

# impact

## AZERBAIJAN



# New Business Trends in the New Year

**AZERMS LLC : Compliancy training and more**

**Financial risk management : Setting your expectations**

**E-commerce development : Joining the online movement**

**Women in business : Changing the face of business in Baku**



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## A Word from the Executive Director of AmCham



Dear Members and Friends,

I hope you all had a wonderful holiday season and a great start of the year!

The theme of this issue is new trends in the New Year. Starting our 15th year in Azerbaijan, we at AmCham never stop looking for new ways of providing service and adding value to your membership with us. In a meeting with 30 other European AmChams several months ago, the main question that was discussed by us was *relevance*. How do we stay relevant to our members' needs in an ever-changing world of economic and political whirlpool? Well, here in Azerbaijan, we decided to start by hiring a full time Legislative Liaison and Policy Coordinator to strengthen our policy direction. Over the past years, AmCham Azerbaijan has been traditionally exceptional in providing networking opportunities and events and we will continue that by organizing even more events for our members. But the new trend for us in 2011 will be an increased and enhanced focus with the Government of Azerbaijan in finding common ground for dialogue aimed at making Azerbaijan a better place to work and live.

The second trend that we wish to continue from our efforts last year is to become more socially responsible. Two CSR events that included member participation encourage us to think that, even with nominal financial expenditures, together as an AmCham community we can make a real difference in the society we all live in.

I am more excited than ever to start this year with AmCham and pursue these and other endeavors together!

Yours

Nargiz Nasrullayeva-Muduroglu

## Editor's Comment



Dear Readers,

Happy New Year and welcome to the 11th issue of Impact AZERBAIJAN.

It is my wish for a happy, healthy and prosperous new year for us all. With the start of all things new, we've searched the local market for new business trends finding their way to Baku.

From financial risk management assesment to the development of e-commerce, Baku is home to a host of new companies and the promise of opportunity to anyone looking for a chance to succeed.

In this edition we explore several different aspects of the marketplace. In a city with a history of unique challenges, we discovered companies offering compliance training to emerging businesses, financial risk management, e-commerce development and the success stories of women in business.

Once again, thanks to our advertisers, consultants and journalist for your contributions. Without you this magazine would not be possible.

Best regards,

Donna Denton

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AZERMS, LLC – Big business abounds, but how can local companies compete? Azerms' Tom Deeb details the offer to step up to compliancy for many companies wanting to become

part of the local supply chain. Learn about the success stories of this company, just 5 years young and counting.

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Finance is risky business, but setting your expectations can help determine your probability of success. Listen as Mr. Rufat Mahmud, Chairman of the Board of Directors at Azerbaijan Risk Professionals Association, together with Ms. Linda Miller, Finance and Risk Advisor, discuss a relatively new concept to this region.

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There's a huge network of retail, banking and customer services offered on the World Wide Web and eventually, they will be made available in Azerbaijan. GoldenPay's Kent Babin gives insight into why it's taking so long to gain the trust of consumers and business owners alike.

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# AZERMS, LLC: Compliance Training and More....

Economic growth is evident in Baku and international companies continue to locate here. While business opportunities are available, local companies must be prepared to meet international standards on many levels. Impact spoke with Dr. Tom Deeb, managing director at T&M Associates, Baku and principle consultant for Azerms, LLC, and we asked him to define what they can offer companies interested in becoming part of the local supply chain. Here is Tom's take on why they do what they do and how they've found success.

## What brought you to Baku and why did you open a business here?

I have been coming to Azerbaijan for the last 5 years as a technical expert in food safety and agriculture. My work has been supported by USDA, USAID, World Bank and Ministry of Agriculture focused on working with private companies, State Veterinary Service, Azerbaijan State Agrarian University in Ganja, and State Plant Protection Service to provide technical assistance to support Azerbaijan's efforts to join WTO, to improve Veterinary Education and help companies increase their competitiveness, increase exports, and create jobs. Through this work I have been fortunate to meet many people, make friends and gain an understanding of Azerbaijan and the tremendous potential this country has, as well as the CIS region.

In January of 2010 we partnered with a local company, Azerms LLC and successfully won a BP tender to provide development and training and to help Azeri companies participate in the 1 billion USD annual spend by BP for goods and services. In winning this contract we decided the best way to support the program was to open a local office, T&M Associates Baku, that will support this partnership and provide a base of operations for our work in Ukraine, Georgia, and Moldova. So in April 2010 we opened our office and became an Azerbaijan business.

## What makes you successful here in Baku?

There are a couple of things. Over the last 12 years our company has been focused on helping small and medium sized companies expand their markets, increase sales, increase production and make more money. We have worked with companies to sell to major corporations such as Home Depot, Costco, Kraft, and DuPont. Our motto is Taking Ideas from Concept to Reality and we have been very successful at this. In general for every dollar spent with our company, clients realize 10 dollars in new revenues, which is not a bad return-on-investment. Our company is built on individuals that have decades of industrial and new business experience. We understand how things work, budgets, budget cycles, and what it takes to win and it is this



expertise that we bring our clients. Unlike many, we also have built and run our own small companies so we understand small business challenges such as cash flow, payroll, and making a profit. Since 2002 we have been working in the CIS region and we understand at some level how things work and how to get things done. But most importantly we have developed close friendships and business ties in the region and it is through their support and help that we believe we can succeed.

## You mentioned that BP and others buy over 1 billion USD in goods and services each year...what exactly are they purchasing?

