerbaijan (railway, highway etc.) these companies will incentivize development of local logistics and other sectors.

In addition to its domestic transportation infrastructure, Azerbaijan will expand its transport connectivity internally and to neighboring countries. So that, it plans to upgrade its railway network with high speed trains, prioritizing its existing connection with Iran. It will increase number and quality of its airports in its other cities both for passengers and for air cargo. It will consider to leverage current location or, if necessary, to increase cargo capacity of Baku airport or construct additional cargo terminals to facilitate further growth of these air cargo services, carrying high-value commodities for export. These infrastructure improvements across Azerbaijan will largely accommodate private sector and foreign investments, where the public sector is positioned more as an enabler.

Azerbaijan, in general, envisions increase of private sector participation in the logistics sector as one of the major objectives. Keeping the infrastructure under state property and privatizing their operations, Azerbaijan aims to increase efficiency and added value of its railways into its economy and to trigger improvements across other logistics chain operations.

Azerbaijan aspires to reach operational excellence with its logistics hubs in the Caucasus and the Caspian Sea trading region. It will create this operational culture to incentivize these enterprises to lower down their supply chain costs, optimize trading routes, upgrade packaging

and transportation efficiency and minimize their storage costs. In the long term, these initiatives will lead to increased competitiveness within Azerbaijan economy and in-between its trading partners. As a result of such competition, logistics services companies of Azerbaijan would expand their businesses into neighboring countries, turning into regional powers.

In order to achieve its objectives in logistics and trade sector, Azerbaijan will greatly install and utilize advanced technological infrastructure in managing its logistical operations in the long term. It will collect and integrate data from various sources on specifics of commodities and transportation routes, and feed its central database. Through an intelligent system built upon this database, Azerbaijan will quantify, analyze, and better manage different operations of freight effectively and cost-efficiently. This increased digitalization trend will also promote less-than-truckload (LTL) logistics in Azerbaijan further, as well as multi-user storage and shared distribution. This way, it will ensure that different logistics counterparts coordinate to jointly optimize their warehousing and transportation operations.

As the logistics sector increase in scale over time in Azerbaijan, environmental sustainability will retain its priority status on the government's agenda and even strengthen it. Azerbaijan will incentivize eco-friendly buildings and production methods for companies operating in its logistics and trade hubs. It will continuously monitor these companies on their environmental impact and carbon footprint (i.e., CO₂ emissions per transported product), and incentivize accreditations from global environmental agencies to promote sustainable operations. Along this direction, it will ensure that these enterprises implement efficient supply chain management practices and strategies that explicitly target reducing their environmental footprint. Azerbaijan will also review industry standards in cooperation with other agencies and sectoral business associations to ensure that companies in its logistics centers continue operating in compliance with environmental requirement.

5. Target indicators

Despite transportation of transit freight of 150 million tons through The East-West Corridor in 2015, Azerbaijan's share is small in this⁷. While Central Asia and Black Sea region trade along the corridor stood at 9.9 million tons in 2015, it is expected to grow to 13.8 million in 2020⁸. The East-West Corridor saw 40 million tons of Central Asia and Europe trade in 2015 with expected growth to 56 million tons in 2020⁹. In addition, annual trade turnover between Russia and Iran along the North – South corridor (mainly over the Caspian Sea) was 4 million tons, and 2,3 million tons between Iran and Black Sea counties¹⁰. There is great potential to increase transit freights and it is forecasted that the volume of transit freights to be attracted to Azerbaijan by 2020 will increase.

As a result of maximum use of the potential of the mentioned corridors, and reconstruction or optimization of the logistics infrastructure and other works:

- Real GDP will grow by a total AZN 605 million including AZN 400 million direct and AZN 205 million indirect,
- in total 18900 new jobs including 10900 in this area will be opened.

The following targets have been identified in order to achieve this:

- Increase the share of transit trade in the region, reaching to below shares:
 - 40% of Central Asia Black Sea route
 - 25% of Central Asia and Europe route
 - 3% of China and Europe route
 - 40% of Russia and Iran route
 - 25% of Iran and Black Sea route
- Establish monitoring systems for project implementation and complete the projects;
- Put into operation a Free Trade Zone including logistics and port services
- Establish 5 or 6 logistics centers around Azerbaijan (4 to be completed before 2020. Direct impact of logistics and trade center should be equal to 20 percent of the total impact from regional logistics and trade hub (as per priority 1.2);
- Increase operating net margins of airlines by 5%.

⁷ Source: IHS and UN Comtradedatabase

⁸ Source: IHS and UN Comtradedatabase

⁹ Source: IHS and UN Comtradedatabase

6. STRATEGIC OBJECTIVES

- As one of the priority areas for development of non – oil sector, logistics as an important factor for interconnection of other sectors of economy plays the role of a driving force in the progress of these sectors. In terms of total economic progress, the objective is to achieve important targets in logistics sector taking into account the inevitability of strengthening logistics sector and the exiting potential.
- The transit freights will be attracted to the transport corridors crossing the country, logistics and trade centers will be created in the regions efficiently using country's strategic geographic position and the country's attractiveness will be increased assessing the opportunities for new business, employment and added values at the same time for the purpose of becoming an important logistics and trade hub in the region.
- In order to ensure Azerbaijan's competitiveness in East – West and North – South transport corridors, time and costs spent for import – export operations and transit freights should be optimized border crossing procedures should be simplified and other important steps should be taken in this area, road infrastructure along the international corridors should be expanded, reconstruction and construction works should be completed and brought in line with international standards.

7. STRATEGIC TARGETS

7.1. STRATEGIC OBJECTIVE 1: CREATING FAVORABLE ENVIRONMENT TO INCREASE TRADE VOLUME THROUGH AZERBAIJAN

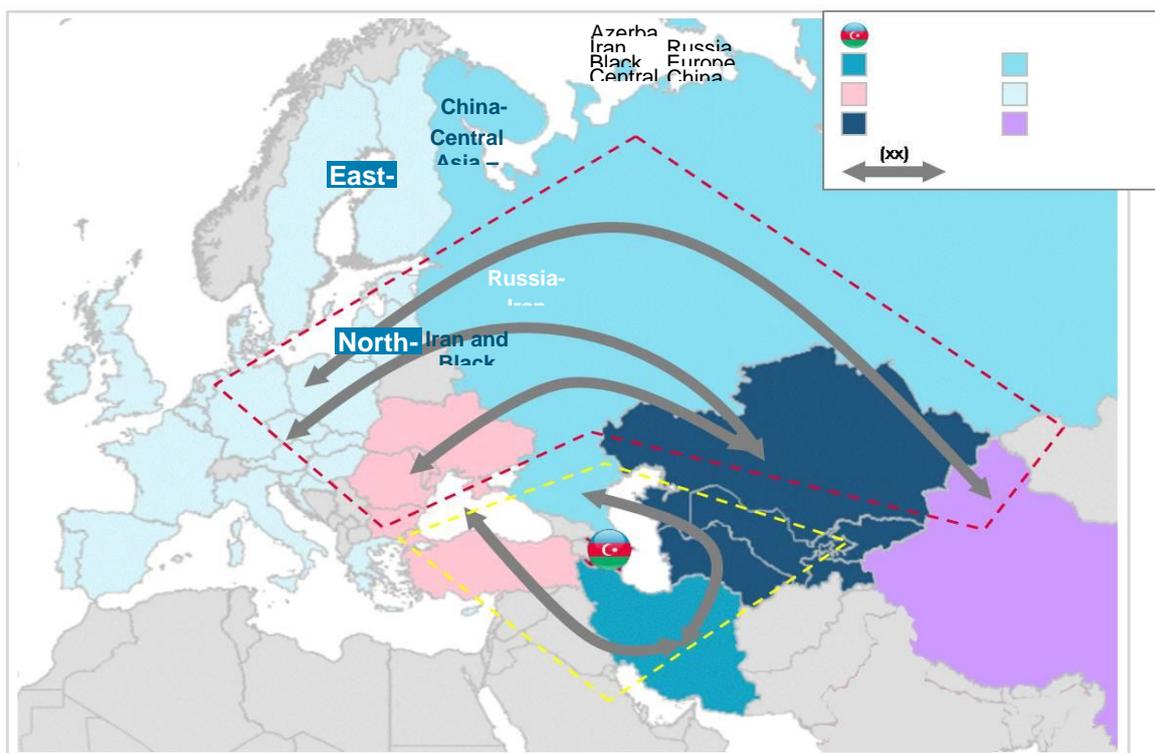
In order to increase trade volume, Azerbaijan will consider a set of initiatives aimed at bolstering the logistics and trade sector, including taking a leading role as a regional logistics and trade hub, completing three key infrastructure projects, and working to improve logistics and trade performance.

7.1.1. PRIORITY 1.1: STRENGTHENING THE LEADING ROLE OF AZERBAIJAN AS A REGIONAL LOGISTICS AND TRADE HUB

Rationale

Benefiting from its suitable position over the two main trade routes, Azerbaijan has the potential to become a major regional logistics hub, which would increase the country's share of regional logistics and trade revenue.

Exhibit: Two main corridors for 5 primary trade routes that cover Azerbaijan



- 1 Does not include Turkey for Iran and Black Sea route
 - 2 2014 data used
- Source: IHS and UN Comtrade database

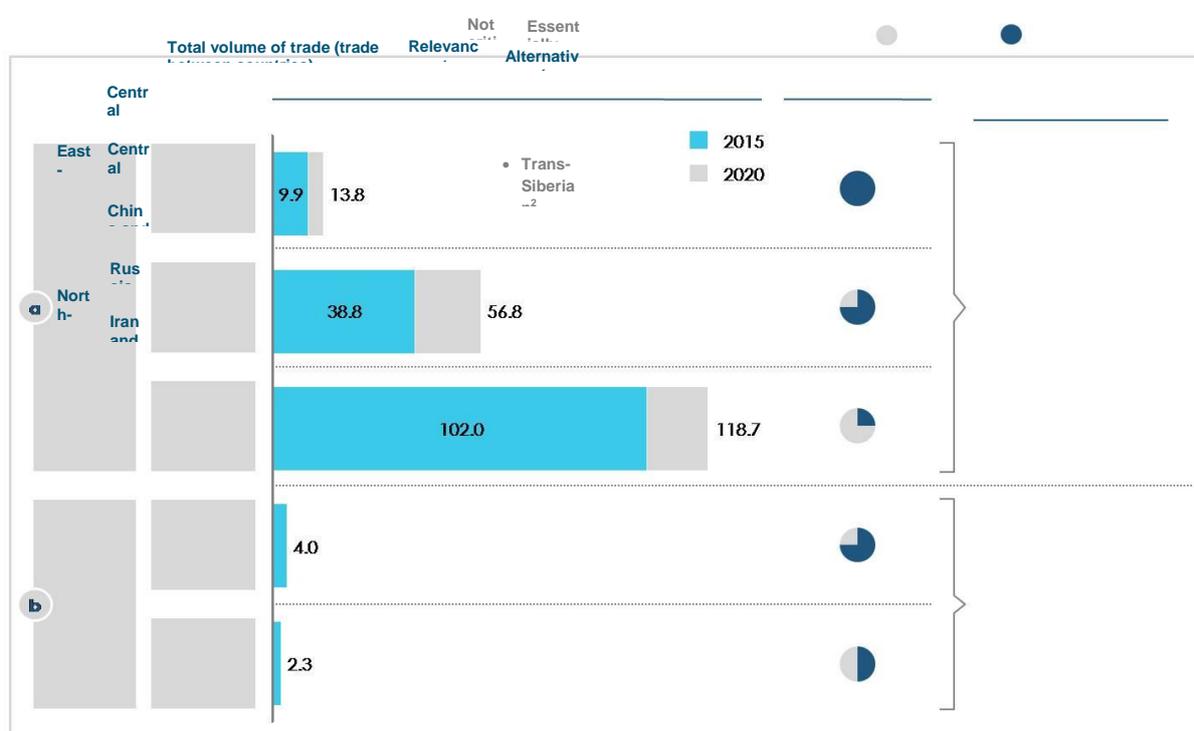
Iran analysis is based on only publicly available data and Azerbaijan government owned data

Source: IHS, UN database on commodity trade

East-West Corridor

The East-West Corridor is a major trade route with 150 million tons in annual trade, of which Azerbaijan currently captures a small share¹⁰. While the East-West Corridor promises strong growth, Azerbaijan faces strong competition for transportation along the route from alternatives such as the Trans-Siberian route, Trans-Siberian Kazakhstan, the Central Corridor, and maritime transport. Still, the volume of trade along this route is substantial (see exhibit 4): Central Asia and Black Sea region trade along the corridor stood at 9.9 million tons in 2015 and is expected to grow to 13.8 million in 2020. The East-West Corridor saw 38.8 million tons of Central Asia and Europe trade in 2015 with expected growth to 56.8 million tons in 2020, while China and Europe trade on the corridor represented 102.0 million tons in 2015 and is expected to grow to 118.7 million tons in 2020.

Exhibit 4: Azerbaijan’s competitiveness for East-West Corridor



1 Expected 2020 trade flow is not available
SOURCE: IHS, UN ComTrade

2 The routes are outlined on a map in later pages

Iran analysis is based on only publicly available data and Azerbaijan government owned data

Source: IHS, UN database on commodity trading

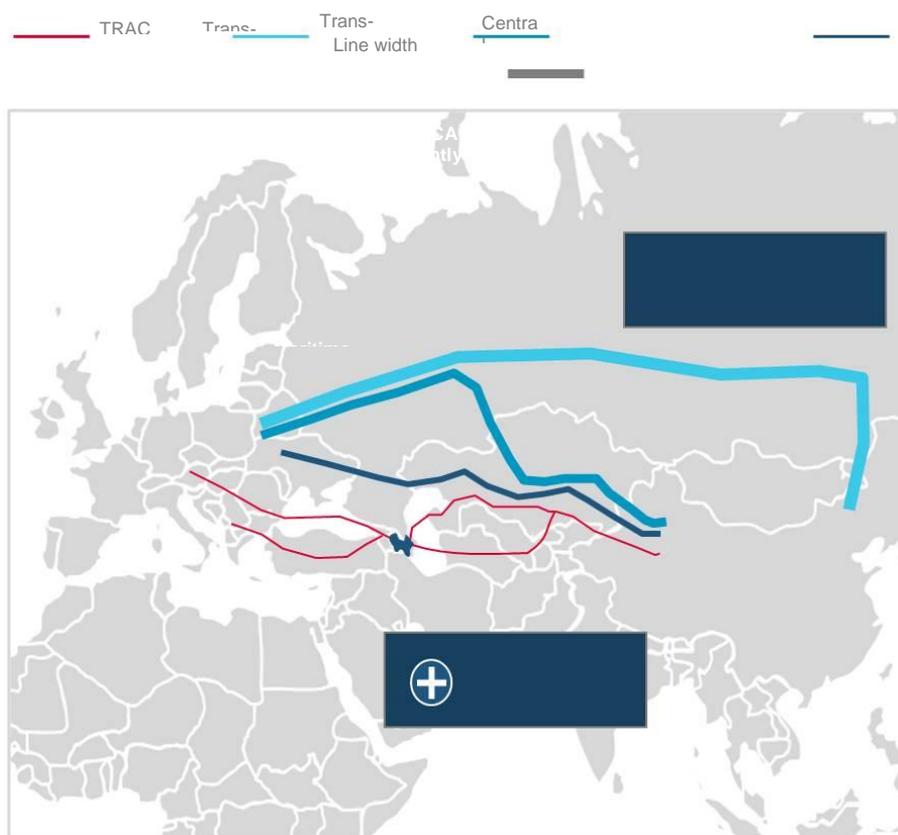
Along the East-West Corridor, Azerbaijan is the shortest route from Central Asia to the Black Sea region. Azerbaijan's double track railway between Baku and Tbilisi, rail ferry lines between

¹⁰Source of the data on trade routes in this section are IHS and UN Comtrade database.

Central Asia and Azerbaijan, and established pipelines all offer existing advantages to Azerbaijan's viability as a major player along this route.

Azerbaijan's major advantage in capturing more trade between China and Europe along the East-West Corridor is its position along the new Silk Road, which unlocks trade with landlocked western China—the economy of which is expected to exhibit strong growth in the coming years. However, the high number of competitors poses a challenge to becoming a major player along this route; many countries are already investing to capitalize on China's aspirations to increase continental trade between China and Europe. Those investments include China entering into an agreement with 20 other countries to create an Asia Infrastructure Investment Bank; investments by Turkmenistan, Uzbekistan, Tajikistan, Kazakhstan, and Kyrgyzstan to become effective players on the Silk Road; and an Iran-Turkmenistan-Kazakhstan rail link connected to China. The TRACECA, of which Azerbaijan is a part, is one of the least utilized of the five main trade routes between China and Europe, capturing just 2 percent of estimated transit volume (see exhibit 5).

