

**RESEARCH DOCUMENT**  
**On the Problems of Foreign Trade Entities and Ways to  
Overcome Them**

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**Baku 2021**

## Table of contents

Summary	3
Introduction	4
1. Geographical and commodity structure of Azerbaijan's foreign trade	6
2. Obstacle assessment methodology for foreign trade entities	14
3. Main obstacles for foreign trade entities in Azerbaijan and the steps taken to eliminate them	20
Main findings of the study and recommendations	17
References	19

## Summary

The study on problems of foreign trade entities and ways to overcome them focuses on the obstacles faced by entities involved in foreign trade operations in Azerbaijan.

The document refers to the World Bank's annual Doing Business report, which is prepared comparatively by countries each year, as well as the problems and obstacles that arose as a result of surveys with local entrepreneurs.

The first section of the study is devoted to the analysis of the commodity and geographical structure of Azerbaijan's foreign trade, as well as changes in the dynamics in recent years.

The second part provides detailed information on the assessment methodology conducted by countries on the basis of the "international trade" indicator of the Doing Business report.

In the last part, in import and export procedures (both border compliance and documentary compliance), Azerbaijan's position is compared with the Danish experience, as well as the countries of the region (Turkey and Georgia), problems in this area are also touched upon; furthermore, this section provides an analysis of the factors that lead to the loss of extra time and costs during customs clearance based on feedback from local entrepreneurs.

In the results section of the study, problems, which include the fact that the cost of border compliance in Azerbaijan is quite high according to the World Bank's report, that the time and cost of documentary compliance for export are more inconvenient than in neighboring countries, that trade entities are not able to take full advantage of the Green Corridor system, and that the reduction of the list of goods requiring mandatory certification is delayed for unknown reasons, are reflected in the figures. In short, the main obstacles faced by foreign trade entities, possible mechanisms for their elimination were noted and some recommendations were given.

## Introduction

In a globalized world, the sustainable economic development of any country depends significantly on actively joining the global value chain and becoming an integral part of world trade. From this point of view, the effective functioning of the customs system in the country, the minimization of obstacles for foreign trade entities are extremely important.

In order to protect national production, it is necessary to improve the structure of the economy, centralize resources in strategic areas of development, reduce the cost of some consumer goods, open foreign markets for Azerbaijani goods, etc. need to be achieved. National structural features of production and consumption, level of economic development, and other factors require a comprehensive approach to the system of the regulation of foreign trade. The regulation of foreign trade requires special state control over import and export operations, which is directly related to the organization of customs.

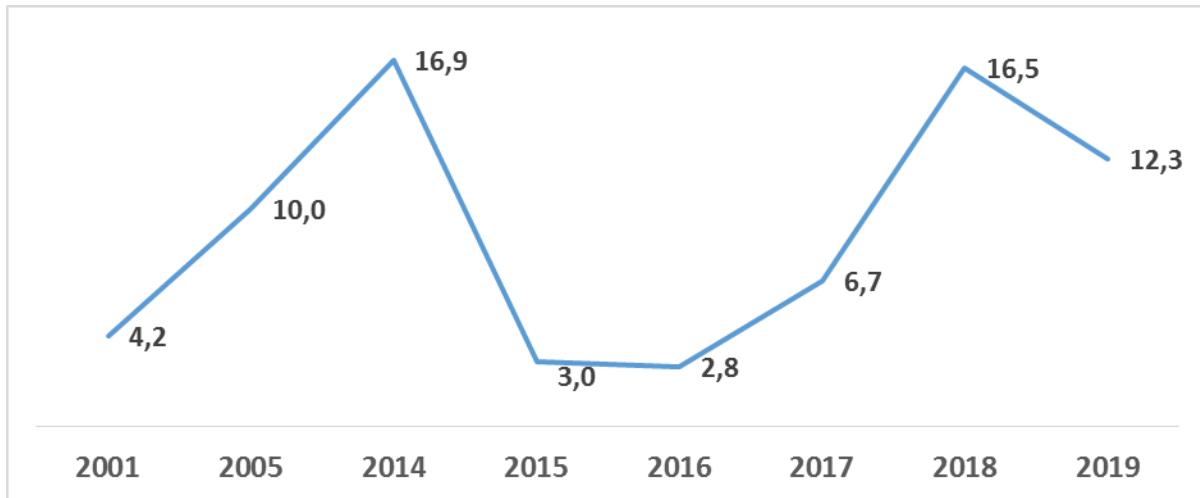
In international practice, the regulation of foreign economic activity is carried out by means of economic regulation (customs tariffs and taxes, subsidies for local producers, etc.), means of administrative regulation (prohibitions and restrictions on imports and exports, import licensing (special agreement) and quotas, etc.), means of technical regulation (standards and norms, safety norms and rules, commodity certification systems, etc.), currency and financial measures. However, this regulation should be organized in such a way that on the one hand, it stimulates business for foreign economic activity, on the other hand, it does not lead to the violation of the requirements of a free market economy. In particular, legal mechanisms related to import and export procedures should be defined in such a way that business entities are insured against any administrative interference, do not incur additional costs, and achieve cross-border movement and customs clearance of goods without delay.