International companies in Baku buy a variety of materials and support services ranging from engineering, manufacturing and fabrication, construction, HVAC, IT services, car hire, graphic design and printing, to translation and catering. To support operations, international companies need welders,

*"To be successful in business you don't just need a great idea — you have to sell it. Don't be afraid to sell. Don't think of yourself as anything but a marketer."*

**Susan Sabbott,**

President, American Express

electricians, heavy equipment operators, pipe fitters, and riggers. They also need computer programmers, IT support and engineers. Companies need suppliers of products including computer hardware and software, printed materials, video and marketing materials as well as food from catering operations. In total they purchase materials and services in over 30 different business sectors and commodities.

### **So, what do you offer local companies that participate in your programs?**

We help companies in three main areas: marketing and sales; compliance with buyer requirements for quality, safety and the environment; training and education.

Currently many companies do not know what types of goods and services exist in Azerbaijan and who provides these. Azermis LLC has compiled one of the largest databases of local manufacturing, business services and technical services such as engineering. We are constantly going to the market to identify more companies and goods each day. We work with buyers to identify their needs and then conduct market surveys and prepare reports so that local companies can be included in the procurement process. We are advocates for local companies introducing them to buyers and we work with local companies to hone their message so that buyers can fully understand what they have to offer. In 2011 we hope to hold two events in which buyers and sellers can meet, discuss business and work towards signing business deals. On the flip side, we are working with buyers to include local suppliers in their procurement databases. In 2010, we helped local companies win contracts with a value of over 15 million USD creating new jobs and new investment.

In order to supply international companies, Azerbaijani companies must meet certain quality, health, safety and environmental requirements. It is not enough to have the product or service; they must meet other qualifications as well. A key part of the Azermis service is to work with companies to improve their quality, health, safety and environment systems and procedures. We do this through a 4-step process where we benchmark how the company is doing versus the requirements. We help the company understand and document any gaps that are found, develop an action plan to close the gaps and provide consulting to help with implementation. Finally we assess their implementation and compliance and if they have closed the gaps and met the requirements, we then graduate them from our program. As you can imagine this process takes time, resources and management commitment. In 2010, 20 companies graduated from our program.

Based on our work we conducted several training sessions for companies in the areas of health, safety and environment. We helped companies with quality control and provided custom training in food safety management and metal traceability for fabrication. In 2011 we will add training on successfully completing international tenders and bids, and sales training targeted at selling to international companies.

### **What do buyers gain from this program?**

As companies look at the total cost for imported goods and services: transportation, customs duties, the cost of long lead times, management fees, warehouse and storage and the cost

of delivery, buying locally can and does save the buyer time and money. Based on our company's past experience, the international buyers in Azerbaijan can save upwards of 30% by buying locally. Buying locally creates reliable local supply chains that are needed to support on-going business and future business as the industry expands over the next 10 years and provides for joint ventures and development of suppliers who can support operations in Azerbaijan and the surrounding regions.

### **You mentioned you work in the CIS region... where else are you located?**

Currently we are working with our Ukrainian partner focused on industrial, tourism and agricultural competitiveness. Our Ukrainian projects are targeted on improving the competitiveness of the chemicals, steel, and selected manufacturing industries through training on sales, marketing, business development, quality, health, safety and environment. In tourism we are primarily working to improve the safety of food served in restaurants.

### **You started your work in Azerbaijan in food and agriculture...do you still work in these sectors as well?**

We do and in fact we are providing assistance to the United States Department of Agriculture programs in curricula development at the Azerbaijan State Agrarian University and we provide support to other donor programs in agriculture. The University requested assistance in upgrading their curricula, so our goal in 2011 is to help the faculty upgrade Animal nutrition and food safety courses to meet the needs of industry, farmers and Azerbaijan.

### **What message would you like to leave with our readers?**

That Azermis LLC and T&M Associates are here to create linkages and initiate business between international and local companies, and we are open for business. Please give us a call for more information. ■

*Tom received his PhD in chemistry from Texas A&M University and started his career with DuPont. At DuPont he held several positions in research, sales, marketing and business management ending his work as the VP of east coast operations at DuPont Flooring Systems. He was recruited by Honeywell Home and Building Controls as the director of marketing and was responsible for operations in the Americas, Europe and Asia. In 2004 he joined T&M Associates as the Vice President of Sales and Business development. Since 2004 he has divided his time between working with US companies and overseas clients focusing on new product introductions and supplier quality. He has worked in many CIS countries, Africa and China. He has a range of expertise and is frequently engaged by donors for his food safety and agricultural knowledge. Currently he is the principle consultant for Azermis LLC and is the Managing Director of T&M Associates Baku. For more information on the local supplier program please give Tom a call or send an email. He can be reached at [deebtom@gmail.com](mailto:deebtom@gmail.com) or +994552424477. Azermis LLC and T&M Associates Baku are locally owned and operated Azerbaijani companies.*

# Financial Risk Management Trends in Azerbaijan



**Linda L. Miller**  
Finance & Risk Advisor

**With the economic crisis of 2008, companies and banks the world over began to reassess their risk management culture and to implement sweeping changes into their businesses. Hardest hit were the banks whose balance sheets are generally capitalized with substantial debt in the form of customer deposits. Linda Miller, Finance and Risk Advisor collaborated with Rufat Mahmud, Chairman of the Board of Directors for the Azerbaijan Risk Professionals Association (ARPA) to discuss the relevant trends in the industry in Azerbaijan.**

## What is financial risk management in practice?

Financial risk management is a specialty field which focuses, in general terms, on optimizing a particular entity's reward-to-risk ratio. In other words, for the level of desired or expected reward an entity seeks, risk should be minimized as much as possible. In individual terms, families often diversify away as much risk as possible from their pension funds by investing in different classes of assets. Asset classes may include large-cap vs. small-cap stocks, for example, or possibly regional differences, such as funds which invest in developed vs. emerging economies. In addition, an individual may diversify whether they invest in oil and gas stocks, technology interests and/or manufacturing, for example. Generally speaking, the more aggressive the investor, the higher the return that he/she will seek with a corresponding increase to the level of assumed risk.