Exhibit 5: Azerbaijan's position in the trade route between China and Europe within TRACECA

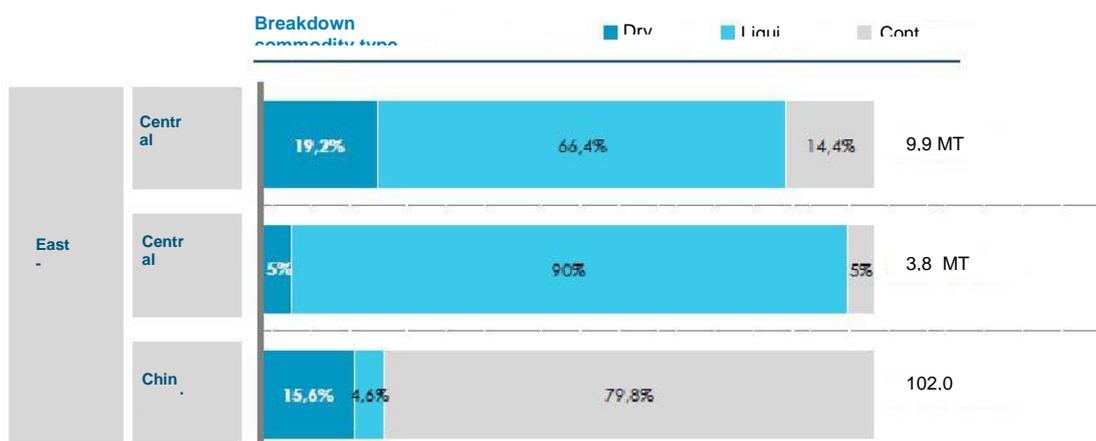


SOURCE: RETRACK

Dynamics of trade changes significantly depending on commodity types, as container trade is more lucrative than liquid or dry bulk trade (see exhibit 6). Along the East-West Corridor, liquid

bulk goods represent 66.4 percent of transportation volume between Central Asia and the Black Sea region, followed by dry bulk goods at 19.2 percent and container transportation at 14.4 percent. Liquid bulk cargo transported between Central Asia and Europe in railway tanks, are 90 percent of volume, with dry bulk and container each representing 5 percent. China-Europe is the only route with significant container flow of 80 percent.

Exhibit 6 Breakdown of freight along the East-West Corridor



SOURCE: IHS, UN ComTrade

The North-South Corridor

Azerbaijan’s other significant potential to become a logistics and trade hub is related to the North-South Corridor linking Iran and Russia, Iran and the Black Sea region, as well as Russia and India. Here the lifting of trade sanctions on Iran and restoration of trade relations of Iran with India and Europe offer new prospects for Azerbaijan. The completion of the Astara-Astara railway can enable Azerbaijan to fully capture its potential along the North-South Corridor, which connects Russia to Iran as well as Iran to Europe and Russia to India.

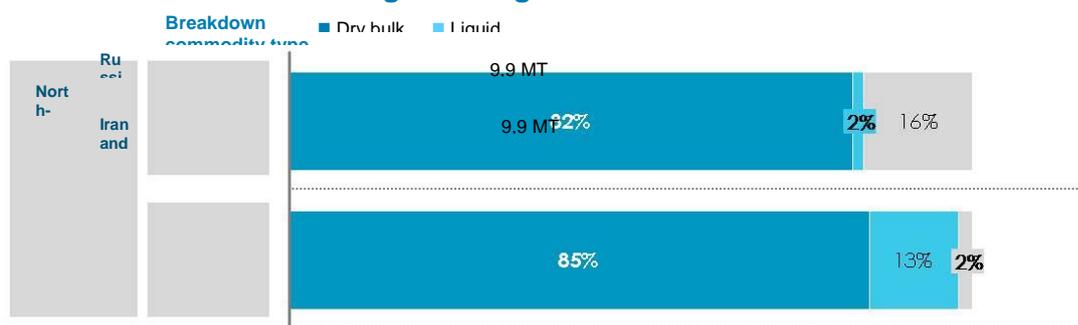
Despite the smaller volume of trade along the North-South Corridor compared with that of the East-West Corridor, Azerbaijan is one of the main players in this direction. The main alternatives for Azerbaijan along North – South corridor is sea freights through Caspian sea and partly railway freights crossing Turkmenistan and Kazakhstan. While 4 million tons of freights were transported between Russia and Iran along North – East corridor in 2015, approx. 2.3 million tons of freights were transported between Iran and Black Sea region.

Despite relatively small volume, trade through the North – East corridor offers broad opportunities for Azerbaijan. The lift of trade sanctions is expected to increase international trade between Iran, Russia and European countries significantly, and Iran is already making sizable fleet investments in fleet and port infrastructure to capture trade volume between India, Russia, and Europe. These investments include the purchase of 118 aircraft in January 2016, ongoing negotiations to buy high-capacity ships, an agreement to lease 500 freight wagons from Russia, and a joint venture between Iran’s leading company and German automobile

manufacturers¹¹. Since Iran’s investments cover not only air and sea freights, but also railway freights, the North-South Corridor will see a significant amount of activity, some of which could be captured by Azerbaijan.

Along the North-South Corridor, dry bulk represents the vast majority of goods transported, at 82 percent of commodities between Russia and Iran and 85 percent between Iran and the Black Sea region (see exhibit 7). Container shipping is 16 percent of the volume between Russia and Iran with 2 percent in liquid bulk, while liquid bulk is 13 percent of the transportation between Iran and the Black Sea region and container is 2 percent. This imbalance suggests that maritime transport accounts for the other half of one-way traffic.

Exhibit 7: Breakdown of freights along North-South Corridor

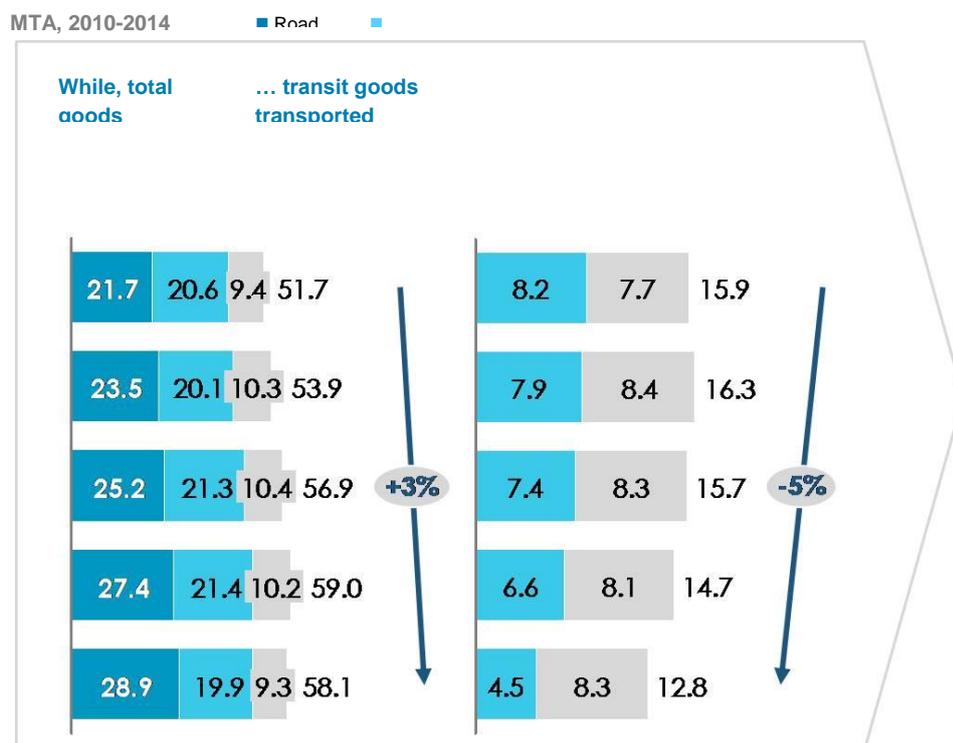


TRACECA route

While total goods transported through Azerbaijan territory along the TRACECA route grew at a compound annual growth rate (CAGR) of 3 percent from 2010 to 2014, transit shipments shrunk by 5 percent (see exhibit 8)—suggesting that the overall increase resulted from Azerbaijan supporting the TRACECA route through domestic production and consumption. The main reasons for the decrease of transit activity are considered to be low reliability and high expected costs (both in time and travel) of existing transportation options.

¹¹ Source: Investigation of publication available to public and of press, and the calculations of independent experts

Exhibit 8: Decrease in freights by TRACECA route through the territory of Azerbaijan



1 Transport Corridor Europe-Caucasus-Asia
 SOURCE: State Statistical Committee

Compared with the alternatives in the East-West Corridor, consignors choosing faster and cheaper alternatives to the TRACECA is likely the major factor for the decrease of cargo volume transported thereby. However, in all aspects of stretch and node indexes, the TRACECA route has the potential for improvement compared with alternative routes for Central Asia trade. The main reasons for the current underperformance are travel costs for stretches (including taxes and tariffs), time costs for nodes (including waiting time at borders, ports, and rail stations), and reliability (the low predictability of delivery times and costs).

Nevertheless, Azerbaijan performs better than most other TRACECA countries located over the route of TRACECA in terms of time and expenses spent for import. From 2010 to 2014, Azerbaijan improved time to export by 7 percent¹². Also Azerbaijan and Iran could achieve reduction in expenses spent for import operations during 2010 – 2014. However, despite the improvements in this area, Azerbaijan still has room for improvement compared with Georgia, Iran, Romania, Russia, and Turkey, which have better performance.

¹²Source: World bank

Actions to be taken

Action 1.1.1: Identifying Azerbaijan's targets in logistics in international trading

The first, there will be defined the targets for logistics sector in Azerbaijan for expansion of international trade by route and type of cargo, and necessary steps will be defined to achieve those targets. First, Azerbaijan will collect information on sector targets and statistic projections for different economic activities from the Ministry of Economy, and forecast total volume of exports and imports.

Second, it will use analysis provided in this Strategic Roadmap, collect estimations for transit trade in the region in next 5-10 years and the scope of the analysis will be further expanded.

Third, information from "Baku International Sea Trade Port" Close Joint Stock Company, "Azerbaijan Railways" Close Joint Stock Company and "Azerbaijan Caspian Shipping" Close Joint Stock Company will be collected on their current capacity, resources and improvement plans.

Fourth, it will define specific targets for logistics sector in Azerbaijan (total flow of dry bulk, liquid bulk, container, etc. trade for each route) and key performance indicators (time and cost to export/import, waiting times, etc.), particularly the ways of ensuring competitiveness in transit transportation.. Finally, it will identify financial and other necessary steps to meet the financial needs and to improve legislative framework with a view to closing the gaps to achieve the targets.

Action 1.1.2: Improving supervision mechanism and regulatory basis in logistics

The monitoring mechanism to ensure strong coordination and progress towards targets will be considered. Then the relevant state bodies will prepare proposals regarding updating the existing regulatory basis on logistics and making changes in tax structure and identifying incentives and submit these proposals accordingly.

Action 1.1.3: Providing information on the regular actions to be taken and their results

Going forward, the government will collect data on defined KPIs and follow developments on proposals to be made to other governmental bodies. It will then publish this information, including target achievement, to the public quarterly through online portal,. The workshop will be repeated annually to analyze achievement of targets and to ensure necessary refinement to targets and strategies to achieve them.

Expected results and indicators

Focusing on essential trade routes and investing in infrastructure, the implementation of this priority is forecasted to bring a total of AZN 380 million including AZN240 million direct and AZN 140 million indirect GDP increase by 2020 and 5500 new jobs are forecasted to be opened.

A Key Performance Indicator is to increase volume of transit trade in the region to reach below numbers:

- 40% of Central Asia and Black Sea route
- 25% of Central Asia and Europe route
- 3% of China and Europe route
- 40% of Russia and Iran route
- 25% of Iran and Black Sea route

In terms of direct GDP impact analysis, it is forecasted that the trade volume of the East-West and North-South corridors will naturally increase around 7% annually.

Azerbaijan will participate in all categories (container, dry bulk and liquid bulk type of transport). Current prices in the region as well as port operation costs will be added to transit transportation costs.

The required investment

Required investment for this priority is estimated under other strategic priorities 1.2, 1.3 and 2.3, since all of them are collectively important elements of becoming a regional logistics and trade hub.

Expected risks

- Strong competition with the routes as Trans-Siberia, Trans-Siberia – Kazakhstan and sea freights;
- Competitive advantages of Azerbaijan in the corridors crossing through Iran and Russia in attracting the freight volume in the trade turnover between Central Asia – Black Sea basin;
- Smaller risks of Azerbaijan in relation to the other corridors in attracting the freight volume transported through North – South corridor are mainly due to higher expenses and longer time of the freights over Caspian Sea (Iran – Russia) and weather changes during sea freights. Relative small volume of freights in these corridors may cause a decline in efficiency of the investment to be made.

7.1.2 Strategic Priority 1.2: Completion of new Port of Baku complex situated at Alat settlement, Baku – Tbilisi – Qars railway and Astara – Astara railway projects

Rationale

The completion of three major infrastructure projects will strengthen Azerbaijan's integration with international corridors and allow seamless intermodal (combination of overland, railway and water transport types) and multimodal operations:

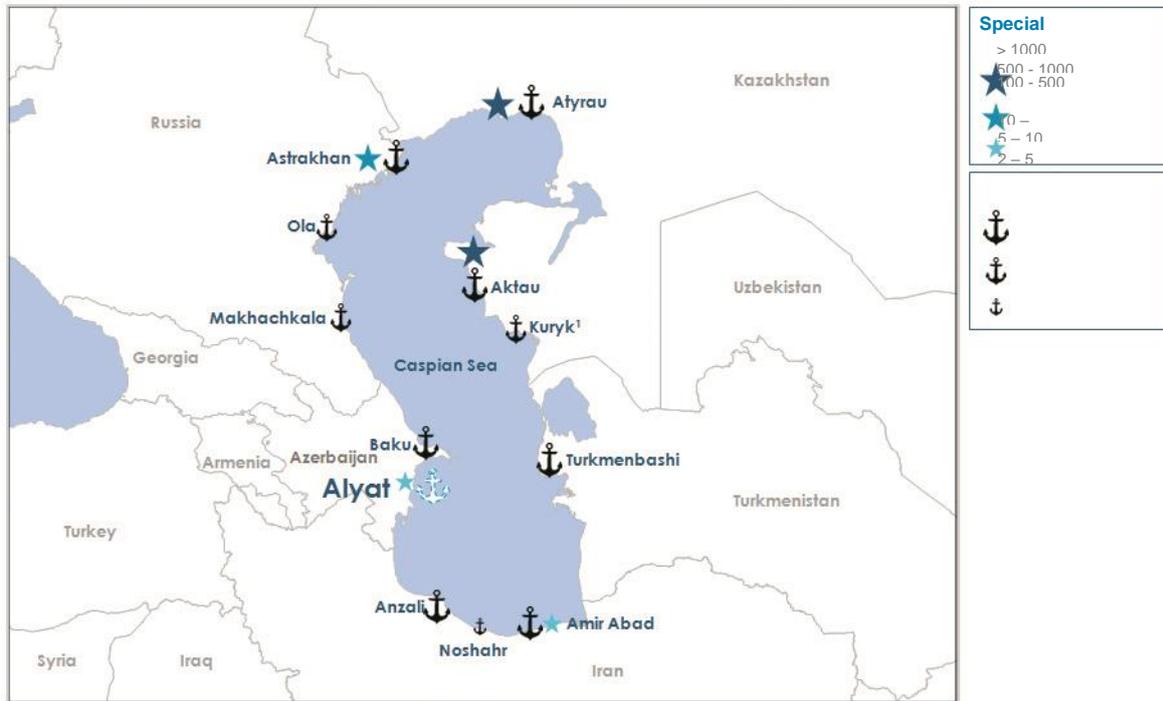
- 1) New Port of Baku complex situated at Alat settlement will be a modern and integrated port that will be a critical enabler for the rest of the economy.
- 2) The Baku-Tbilisi-Qars railway project could provide a new gate for reaching the Mediterranean and Europe through Azerbaijan as part of the East-West Corridor, providing an alternative to the Poti port due to potential connections to Turkish ports.
- 3) Cargo transportation through Astara-Astara railway route, upon completion, will potentially offer superior cost and time performance compared with the maritime route along the North-South Corridor.

Furthermore, the completion of infrastructure investments into domestic highways will increase the integration of the major projects with each other and with domestic production, as well as increase the three major projects' effectiveness.

Potential of New Port of Baku complex situated at Alat settlement

New Port of Baku complex situated at Alat settlement will provide a competitive multipurpose port on the Caspian Sea, with seamless regional and airport connections. Of the dozen ports on the Caspian, the New Port of Baku complex will be the largest (see exhibit 9) and once completed will have a total annual capacity of 25 million tons and 1 million TEU(20 feet container). The new Port of Baku complex will be able to handle liquid bulk, dry bulk, other packed cargo, motor vehicles and container cargo, and it will be able to serve ferries that are up to 160 meters long with 10 KT dead weight and 8-meter immersion. Once fully operational, the new Port of Baku complex will be key to addressing opportunities presented by both the East-West and North-South corridors (discussed in strategic priority 1.1). The new Port of Baku complex will also be integrated into the first free trade zone in Azerbaijan (discussed in strategic priority 2.1).