It should be noted that after the restoration of the independence of the Republic of Azerbaijan, the independent State Customs Committee of the Republic of Azerbaijan was established by Presidential Decree in January 1992, and the first Customs Code was adopted in June 1997. In 2011, a new and improved Customs Code was adopted. Along with the Code, numerous normative legal acts regulating foreign trade activities, including the Law on Customs Tariff, have entered into force.

## 1. Geographical and commodity structure of Azerbaijan's foreign trade

Foreign trade relations play an important role in the Azerbaijani economy. The study of official statistics shows that the share of net exports in the formation of value-added in the economy has increased significantly, especially since 2005.

*Figure 1. Share of net exports in GDP formation, %*



Estimates based on the State Statistical Committee's (SSC) data<sup>1</sup> on the use of GDP show that while net exports accounted for only 4.2% of the country's GDP in the early 2000s, this figure exceeded 15% over the next decade. The sharp increase in oil export revenues in the country since 2005 has been one of the key reasons for the growing impact of this factor.

According to the SSC's data<sup>2</sup> on the commodity structure of exports, while the volume of exports in the oil and gas sector was around \$ 2 billion in 2002-2003, this figure was about \$ 22 billion after 2010. During this period, the volume of exports in the non-oil sector also increased by 9 times in absolute terms from \$ 200 million to \$ 1.8 billion; however, the share of this sector in total exports remained almost unchanged (about 90%).

Changes in the dynamics of foreign trade turnover in recent years have occurred mainly under the influence of two factors: changes in the volume of imports in the public sector and exports in the oil and gas sector.

According to the statistics<sup>3</sup> of the State Customs Committee, in 2013-2020, imports in the public sector amounted to \$ 1.1-2.6 billion, and exports in the oil and gas sector amounted to \$ 11-22 billion.

<sup>1</sup> Diagram was prepared by the author on the basis of indicators provided by the State Statistical Committee on the use of GDP. Source: [https://www.stat.gov.az/source/system\\_nat\\_accounts/az/04r.xls](https://www.stat.gov.az/source/system_nat_accounts/az/04r.xls)

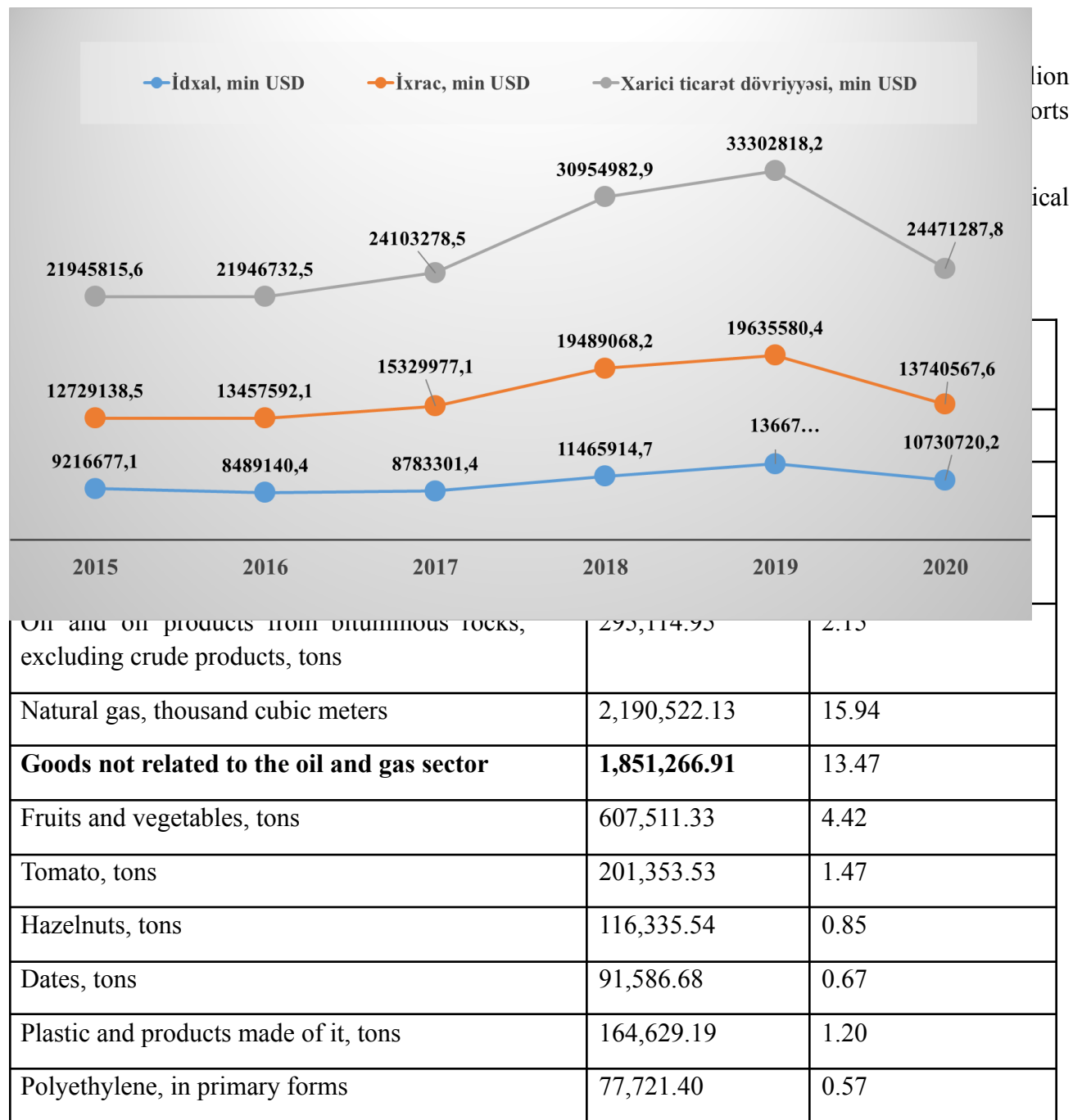
<sup>2</sup> İxracın əmtəə strukturu (Commodity structure of exports) (2002-2019).