Living in Azerbaijan, the oil and gas industry is one that we can all relate to. Drilling in oilfields is a very capital intense process requiring huge cash outlays and thus involves great risk of financial loss. In this instance, an oil and gas firm may be willing to assume a higher level of financial risk to achieve the large profits that may be realized.

## What form does risk management take in practice?

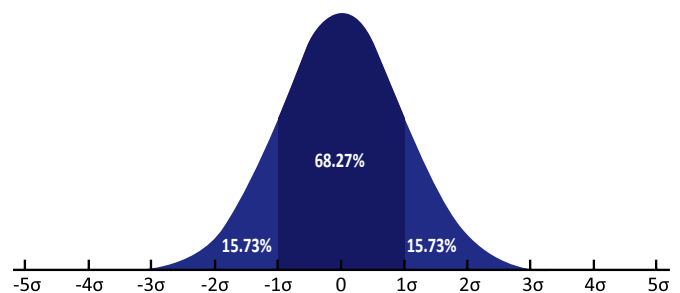
Financial risk management in practice is a highly mathematical process. Some terms used in the field include regression analysis, boxplots, standard deviation, confidence intervals, probability density functions, correlation, covariance and Monte Carlo simulation, to name a few. If you guessed gambling when you read Monte Carlo simulation, you guessed right. The name was coined by physicists working

at the Los Alamos Scientific Laboratory when they needed a secret code name for their work. The name is a reference to the Monte Carlo Casino in Monaco where a physicist's uncle would borrow money to gamble.<sup>1</sup>

We may all be familiar with the popular Bell curve. A Monte Carlo simulation, in simple terms, can make use of historical and forecasted data to produce such a Bell curve, for example, which reflects expected values and probable losses for a capital investment. As shown in Figures 1.1 and 1.2, the peak of the curve reflects the average or expected value as generated from the simulations. The value at  $-1\sigma$ , is the expected loss with a confidence of 68%. Thus, we can say that our expected return as shown in Figure 1.1 is 5.5 million AZN, and that we are 68% confident that we will earn no less than 4.0 million AZN. However, in Figure 1.2, though our expected return is also 5.5 million AZN, we are 68% confident that we will earn no less than 2.0 million AZN. Obviously, based upon our analysis, our risk-reward ratio is better for the capital investment represented in Figure 1.1 than in Figure 1.2, all else being equal. Of course, this is a simplified example, but provides a reference for the type of analysis performed in financial risk management.

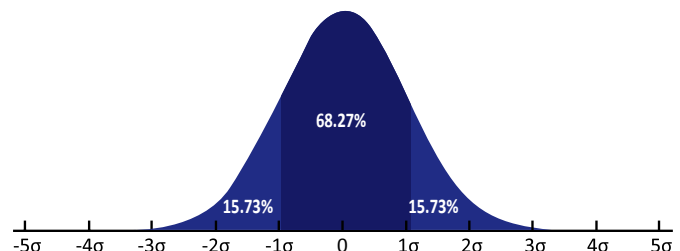
**Figure 1.1 Capital Investment Project A**

Mean (Average) = 5.5 million AZN  
Std Deviation ( $\sigma$ ) = 1.5 million AZN



**Figure 1.2 Capital Investment Project A**

Mean (Average) = 5.5 million AZN  
Std Deviation ( $\sigma$ ) = 3.5 million AZN



# Style. Glamour. Prestige. Golf

Golf. It is played by presidents, celebrities, business and politics elite. Each has a favorite club and a special reason to be proud – a strike perfected during the years. Some of them owe golf their success and achievements. A membership in a Golf Club – is a club card to a world of luxury and prestige, quiet conversations where people's and corporations' fates are decided, to a world where you are equal among the high and mighty.

His majesty Golf – game where serious passions are boiling, but the players are extremely polite and all the issues are resolved without judges or referees, a game for the real Gentlemen and Ladies. There are many ardent fans of this perhaps the most high-society sport in Azerbaijan as well.

Many of them were recently packing their bags to leave cold and rainy November Baku for the second time, and spend a luxurious weekend while golfing on perfect grassy surfaces of Montgomerie Hotel in Dubai.

As for those who are just starting to golf or only planning to make the first swing, Bakcell provided a unique opportunity to take accelerated classes at The Academy by Troon Golf. We would like to remind you that Bakcell Spring golf Open 2010 took place in Austria in May of this year, and earlier in 2009





### How does risk management affect Azerbaijani residents?

Proper risk management in banks helps to protect ongoing operational viability and mitigates the chance of bank failure. This protection, in turn, provides customer confidence for deposits made by consumers. As banks are able to reinvest deposits in the form of loans, for example, for greater return, the resulting effect is a healthier, more vibrant local economy. As a result, suppliers are more willing to invest in goods for sale to the general public. Thus, buyers have a more active and competitive market in which to buy increasingly better goods at increasingly competitive prices. In addition, proper risk management in companies helps to ensure sound business investment which generates cost and return efficiencies to capital outlays (cash outgoings that businesses make in order to generate returns), thus increasing profits to companies and reducing prices that consumers must pay to acquire goods.