Exhibit 9: Port of Baku at Alyat as 12th sizable port in the Caspian Sea



1 In construction, being developed as a port in 2 locations for ferries and container traffic

Source: "Azerbaijan as a regional hub in Central Eurasia" (2012), based on the analysis of data provided by the official authorities of relevant countries and their mass media.

The new Port of Baku complex will address all three main factors required to create a competitive hub port: efficiency, favorable location and value-added services.

Efficiency. Compared with the current Baku International Sea Trade Port, the new Port of Baku complex in Alat settlement will deliver efficiency through modern IT systems and relative automation.

Favorable location. The new Port of Baku complex is situated at the intersection of railway lines with Russia, Iran and Europe and has direct access to main automobile highways, also it has close proximity to Heydar Aliyev International Airport for air cargo. The suitable geographic location of new Port of Baku complex is more suitable than the current ports of the country. That is, new Port of Baku complex situated in Alat settlement and existing Port of Baku allow transporting freights to the ports of Turkmenbashi and Aktau by ferryboats, dry cargo ships and RO-RO (ships carrying wheeled vehicles) in a cost and time effective manner.

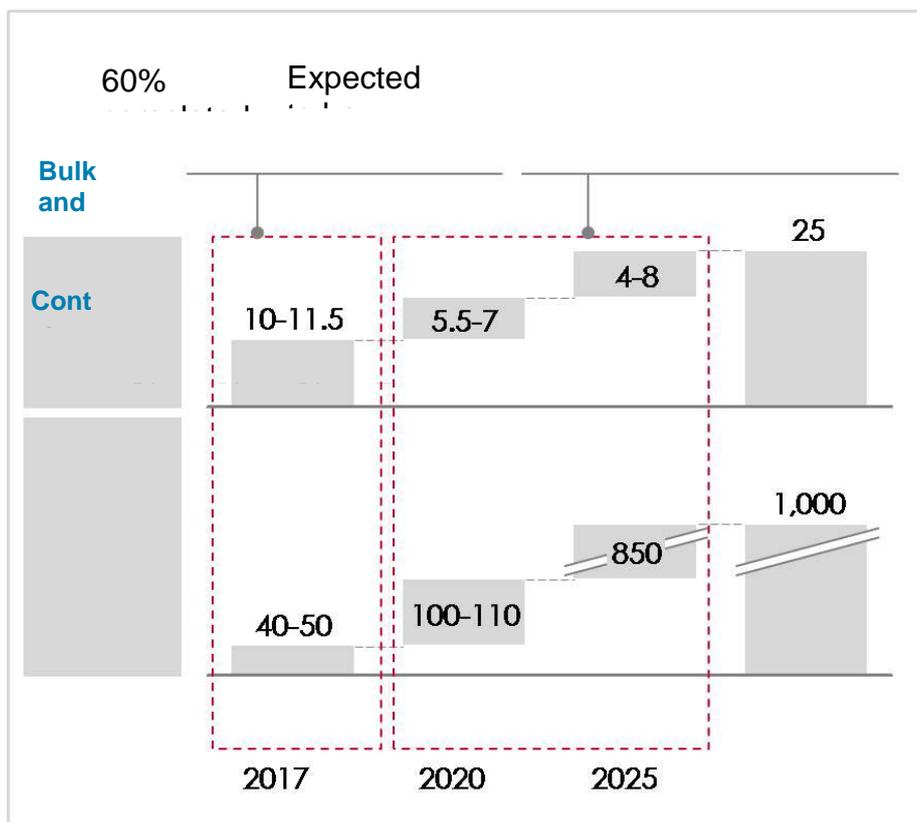
Value-added services. The new Port of Baku complex situated in Alat settlement will be designed to deliver general logistics services and value-added services (packing, assembly, reprocessing etc.); the port will serve as a logistics center offering intermodal facilities, a customs holding area, an open storage yard, warehouses, a container yard, and a TIR truck

center. Putting free trade zone into operation will create added value in the trade volume of Azerbaijan (discussed further in strategic priority 2.1).

The new Port of Baku complex will be completed in three phases: state budget is responsible for funding the most part of the first phase, which as of July 2016 was 60 percent complete. The first phase is projected to be fully completed in 2017, providing capacity for 10 million to 11.5 million tons of bulk and general cargo and 40,000 to 50,000 TEU of container cargo.

The logistics center and free trade zone in the new Port of Baku complex situated in Alat settlement are designed to not only increase capacity but also attract foreign investors. To complete Phases 2 and 3 of the new Port of Baku complex, public-private partnerships model will be used (see exhibit 10). The port's capacity at completion will be 25 MT of bulk and general cargo and 1 million TEU of container storage. The port will also catalyze an important increase in Azerbaijan's container handling capacity, with 150,000 TEU expected by 2020—necessitating a special focus on developing Azerbaijan's container logistics chain.

Exhibit 10: Development plan for new Port of Baku



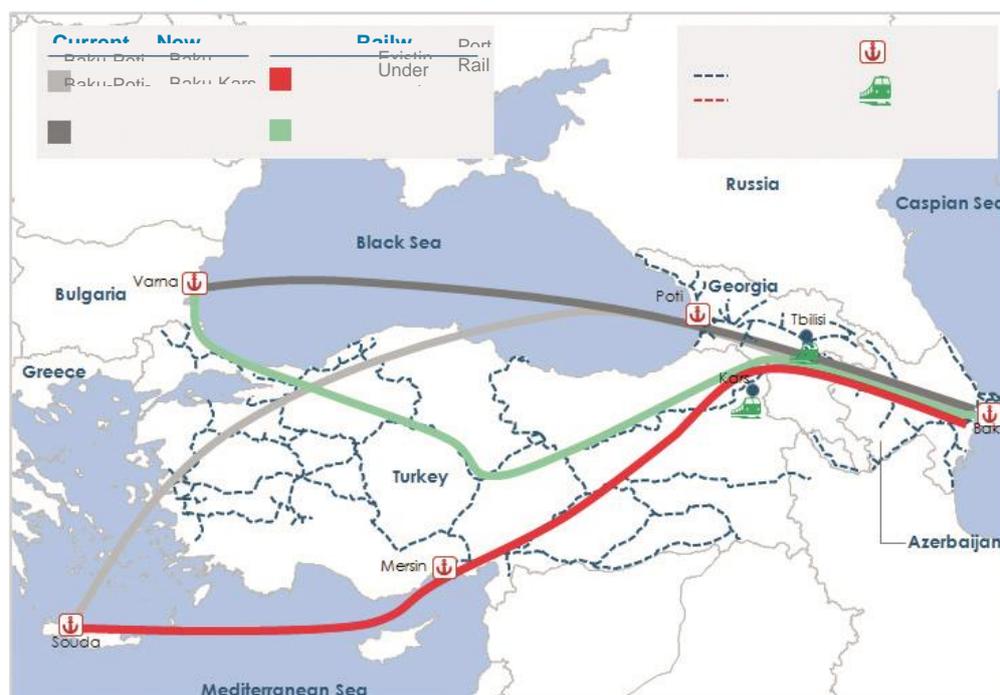
Source: "Baku International Sea Trade Port" Closed Joint Stock Company

The Baku-Tbilisi-Qars railway

The Baku-Tbilisi-Qars railway which is a strong alternative to current East-West Corridor routes will significantly increase transportation capacity through Azerbaijan. As an alternative to Georgia's Poti and Batumi port, the Baku-Tbilisi-Qars railway will offer uninterrupted access to Mediterranean ports and European markets (see exhibit 11), improving connectivity in the

East-West Corridor and helping to address the opportunities presented in strategic priority 1.1. The Baku-Tbilisi-Qars railway will provide an initial capacity of approximately 6.5 million tons, which will eventually reach 17 million tons. Funding includes a USD 775 million soft loan Azerbaijan advanced to Georgia to restore the part of the railway crossing through Georgia and to build a new 30-kilometer stretch. Turkey and Azerbaijan will each fund the construction of their own sections.

Exhibit 11: Baku-Tbilisi-Qars railway as a new gate to reach the Mediterranean and Europe



Source: State Railways of the Republic of Turkey, Georgian Railways, the Ministry of Transport of the Republic of Azerbaijan and interviews with the experts.

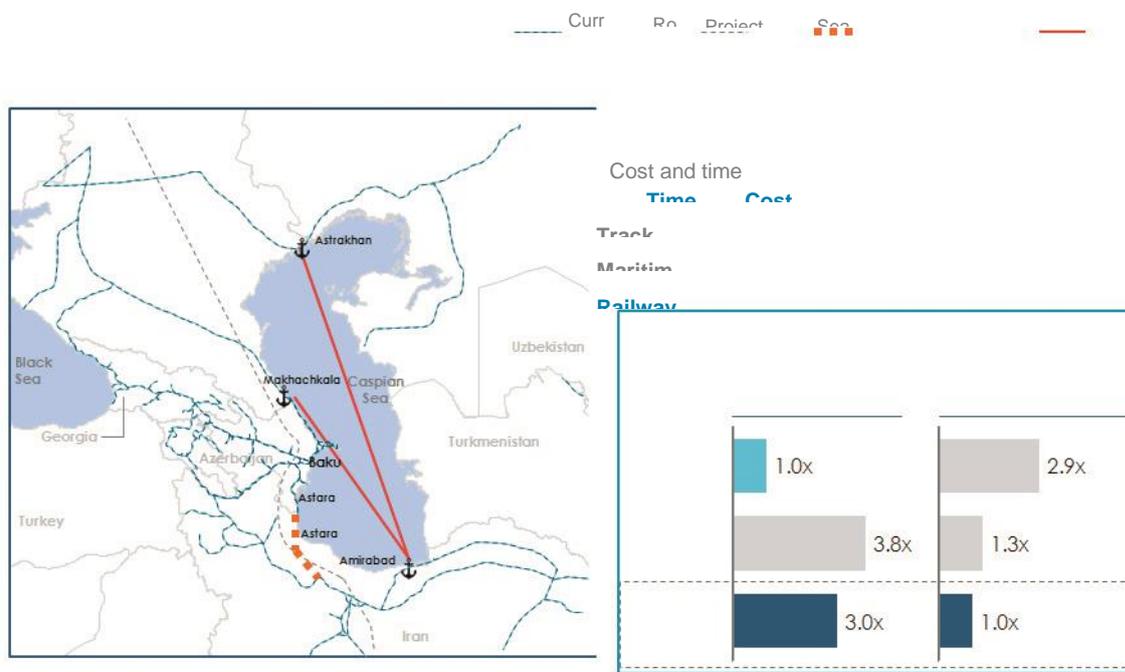
As compared to the existing alternative routes to Europe, this route is estimated to shorten the period of transportation of the freights from Baku city to the Mediterranean by 10-20 percent. Also Baku-Mersin-Souda route is estimated to decrease shipment costs unpackaged dry bulk (for instance, grain) by 5 to 10 percent. The Baku-Tbilisi-Qars railway potentially will not further improve shipping time or costs for shipments significantly. However, it will provide a vital foundation for higher volume for flow of goods through Azerbaijan in three ways: the railroad will create additional capacity for exports to Europe, will allow better risk management for deliveries due to existence of alternatives and it will generate flexibility of additional route for Turkish exports to the Central Asian countries.

The Astara-Astara railway would offer advantages over the maritime route

Trade between Iran and Russia is mainly concentrated in maritime and trucking routes. The commissioning of Astara-Astara will ensure uninterrupted access of the freights to the new route by increasing the competitiveness of the North-South Corridor in terms of cost and time.

In addition, this new railway connectivity will reduce the volume of the sea freights between Iran and Russia and relatively facilitate the passage of the truck through state border crossing (Exhibit 12).

Exhibit 12: Astara-Astara project compared with the maritime route

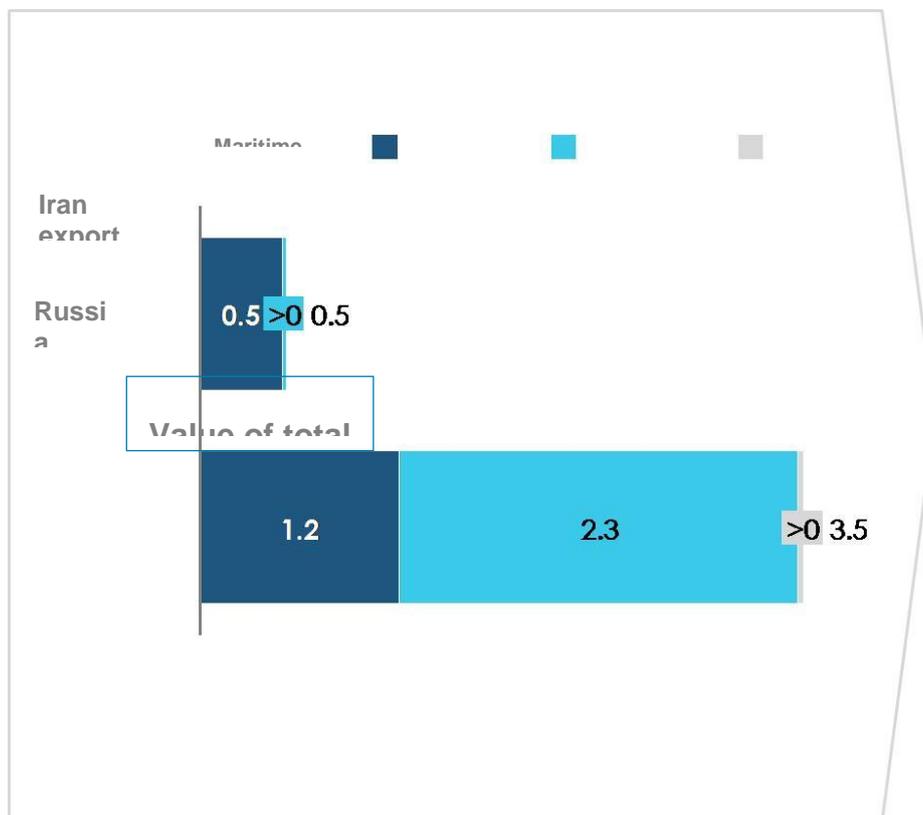


Iran analysis is based on only publicly available data and Azerbaijan government owned data

Source: Iranian Railways, Russian Railways and estimate by independent experts

The railway freights would address such current bottlenecks as the limited depth of the Caspian Sea, weather-related delays in the Caspian Sea, and incompatibilities in truck per axle and emission regulations in Azerbaijan etc. It would also be nearly a third less costly than truck shipping for dry bulk, and both less expensive and more time-effective than maritime shipping as well (exhibit 12). Ultimately, railway transportations be the best alternative for trade between Russia and Iran and majority of cargo carried through maritime routes could be carried thereby. However, current trade from Iran to Russia is done almost entirely via maritime transportation, while Russia-to-Iran trade is mostly overland (see exhibit 13).

Exhibit 13: Freights between Iran and Russia



Note: Iran analysis is based on only publicly available data and Azerbaijan government owned data
 SOURCE: Russian state statistics, IHS

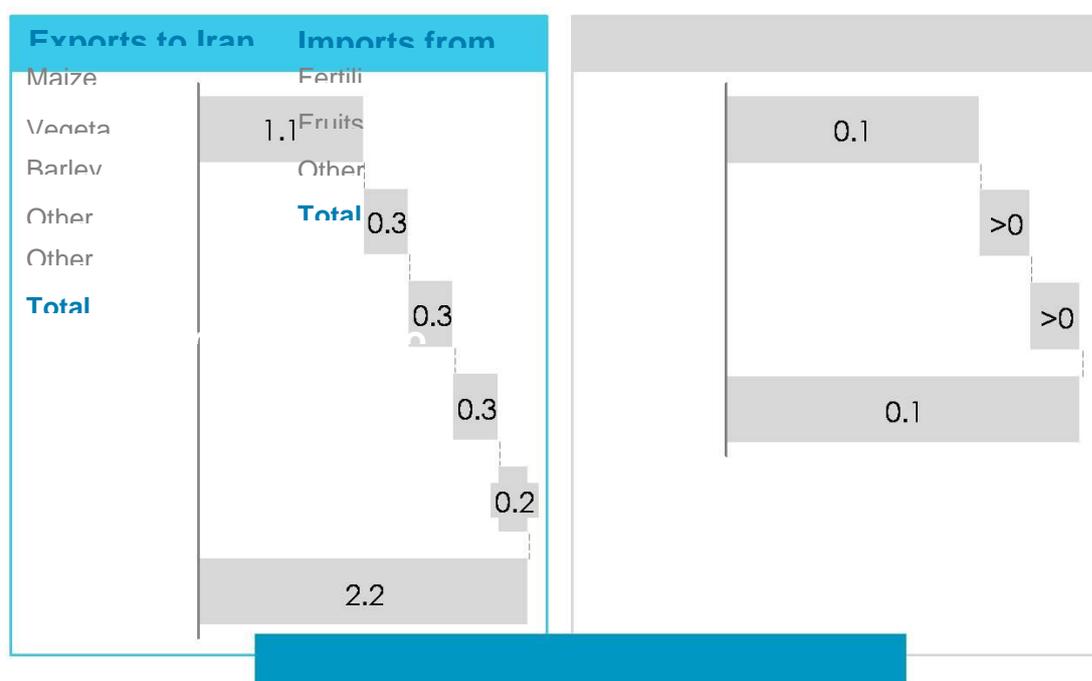
Furthermore, the railway could also capture a part of maritime trade between Iran and Black Sea countries. Iran trade with Ukraine had a value of USD 756 million in 2014; its trade with Bulgaria totaled USD 154 million; and its trade with Moldova and Romania totaled USD 120 million. The vast majority of this trade was maritime, with some overland trade with Ukraine and very limited airborne trade with Bulgaria, Moldova, and Romania¹³.