[https://www.stat.gov.az/source/trade/az/f\\_trade/xt008\\_3.xls](https://www.stat.gov.az/source/trade/az/f_trade/xt008_3.xls)

<sup>3</sup> <https://customs.gov.az/az/faydali/gomruk-statistikasi/xarici-ticaretin-veziiyyeti-haqqinda/>

The sharp changes in the dynamics of foreign trade in Azerbaijan over the past six years have occurred mainly after 2014. At that time, on the one hand, due to the fluctuations in world crude oil prices, on the other hand, due to the sharp depreciation of the national currency, a significant reduction in imports affected the formation of foreign trade indicators. It is possible to see the changes in the figure below:

**Figure 2. Volume of Azerbaijan's foreign trade turnover in 2015-2020**



<sup>4</sup> Azərbaycanın xarici ticarət əlaqələri (Azerbaijan's foreign trade relations) - 2020.  
[https://www.stat.gov.az/source/trade/az/bulleten/2020/f\\_trade\\_12\\_2020.zip](https://www.stat.gov.az/source/trade/az/bulleten/2020/f_trade_12_2020.zip)

Polypropylene, in primary forms	64,461.71	0.47
Cotton fiber, tons	133,260.32	0.97
Aluminum and products made of it, tons	113,446.90	0.83
Others	542,904.19	3.93

As can be seen from the data presented in Table 1, in 2020, 86.53% of our total exports fell to the share of the products related to the oil and gas sector, 7.4% - fruits and vegetables, 2.3% - the chemical industry products, and about 1% - cotton fiber.

The structure of imports is dominated by means of production, machinery, and food products.

**Table 2. Commodity structure of Azerbaijan's imports in 2020<sup>5</sup>**

<b>Name of imported product</b>	<b>Statistical value, \$</b>	<b>Share in total imports, %</b>
<b>Import - total</b>	<b>10,730,720.22</b>	100
<b>Food products, thousand \$</b>	<b>1,640,721.66</b>	15.29
Butter and other fats made of milk, tons	82,608.28	0.77
Fruits and vegetables, tons	203,769.77	1.90
Wheat, tons	296,905.18	2.77
Tobacco and tobacco products, \$	85,511.84	0.80
Pharmaceutical products, tons	377,145.01	3.51
Fertilizers, tons	101,312.23	0.94
Plastic and products made of it, tons	345,996.69	3.22
Wood and products made of it, thousand \$	258,225.52	2.41
Clothing and accessories for clothing, thousand \$	206,320.23	1.92
Ferrous metals and products made of it, tons	946,834.93	8.82

