



AFEZ
ALAT FREE ECONOMIC ZONE

Chairman's Statement

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

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

Competitiveness: Azerbaijan's Economy

Azerbaijan's economy has been on a steady upward trajectory since 2005. It has positioned itself as a strategic transport hub between Europe and Asia. The economy grew 3.4 times between 2004 and 2019. During same period strategic foreign exchange reserves grew 27.6 times.

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

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

We have attracted \$US128 billion in foreign investment since 2004, which has contributed to the development of all sectors of the economy in order to further improve the competitiveness of Azerbaijan.

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

Strategic Context: Why AFEZ?

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

- become a competitive participant in international economic relations,

- establish a world class business environment with energy, transport, transit and logistical infrastructure,
- become a diversified and export-oriented economy creating high added-value,
- further strengthen the role of non-oil sector in the economy. AFEZ Authority is a central player in transforming this vision into reality.

AFEZ is being established next to the Port of Baku. This strategic geographic location will serve as a regional investment hub and boost competitiveness in the Europe-Caucasus-Asia and North-South transport corridors. It will intensify local and foreign investment in the country's non-oil sector.

Strategic Intent: What will AFEZ do?

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

- strategic geographic location next to global transport corridors, using multi-modal transport connections to create a sustainable regional advantage based on a regulatory, operating and business environment that is investor-friendly and an investor-friendly attitude practised each and every day by each and every staff member.

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

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

- engage in high value-added and export-oriented manufacturing and services,
- generate additional value to the economy in non-oil sectors of activity,
- engage in internationally traded activities using innovative technologies and approaches to work.

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

What is the Legal Basis for AFEZ?

The LAW OF THE REPUBLIC OF AZERBAIJAN on The Alat Free Economic Zone (AFEZ Law) sets out the legal framework for the operation, development and governance of AFEZ. Internal regulations are based on the Law and together with the Law create the AFEZ internal legislation.

The AFEZ legislation has been prepared from the perspective of potential investors and best international practice. This is an important and essential exercise. Corporate location decisions are influenced by a range of factors and the legal and regulatory environment is one such critical factor.

As the Chairman of the AFEZ Authority, I can provide certainty to investors that all matters concerning operation of their businesses will be subject to AFEZ legislation which takes precedence over base economy laws. To provide certainty to investors and to demonstrate precedence of AFEZ Law and internal regulations of AFEZ, we have also

made changes in multiple relevant base economy laws. In particular, tax, customs, labour and other laws of the base economy clearly acknowledge that AFEZ legislation takes precedence over those laws.

In addition to that AFEZ law clearly declares that Base Economy Authorities:

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

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

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

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

As I have already stated, the AFEZ Authority will be selective and careful in our approach to investors. There will be three types of investors or customers at AFEZ:

Core Clients: Located within AFEZ and Eligible for Incentives

Businesses engaged in high value-added and export-oriented manufacturing and services, internationally traded activities, using innovative technologies and management experience.

Ancillary Clients: Located within AFEZ and Not Eligible for Incentives

Service providers with a local market focus providing essential commercial, retail and residential services to AFEZ Core Clients, who will be allowed to locate in defined spaces within AFEZ boundaries.

Support Clients: Located outside AFEZ and Not Eligible for Incentives

Businesses with a domestic market focus providing sub-supply products and services to AFEZ Core Clients, who will be allowed to locate in a specially designated support services area adjacent to AFEZ.

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

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

Benefits for Investors

The business-friendly environment and access to large international markets available from AFEZ's multi-modal location creates real value for investors. In addition, and in line

with international benchmark locations, the AFEZ Authority will offer a package of fiscal and non-fiscal incentives to Core Clients:

Tax exemption

One of the key benefits is the absence of any tax on a business in AFEZ. A qualified business in AFEZ (essentially, Core Clients) is not required to pay a value added tax, withholding tax or any other corporate tax. AFEZ Legislation exempts foreign skilled personnel from personal income tax, social security payments and other similar taxes and payments. This is intended to reduce investor costs as well as attract skilled foreign personnel. Import by AFEZ Core Clients of any products or services from a foreign country and export by AFEZ Core Clients of any products and services to a foreign country is exempt from customs duties and taxes, including value added taxes.

No restriction on foreign ownership

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

Additional benefits

- Trade facilitation-based customs regime,
- Investor property is immune from nationalization or other restrictions,
- No restrictions on foreign currency or profit repatriation,
- Voluntary participation in state social protection fund for foreign employees,
- Ease of access to visas for foreign nationals,
- On-site one-stop shop business centre for appraisal and licensing,
- Industrial training centre,
- Independent regulatory authority,
- International standard independent dispute resolution,
- International standard health, safety, labour and environmental regulations,
- Full investor protection,
- Full protection of intellectual property rights.

Continuing investor support

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

Access to skilled labour

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

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

Benefits for the people of Azerbaijan

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

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

We have plans for industrial training facilities on-site at AFEZ. These facilities will train local personnel and prepare them for new challenges. In the meantime, we will be working with vocational and higher education training institutions in the rest of Azerbaijan to ensure that they are producing the skilled workforce needed by AFEZ investors. This will enable us to create and provide potential and existing clients with an active database of current and available skills.

This approach will ensure that citizens of Azerbaijan who are active in AFEZ gain training and experience on what is required for success in globally trading and internationally competitive businesses.

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

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

Investor - Friendly Property Solutions

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

AFEZ will initially occupy a total site area of approximately 850 ha, spread over three sites. Two of the sites, Zone 1 (198 ha) and Zone 2 (441 ha) are located adjacent to the Port of Baku and comprise a total area of 639 ha. The third site is located within Zone 3 (211 ha), circa 7 km from the Port of Baku.

The development strategy being implemented by the AFEZ Authority is to build out AFEZ in phases. The first phase of development will be in FEZ 1 with an initial 60 ha (Phase 1A) being constructed on a high-profile site adjacent to the Highway and the Port access road. When completed, Phase 1A will include five distinct components:

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

The physical development programme is on schedule. Assuming that there are no delays arising from Covid-19 restrictions, here are the key dates. Contractors for Phase 1A

will commence earthworks and construction of infrastructure and the customs plaza in May 2021. Construction of the first office building will start in July 2021.

Phase 1A will be completed and open for business with serviced industrial plots in March-April 2022 and office accommodation in July 2022.

Phase 2.1 of the project is planned for 2022, where an adjoining 84 ha will be developed with a range of new plots for businesses.

Bringing positive experience from the oil and gas industry to AFEZ

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

To regulate the oil and gas industry, Azerbaijan has adopted special laws – primarily, by giving production sharing and other agreements with investors the status of law. These laws have prevailed over other laws of Azerbaijan.

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

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

Concluding Remarks

We have two goals, both of which are crucial.

First, we want to create the best possible environment for investors, so that they have all they need to successfully do business in AFEZ.

Second, we want to show the people of Azerbaijan what the transition to an internationally competitive and knowledge-based economy means in practice. We are doing this for generations of people of Azerbaijan so that they learn and practice a new business culture, work with new technologies and generate innovative enterprises to create real value for the economy and the people of Azerbaijan.

As Chairman, I will ensure that AFEZ will deliver value to investors and investors will deliver value to Azerbaijan and to the people of Azerbaijan.

Further Information and Contacts

If your business or network could benefit from locating in AFEZ, or just wish to be kept informed of developments as they proceed, please make use of the contact options below to let us know and we will ensure that you are kept fully up to date on the opportunities available in AFEZ.

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