In the past, many national and expatriate residents have been reluctant to deposit funds into local bank accounts due to distrust of the banking system. Many people have felt that

other hard assets, such as real estate and physical goods, are safer places to hold money, given the relatively high prices for durable goods, their limited historical value deterioration, and their fear that any particular bank could fail at any given moment. Due to an historical lack of deposit insurance laws to protect savers, many banks did indeed fail, and depositors lost a lot of money. As a result, to help improve the economic viability of the banking system as well as the local market as a whole, deposit insurance laws were adopted in Azerbaijan in 2006. Currently, an individual's funds are protected up to 30,000 AZN, a substantial improvement from the 6,000 AZN that were protected just a few years ago.<sup>2</sup> With national deposit rates hovering above 10%, it is easy to understand why many people now feel that they would be missing out on an important investment opportunity if they had no local bank deposits. (A list of deposit insurance member banks can be found at [www.adif.az](http://www.adif.az).)

### How did the practice of risk management initially come to Azerbaijan?

<sup>1</sup> [http://en.wikipedia.org/wiki/Monte\\_carlo\\_simulation](http://en.wikipedia.org/wiki/Monte_carlo_simulation)

<sup>2</sup> ADIF Azerbaijan Deposit Insurance Fund <http://www.adif.az/indexen.php>

The field of risk management was initially regulated by the Central Bank in Azerbaijan in 2006. Though it was a somewhat intriguing topic, it was not taken too seriously until after the economic crisis in 2008 when the Central Bank provided the impetus for a stronger risk management focus and made it a requirement for banks and financial institutions to change their organizational structures to include a risk management department. ARPA was created to fulfill the resulting institutional needs to instill excellence in the field and best practices in order to help direct proper risk tolerance behavior.

### **What has been achieved in the field since the global economic crisis hit the world stage?**

Development institutions have contributed much to partner banks in relation to the risk management function. Professional specialists have provided expertise to train bank staff with respect to rules, procedures, decision making and risk management mechanisms. Risk management committees have been established to help direct proper institutional and organizational behavior.

Due to the nature of the financial crisis and the resulting immediate needs, the largest risk management presence in Azerbaijan can be found in banks. Risk management in other spheres can be described as more in an infancy stage. The State Oil Company of Azerbaijan Republic (SOCAR) has established a risk management function, and a regulatory body for insurance companies has recently been formed. Risk management departments can also be found among some companies as well, and has even reached the telecommunications sector.

As it is a relatively new concept in the region, the applied expertise of national staff is limited and much of the practice relies on theoretical learnings. The strongest portion of capabilities in the country has been from the credit staff who do a pretty good job of assessing credit risks; indeed a very important aspect of banking risk. These credit staff members are often the candidates who are selected to fill the new roles and positions that have become available in banks and companies as a result of the new regulation and focus on the profession.

ARPA, in cooperation with the Global Association of Risk Professionals (GARP), has become qualified to administer tests for risk professionals on a two-level basis. At the first level, the foundation level, 80 of 100 test-takers have passed. At the second level, the advanced course, 30 of the total 75-80 test takers have passed. The association is proud to present candidates who possess internationally recognized certificates and reference materials in the Azerbaijani language, both of which are now a regular sight around the banking offices in Azerbaijan.

### **What are the foreseeable initiatives in Azerbaijan to improve knowledge in the field?**

The practice of risk management should be enhanced to provide a more holistic and robust structure, which incorporates all aspects of the field to complement the existing credit risk culture. We see an enormous market which would provide substantial benefits to companies involved in various industries, including the locally ubiquitous oil and gas, civil engineering and construction sectors. Practically speaking, the benefits of risk management are often difficult for implementers to conceptualize in the early phases. It should be the primary focus of risk professionals to adequately and succinctly relate these benefits to the appropriate stakeholders.

Mr. Mahmud of ARPA has reached out to various sectors, but has made the most positive inroads into the banking sector where the needs are most urgent. Thus, as a practical application, Rufat hopes to phase in excellence standards in accordance with market realities. During the first phase, he expects to rollout operational risk management to the banking sector followed by a longer horizon rollout of market risk management as well as further penetration into new markets, including the insurance, hydrocarbons and other business sectors.

To support operationalization of their strategic view, ARPA plans to collaborate on a crisis response project with the International Finance Corporation (IFC) in 2011. The project will address the methodologies of bank models to conduct stress testing and will deploy diagnostic tools to aid in strengthening bank financial statements thus helping to maintain their positions as going-concerns.

Data and information availability within Azerbaijan is very limited, and thus restricts growth of the industry to some degree. Regulatory agencies, development institutions, associations and other stakeholders should put serious consideration into good ways to share confidential information. Disclosure should not necessarily be provided to the public in detailed form, but rather to provide aggregated information which may be used to support growth and operational improvements. In summary, Azerbaijan has made some great strides and accomplishments in embracing the difficult and complex field of risk management. There will always be a great deal more work to do. ■

*Linda Miller is a Finance and Risk Advisor providing consulting and training services in the field of risk management. She has practical experience in quantitative financial modeling and advisory services to various industries including top 3 global oil and gas companies, large-cap manufacturing organizations, banks and other institutions and has covered regions in North America, Europe, Central Asia and Singapore. With over 18 years experience, Linda earned her MBA in Quantitative Finance from the Georgia Institute of Technology (Georgia Tech) in Atlanta, Georgia USA. If you have any questions or comments about her article, please contact her at [linda.miller@fsdanalytics.com](mailto:linda.miller@fsdanalytics.com).*