<sup>5</sup> Azərbaycanın xarici ticarət əlaqələri (Azerbaijan's foreign trade relations) - 2020.  
[https://www.stat.gov.az/source/trade/az/bulleten/2020/f\\_trade\\_12\\_2020.zip](https://www.stat.gov.az/source/trade/az/bulleten/2020/f_trade_12_2020.zip)

Machinery, mechanisms, electrical appliances, equipment and their parts, thousand \$	2,536,188.88	23.63
Vehicles and their parts, thousand \$	1,548,959.71	14.43
Furniture and its parts, thousand \$	80,393.37	0.75
<b>Others</b>	<b>2,603,110.15</b>	24.28

According to statistics provided by the State Customs Committee, in 2020, 23.63% of total imports fell to the share of machinery, mechanisms, electrical appliances, equipment and their parts, 15.29% - food products, 14.43% - vehicles and their parts.

*Table 3. Major countries in Azerbaijan's exports in 2020<sup>6</sup>*

Name of countries	Thousand \$	Compared to total exports, %
<b>Total</b>	<b>13,740,567.63</b>	<b>100.00</b>
Italy	4,172,239.62	30.36
Turkey	2,597,776.65	18.91
Russia	709,390.07	5.16
Greece	523,303.24	3.81
Croatia	470,818.94	3.43
Georgia	461,924.63	3.36
India	456,784.46	3.32
Israel	437,500.07	3.18
China	432,760.54	3.15
<b>Other countries</b>	<b>1,782,069.26</b>	<b>12.97</b>

According to other statistics provided by the State Customs Committee, the top 10 countries in our exports were mainly neighboring countries. As oil and oil products account for 86% of our exports, the first and second places in our exports have been shared by Italy and Turkey for many years. The other countries have also been in the top 10 in our exports of oil and oil products.

<sup>6</sup> Azərbaycanın xarici ticarət əlaqələri (Azerbaijan's foreign trade relations) - 2020.  
[https://www.stat.gov.az/source/trade/az/bulleten/2020/f\\_trade\\_12\\_2020.zip](https://www.stat.gov.az/source/trade/az/bulleten/2020/f_trade_12_2020.zip)



**Table 4. Major countries in Azerbaijan's imports in 2020<sup>7</sup>**

<b>Name of countries</b>	<b>Thousand \$</b>	<b>Compared to total exports, %</b>
<b>Total</b>	<b>10,730,720.22</b>	<b>100.00</b>
Russia	1,962,155.68	18.29
Turkey	1,563,048.04	14.57
China	1,413,824.48	13.18
United States of America	635,916.99	5.93
Germany	583,473.62	5.44
France	448,192.66	4.18
Ukraine	418,455.13	3.90
Italy	396,214.23	3.69
Islamic Republic of Iran	300,615.39	2.80
<b>Other countries</b>	<b>1,947,832.49</b>	<b>18.14</b>

According to other statistics provided by the State Customs Committee, Russia and Turkey ranked first and second in the top 10 countries in terms of imports. Imports of food products, machinery, and equipment from these countries prevailed. As in other countries, China, which is mainly engaged in the export of electronic products, is in the top three in our imports.

## **2. Obstacle assessment methodology for foreign trade entities**

Over the past 50 years, the globalization of the world economy has made the expansion of international trade relations one of the key factors of economic development. Small countries, especially those with limited demand in the domestic market, cannot achieve sustainable economic development without strengthening their export potential and making the national economy part of a global value chain. The world's foreign trade turnover is expanding rapidly, and according to the report of the World Trade Organization<sup>8</sup>, in 2008-2019 alone, the volume of global commodity trade increased by more than 25%. The volume of foreign trade turnover in the world amounted to \$ 19.7 trillion, which is about one-fifth of global GDP.

The expansion of foreign trade in a particular country depends to a large extent on the government's ability to create a favorable economic, legal, and institutional environment for foreign trade entities. In addition to the incentive mechanisms provided for foreign trade entities, the unimpeded flow of

<sup>7</sup> Azərbaycanın xarici ticarət əlaqələri (Azerbaijan's foreign trade relations) - 2020.

[https://www.stat.gov.az/source/trade/az/bulleten/2020/f\\_trade\\_12\\_2020.zip](https://www.stat.gov.az/source/trade/az/bulleten/2020/f_trade_12_2020.zip)

<sup>8</sup> [https://www.wto.org/english/res\\_e/statis\\_e/wts2019\\_e/wts2019\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2019_e/wts2019_e.pdf)

commodity flows and the maximum clearance of mechanisms that create bureaucratic obstacles for the participants of the customs-border regime are considered to be crucial conditions. In this regard, it is no coincidence that over the past 15 years, the World Bank has chosen "international trade" as one of the key assessment indicators in its Doing Business<sup>9</sup> report. In general, the Doing Business report uses 10 indicators (starting a business, getting credit, paying taxes, registering property, getting electricity, protecting minority investors, enforcing contracts, dealing with construction permits, etc.) to assess the favorable business environment, one of which assesses the current situation in foreign trade relations. The organization has developed a separate methodology for each indicator for the preparation of the report, and the existing assessment for countries uses the same methodological approach.