Today, trade between Iran and the Black Sea region is primarily dry bulk goods, for which the Astara-Astara railway route could be cost effective (see exhibit 14). The 2.2 million tons in exports from the Black Sea region to Iran in 2014 included maize, vegetable oil, barley and other grains, while the Black Sea region imports from Iran were primarily fertilizer.

¹³ Source: Source: IHS and UN Comtrade database

Exhibit 14: Dry bulk trade between Iran and the Black Sea

Million ton, 2014



Iran analysis is based on only publicly available data and Azerbaijan government owned data
 1 Wood, metal, equipment
 2 Glassware, chemicals, and solvents

Source: IHS, UN database on commodity trading

Planned capacity for the Astara-Astara railway is 6 million tons initially and could ultimately increase to 20 million tons following completion of the proposed projects (Construction of Astara-Astara railway, connection of Astara – Rasht railway, repair and reconstruction of approx. 290 km part of Astara – Yalama railway and improvement of automation and signaling system in this line) and depending on the economic conditions of the region’s countries¹⁴. Accordingly, there will be considered various opportunities for the purpose of facilitating the construction of the part of railway crossing Iran. In this regard, efforts made by Azerbaijan in financing the construction of Rasht – Astara section of the railway project may serve as a good example.

¹⁴Source: “Azerbaijan Railways” CJSC

Actions to be taken

Action 1.2.1: Supervising the execution of three key projects and support the solution of new issues

As mentioned above, completion of three key infrastructure projects will sufficiently increase the opportunities for Azerbaijan to benefit from trade along the East – West and the North – South corridors. Within the cooperation between relevant governmental bodies, there will be established a dedicated monitoring system for each of three major projects, including tracking the progress in Azerbaijan and project partner countries. The monitoring system will include supervision over provision and use of funds for different phases of the projects.

Action 1.2.2: Assessing the private sector participation in this field

Relevant bodies will consider respective actions with regard to provision of the necessary financial resources to facilitate the process for securing new budgets for domestic and international components of the projects. For funding of the projects, before allocation of any public resources, there will be conducted an assessment to evaluate possibility of private sector participation, through the mechanisms as Build-Operate-Transfer (BOT), for any necessary additional funding.

Action 1.2.3: Carrying out supervision over the use of funds as intended by establishing a monitoring system for the implementation of three key projects

With the view of earliest completion of the projects, the progress of the works performed under projects will be tracked based on the monitoring system and actions will be taken to eliminate any barriers. This also includes the provision of monitoring for key performance indicators following the completion of the projects, the elimination of the issues likely to arise within the period of expansion of the scope of activities, systemic review of the priority of freights to be transported by the routes, the involvement of international logistic companies to direct the freight volumes towards new routes and making necessary conditions available to ensure their business activities.

Action 1.2.4: Identifying the key performance indicators

Once these projects are completed, the relevant bodies will monitor operational performance of projects by defining the key performance indicators (KPIs) regarding the use of the routes, and take actions in elimination of issues likely to arise with respect to expansion of the scope of activities.

Action 1.2.5: Conducting field analyses and identifying new targets based on these analyses

During the next phase, the relevant bodies will conduct regular analyses on flow of goods and change of volumes in transit freights on those routes. Those analyses will be used as an input to update targets of the sector. Assessment of strengths and opportunities will assist “Baku International Sea Trade Port” Close Joint Stock Company, “Azerbaijan Railways” Close Joint Stock Company and “Azerbaijan Caspian Shipping” Close Joint Stock Company. Based on

both analyses, companies will invite international investors and logistics companies to channel volume increase to the new routes.

Expected results and indicators

In order to become a regional logistics and trade hub, there are three major projects, already planned and partially implemented, which are critical to be completed. These are the new Port of Baku complex situated in Alat settlement, Baku-Tbilisi-Qars railway, and Astara-Astara railway.

Direct and indirect GDP impact of all these projects is calculated under strategic priority 1.1. These projects are the backbone of the plan for turning Azerbaijan into a logistics and trade hub. By completing these projects, around 6,700 new jobs are estimated to be created.

Key Performance Indicator is to set monitoring systems of project implementation and complete the ongoing projects.

When estimating impact, employment and investment, trade volume capacity of the new Port of Baku complex is taken as 20 million tons/year, Baku-Tbilisi-Qars railway as 10 million tons/year, and Astara-Astara as 15 million tons/year. For all railway investments, only the part within Azerbaijan borders is taken.

Investment required

For these ongoing projects, around AZN1,180 million of investment is estimated to be required and it is necessary to conduct feasibility studies in order to specify the exact investment requirement.

Expected risks

The delays in completion of all 3 mentioned projects may reduce attraction of additional freights by diminishing the reliability of the corridor. At the same time, there should be also taken into account the ambitions of Caspian basin ports to become an important trade and logistic hub in the region.

Limited depth of the Caspian Sea, low deadweight of the ships in the Caspian Sea (especially, the container ships), possibility of weather-related delays in the Caspian Sea, and incompatibilities in truck load per axle and emission regulations in Azerbaijan etc. may be the main risks factors.

7.1.3. Priority 1.3: Improving logistics operations

Rationale

Although investments in infrastructure will increase Azerbaijan's competitiveness compared to alternative routes, ensuring that Azerbaijan's logistics network operates at its full potential will require a continuous emphasis on improving performance across many different areas. Initiatives to improve logistics operations across modes of transport and vehicles will continued

by eliminating a number of potential bottlenecks, focusing on competitiveness in cost and time, as well as on strengthening the transit trade reliability.

Reducing port handling time and increasing vessel deadweight

Reduction in port handling time and improvement of vessel operations are priority areas in multimodal transportation operations in relation to deadweight increase. Taking the Poti to China route on the East-West Corridor as an example, Azerbaijan's performance seems to be in line with its trade partners. Transit goods spend 106 to 118 hours¹⁵ in Azerbaijan, of which 6- 8¹⁶ hours for railway cars, and 9 – 11 hours for containers are related to port handling operations.

In addition to port infrastructure of Azerbaijan, enhancements of other neighboring countries ports could improve Azerbaijan's logistics performance. To that end, Azerbaijan will seek cooperation and coordination with other countries to improve overall performance. For example, infrastructure improvements at the Port of Poti could help boost Azerbaijan's logistics performance. Furthermore, several improvements to the Port of Aktau (Kazakhstan) and the Port of Turkmenbashi (Turkmenistan) could benefit Azerbaijan. Such efforts could include improving customs procedures; upgrading infrastructure by applying technological achievements and port modernization and increasing predictability and decreasing waiting time in the handling phase. Improvements in tracking and tracing systems at both ports and an increase in the quality and quantity of their logistics services will also benefit Azerbaijan.

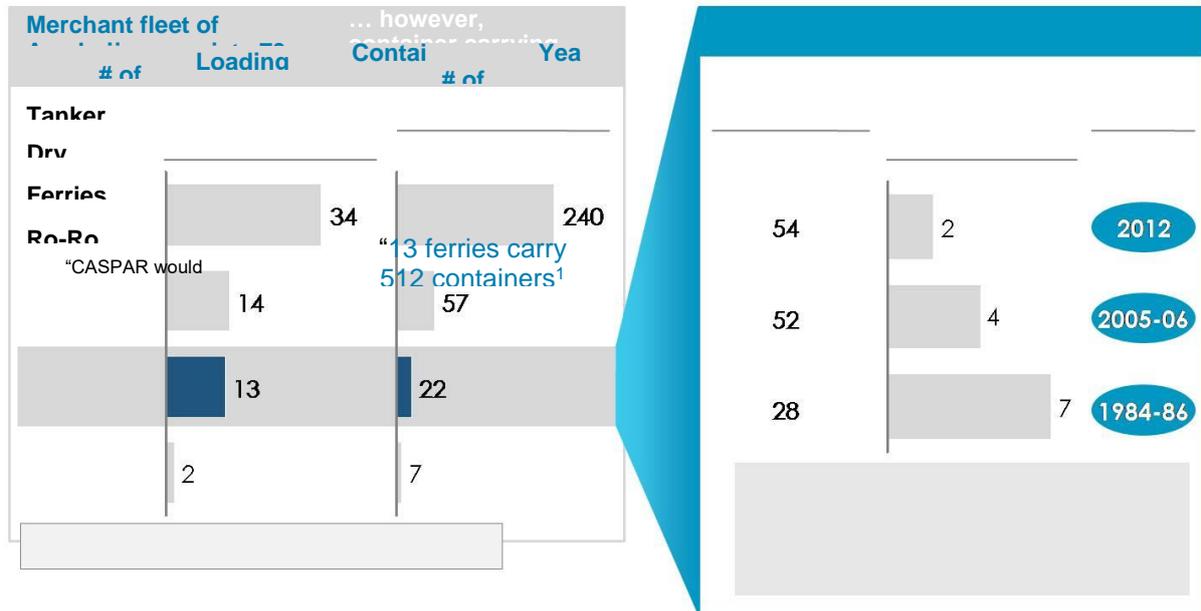
In addition to port operations in Azerbaijan and abroad, ship deadweight presents a potential bottleneck. Azerbaijan's current merchant fleet contains 64 vessels with more than 363 KT deadweight. However, because container-carrying capacity is limited (see exhibit), there is a necessity to increase current deadweight capacity in order to boost container transportation. (Exhibit 15).

¹⁵ Source: RETRACK

¹⁶ Source: "Baku International Sea Trade Port" CJSC

Exhibit 15: Current container capacity of the ships

■ Container carrying fleet



¹ 40 feet containers

SOURCE: "Azerbaijan Caspian Shipping Company" Closed Joint Stock Company

At present, the transport fleet of "Azerbaijan Caspian Shipping Company" Closed Joint Stock Company includes tankers, universal dry cargo ships, ferryboats and Ro-Ro ships. The useful life of some of the ships in the transport fleet (25 years) have already expired and it is required to replace them with new ones. That is, when renting of the ships by internationally renowned companies, the ships with service life up to 15 years and with technically perfect condition and meeting all the requirements of the international maritime conventions are preferred, and in this case the ships whose service life has expired are not involved in freights.

The construction of Baku- Tbilisi –Qars railway, construction of new Port of Baku of Baku complex in Alat settlement, commissioning of the free trade zone and the efficient use of other large – scale strategic projects are closely related to shipping activities on East - West and North – South route. Therefore, it is necessary to have a new fleet with strong capabilities and it is of special importance to have tankers, universal dry cargo ships, ferryboats, Ro-Ro ships and container ships meeting recent requirements in the shipping fleet.

The main goal of increasing the competitiveness of the routes crossing Azerbaijan is to optimize the expenses, timing and reliability. There are few ways of improvement of performance in logistics: reduction of time spent for arrival and departure of the cargo in port and increase in deadweight of the ship; progress in solution of the issues related to difference in railway break-of-gauges; mitigation of regulatory requirements regarding weight of the cargo; reconciliation of taxes, tariffs and duties; reduction in expenses; frequent use of trucks, railway sand ships to cut expenses. Though there a few areas requiring focus, there is a need

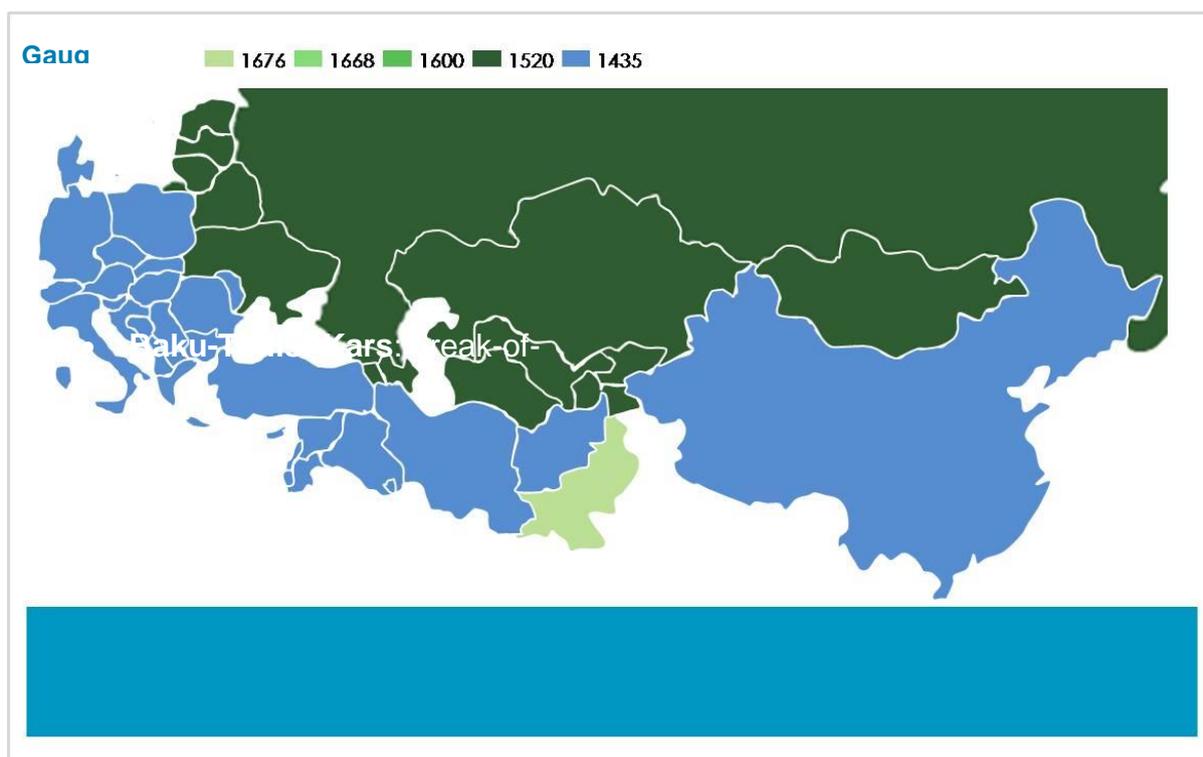
for conducting thorough analyses for the purpose of identifying exact steps to be taken in order to perform these goals and duties.

In terms of developing multilateral cooperation in logistics Azerbaijan may also consider accession to “Intergovernmental Agreement for Dry Ports” of United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) while protecting Azerbaijan’s interests.

Improvements in connection with differences in railway break-of-gauges

The new projects discussed in strategic priority 1.2 will expand the prevalence of mixed gauges that improve efficiency of operations across borders, such as the break-of-gauge at the Turkey-Georgia border for the Baku-Tbilisi-Kars railway or the break-of-gauge at the Iran-Azerbaijan border for Astara-Astara (see exhibit 16). International studies show that change of gauge can take up to 35 hours¹⁷, which is typically longer than queuing, loading, unloading, or customs clearance. To ensure flexible performance of the work, there is a need for conducting detailed feasibility studies regarding consideration of the issue of gauge change.

Exhibit 16: The new projects present break-of-gauge that could limit efficiency of operations across borders



Source: “The World Factbook”

Initiatives regarding railways cover creation of incentives for unit trains in order to avoid delays due to loading time and to benefit from priority related to establishment of the hub. Currently

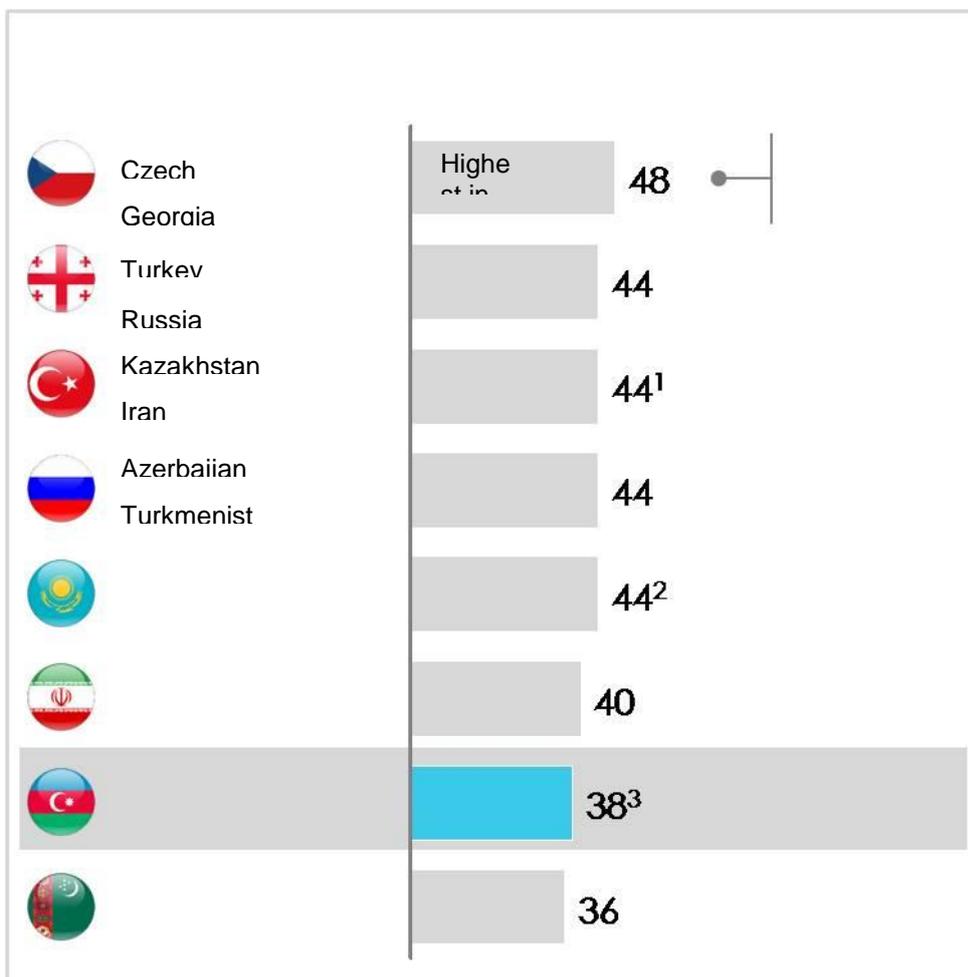
¹⁷Source: Organization for Cooperation of Railways and Asian Development Bank

a profit and loss analyses regarding elimination of railway break of gauge in the new railway projects is underway and based on these analyses more profitable and efficient solution will be selected.