# Taking e-Commerce to the Next Level



**Kent Babin**  
Director of Software Development  
GoldenPay LLC

**The World Wide Web is a tool used by much of the world on a daily basis to tackle everyday tasks from shopping and paying bills to driver's license renewal and voter registration. It's inevitable. So, when can Azerbaijan expect to have the same extensive use of this convenient tool along with all of the latest security and fraud protection features enjoyed by most Westerners for several years? Black hole or brave new frontier – you decide.**

Electronic commerce (e-Commerce), the buying and selling of goods and services over the Internet, has become a major player in the world of commerce. It has revolutionized the way merchants and consumers conduct business by offering a level of convenience and availability never before seen. While this is most certainly the case in the western world, where it has already been fully integrated, Azerbaijan has yet to embrace this new economic reality. This can be explained by a multitude of reasons, including a lack of general Internet habits and almost no legal e-Commerce framework. Despite the numerous roadblocks, we have witnessed some local successes over the past year and a half. Unfortunately these are few and far between. There is no denying the fact that e-Commerce is important to all involved. The benefits are widespread and well-documented. Azerbaijani companies are now at a point where they can take advantage. The question is: will companies begin to offer better e-Commerce services to customers or will customers take the initiative and start demanding better services from companies? Local retailers, for example, have an important role to play in the coming years. The future is indeed bright - it's simply a matter of how long it will take.

In the past two years, e-Commerce has come a long way in Azerbaijan. Two payment gateways are now actively functioning; close to one hundred merchants are already connected with more being connected each week; and people are starting warm to the idea of paying for things online. While it's normal for an economic transformation of this magnitude to take five years or more, the speed at which Azerbaijan is integrating has been troublingly slow. Only an estimated one percent of eligible companies offer their products or services online and an even smaller percentage of people have actually paid online.

Why is it taking so long? One can look to low Internet penetration, lack of local support for e-Commerce projects, and little to no legal/regulatory framework as obvious explanations. These three things are important, but are not at the source of the problem. Instead, we must consider the attitude of local companies toward implementing dynamic e-Commerce services. e-Shops, online ticket vendors, and online food ordering still have yet to be introduced - likely because companies do not see investing in e-Commerce services as profitable. There are two major reasons for this. The first is that there are only a small number of consumers who trust the Internet enough to pay for something online; and the second is that consumers have not demanded such services, i.e. they are still only beginning to trust the idea of paying a bill online, let alone buying a train ticket or insurance policy.

Those who have already implemented e-Commerce solutions have experienced some success. Bakı elektrik şəbəkə, for example, has seen its online bill collection percentage increase steadily since it connected to both payment gateways. Conversely, the public has welcomed the opportunity to avoid long lines at the post office and banks. Bakcell is another service provider that has benefited from being connected to a payment gateway. It allows its customers to pay their mobile bill and buy prepaid credit online. Customers in turn have responded positively, making thousands of online transactions per month.

The rest of the companies currently connected have seen only limited success. One of the primary reasons for this is a lack of promotion. How many billboards and television commercials have you seen that actually promote a given company's new e-Commerce service? Most promotion, if any, is done on the Internet. This may be effective for targeting people already using the Internet, but it does little to enlighten the general population.

What we have not seen are dynamic e-Commerce services achieving any sort of success. A handful of e-shops exist, but they have failed to make any sort of mark on the public. Online insurance applications are also available for travel and third-party liability insurance. Sadly, very few people have taken advantage of them. This provides very little motivation for companies and/or web developers to undertake new e-Commerce projects. And, thus the downward spiral of stagnant e-Commerce development continues.

We know that e-Commerce is important to the economic modernization and development of a country. For example, it is a multi-billion dollar industry in the United States that continues to grow by leaps and bounds. The drivers of this growth are the entrepreneurs who have created a new generation of online

*"The Web puts an exponential twist on the whole word of mouth thing, because word of mouth is now happening virally."*

**Blue Man,**  
Theatrical Performance Group

in focus

businesses and have continued to innovate relentlessly. This is one of the key aspects of e-Commerce - the idea that you do not need to be a traditional, well-entrenched corporation to participate. Another key aspect is the jobs that the industry can create. Project managers, web developers, network administrators, customer support staff, and graphic designers will all be in high demand once e-Commerce takes off. Attracting foreign investment is also high on the list of important aspects. International companies that do business online want to see strong e-Commerce infrastructure and activity when considering places to invest. A country with a weak environment will be a lot less likely to attract a company such as Amazon than a company with a strong e-Commerce environment. Finally, online transactions go a long way in helping to clean up the economy. Records are kept by multiple parties, so there is always proof that a specific transaction took place.

Why should companies take the risk and invest in e-Commerce services? Mainly because Azerbaijan is not the only place you can sell your products and services. The value of the WWW for businesses is that it opens the door to the four billion people that use it. With the right e-Commerce and website implementation, you can increase your potential customer base exponentially. Compared to putting billboards up in a hundred different countries, your online presence will cost next to nothing. You can actually consider creating an e-Commerce service as opposed to opening a new store. This comes with very little overhead and you can keep your online store open 24/7 without having to hire additional staff. You also give your customers the convenience of buying from the comfort of their own home.