According to the methodology, calculations are made using different commodity samples for import and export. For the assessment of imports, the volume of car parts with a volume of 15 cubic meters (HS code: 8708) is taken as an example, and the assessment is carried out on the example of trade relations with the country where this product is most purchased. For the assessment of exports, one of the products, which is considered to be one of the leading products in the country's exports and has a value of not less than \$ 50,000, is selected based on trade relations with the country where the product is sold. For example, in the Doing Business report for 2020, Russia was selected as an example for automotive parts in Azerbaijan's import and Iraq for sugar and confectionery in Azerbaijan's export.

The World Bank's experts use the following 8 indicators to assess international trade as part of the Doing Business report:

- **Time to export: Border compliance (hours)**
- **Time to export: Documentary compliance (hours)**
- **Time to import: Border compliance (hours)**
- **Time to import: Documentary compliance (hours)**
- **Cost to export: Border compliance (USD)**
- **Cost to export: Documentary compliance (USD)**
- **Cost to import: Border compliance (USD)**
- **Cost to import: Documentary compliance (USD)**

According to the methodology, "time" and "cost" mean all time spent and all payments required from the conclusion of contracts with logistics companies and customs brokers for the transportation of goods by entities engaged in foreign trade activities, the movement of goods across the border (border checkpoint, seaport, or airport) to the necessary customs-border clearance, product inspection, warehousing, and transporting from there. Time is measured in hours and 1 day is 24 hours (for example, 22 days is denoted as  $22 \times 24 = 528$  hours). If border compliance takes 7.5 hours, the information is recorded as it is. Alternatively, assuming that the documents are submitted to the customs authority at 8:00 am, processed overnight, and can be picked up at 8:00 am the next day, the time of border compliance will be 24 hours, as the actual procedure took 24 hours.

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<sup>9</sup> <https://www.doingbusiness.org/en/doingbusiness>

Costs are measured in US dollars and the local currency is expressed as the equivalent of US dollars according to the exchange rate available on the day of responding to the survey from the respondents. The cost of insurance and unofficial payments without receipts are deducted from costs.

Documentary compliance reflects the time spent and cost incurred in connection with the compliance of the country of origin, country of destination, and any transit countries with the document requirements of all government bodies. The purpose of this report is to measure the overall burden of preparing a sample product and a package of documents that will allow partner countries to complete international trade. For example, when a shipment travels from Mumbai to New York, the forwarder must prepare and submit documents to the customs authorities in India, the port authorities in Mumbai, and the customs authorities in the United States. This process includes the preparation of documents (such as time spent on collecting information to complete a customs declaration or certificate of origin), processing of documents (such as time spent on waiting for a phytosanitary certificate to be issued by the relevant authority), presentation of documents (such as time spent on presenting port terminal receipts to port authorities), and submission of documents (such as the time spent on submitting the customs declaration to the customs authority in person or in electronic form).

It consists of all electronic and paper information required by government bodies in connection with exports, as well as a set of all documents prepared and submitted during the export process. This includes a sample product, as well as all documents prepared by freight forwarders and customs brokers for trading partners for the border inspection. The time and cost of preparing any document (for example, a certificate of origin) for preferential customs clearance and verifying that this document complies with the requirements of the legislation are also calculated separately. Doing Business does not include the documents required for the production and sale of products in the domestic market (safety standards, test certificates, etc.) in the calculation of time and cost in accordance with its methodology.

Border inspections reflect the time and cost in accordance with the country's customs regulations of the country and other mandatory inspections for the movement of goods across the border, as well as the time and cost of treatment in the area. This segment covers the time and cost, customs clearance carried out by other agencies, and the time and costs of inspection procedures performed by other agencies. For example, the time and cost of phytosanitary inspections will be included here.

The calculation of time and cost of border inspections depends on where border compliance procedures are conducted, by whom the procedures are required and conducted, and the likelihood of inspections being carried out. If all customs clearance and other inspections take place at the same time at the port or border, the time estimates for border compliance shall be taken into account at the same time. As in the case of trade between EU member states or other customs unions, it is quite possible that the time and cost of border inspections are insignificant or zero.

If all customs and other inspections take place elsewhere, the time and cost of these procedures are added to the time and cost of what takes place at the port and border. For example, in Kazakhstan, all customs clearance and inspections are carried out at a customs post in Almaty, which does not have a

land border between Kazakhstan and China. In this case, the time of border compliance is the sum of the time spent at the terminal in Almaty and the border inspection.