Mitigating regulatory requirements with respect to vehicle

In overland transportation, Azerbaijan currently enforces strict axle limits for trucks in the TRACECA route (see exhibit 17), which could be discouraging trucking companies from using the Azerbaijani route. For example, a truck can load 44 tons if it uses the Turkey-Georgia-Russia-Kazakhstan route, but only 38 tons through the Turkey-Georgia-Azerbaijan-Kazakhstan route due to the 38-ton limit enforced in Azerbaijan.

Exhibit 17: Comparison of truck weight regulations (tons)



1 If carries 40 feet containers, otherwise 40 tons

2 For road train

3 With limitations on front and back load separately

Iran analysis is based on only publicly available data and Azerbaijan government owned data

SOURCE: IRU, Michelin

There will be considered the initiatives regarding increasing the limits for axle limits and reducing freight charges in order to continuously eliminate the shortages in logistics in the country at present.

Other possible improvement areas

Time and transit cost at borders along the TRACECA might also discourage international shippers from using the Azerbaijan route (see exhibit 18). However, currently the practice of “green corridor” regulations is applied in order to continuously eliminate the shortages in logistics in the country.

Exhibit 18: Comparative analysis of TRACECA and other routes



¹ Nodes mean borders, ports, terminals or centers

SOURCE: TRACECA, RETRACK, World Bank

In cooperation with other TRACECA countries, Azerbaijan will also assess the feasibility of minimizing time and travel costs, improving transit relations and establishing various unions or commissions along TRACECA for railroads. For example, currently a list of 22 different documents are required for motor vehicle parts and accessories shipments across TRACECA country borders, ranging from 13 different documents for Turkey to 5 in Georgia and Azerbaijan. Establishment of unions or commissions could also standardize tariffs across borders for transit goods and decrease the managerial burden of coordination between countries. For instance, for one container currently not one document, but a number of documents equal to the types of goods within the container are required.

All initiatives and improvements related to cross-border trade will be evaluated through the lens of contextual and sectoral differences between the documents required by different

countries, with the understanding that documentation required for logistics transport is complex and requires significant time to evolve.

Actions to be taken

Action 1.3.1: Taking additional actions regarding truck transport infrastructure

Load capacity of motor roads, bridges and tunnels in Azerbaijan will be assessed taking proper account of the necessity for changes in the regulatory requirements with respect to truck load capacity and the rehabilitation projects for the purpose of increasing the load limits in the priority routes will be considered.

Action 1.3.2: Cooperating with foreign experts in logistics and trade area

Coordination Council for Transit Freights of the Republic of Azerbaijan will cooperate, in line with its Regulations, with international experts with a view to identifying main shortages faced in achieving progress in volume and value growth in logistics.

Action 1.3.3: Identifying the bottlenecks and prioritizing the solutions

First, Coordination Council for Transit Freights of the Republic of Azerbaijan in consultation with the relevant companies and state bodies will assess identified bottlenecks. Second, it will prioritize them on ease of change, cost and potential impact. Third, it will define set of bottlenecks to be resolved with corresponding timelines, through regulatory, financial or operational improvement levers, and receive commitments from relevant governmental bodies to address them. Lastly, it will invite private international players for partnerships to improve operations for efforts where such partnership is beneficial.

Action 1.3.4: Improving freight and handling services in Azerbaijan

Currently, the use of ferries for containers increase prices which has an adverse impact on competitiveness of container freights in Azerbaijan. One of the methods for resolution of this issue is investing in container ships capable of carrying 400–500 and more containers which would be a significant step, creating economy of scale and reducing prices. Such methods will be analyzed by conducting feasibility studies. Special emphasis will be on initiatives aimed at improvement of handling capacity and sea operations of Azerbaijan's ports, including reducing handling time at new Port of Baku of Baku and on the initiatives providing for the use of new electronic systems for the purpose of improving coordination with other ports on the Caspian Sea. Investments in container ships may also increase the capacity of container ships. There will be developed a plan for ensuring the forecasted market share in liquid bulk, dry bulk, container, barge and motor vehicles, and for step by step renewal of the shipping fleet (in 2016 – 2025) for the purpose of ensuring successful implementation of projects of strategic importance in the country, and identified relevant financing sources.

Action 1.3.5: Ensuring closer cooperation between Azerbaijan and Georgia in the operations for change of wheels in railway cars

There are various technological opportunities for solution of the issue of changing the gauges of the trains and these opportunities are different for the investment requirements, expenses incurred for the services as well as the duration of the service provision. One of these options is the coordination of the information technology system over Baku – Tbilisi – Qars railway

and the improvement of car supply in Akhalkalaki through the investments in railway car park of State Railways of Georgia and Turkey. There will be ensured closer cooperation between Azerbaijan and Georgia regarding conduct railway car wheel changing operations.

Action 1.3.6: Conducting analyses for improvement of the railway infrastructure

By analyzing the existing railway infrastructure, t profit and loss analyses will be conducted towards its improvement. In this case, it is necessary to conduct separate analyses for each of the following cases:

- North – South corridor – Yalama – Astara: restoration of the track; restoration of 504 km part of the railway including signaling and power supply;
- East- West corridor – Alat – Boyuk Kasik: completion of power supply works, signaling and restoration works;
- Investing in reconstruction of the railway management system for compliance with international standards and in general for automation of the system.

Action 1.3.7: Improve the railway infrastructure

Taking into consideration the growth rate of the country's economy and that of transit freight volume, efforts will be made to attract relevant investments for the purpose of expansion of railway infrastructure (increasing the average speed limit, renewal of the locomotive park) with a view to meet the growing freight volume.

Harnessing public – private partnership model will be considered in certain areas (for example, increasing the average speed limit, renewal of the locomotive park) of the railways to ensure mitigation of the burden on state budget.

Expected results and indicators

Direct and indirect GDP impact of improving logistics performance is calculated under strategic priority 1.1. This strategic priority is a key enabler for the realization of logistics and trade hub of regional importance.

The required investment

ApproximatelyAZN1400 million required investment is estimated for the purpose of application of this priority and it is necessary to conduct a feasibility study in order to specify the exact investment requirement.

Expected risks

Excessive repair and operating expenses in connection with deterioration of the ships sailing in the Caspian Sea (especially, the ferryboats and Ro-Ro ships), delays at the border crossings, low speed of the existing cargo trains may reduce the corridor's competitiveness by increasing the period for passage of the transit cargos. In addition, another risk factor is the existing differences as compared with other countries over the corridor in application of taxes and duties according to the thresholds on the dangerous goods and weight of the vehicles.

7.2. Strategic Objective 2: Capturing higher value from transit trade

Countries with competitive geographical advantage around the world used their logistics sector as an enabler to capture more value from trade. Leveraging the opportunities offered by new Port of Baku in Alat settlement, Azerbaijan will commission free trade zone, establish a trade-focused processing hub (prioritizing food processing, pharmaceuticals, supply base for common use in petrochemicals), and build logistics and trade centers in strategic locations around Azerbaijan.

7.2.1. Strategic Priority 2.1: Establishing Baku as a regional commercial zone

Rationale

Commissioning a free trade zone, including the territory of new Port of Baku located in Alat, settlement may be a good opportunity for developing Baku into a trade hub of regional importance, given its connection to major regional trade routes and favorable business environment.

Azerbaijan will pursue initiatives to ensure that the flow of goods doesn't just pass through Azerbaijan, but that transportation brings additional value to the economy by storing, packing and other trade-related services. This strategic priority would also aim to see Azerbaijan become a regional headquarters for companies transporting goods through the country. Baku is well positioned to achieve these aspirations, appealing to companies with class-A office buildings, attractive residential offerings, and attractive and safe environment, as well as its recognition as a global city.

International practice demonstrate that a variety of governance models can be successful to promote free trade zones, although the majority—including those in Morocco and Turkey—are public-private partnerships. Most special economic zones contribute to national economies by increasing employment, boosting exports, and attracting foreign direct investment. In Asia and the Pacific, for example, special economic zones are responsible for 2.3 percent of national employment and 41.0 percent of exports; in the Americas, they represent 1.2 percent of employment and 39.0 percent of exports¹⁸. It's important to note that such zones aren't a sure win, and proper implementation is critical to maximizing their success.

Other countries in the region also aspire to capitalize on the potential benefits of free economic zones. There are currently five zones around the Caspian, only two of which are more than 1,000 hectares (see exhibit 19).

¹⁸Source: World Bank

Exhibit 19: Special economic zones around the Caspian



¹ In construction, being developed as a port in 2 locations for ferries and container traffic

Source: "Azerbaijan as a regional hub in Eurasia" (2012), based on the analysis of data provided by the official authorities of relevant countries and their mass media.

Free trade zones around the Caspian primarily focus on construction, chemicals, and agro-processing. The zones' priority activities include logistics services, ship building and repairing, and machinery food and polymer production in Astrakhan, Russia; chemical, plastics and rubber and metallurgy products, construction and pharmaceuticals in Aktau (Kazakhstan); chemical and petrochemical products in Atyrau (Kazakhstan); construction and services, higher technologies, production of farming and other appliances in Anzali (Iran). Each zone is connected to its hinterland by railway, roads or both.

To entice business participation, each zone provides a number of incentives to private-sector players, including various concessions with respect to income tax, property tax, land tax, transport tax and customs duty. Employment incentives include the absence of restrictions on foreign employees in Aktau, Kazakhstan and no visa requirements for foreign nationals in Anzali, Iran.

Determining potential value of establishing free trade zone in Alat settlement

As a key component of capturing higher value from transit trade, it is planned to establish a free trade zone with a special governance mechanisms and private-sector participation. The free trade zone, including the territory of the Port of Baku in Alat settlement, to be commissioned could be promoted through a number of sub-initiatives based on six key building blocks:

- National strategy: Quantifying and prioritizing objectives such as creating new jobs, increasing direct share in GDP and boosting foreign direct investment;
- Focus: Analytically considering subsector activities that are attractive for Azerbaijan and assessing attractive markets;
- Location and configuration: Considering investing in high-speed trains between the free trade zone and Baku Heydar Aliyev International Airport;
- Regulatory requirements and incentives: Defining basic financial incentives for all companies in a competitive level with other special economic zones in the region and introducing sector-specific incentives to become competitive in target industries.
- Governance and business model: Determining the governance model by available capabilities, including both government and private partners.
- Organizational works and processes: Prioritizing tenant attraction with **incentivization** of different clusters and implementing a one-stop shop by authorizing the zone operator to deal with regulatory bodies.

The free trade zone in Alat settlement of Baku city could include a common wholesale zone based on flexible warehouse and logistics services, a showroom and trade fair center for producers to meet local wholesalers, and a buffer stock area for the means of production of extractive industries. Baku's advantages as a regional commercial zone include its connection to major regional trade routes and efficient operation of the new port. Establishing a more favorable business environment in Baku is set as a target and this target includes favorable environment for both, export-import and transit in trade zone and providing physical space.

Turning the free trade zone in Alat settlement of Baku city into a regional headquarters hub would involve targeted incentives and an increasingly improved business environment to induce multinational companies to create regional headquarters in Baku. Modern safe office buildings and residential complexes to be built as well as attractive business environment will allow the participants of the zone to reach their goals..

Actions to be taken

Action 2.1.1: Preparing legal framework for trade zone including the territory of new Port of Baku located in Alat settlement

A contract has been signed with one of international consulting – management companies for preparation of the legal framework by “Baku International Sea Trade Port” CJSC. Under the new legal framework, new Port of Baku complex will prepare and present proposals jointly with the relevant government bodies. There will be specified the management mechanisms of the free trade zone to ensure active participation of the private sector to the maximum extent. There will also be conducted a benchmark study on incentives that free trade zones in the region and in the world provide to investors, rationality of applying those

incentives will be evaluated and those incentive mechanisms will be revised (including tax exemptions) to increase competitiveness.

Action 2.1.2: Specify the targets and key performance for trade zone including the territory of new Port of Baku located at Alat settlement

New Port of Baku complex will set targets and key performance indicators with specific timelines for the free trade zone. First, it will conduct a detailed analysis on potential economic activity in the free trade zone. Second, it will include the plans in other priority economic sectors envisaged by the Ministry of Economy. Lastly, it will ensure coordination with targets in logistics sector itself.

Action 2.1.3: Ensuring private sector participation in the infrastructure of new Port of Baku and secondary services

Infrastructure needs and required supportive services will be identified, private sector financing to address the needs through mechanisms such as Build-Operate-Transfer (BOT) will be considered.

Action 2.1.4: Determining the human capital to achieve the objectives set for trade zone including the territory of new Port of Baku located in Alat settlement

New Port of Baku will assess human capital and quality requirement for the free trade zone to achieve the objectives set. It will then collaborate with the Ministry of Education and relevant education institutions to take necessary actions to address these requirements, such as vocational education programs. **Action 2.1.5. Developing package of proposals regarding changes in regulatory framework for the trade zone including the territory of new Port of Baku located in Alat settlement and conducting reforms in this field**

The port will prepare a package of proposals providing for changes to ease doing business in order to induce the companies to invest in the free trade zone and will submit the package to the relevant governmental bodies. It will recruit international consultancy companies to conduct surveys with investors, identify potential reforms to address the barriers observed in the surveys through benefiting from reforms that ease doing business. In addition, it will prepare suggestions to simplify regulatory framework for visa and work permits for the expats to work in the free trade zone.

Action 2.1.6: Applying “one – stop – shop” system for attraction of foreign and domestic companies to the trade zone including the territory of new Port of Baku located in Alat settlement and for promotion of private investments

There will be established “one stop shop” service centers for provision of all services as in the “ASAN service” centers established in 2012 with a view to managing and coordinating through single center, the services provided to the citizens by the government for ease of doing business in the free trade zone.

Action 2.1.7: Organizing showrooms, including sales showrooms in order to attract international companies to the new Port of Baku located in Alat settlement

New Port of Baku complex focusing on the regional markets to attract international companies for the purposes of enhancing the business relations, will plan and organize showrooms in various areas in the free trade zones including sales showrooms, and if necessary, international companies will be involved in these works. In addition, New Port of Baku complex will prepare proposals to ensure funding for the purpose of organization and promotion of such showrooms, including sales showrooms internationally.

Expected results and indicators

Establishing Baku as a commercial zone of regional importance through developing a free Trade Zone is estimated to bring a total of AZN 145 million including AZN 110 million direct and AZN 35 million indirect GDP increase by 2020. 2900 new jobs are forecasted to be created.

Key Performance Indicators

- Commission a free trade zone including logistics and port services.

Calculating the real GDP impact, employment and investment global free trade zone model sare taken as aspirational targets. Free trade zone can be made fully operational in 5 years.

Required investment

AZN 430 million is forecasted as the investment required for commissioning the free trade zone, excluding logistics and trade center investment (this is forecasted under strategic priority 2.3) and it is necessary to conduct a feasibility study in order to specify the exact amount of investment requirement.

Expected risks

The economic recession in the world economy seen in the recent years, the sharp decline in oil prices may have an adverse impact on the investments to be directed the free trade zone. In addition, one of the risk factors is that legislative framework; visa and registration requirements etc. are not attractive to the foreign investors.