Why should consumers start demanding e-Commerce services? Convenience, transparency, and choice. Paying your bills, buying

gifts, and ordering airline tickets are so much easier when you can do it from your own home. No need to go to the bank or the shop or the travel agency to get what you need. In addition, all transactions are recorded and transparent, so you always know where your money is being spent. Perhaps the most important benefit of all for consumers is the increased choice. Instead of being stuck with a local selection of products, you can now peruse shops all over the world. Comparison shopping has never been so easy.

The retail industry, in particular, has a crucial role in the future of e-Commerce in Azerbaijan. If retailers begin to create and promote their online services, customers will begin to change their buying habits. This will lead to further innovation in the industry and ultimately a return on investment for those involved. No one expects this to happen overnight. It may take two or three more years before customers are willing to switch to buying online. What is important now is that there are pioneers in the retail industry who are not only willing to create, but are dedicated to change the way their customers interact with them. If this happens, there is no question that services like eBay, Amazon, and Expedia will work in this country. Unfortunately, the implementation of e-Commerce is very much a "chicken or the egg" question. Whether it is the consumer or company that will take the first step towards the implementation of dynamic services remains to be seen. ■

*Kent Babin is the Director of Software Development at GoldenPay LLC. He holds a Bachelor of Commerce in International Business from the University of Calgary. Kent came to Azerbaijan in late 2007 to help with the introduction of the country's first online payment gateway. He now focuses on developing dynamic e-Commerce services for consumers.*



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# Women in Business: Changing the Face of Business in Baku

In a market saturated with male-dominated, oil related businesses, women have struggled to “belong” in the work force of Azerbaijan. As this economy develops, it becomes increasingly apparent that women can and do bring added value to a company’s potential in a multitude of roles.

From first impressions to C-level management, women are forging their way to the top with grace and an impermeable drive to succeed. Impact spoke with Ms. Fatima Aslan, President of Anglo-American & ATTAS Group and Azerbaijan’s 2009 Business Woman of the Year, to discover how she accomplished such a feat and just what separates her from the pack.

## Ms. Fatima Aslan, President of Anglo-American & ATTAS Group



**What shapes a leader? How does one achieve success in today’s competitive market when others fail?**

As a young girl, Ms. Fatima Aslan found herself in leadership roles. Roles that propelled her into experiences that would ultimately influence her future. Roles that opened her mind to other options rather than the expected ones. Roles that made her question her full potential and what she could accomplish in life.

It’s easy to imagine that a 14-year old child brave enough to speak in public might be gregarious enough to attend an away camp for pioneers on 3 occasions, meeting other children her age from different countries and appreciating the novelty of it all. Focused on her future, she attempted to attend the Moscow Institute of International Relations. The only girl amongst 13 boys given the opportunity, she made the grades to be placed into the international economics program but refused the offer to pursue her goal of completing a degree in languages and was accepted at the University of Foreign Languages in Baku.

Once a student at the University of Foreign Languages, she set her mind to the task at hand. She was elected as Deputy Secretary of Youth Organization in her first year, finding herself in another leadership role, a position she seemed destined to keep. Swept away by an ever growing social responsibility, she became a frequent attendee of the events on state and national levels surrounded by the movers and the shakers of those times. Here she learned new people skills that would eventually sustain her effort to excel as a professional.

After graduation, Ms. Aslan first taught English at the University of Foreign Languages, worked at BP in various

supporting positions, and finally as a protocol assistant to the American Ambassador at the US Embassy. Along the way, her need for independence grew greater with each passing year. Finally, Ms. Aslan took a calculated risk, quit her job at the Embassy and started her own business. Today she is the President of Anglo-American & ATTAS Group offering services such as recruitment, translations, training courses, business consulting and public relations.

With all of her mild stones and accomplishments, Ms. Aslan credits other women in her life as key influences who offered support along the way, encouraging her determination to reach her goals – her full potential. When asked what she might have done differently, it’s the personal sacrifices that come to mind. The loss of a partner too uncomfortable to enjoy her success left a void in her life. Statistically, this is a common challenge many women face today when trying to balance their personal and professional lives.

I wondered what advice Ms. Aslan might offer to young women approaching the time in their lives when they must decide for themselves if they will pursue a career or settle right into a domestic role at an early age like most of the women before them did. Her advice is to them is evident in this, her favorite quote:

*“To create, but not own. To achieve, but not boast.  
To foster, but not dominate.”*

■ Lao Tzu

## Leyla Nasrullayeva, Head of the Strategic Marketing Department, AZERFON LLC



Leyla Nasrullayeva has been the Head of the Strategic Marketing Department of AZERFON LLC since December 2010. From November 2009 to December 2010, as the Head of Azerfon-Vodafone, she played an active role in establishing brand recognition as a result of the partnership

between global Vodafone and rapidly growing local telecom rising star Azerfon.

From November 2006 till November 2009 she first worked as Consultant of Ericsson AB, then as a Vice President, Sales and Deputy Country Manager of Ericsson in Baku. Her work focused increasing their market share in Azerbaijan to the next level - to be recognized in Azerbaijan as a worldwide IT company, to establish direct and regular communication with potential clients and the Ministry of ICT actively involved in ongoing and future Governmental projects. This strategy effectively resulted in projects with giants like Azeurotel and Azerfon.

Leyla began her position at Siemens Mobile in Azerbaijan in August 2000 as the Head of Information and Telecommunication Mobile Networks Division. Following the BenQ-Siemens acquisition in 2005, she was one of four Siemens executives in the CIS who were invited to join the BenQ team to establish their network of offices. In her role as Head of the BenQ office in

Azerbaijan, she was also responsible for the Kazakhstan and Georgia territories.