Doing Business asks customs agencies to calculate the time spent and costs incurred by customs authorities for clearance and inspections. It covers all inspections, such as documentation and physical inspections, for the purpose of calculating duties by checking the classification of the product, confirming the quantity, determining the origin, and verifying the accuracy of other customs information. (This category covers all inspections aimed at preventing smuggling.) These are clearance and inspection procedures that occur in most cases and are therefore considered "standard work". The time spent and cost incurred reflect the efficiency of the country's customs organization.

Doing Business asks individual agencies to calculate the total time and cost of clearance and inspection by the customs and all other agencies for the product. These estimates cover inspections related to health, safety, phytosanitary standards, conformity, and the like; thus, it achieves the efficiency of institutions that require and conduct additional inspections.

If inspections by non-customs authorities occur in 20% or less of the cases, border inspections and costs shall include only customs clearance and inspections. If the number of inspections by other agencies is 20% or more, the time spent and cost incurred include clearance and inspections by all agencies. Different types of inspections may occur with different probabilities. For example, examination with special X-ray devices can occur in 100% of cases, and physical examination in 5% of cases. In such cases, Doing Business only takes into account the time spent on scanning, as scanning account for more than 20% of cases.

Domestic transport involves the time and cost of transporting goods from a warehouse in the country's largest commercial city to the country's most used seaport or land border. Data is also collected for the second largest trading city for 11 countries. This procedure generally reflects the time (and cost) for transportation. This does not include any delays and traffic police inspections, as well as time spent on loading and unloading at the warehouse or border. For a coastal country that is a foreign trade partner, it includes time and other financial costs of domestic transportation, loading in the warehouse, and reaching the port of the importing country. For a country trading on land, it includes time and other financial costs of domestic transport, loading in the warehouse, and reaching the country's land border.

Expected time and financial costs include the most commonly used mode of transport (truck, train) and the most commonly used route (road, border posts) as reported by the agencies. Time and cost estimates are based on the mode and route chosen by most agencies. For the 11 countries where data is collected for both the first largest and the second-largest commercial city, Doing Business allows the most common route and the most common mode of transport to be different for the two cities. For example, while cargo from Delhi is transported by train to the port of Mundra, cargo from Mumbai is transported by truck to the port of Nhava Sheva for export.

As noted in the case of the export event, Doing Business does not involve a containerized supply, and time and cost estimates may be based on the transportation of 15 tons of containerless product. It is assumed that automotive parts are packed during import activities. In the case of containerized

shipments, the time and cost of transport and other procedures are based on the export of goods belonging to a single commodity nomenclature classification code (HS code). These assumptions are especially important for inspections because the shipment of homogeneous products is subject to fewer and shorter inspections than other often shipped products with different HS codes.

In some cases, the shipment goes from the warehouse to the customs post or terminal for clearance or inspection and then moves on to the port or border. In these cases, internal transport time is the sum of time for both transport segments. The time and cost of clearance or inspection are included in border control measures, not for domestic transport.

According to the Doing Business 2020 report, among the 190 countries involved in the assessment of the "international trade" indicator, the countries with the highest results were Denmark, Austria, Spain, France, Slovenia, Poland, the Netherlands, the Czech Republic, Portugal, Slovakia, Hungary, Italy, and Romania. The countries with the worst results were Egypt, Zambia, Ghana, South Africa, Nigeria, Zimbabwe, Algeria, Angola, Bangladesh, and others.

### **3. Main obstacles for foreign trade entities in Azerbaijan and the steps taken to eliminate them**

According to the latest Doing Business report<sup>10</sup> (2020) of the World Bank, Azerbaijan ranks 83<sup>rd</sup> out of 190 countries in the "international trade" indicator. According to this indicator, Turkey and Georgia are in a better position among the countries in the region (Turkey - 44<sup>th</sup>, Georgia - 45<sup>th</sup>). Denmark was the first country to create the most favorable conditions for participants in foreign trade relations. From this point of view, it is interesting to identify the obstacles faced by the participants of the foreign trade process of Azerbaijan in comparison with all three countries.