7.2.2. Priority 2.2: Establishing a trade-focused processing hub

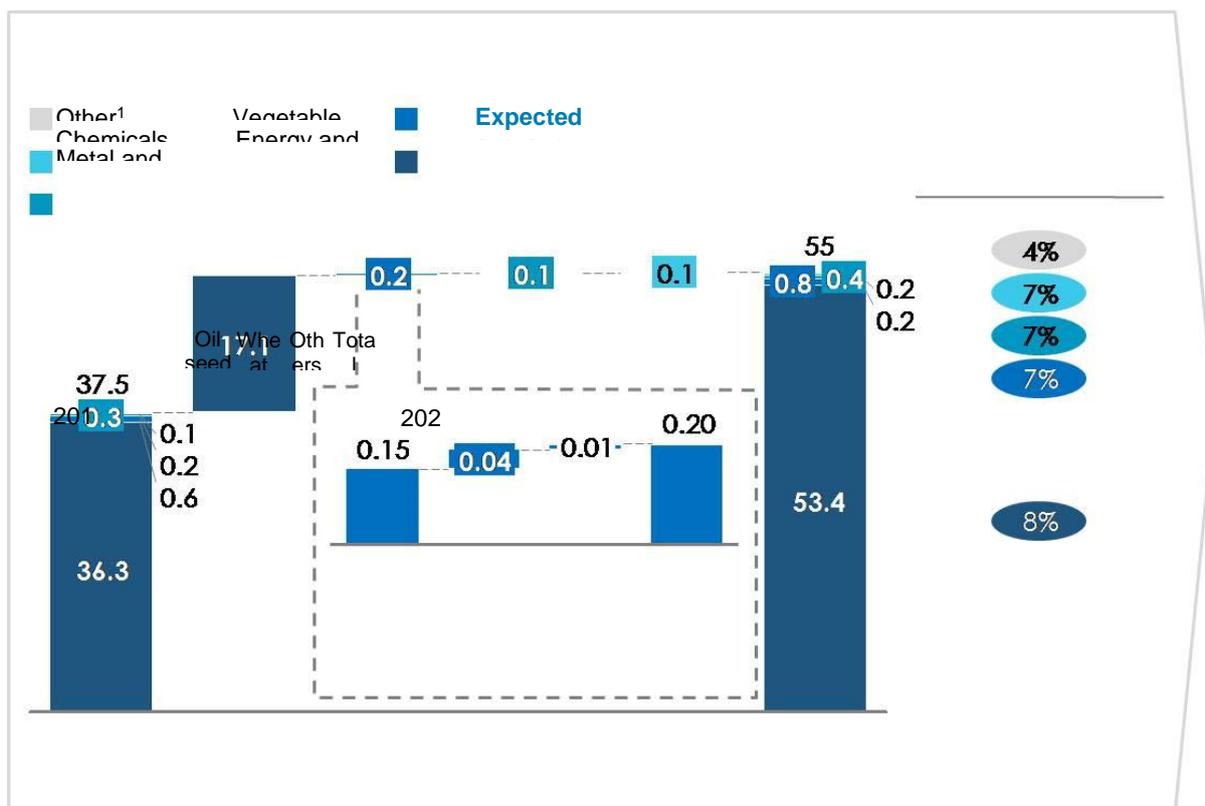
Rationale

One of the main targets is to grow its processing sector to capture higher-value-added trade in Azerbaijan. After establishing the free trade zone in Alat settlement as an important trade hub, Azerbaijan could pursue establishing it as a regional processing hub for two industries: processing of agricultural products and processing of oil and gas products (such as commodity plastics and fertilizers). Establishment of additional processing centers could be considered around labor-intensive trade items (e.g. textiles), as well as innovation and technologies for local markets, such as pharmaceuticals and machinery.

Establishment of agricultural product processing center

The volume of Central Asian vegetable exports to Europe demonstrates wide opportunities of Azerbaijan in terms of establishing hub for the processing of agricultural products. enabled by. From 2015 to 2020, vegetable exports from Central Asia to Europe are expected to grow at a CAGR of 7 percent. Among the vegetables, the greatest increase is expected from oleaginous seeds and fruits exported to Europe in raw forms (see exhibit 20).

Exhibit 20: Central Asian exports to Europe (million ton)



¹ Textile, apparel, office equipment, animal products, glass, transportation equipment and parts
SOURCE: IHS

Azerbaijan's competitive advantage in local production and the availability of trade flows such as fruit juices and vegetable oils position it well to become an origin and intermediary food hub primarily for fruits and vegetables. Building on logistics capabilities, Azerbaijan will focus on secondary processing for packaging and re-packaging.

Establishment of petrochemical product processing center

A processing hub for the petrochemicals industry—particularly commodity plastics and fertilizers—could build on Azerbaijan's access to inexpensive raw materials with high domestic production and the flow of oil and gas resources through Azerbaijan. There are also market opportunities in import reduction and exports. In addition, there are opportunities for more activity in the oil and gas services industries.

Transnational oil companies will be able to establish a supply base for common use at the new Port of Baku Complex for oil – gas processing and other purposes in the region.

Meeting these goals requires confirming potential industries for processing, designing and executing infrastructure investments in the zone in line with the potential needs of processing facilities; attracting domestic and international companies for processing in the free trade zone; and coordinating efforts with road maps in other sectors to prioritize industries for the processing hub.

Actions to be taken

Action 2.2.1: Establishing a working group to assess the potential of industrial and sub- industrial sectors for development of the cluster in various areas in the free trade zone located in Alat settlement

New Port of Baku will create a working group with the relevant bodies to confirm potential industries and sub-industries for cluster development in the free trade zone. It will then coordinate efforts with roadmaps in other sectors, through quarterly meetings between New Port of Baku and strategic priority owners, to confirm priority industries. Last but not least, Azerbaijan will create scenarios and estimations for development of these sectors in the area, to understand needs for infrastructure and additional services.

Action 2.2.2: Introducing the strengths and capabilities of the free trade zone located in Alat settlement

With a view to attract investors and increase their awareness of the priority industries, the new Port of Baku complex will prepare a presentation regarding the strengths and capabilities of the free trade zone located in Alat settlement. This will also include information on value chains, development of logistics, local and international markets, investment companies and relevant risk mitigation measures.

Actions 2.2.3: Developing investment plans for processing clusters in free trade zone located in Alat settlement

Once estimations for clusters are prepared, the Port of Baku will develop investment plans regarding processing clusters of the free trade zone in Alat settlement. Then, the new Port of Baku complex will invite international and local investors and processing companies to construct facilities in priority industries in the free trade zone in Alat settlement.

Action 2.2.4: Identifying the companies to assume the initial commitments for investing in free trade zone located in Alat settlement and take actions in attracting new investments

First, Azerbaijan will determine the companies that will undertake the initial investment commitments as driving force for the development of the free trade zone in Alat. It will use these commitments as indicator of confidence in the project by investors, and as strong examples in communication with other potential investors to the processing cluster. Second,

it will partner with these pioneer companies to improve offerings in the free trade zone. Third, Azerbaijan will identify other companies which invest in the same locations with these companies and include them in target lists. Fourth, it will provide these companies as benchmarks in new discussions for investment.

Expected results and indicators

Direct and indirect real GDP impact, employment impact are calculated under strategic roadmaps for relevant sectors (food processing cluster under the Strategic Roadmap for production and processing of agricultural products in the Republic of Azerbaijan”, and Commodity plastics & fertilizers under the Strategic roadmap for development of oil and gas industry in Republic of Azerbaijan”).

Required investment

Required investment for processing clusters in different industries are estimated under the strategic roadmaps for relevant sectors (food processing cluster under the Strategic Roadmap for production and processing of agricultural products in the Republic of Azerbaijan”, and Commodity plastics & fertilizers under the Strategic roadmap for development of oil and gas industry in Republic of Azerbaijan”).

Expected risks

Since the objective is to strengthen the processing sector for the purpose of capturing more benefit from trade, the main risk factor may be the failure to evaluate the potential of the neighboring countries regarding these areas. That is, there should be established competitive production and processing clusters with a view to ensuring full competition against the products imported into Azerbaijan from neighboring countries.

7.2.3. Strategic Priority 2.3: Establishing logistics centers in Baku and throughout the country

Rationale

Logistics centers can be one of the ways Azerbaijan captures higher value from trade activities. There are two main factors for the establishment of logistics centers:

1. The existence of logistics services, particularly in multimodal operations and high value container trade, is considered a major factor to increase trade volume.
2. Expanding the scope of services provided can increase Azerbaijan’s share of the total trade value. That is, Azerbaijan will work to establish logistics centers around the country to both attract volume and capture higher value from transit volume.

Identifying the benefits of logistics centers

The global logistics market, which was valued at USD 2.3 trillion in 2012, captures value through several different subsectors. Among these subsectors, third-party logistics (3PL) was valued at USD 219 billion in 2012 globally, capturing almost 10% of total logistics market value

pool. Currently, Azerbaijan's share of participation in 3PL services is below this global ratio and it can be a priority subsector for further development. Country's presence in the third-party logistics segment can be improved further through logistics centers.

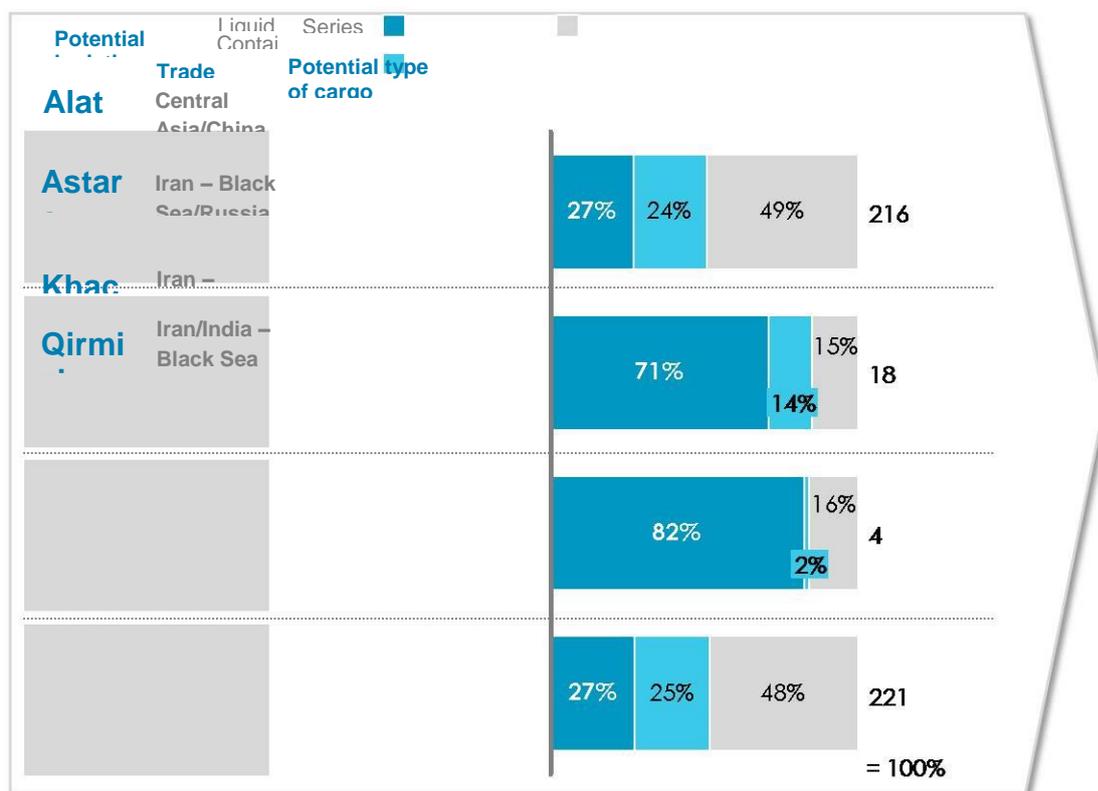
Areas for further development of value-added logistics services include:

- **Financial services** through cargo insurance, customs brokerage, letters of credit, carrier contracting/brokering/freight payment, and duty drawback processing.
- **Transportation** through freight forwarding, International Commercial Terms (Incoterms) management, multimodal transportation, transportation network planning, merge-in-transit, and transportation execution.
- **Warehousing/distribution** through cross-docking/pool distribution, warehouse equipment, just-in-time/Kanban systems, kitting/pick and pack, light manufacturing/assembly, packaging, installation/removal, inventory/vendor management, consolidation/deconsolidation.
- **Other services** through ISO certification, food grade assessment, call centers, and security processes.

Although container transport allows more secondary processing, but until container trade increases, the greatest short-term value can be obtained in more business-oriented services. Since the cargo flowing through Azerbaijan currently is primarily dry and liquid bulk flows, in the short term Azerbaijan will focus on financial services and multimodal transportation. In the medium term, focus on warehousing/distribution, furthering the value and volume of trade in the logistics and trade centers will be increased. As a result of increased container shipping, this would allow more secondary processing and broaden value-added opportunities.

For differentiation of the services provided in the logistics and trade centers there should be conducted continued analyses on the type of the cargo and products. That is, there will be systemically analyzed the trade flows crossing the country's territory and optimized the activities of logistics and trade centers in order to capture full value from logistics services. For instance, liquid bulks cover different types of cargos, each of which should be comprehensively assessed (exhibit 21). Though the transportation of oil and gas products do not create high added value, it is possible to capture value from food oils.

Exhibit 21: Azerbaijan’s potential logistics and trade centers for international trade

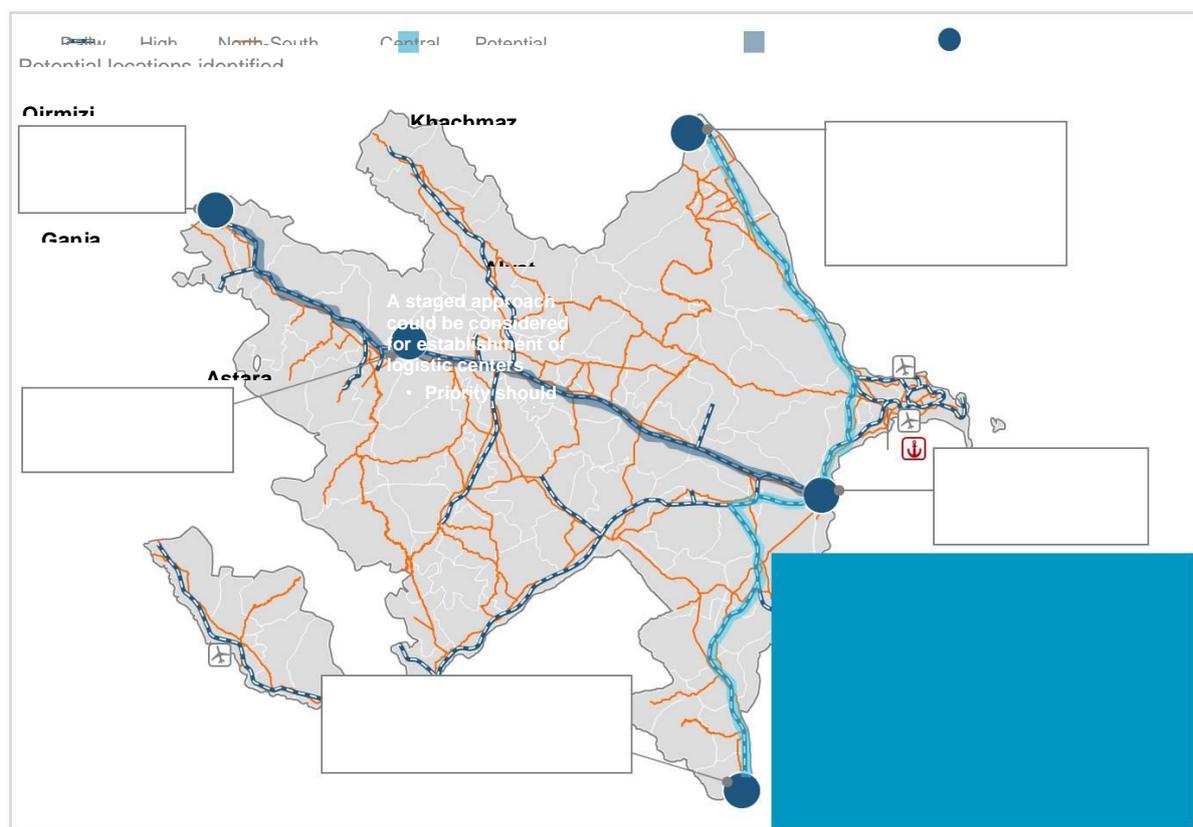


Iran analysis is based on only publicly available data and Azerbaijan government owned data
 SOURCE: IHS, UN database on commodity trading

Identifying the areas preferred for logistics and trade centers in Azerbaijan

There are several potential locations for logistics centers in Azerbaijan (see exhibit 20), for which Azerbaijan will consider a phased rollout approach. Baku’s Alat Port is the first priority due to the presence of the port and free trade zone and the potential to increase business volume in the country. The second phase could include establishing logistics centers in key boarder cities, including Qirmizi Korpu, which is on the central highway route and part of the East-West Corridor; Astara, with trade to Iran and a connection to Russian markets; and Khachmaz, on the North-South Corridor with potential for immediate trade with Russia. Once the logistics centers network is established, a hub for domestic capabilities could be located in Ganja or in Yevlakh. Benefiting from location of these regions over main corridor, there will be investigated their potential activities as a logistics and trade center able to support surrounding agriculture and industry. At the same time, there will also be analyzed the eligibility of Julfa or Sadarak regions of Nakhchivan Autonomous Republic.