Her job duties included setting up the home office of BenQ Corporation in Azerbaijan, one of the largest corporations in Asia, a leader in manufacturing of LCD monitors, digital projectors and MP3 players with revenues of more than 5.6 billion Euros and over 7,000 employees worldwide working on research and development, design, sales, marketing, supply chain and customer services. She recruited a staff of 15 people, building the sales and marketing/merchandising team and further management of operations and sales of BenQ in Azerbaijan, and was also responsible for wrapping up BenQ's activities in the country following the insolvency announcement of BenQ Europe in October 2006.

In 2002 she received a personal SEM (South East Mediterranean) Award for the best sales performance, and in 2004 she was acclaimed as one of 30 Successful Top Managers across the Siemens Mobile Worldwide Network.

While Leyla is a very successful business lady, she is also a loving wife and a mother of 2 sons. ■

## Teyba Guliyeva, Head of the Representative Office at the Societe Generale Banking Group in Azerbaijan



Teyba Guliyeva is the Head of the Representative Office at the Societe Generale Banking Group in Azerbaijan. Her main responsibilities include identifying investment opportunities, market access regulations, and providing strategic counseling to support and accompany the development of the Azerbaijani economy. She is also responsible for maintaining the relationship between the main

decision makers in this country on behalf of the SG Group.

Teyba has over 15 years of banking experience. She started her professional career at the International Bank of Azerbaijan in the Import-Export Documentary Department and joined the Corporate Banking Department of HSBC Bank Azerbaijan in 1996. During the next 6 years Teyba has held various positions within HSBC Azerbaijan including Corporate Banking Executive, Head of Customer Service Department and Head of the Hyatt branch of HSBC.

Since she joined SG in 2002, Teyba led and participated in numerous investment and advisory projects such as BTC, Sumgait Power Plant, Janub Termal Power Plant, Wind Farm and various infrastructural and industrial projects co-financed with the local banking sector.

Teyba graduated from the Azerbaijan State Institute of Economy with a Master degree in Finance, and has attended various corporate and investment bank trainings, including the INSEAD executive program.

Teyba is successfully managing a demanding career with a full time family life – she is married and has 2 children. ■

## Ulduz Taghiyeva, HR Director, McDermott Caspian Contractors



Ulduz Taghiyeva Zakir gizi – HR Director, Azerbaijan, McDermott Caspian Contractors, Inc. Citizen of Azerbaijan, was born in 1966.

**Professional Motto:** Our People Make the Difference

**Professional Principal:** Treat others the way you want to be treated

**Education:**

In 1989 graduated from the Azerbaijan University of Foreign Languages with Distinction. Currently is a student of Nottingham Trent University for Postgraduate Diploma in Personnel Management and CIPD qualification.

**Work Experience:**

From 1990 – 1994 had been working as a Senior Instructor at the faculty of Western-European Languages at the Institute of Social administration and Political Sciences.

Since March 1994 till present have been

employed by McDermott – Azerbaijan with short break of 6 months in 2000 when joint CAP group as HR Consultant and Trainer. My career in McDermott – Azerbaijan started from personnel assistant and Language Instructor with following progress of responsibilities to Personnel Coordinator, Personnel Supervisor, HR Manager and currently HR Director McDermott Azerbaijan.

While working for McDermott Azerbaijan participate in such projects as – ACG : Chirag- 1 (Early Oil project), CA/WA/EA and DUG topside construction and Pipeline laydown.

Ulduz Taghiyeva is Chairman of HR Committee of American Chamber of Commerce in Azerbaijan since 2008.

**Interesting facts:**

Participated in the first oil & gas exhibitions in Azerbaijan, since June 1994

Was present at the signing of the historical for Azerbaijan “Contract of Century” on September 20, 1994.

Participated as an “interpreter on duty” at the contest for AIOC logo exhibition and selection. ■

## Dr. Rajani Chandra-D’Mello M.D., Ph.D. Indian Clinic



Dr. Rajani Chandra-D’Mello is a leading gynecologist – fertility specialist working in Baku since 1995. Since 2004 she is the Chief Doctor of the Indian Clinic, which started as a two-doctor practice and today has grown into a modern multi-specialty out-patient clinic with diagnostic and treatment facilities in most specialties.

Since 2005 Dr. Rajani holds a Ph.D. in ObsGyn

and her thesis, which was successfully defended in Russia, was devoted to the treatment of female infertility. Dr. Rajani along with her clinical work is also continuing her research as part of her D.Sc. work and devising newer methods for effective treatment of female infertility. She hopes to defend her D.Sc. thesis in 2011 – 2012. Dr. Rajani has successfully presented her clinical work and results thrice at various World congresses, in London in 2001 at the World Ozone therapy Congress, in 2006 at Kuala Lumpur at the World Gynecology

Congress and once again in 2009 in Cape Town at the World Gynecology Congress. Her both clinical and scientific work has benefited more than 470 childless couples in Azerbaijan. Since 1995 that Dr. Rajani has been in Baku, she has been a teacher of medicine at the Khazar University School of Medicine, worked as a Physician at the Western Medical Centre in Baku, worked as a research fellow at The Azerbaijan Institute of Obstetrics and Gynecology where most of her clinical research in female infertility was conducted from 1999 until 2003 at the hospital attached to the Institute.

As a successful businesswoman, Dr. Rajani firmly believes in corporate social responsibility, whereby one must return at least a part to the society you live in and from where one derives so much. As an active Rotarian since 1998 she has been playing an important role in the working of the Rotary Clubs in Azerbaijan. She has served as the Club President in 2006-2007.