***Table 5. Intercountry comparison of indicators on the efficiency of foreign trade operations in the Doing Business report of the World Bank***

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<sup>10</sup> <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>

<b>Foreign trade indicators / countries</b>	<i>Azerbaijan</i>	<i>Georgia</i>	<i>Turkey</i>	<i>Denmark</i>
Time to export: Border compliance (hours)	17	6	10	0
Cost to export: Border compliance (USD)	214	112	338	0
Time to export: Documentary compliance (hours)	33	2	4	1
Cost to export: Documentary compliance (USD)	250	0	55	0
Time to import: Border compliance (hours)	14	15	7	0
Cost to import: Border compliance (USD)	300	396	46	0
Time to import: Documentary compliance (hours)	33	2	2	1
Cost to import: Documentary compliance (USD)	200	189	55	0

It is clear from the report<sup>11</sup> that compared to the three countries, Azerbaijan is the country that spends the most time for each set of goods to cross the border. This figure is 17 hours in Azerbaijan, 10 hours and 6 hours in Turkey<sup>12</sup> and Georgia<sup>13</sup>, respectively. In Denmark<sup>14</sup>, this time is less than an hour. Although the costs of border compliance are low compared to Turkey, they are almost twice as high as in Georgia. In terms of time and costs of documentary compliance for export, Azerbaijan is in a very unfavorable position compared to neighboring countries. Such that the time spent on documentary compliance for export is 16 times higher than in Georgia, 8 times higher than in Turkey, and the cost of documentary compliance for export is about 5 times higher than in Turkey. Participants in the foreign trade process in Georgia are exempt from any costs of documentary compliance during export.

<sup>11</sup> <https://russian.doingbusiness.org/content/dam/doingBusiness/country/a/azerbaijan/AZE.pdf>

<sup>12</sup> <https://russian.doingbusiness.org/content/dam/doingBusiness/country/t/turkey/TUR.pdf>

<sup>13</sup> <https://russian.doingbusiness.org/content/dam/doingBusiness/country/g/georgia/GEO.pdf>

<sup>14</sup> <https://russian.doingbusiness.org/content/dam/doingBusiness/country/d/denmark/DNK.pdf>

Azerbaijan's unfavorable position is also reflected in imports. For example, although the time spent on border compliance is lower than in Georgia, it is seven times higher than in Turkey. At the same time, the time spent on documentary compliance for import is 16 times higher than in both Georgia and Turkey. As for the cost of documentary compliance for import, it is about 10% higher than in Georgia and about 4 times higher than in Turkey.

In this report, we have compared our country's export indicators with our neighboring countries, Georgia and Turkey. Looking at the set of documents required for export and import, we can clearly see that there is no requirement for a hygienic certificate, contract, and short import declaration in both countries. This is an indication of how much time can be gained for the import-export process. The documents required for import and export in our country are as follows.

The number of documents required for foreign trade operations in Azerbaijan is higher than in the two countries of the region mentioned above. For example, 7 documents (invoice, import declaration, contract, phytosanitary certificate, short import declaration, certificate of origin, road transport invoice) are required during import in Azerbaijan, 4 documents (invoice, import declaration, road transport invoice, and SOLAS (Safety of Life at Sea) certificate in case of sea transportation) in Georgia, 5 documents (invoice, import declaration, T-2 document (common transit procedure document in European countries), packing list, and ATR (independent movement document in European countries)) in Turkey. It is important to note that the short import declaration does not exist in any European country, as well as in Turkey and Georgia.

As for documentation during export operations, currently, 6 documents (invoice, export declaration, contract, phytosanitary certificate, certificate of origin, road transport invoice) are required in Azerbaijan, 4 documents (invoice, export declaration, road transport invoice, and certificate of origin) in Georgia, and 6 documents (invoice, export declaration, ATR (independent movement document in European countries), packing list, road transport invoice (or waterage invoice), and SOLAS (Safety of Life at Sea) certificate) in Turkey.

As can be seen, the conditions for participants in foreign trade activities in Azerbaijan, both in export and import operations, are more unfavorable than the conditions in Georgia and Turkey. It is true that the current indicators have improved significantly over the past five years, and the government has taken significant steps in the customs system, as well as in legislation. The Presidential Order<sup>15</sup> signed on March 16, 2016, on reforms in the customs system opened the way for a number of changes in the system in 2017-2019. According to the Order, in order to reduce the list of goods subject to mandatory certification, the approval of the new version of the Resolution of the Cabinet of Ministers No. 343 dated 01.07.1993 on the application of certification of products (works, services) in stages within two months with the consent of the President of the Republic of Azerbaijan, determination of a unified list of goods related to veterinary, phytosanitary, and sanitary control by indicating the codes on the commodity nomenclature of foreign economic activity, ensuring the acceptance of all declarations in electronic form by the customs authorities, application of a short import declaration to eliminate time loss had to be carried out. At the same time, it was

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<sup>15</sup> <http://www.e-qanun.az/framework/32249>

planned to prepare proposals to minimize the number of documents and procedures required for customs clearance and to introduce a Green Corridor system.