Exhibit 22: Five potential locations for logistics centers in Azerbaijan



Iran analysis is based on only publicly available data and Azerbaijan government-owned data

Development of new logistics and trade hubs to be established in the regions of Azerbaijan may also be a part of the state program for socio-economic the development of the regions in Azerbaijan. Establishing these centers will create new opportunities in the regions and will ensure development of agriculture including concentration of agricultural products at one center, adding value and connection with other zones, which will ultimately result in expansion of connection between the regions and help resolve the issues arising from urbanization.

Meanwhile, it is expedient to establish logistics/ distribution centers for all products to be consumed in pre-defined regions. Such centers equipped with cutting-edge software, professional human resources in logistics, receiving goods managed from one center, storage, delivery and planning systems will relieve domestic entrepreneurs from heavy logistic costs (warehousing-storage, distribution, transportation and other costs), and will allow them to better add value to trade and economy.

Developing domestic logistics

Establishment and development of logistics centers in the regions is a pre-condition for the improvement of infrastructure and vehicles of all kinds of transportation. Construction of highways and automobile road of state importance in compliance with international standards,

reconstruction of railways, increasing the role of electrical wagons in passenger transportation, improvement of state requirements on transport safety standards, labour protection guidelines, environmental and fire safety rules are crucial. These and other measures taken in this field will contribute to the development of logistics system including transport as its integral part and to the acceleration of all production areas in the regions.

Actions to be taken

Action 2.3.1 Conducting analyses for the establishment of logistics and trade centers and choosing appropriate locations

In order to establish logistics and trade center in Azerbaijan, relevant locations among possible options will be approved and thorough feasibility studies will be conducted. Those feasibility studies will also cover current and future trade volumes in accordance with cargo type (in parallel with other important projects) as well as services to be provided. Then, investment in infrastructure projects and secured sources of credit will be identified, local and international investors will be attracted to establish and develop logistics and trade centers, public-private partnership opportunities will be reviewed to decrease cost burden on state sector, relevant international expert evaluation will be done and eventually, importance of additional business services as financial services for the logistics and trade centers will be identified and private sector companies will be recruited to provide such services.

Action 2.3.2: Ensuring private sector participation in the infrastructure projects for the logistics and trade centers in the regions.

The working group will estimate the need for infrastructure investment. It will identify investments that could and should be carried out by the private sector to decrease burden on the public budget, through mechanisms such as Build-Operate-Transfer.

Action 2.3.3: Identifying the mechanisms for establishment and governance of the logistics and trade centers in the regions

The new Port of Baku together with the international consulting – management company it collaborates, will, within the legal framework for the free trade zone, identify the mechanisms for establishment and governance of the logistics and trade centers in the regions of Azerbaijan. The working group established within the frame of this project, will ensure supervision over establishment of the logistics and trade center network. The working group will identify the types and potential scale of the services to be provided in the logistics and trade centers.

Action 2.3.4: Inviting domestic and international companies to provide value adding services in the logistics and trade centers to be established

Working group will invite domestic and international investors to take role in the establishment of the logistic centers, in accordance with the charter or regulation. It will also invite domestic and international companies to provide value adding services through competitive process to the logistics and trade centers.

Action 2.3.5: Considering establishment of logistics hub in the territory of Haydar Aliyev International Airport in the new future

There will be analyzed and assessed the establishment of the logistics hub in the territory of Haydar Aliyev International Airport taking account of the actions for the establishment of this hub.

Expected results and indicators

This priority is forecasted to add AZN65 million including AZN 40 million direct and AZN25 million indirect GDP impact to the sector in 2020. Creation of 3,800 jobs is forecasted as a result of implementation of this priority.

Key Performance Indicator is to establish 5 or 6 logistics and trade centers around Azerbaijan (works for establishment of 4 of these centers to be completed before 2020). Direct impact from logistics and trade center should be 20% of total impact of regional logistics hub (strategic priority 1.2).

Calculating impacts of priorities, 4 logistics and trade centers are assumed to be operational before 2020; excluding those in Ganja and potentially in Nakhchivan – to be completed by 2025.

Required investment

Investment required to establish 4 logistics centers is AZN130 million in total.

There will be additional employment and spending made for the construction of these centers except logistics and it is forecasted that those costs will be equal to the half of total investments.

Expected risks

Choosing proper location of the potential logistics and trade centers is among the main risk factors.

7.3. STRATEGIC OBJECTIVE 3: IMPLEMENTING KEY ENABLERS TO REALIZE LOGISTICS OBJECTIVES

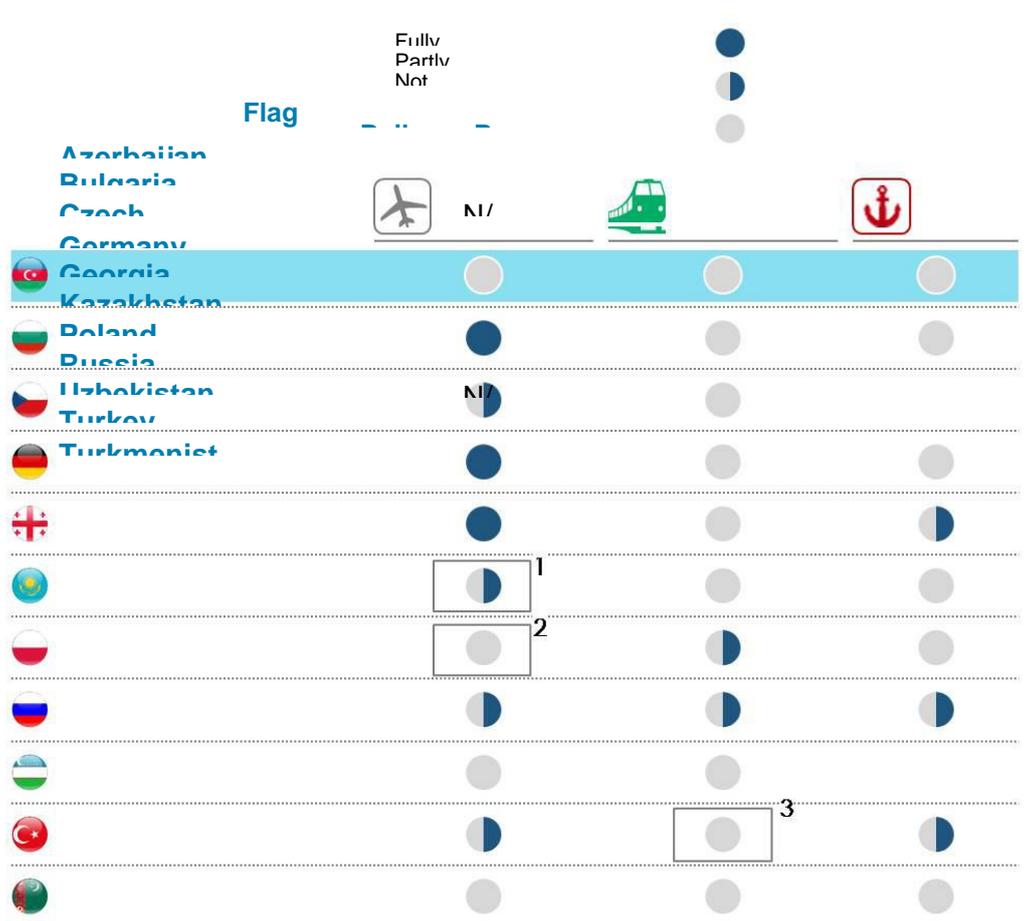
Private-sector involvement in the logistics sector can help increase commercial efficiency, and the practice has become increasingly common in developed countries around the world. The importance of public-private partnerships (PPPs) and use of build-operate-transfer (BOT) financing to decrease the burden of major projects on public budget is well established. To benefit fully from its logistics assets and improve performance, Azerbaijan will consider increasing the public sector's participation in strategic partnerships with private players.

7.3.1. PRIORITY 3.1: INCREASING PRIVATE-SECTOR INVOLVEMENT IN THE LOGISTICS SECTOR

Rationale

Most of Azerbaijan's peer countries started liberalization activities with components of logistics, including airlines, railways, and ports (see exhibit 23). Privatization of the logistics sector has typically been shown to improve operating margins, contributing to transparent and independent management, higher service levels, and potentially better returns for the government than operating as a purely state-owned entity.

Exhibit 23: Privatization activities within components of logistics in countries comparable to Azerbaijan



1 Established as a JV between Samruk Kazyna and BAE systems

2 Reregulated for privatization

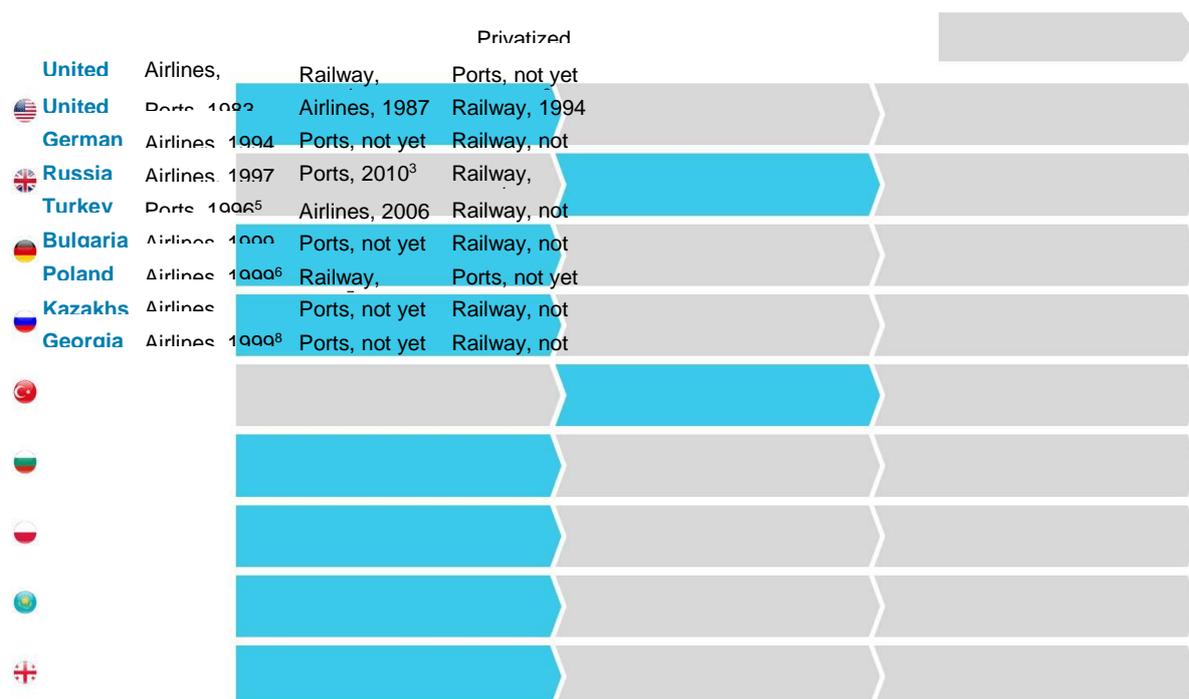
3 Regulated in 2013 for privatization

SOURCE: Capital IQ

Attraction of the private funds to the improvement of transport infrastructure, in addition to budget funds, is widely applied in international practice. Over time, it is necessary to

commercialize the processes by attracting private investments to infrastructure and governance according to the best practices in transport and logistics. The leading world countries with developed air, sea and railway transport have created the airlines with participation of the private sector just from the beginning. In Germany, Russia and other countries the increased share of the private sector in transport started in airlines and continued in sea or railway transport in line with the requirements of the time. Such trends do not only provide for full privatization of any area in logistics and transport sector, but also for the participation of private operators in terms of promoting competition in freights by sea and railway (exhibit 24).

Exhibit 24: Privatization of logistics infrastructure in different countries



- 1 Staggers Act
- 2 Most maritime ports owned by counties or states, new ports or expansions done through public private partnership
- 3 Port of Vanino
- 4 Segment of freight wagons
- 5 TID maritime ports (11) privatized through the transfer of operational rights for 30 years
- 6 Part of the stake sold, then renationalized within next years
- 7 Rail freight business
- 8 Georgia suspended the privatization of state owned Georgian Airways and chose a private airline Airzena Georgian Airlines as flag carrier in 1999

Improvement of airlines infrastructure

In addition to renewal of the civil aviation infrastructure in the airlines of Azerbaijan, the supply of aircraft meeting the recent requirements may play an important role in development of this field. That is, there should be conducted a feasibility study for purchase of new aircrafts. In addition, there may be considered the construction of local airports in consideration of the requirements arising as a result of development of the regions. There

may be considered the issue of performance by “Azerbaijan Airlines” CJSC of the works for improving the quality of infrastructure and service network of the airports.

As a result of development of international and local airports it may be of great importance to improve the system of managing air traffic.

Since safety issues in airlines are a prerequisite, it is necessary to continue works for permanent improvement of the safety measures in this field in line with the international standards.

In addition, there may be conducted analyses and prepared relevant feasibility studies in creation of the low - cost airline companies and determination of the airplane park to be used in this case with a view of expanding Azerbaijan’s transit passenger transportation opportunities. At the same time, as per the results of these works, there may be passed resolution on the follow - up steps and investigated the opportunities for the application of the public – private partnership. Investments in the mentioned projects may be determined following the conduct of feasibility studies.

Public – Private Partnership in railways. It is possible to consider public – private partnership model in certain fields of the railways, including public – private partnership model in expansion of the new railway cars and locomotive park which is one of the most investment intensive fields and to reduce the cost burden of the state budget by attracting private investment to this field.

Restructuring primary and secondary assets. Restructuring of the main railways requires railway companies to determine primary and secondary assets. Usually, the asset base of the most railway companies include assets which are not important for the company’s main business and which do not offer competitive advantages. Some of such assets may be comprised of reserve real estate or repeated service companies. Cancellation of such assets may help simplify the structure of the company, direct the management’s attention to more important issues and attract working capital.

Geographic restructuring. According to the form of geographic restructuring of the assets, a general railway company may be grouped into small groups of companies responsible for special geographic region or route. Geographic restructuring allows management to rather direct their attention to meeting the needs of the domestic passenger. An important point of such a grouping is that cargo and passenger transportation is carried out as a separately operating network. Japanese National Railways may be a good example of geographic restructuring, where grouping into six passenger companies and one Cargo Company was carried out prior to privatization.

Business line restructuring. This type of restructuring is similar to geographic restructuring in terms of separation of cargo and passenger transportation requirement. Additional restructuring according to this parameter results in further separation of the railway assets. Such a separation is especially efficient in solution of railway issues in case railways are grouped into small number of train operating companies.

Functional restructuring. This type of restructuring requires the railway company to conduct grouping into functional forms. Broadly, railways require four main functions: train operations, maintenance of the track, sales and marketing functions.

One of the main risks regarding above mentioned restricting method is that the mutual relations and coordination between the companies as a result of such restricting is not capable of being determined which may reduce the quality and reliability of the railways. Well-thought approach and coordination by the government during restructuring process are important for successful restructuring program.

For successful restructuring works, public – private partnership model may be deemed reasonable.

Ensuring participation by private sector in maritime transportation

The finalization of Baku- Tbilisi – Qars railway expected to be important for the region, new Port of Baku complex in Alat settlement, commissioning of the free trade zone and other strategic projects and promotion of transit freights in the East - West and the North – South routes will significantly increase the volume of sea freights in the Caspian Sea. In consideration of the inevitability of having a competitive fleet meeting the demand of great volumes, it is reasonable to have existence of private ship operators in the Caspian Sea in addition to “Azerbaijan Caspian Shipping Company” CJSC. Participation of these private operators will have increased the importance of the corridor by making significant contribution to accelerated transition of the transit freights through the territory of the country.

Actions to be taken

Action 3.1.1: Developing a program for improving the participation level of private sector in logistics

Azerbaijani government will define the long-term program for increasing private sector involvement in logistics sector, in coordination with the relevant governmental bodies. It will take into account strategic considerations and a detailed analysis on financial impact on the public budget.

Action 3.1.2: Defining the private sector participation in the works to be performed in airlines

In airlines, operations will be assessed, in comparison with the global practices. It will define objectives and targets to achieve as a result of increased private sector involvement, in consultation with the company management. Optimum model and structure will be identified to achieve the desired objectives. Relevant bodies will invite local and foreign investors to establish a partnership.

Action 3.1.3: Improving airport infrastructure

By conducting negotiations within the period by 2020, there will be considered the renewal of “Airbus” and “Embraer” type obsolete airplanes.

Relevant bodies will prepare short and long-term plans for the improvement of international and local airport infrastructure including expansion of the infrastructure opportunities in Haydar Aliyev International Airport. The actions to be taken will take account of strategic requirements of the regions.

Action 3.1.4: Establishing low - cost Airline Company

There will be considered relevant actions with a view to performing works in establishment of the airplane park for the foundation of low- cost airline companies by 2017 and attracting foreign investors to this field.

Action 3.1.5: Ensuring the private sector participation in airline companies

There will be taken necessary steps in attracting private investments to most investment intensive fields in railways or in creation of the joint ventures in order to develop logistics and trade sector.

Action 3.1.6: Ensuring the private sector participation in maritime transport

There will be taken necessary steps to ensure private ship operators' participation in freights in order to achieve accelerated transition of the transit freights through Caspian Sea.