At the next stage, a number of measures provided for in this Order were implemented. Short import declarations have already been applied, and the Green Corridor system has been established. Administrative regulations<sup>16</sup> for the application of electronic declarations have been approved. The rules<sup>17</sup> approved by the Presidential Decree dated May 21, 2016, allow participants in foreign trade operations to benefit from the Green Corridor system. According to the rules, entities who are entitled to use the Green Corridor can pass through customs without a physical inspection of goods on the basis of a short import declaration and notification submitted in advance in electronic form. The Green Corridor system was introduced in early 2019, and currently, 419 importers and 233 exporters can benefit from the Green Corridor system. This is less than 2% of foreign trade participants. If subjects want to benefit from this system, a large number of documents are required from them. We are talking about more than 10 samples of documents in total. This includes the company's activity code, extract from the register, TIN, charter, details with exact legal address, information on the person responsible for customs issues, category of business entity (micro, small, medium, large), copies of contracts with logistics companies in the last 1 year, bank account, the amount of payments to the state budget in the last 1 year, contracts with shippers in the last 1 year. However, the customs authority can take most of them from electronic databases without requiring the entrepreneur. However, despite the steps taken, a number of obstacles to foreign trade entities at the next stages remained unresolved. For example, although the reduction of the list of goods requiring mandatory certification is one of the main tasks of the Presidential Order, this problem has not been resolved. The process of obtaining a hygienic certificate, especially during import, requires a lot of time and cost for documentary compliance. Obtaining a certificate for a product sample costs the entrepreneur to pay a state fee of 200 AZN. Products approved by reputable organizations are required to obtain re-hygienic certification within the country. It takes 1 week to apply for a hygienic certificate and get certificate.

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<sup>16</sup> <http://www.e-qanun.az/framework/32718>

<sup>17</sup> <http://www.e-qanun.az/framework/32855>



### **Main findings of the study and recommendations**

The study revealed the following main problems faced by foreign trade entities in Azerbaijan:

- **According to the study of the World Bank, the costs of border compliance for foreign trade participants in Azerbaijan are almost twice as high as in the region;**
- **Azerbaijan is in a more unfavorable position than Turkey and Georgia in terms of time and cost of documentary compliance for export. Such that the time of documentary compliance for export is 16 times higher than in Georgia, 8 times higher than in Turkey, and the cost of documentary compliance for export is about 5 times higher than in Turkey;**
- **Although the time of border compliance in Azerbaijan is lower than in Georgia, it is 7 times higher than in Turkey;**
- **The time of documentary compliance for import in Azerbaijan is 16 times longer than in both Georgia and Turkey;**
- **The cost of documentary compliance for import in Azerbaijan is about 10% higher than in Georgia, and about 4 times higher than in Turkey;**

- **Compared to the countries involved in the study, in Azerbaijan, more documents are required for export and import. For example, 7 documents are required for import operations in Azerbaijan, 4 in Georgia, and 5 in Turkey; 6 documents are required for export operations in Azerbaijan, 4 in Georgia, and 6 in Turkey;**
- **Although a Green Corridor system has been established to speed up border clearance for foreign trade entities, less than 2% of all entities are able to take advantage of this opportunity;**
- **Although the need to reduce the list of goods requiring mandatory certification is also acknowledged in the Presidential Order, the implementation of reform measures in this area is delayed for unknown reasons;**
- **The cost required and time spent to obtain certificates during import operations is quite high.**

Taking into account the above-mentioned problems, it is important to take the following steps to eliminate the obstacles faced by foreign trade entities in Azerbaijan:

- **There is a need to prepare a Roadmap to improve the country's position on the "international trade" indicator in the Doing Business report of the World Bank.** *In this Roadmap, the time spent and cost incurred for border compliance and documentary compliance during both export and import operations should be compared with the countries with the best position in the ranking, as well as with the countries of the region. During the comparison, the reduction of transition procedures and documents that are excessively applied in Azerbaijan should be ensured in accordance with these practices;*
- **Hygienic certificates adopted by reputable international organizations must be recognized by the national customs system.** *The practice of re-certification from importers who provide such certificates should be stopped, as this documentation process is time-consuming and costly. Such that obtaining a certificate for a product sample costs the entrepreneur to pay a state fee of 200 AZN. Therefore, certificates approved by reputable organizations should be recognized within the country;*
- **The use of the Green Corridor system should be encouraged.** *In particular, the criteria for use in this system should be reflected in detail and concretely in the legislation, and the documents for the application should be taken from the electronic database as much as possible by the government agencies themselves;*

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This paper is based on the study conducted by the Institute for Democratic Initiatives (IDI).

IDI would like to express its deep gratitude to everyone who contributed to the study and the development of the paper.

Reference to IDI is compulsory when using information.

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