Expected results and indicators

Airline business being very essential to logistics, increasing the private sector involvement to logistics through airlines is estimated to have additional AZN 15 million including AZN 10 million direct and AZN 5 million indirect GDP impact by 2020.

Key Performance Indicator is increase in operating margins of airlines by 5%.

Establishing a strategic partnership in airlines is the key assumption that will enable improving operating margins.

Improvement of civil aviation and establishment of low- cost airline companies will allow increasing tourist flow into the country.

Required investment

Investment required for this priority will be defined following the conduct of feasibility studies. Since there is a high investment requirement for this field, public – private partnership model is deemed reasonable.

Expected risks

In consideration of the high investment requirement for implementation of this priority, it may be noted that volatility in the financial markets under current circumstances and sharp decline in oil prices may cause difficulties in attracting foreign investments to this field.

8. FINANCING MECHANISMS

AZN 3 billion 160 million is required to achieve the specified strategic targets. Performance of the actions provided in the Strategic Roadmap will be financed on account of the below sources:

- State budget;
- Off-budget funds;
- Funds of National Fund for Support to Entrepreneurs
- Local budgets;
- Funds of the local departments, institutions and organizations irrespective of their type of ownership;
- Foreign direct investment;
- Credits from the country's banking system;
- Credits, technical and financial assistance of international organizations and foreign countries;
- Other sources not prohibited by law.

The budgets will be developed within the frame of result-based budget drafting process to ensure funds are most efficiently spent for the specified strategic priorities. A large part of the required funds will be ensured by restructuring existing budgets and joint financing efforts of private sector and various investors.

9. Implementation, Monitoring and Evaluation principles

Implementation of the Strategic Roadmap

Coordination And Governance: Appropriate coordination and governance will be ensured with the aim of accelerating decision making process, identifying clear accountability and establishing additional execution capacity.

- A mechanism for accelerated decision making at the highest political level will be set up for the strategic vision and roadmap. This mechanism will enable clearly visible leadership from the President and other main decision makers to emphasize the importance of implementation. Decisions about implementation priorities and certain targets will be made using this mechanism.
- The main responsible entity will assign responsible persons for each priority and actions to ensure the action is implemented in time and properly. There will also be established working groups under leadership of the responsible organizations for the priority with participation of other organizations mentioned in the action plan. The reporting meetings of the working groups will be held quarterly under leadership of the main responsible entity. The working groups will operate based on annual working program. The daily working conditions of the working groups and assignment of tasks will be carried out by the responsible person. As a rule, the current meetings of the group will be held in the main responsible entity as proposed by the responsible person. The main responsible entity will create necessary conditions to ensure the free operations of the working group, and take steps to benefit from technical support of external experts if required.
- A dedicated central delivery unit will be established to monitor the implementation of the Strategic Roadmap and provide support in areas such as problem solving or coordination across institutions. The unit's main functions are to create stronger organization across the institutions, processes, and technology required for implementation. Furthermore, it will be responsible for ensuring that the involved institutions arrange for the required financial and human resources, and are able to inject additional resources when needed.

Strategic alignment and financing: To allow for an efficient implementation process that avoids wasted resources and conflicting objectives, the Strategic Roadmap will be fully integrated into other sectoral plans and existing budgets.

- All relevant strategic documents will be harmonized with the Strategic Roadmap based on the proposals of the relevant agencies and the mandates of existing agencies will be realigned to the priorities wherever necessary. This alignment work will include developing transparent, measurable implementation targets, which will be communicated publicly and used to track progress.

- Detailed implementation plans will be developed for all strategic priorities, based on provided actions in order to guide implementation and provide transparency regarding the resources required and the impact expected. While the assigned leader will bear overall responsibility for developing the implementation plan, all the most important institutions participating in implementation – including private sector organizations – should be involved.

Stakeholder mobilization platform: Domestic and international partners from both the public and private sectors will be mobilized to join in the execution of the Strategic Roadmap.

- Relevant steps will be taken to identify and attract core strategic partners. The involvement of multiple organizations and stakeholders is required for the successful implementation of each strategic priority. To ensure alignment of priorities and proper coordination, advisory councils and working committees with the private sector and state owned enterprises) as well as with critical international partners, such as international financial institutions will be established.
- Civil society and think tanks will be mobilized and engaged to generate broad support for the Strategic Roadmap. Going forward, active communication, transparency and inclusiveness will help to mobilize the public and private sectors, society as a whole, and other relevant stakeholders.

Monitoring and evaluation of the Strategic Roadmap

There will be conducted monitoring and evaluation of the Strategic Roadmap in order to ensure successful execution through required instruments, processes etc. When conducting monitoring and evaluation, attention will be paid to proper execution of the actions and to expected outcomes and indicators for relevant priorities, compliance with schedule of execution will be inspected. Monitoring and evaluation will be conducted based on the rules prepared according to international methodologies.

Annual working programs of the working groups will be approved by the main responsible entity agreed with the coordination authority. Quarterly meetings of the working groups will be held by the main responsible entity with the participation of the representatives from coordination authority.

Report on the works performed quarterly will be submitted to the coordination authority at least 10 days prior to the quarterly meeting of the working group. In consideration of the comprehensive analysis and assessment of the mentioned report as well as the discussions made in the last meeting of the working group, the coordination authority will submit the results of the quarterly monitoring and the recommendations for the follow- up period to the main responsible entity within 10 (ten) days from date of the meeting. Coordination authority and the main responsible entity will take actions in order to include the results of monitoring and recommendations in the daily activities of the working group.

10. ACTION PLAN

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|---|---|---|--|---|---------------------|
| Strategic objective 1: Creating enabling environment to increase trade volume through Azerbaijan | | | | | |
| 1.1. Strengthening the leading role of Azerbaijan as a regional logistics and trade hub | | | | | |
| 1.1.1. | Identifying Azerbaijan's targets in logistics in international trading | Cabinet of Ministers, Ministry of Economy | "Baku International Sea Trade Port" CJSC, "Azerbaijan Railways" CJSC, "Azerbaijan Caspian Shipping Company" CJSC, "Azerbaijan Airlines" CJSC | <ul style="list-style-type: none"> • A total of AZN 380 million GDP increase in 2020, including AZN 240 million direct and AZN 140 million indirect; • 5500 new jobs are forecasted to be opened; Increase in regional transit trade volume: • 40% of Central Asia and Black Sea route; • 25% of Central Asia and Europe route; • 3% of China and Europe route; • 40% of Russia and Iran route; • 25% of Iran and Black Sea route. | 2017 |
| 1.1.2. | Improving supervision mechanism and normative legal base in logistics | Cabinet of Ministers, Ministry of Economy | "Baku International Sea Trade Port" CJSC, "Azerbaijan Airlines" CJSC, "Azerbaijan Railways" CJSC, "Azerbaijan Caspian Shipping Company" CJSC | | 2017 |
| 1.1.3. | Providing information on the regular actions to be taken and this results | Cabinet of Ministers, Ministry of Economy | Coordination Council for Transit Freight, "Baku International Sea Trade Port" CJSC, "Azerbaijan Airlines" CJSC, "Azerbaijan Railways" | | 2018 |

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|---|---|---|--|---|---------------------|
| | | | CJSC, "Azerbaijan Caspian Shipping Company" CJSC | | |
| 1.2. Completing New Port of Baku complex situated in Alat settlement, Baku – Tbilisi – Qars railway and Astara – Astara railway projects | | | | | |
| 1.2.1. | Supervising the execution of three key projects and support the solution of new issues | Cabinet of Ministers | Ministry of Transport, "Baku International Sea Trade Port" CJSC, "Azerbaijan Railways" CJSC | <ul style="list-style-type: none"> • Direct and indirect real GDP impact of this priority by 2020 is calculated in priority 1.1; • Creation of 6700 new jobs; • establish monitoring system for implementation of the projects and finalize the project. | 2017 |
| 1.2.2. | Assessing private sector participation in this field | Ministry of Economy | Coordination Council for Transit Freight, "Baku International Sea Trade Port" CJSC, "Azerbaijan Railways" CJSC, "Azerbaijan Caspian Shipping Company" CJSC | | 2017 |
| 1.2.3. | Carrying out supervision over the use of funds as intended by establishing a monitoring system for implementation of three key projects | Cabinet of Ministers, Ministry of Economy | Ministry of Transport, Ministry of Finance, "Baku International Sea Trade Port" CJSC, "Azerbaijan Railways" CJSC | | |
| 1.2.4. | Identifying the operational performance indicators | Cabinet of Ministers, Ministry of Economy | Coordination Council for Transit Freight, "Baku International Sea Trade Port" CJSC, "Azerbaijan Railways" | | 2017 |

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|---|---|---|--|---|---------------------|
| | | | CJSC, "Azerbaijan Caspian Shipping Company" CJSC | | |
| 1.2.5. | Conducting field analyses and identifying new targets based on these analyses | Ministry of Economy, Ministry of Transport | Coordination Council for Transit Freight, "Baku International Sea Trade Port" CJSC, "Azerbaijan Railways" CJSC, "Azerbaijan Caspian Shipping Company" CJSC | | 2018 |
| 1.3. Improving logistics performance | | | | | |
| 1.3.1. | Taking additional actions regarding truck transport infrastructure | "Azəravtoyol" ASC | Ministry of Economy, Ministry of Transport, Ministry of Finance | <ul style="list-style-type: none"> Direct and indirect real GDP impact of this priority by 2020 is calculated in priority 1.1. | 2017-2020 |
| 1.3.2. | Cooperating with foreign experts in logistics and trade area | Ministry of Economy, Ministry of Transport | "Baku International Sea Trade Port" CJSC, "Azerbaijan Airlines" CJSC, "Azerbaijan Railways" CJSC, "Azerbaijan Caspian Shipping Company" CJSC | | 2017 |
| 1.3.3. | Identifying the bottlenecks and prioritizing the solutions | Ministry of Economy, Ministry of Transport | "Baku International Sea Trade Port" CJSC, "Azerbaijan Airlines" CJSC, "Azerbaijan Railways" CJSC, "Azerbaijan Caspian Shipping Company" CJSC | | 2017 |

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|---|--|---|--|--|---------------------|
| 1.3.4. | Improving freight and handling services in Azerbaijan | Ministry of Economy, Ministry of Transport | “Azerbaijan Caspian Shipping Company” CJSC, “Baku International Sea Trade Port” CJSC, “Azerbaijan Railways” CJSC | | 2017 |
| 1.3.5. | Ensuring closer cooperation between Azerbaijan and Georgia in the operations for change of gauges in railway cars | “Azerbaijan Railways” CJSC | Ministry of Economy | | 2017 |
| 1.3.6. | Conducting analysis for improvement of the railway infrastructure | “Azerbaijan Railways” CJSC | Ministry of Economy | | 2017 |
| 1.3.7. | Improving the railway infrastructure | Cabinet of Ministers | Ministry of Economy, “Azerbaijan Railways” CJSC | | |
| Strategic Objective 2: Capture higher value from transit trade | | | | | |
| 2.1. Establishing Baku as a regional commercial zone | | | | | |
| 2.1.1. | Preparing the legal framework for trade zone including the territory of new Port of Baku located at Alat settlement | “Baku International Sea Trade Port” CJSC | Ministry of Economy | <ul style="list-style-type: none"> A total of AZN 145 million GDP increase including AZN 110 million direct and AZN 35 million indirect in 2020; 2900 new jobs are forecasted to be created; | 2017 |
| 2.1.2. | Specifying the targets and key performance for trade zone including the territory of new Port of Baku located at Alat settlement | “Baku International Sea Trade Port” CJSC | Ministry of Economy | | 2017 |

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|--------|--|--|--|---|---------------------|
| 2.1.3. | Ensuring private sector participation in the infrastructure of new Port of Baku and secondary services | “Baku International Sea Trade Port” CJSC | Ministry of Economy | <ul style="list-style-type: none"> commissioning of a free trade zone including logistics and port services. | 2017 |
| 2.1.4. | Determining the human capital to achieve the objectives set for trade zone including the territory of new Port of Baku located at Alat settlement | “Baku International Sea Trade Port” CJSC | | | 2017 |
| 2.1.5. | Developing package of proposals regarding changes in normative legal base for trade zone including the territory of new Port of Baku located at Alat settlement and conduct reforms in this field | “Baku International Sea Trade Port” CJSC | Cabinet of Ministers, Ministry of Economy | | 2017 |
| 2.1.6. | Applying “one – stop – shop” system for attraction of foreign and domestic companies to trade zone including the territory of new Port of Baku located at Alat settlement and for promotion of private investments | “Baku International Sea Trade Port” CJSC, The State Agency for Citizens' Service and Social Innovation under the President of the Republic of Azerbaijan | Ministry of Economy, Ministry of Taxes, State Customs Committee, State Border Service, | | 2017 |

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|---|---|--|---------------------|--|---------------------|
| 2.1.7. | Organizing showrooms, including sales showrooms in order to attract international companies to the new Port of Baku located at Alat settlement | “Baku International Sea Trade Port” CJSC | Ministry of Economy | | 2018 |
| 2.2. Establishing a trade-focused processing hub | | | | | |
| 2.2.1. | Establishing a working group to assess the potential of industrial and sub industry sectors for development of the cluster in various areas in the free trade zone located at Alat settlement | “Baku International Sea Trade Port” CJSC | Ministry of Economy | <ul style="list-style-type: none"> Direct and indirect real GDP impact, employment impact are calculated under relevant sectors (Food processing cluster under Strategic Roadmap for production and processing of agricultural products in the Republic of Azerbaijan”, and Commodity plastics & fertilizers under Strategic roadmap for development of oil and gas industry in the Republic of Azerbaijan”). | 2017 |
| 2.2.2. | Introducing the strengths and capabilities of the free trade zone located in Alat settlement | “Baku International Sea Trade Port” CJSC | Ministry of Economy | | 2017 |
| 2.2.3. | Developing investment plans for processing clusters in free trade zone located in Alat settlement | “Baku International Sea Trade Port” CJSC | Ministry of Economy | | 2017 |
| 2.2.4. | Identifying the companies to assume the initial commitments for investing in free trade zone located in Alat settlement and take actions in attracting new investments | “Baku International Sea Trade Port” CJSC | Ministry of Economy | | 2018 |

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|---|---|----------------------------|--|--|---------------------|
| 2.3. Establishing logistics centers in Baku and throughout the country | | | | | |
| 2.3.1. | Conducting analysis and selecting the proper areas for establishment of logistics and trade centers | Ministry of Economy | “Baku International Sea Trade Port” CJSC, “Azerbaijan Railways” CJSC, “Azerbaijan Airlines” CJSC | <ul style="list-style-type: none"> • AZN 65 million including AZN 40 million direct and AZN 25 million indirect GDP impact in 2020; • Creation of 3,800 jobs is forecasted; • Creation of 5 or 6 logistics and trade centers around Azerbaijan. | 2017-2018 |
| 2.3.2. | Ensuring private sector participation in the infrastructure projects for the logistics and trade centers in the regions | Ministry of Economy | “Baku International Sea Trade Port” CJSC, “Azerbaijan Railways” CJSC | | 2018 |
| 2.3.3. | Identifying the mechanisms for establishment and governance of the logistics and trade centers in the regions | Ministry of Economy | “Baku International Sea Trade Port” CJSC | | 2017 |
| 2.3.4. | Inviting domestic and international companies to provide value adding services in the logistics and trade centers to be established | Ministry of Economy | “Baku International Sea Trade Port” CJSC | | 2018 |
| 2.3.5. | Considering establishing the logistics hub in the territory of Haydar Aliyev International Airport in the new future | “Azerbaijan Airlines” CJSC | Ministry of Economy | | 2017-2018 |
| Strategic Objective 3: Implementing key enablers to realize logistics and trade objectives | | | | | |
| 3.1. Increasing private-sector involvement in the logistics sector | | | | | |

| No. | Action | Main responsible entity | Other assignees | Indicators | Period of execution |
|--------|---|--|--|---|---------------------|
| 3.1.1. | Developing a program for improving the participation level of private sector in logistics | Ministry of Economy | “Baku International Sea Trade Port” CJSC, “Azerbaijan Railways” CJSC, “Azerbaijan Caspian Shipping Company” CJSC, “Azerbaijan Airlines” CJSC | <ul style="list-style-type: none"> • AZN 15 million including AZN 10 million direct and AZN 5 million indirect GDP impact by 2020; • Increase in operating margins of airlines by 5%. | 2017 |
| 3.1.2. | Defining the private sector participation in the works to be performed in airlines | Cabinet of Ministers | “Azerbaijan Airlines” CJSC, Ministry of Economy | | 2017 |
| 3.1.3. | Improving airport infrastructure | “Azerbaijan Airlines” CJSC | Ministry of Economy | | 2017-2020 |
| 3.1.4. | Establishing low - cost airline company | “Azerbaijan Airlines” CJSC | Ministry of Economy | | 2017-2020 |
| 3.1.5. | Ensuring the private sector participation in airline companies | “Azerbaijan Railways” CJSC | Ministry of Economy | | 2017-2018 |
| 3.1.6. | Ensuring the private sector participation in sea transport | “Azerbaijan Caspian Shipping Company” CJSC | Ministry of Economy | | 2017 |