Dr. Rajani has been an active member of the International Women’s Club since 1999, which is an association of expatriate and local women and is very active in executing humanitarian projects in Azerbaijan. She served as the IWC President in 2008. Dr. Rajani has also been an active member of the Indian Association Azerbaijan, which not only organizes Indian cultural events but also does charity.

Dr. Rajani is married to Dr. Ronald D’Mello and they have two sons – Rahul & Rohan. ■

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# A Glimpse of the Past: Baku, How You've Grown!



**Suzie Cornell**  
Vice-President of Rotary International

**Remembering your roots is usually a good thing for most people. It helps to keep you grounded in reality and can remind you that everything can change in an instant – for good or bad. Travel back in time as Suzie Cornell, longtime Baku resident, takes a somewhat humorous look back at a key turning point in Azerbaijan history and the experiences that connect her soul to this community and its people.**

Flashback - Baku, 1992. Bread lines. Ration coupons. People selling their family heirlooms on cardboard boxes on the streets. A “supermarket” with fully staffed check-out counters and trolley carts that only had hundreds of jars of tomato paste on offer. Caviar, however, was widely available, only \$25 for 500 grams. Hoarding, saving every scrap, sharing when possible. It was a desperate time. We were at war, fresh graves in the Martyr’s Cemetery, Mother Russia had abandoned us.

Shops couldn’t afford to have lights on so all was dark and when you bought something – if you could find something to buy – they flicked an abacus to show you how much it cost. As one of the few Americans in Baku at the time, I was followed by crowds into shops. What would that girl buy? Usually nothing. My friend, Guy, an African-American was even more exotic. He was happy to buy yogurt in re-used jars from a lady on his street. She greeted him with all kinds of praise and comments. It was only later that I pointed out to Guy that she was only asking 250 (was it rubles?) and he was paying 2500 as Guy was lost in translation. Ah, details. All money was all worthless at the time.

One of my finest moments to epitomize the time of “nothingness” was the recipe I wrote for foreign ladies in those early days on how to make a pizza. It was published in the “Caspian Chronicle”, then the weekly newsletter of the American Embassy of which I was editor of at some point. The entire full-page recipe was how to obtain the ingredients in dozens of places. The final line was “assemble all ingredients and bake, if you have enough gas in your oven.”

Entrepreneurship? It wasn’t a concept known to a recent

post-Soviet society of collectivism and socialism. Individual initiative, venturing out with a new idea, marketing, you must be kidding! The world had gone topsy-turvy and people were just trying to feed their families, get enough water, heat, and electricity or gas. We had very little of that then.

TSUM or “MUM” as it is written now, THE Central Department Store, had such ghastly things for offer on 4 floors, with mostly tea-drinking or sleeping salespeople, you would be hard-pressed to find something of interest there in the darkened corridors. In fact, most of those people were probably not receiving any salary and the incentive to “sell” something made no difference to them. They weren’t on commission and had no ownership in anything. If you actually did find something to buy, you pointed out your item, then were given a sales slip which you took to the central cashier, paid, then returned to the vendor, receipt in hand to show that you had actually paid and happily went off with your purchase.

I was at a dinner party at the American Ambassador’s house sometime in 1993. He had gathered all the oil executives and somehow I was invited. He announced that there would be an oil contract with Azerbaijan within a year. Frankly speaking, the crowd was skeptical, but it came true and in 1994 the “Contract of the Century” was signed at Gulistan Palace and I was there. Representatives of every nation, flags flying, press recording and photographing this historic event.

Suddenly there was hope! A few foreigners were doing their best to test the waters. The first “expat” restaurant/pub opened in what was then called “The Palace of Handball Sports” on the boulevard when Charlie Shroeder opened “Charlie’s”. Then, in what is now “Hong Kong Shop”, he opened “Margaritaville” and later on “Ragin’ Cajun” but his flagship eventually was Finnegan’s, which still survives today. Citimart had opened in the early days under another name, but is thriving today with a new branch at Park Bulvar. I was at the opening night of “Adam’s Sports Bar”, which was originally on Bul-Bul Prospekt, but today is still a popular haunt.

After the initial burst of optimism, however, came a period of chaos. Banks opened and closed on a dime, leaving many penniless. Security guards were hovering around families with promise. Big beefy guys with AK-47s welcomed you to jewelry shops. Some families had to escape to other countries. It was the Wild, Wild West, or East in this case. There was a great period of unrest and fear for a couple of years, round about 1997-1998.

Baku (but not anywhere in the regions) was still gradually

*"If you had to choose an address, it would be on the corner of Art and Commerce."*

**Mario Batali,**

Celebrity Chef & Restaurateur

in focus

changing from gray to Technicolor, mostly in a positive way. However, when "Playboy" magazine appeared in full air-brushed color in one kiosk, I was outraged, as it was completely out of sync with the culture at the time. When I complained to the vendor, he sheepishly took it down off the hook and hid it under the table. I've actually never seen a "Playboy" magazine in Baku since that time, but I'm quite certain it wasn't me who fomented this revolution.

There was a miraculous day around that time at 28 May Railway Station. As always, I was walking all over Baku seeking something worthy to purchase. Suddenly, a huge hoard of Tefal pots and pans appeared! We didn't have cell phones then, so I had to run from friend to friend and tell the great news! I managed to buy as much as I could carry to share with my friends.

Alex Burnett, a most enterprising Scotsman, built Long Forest Resort, a complex of wood cabins in the woods of Quba. The main road to get to Quba was dodgy at best, not like the "super highway" that now links Baku and Quba. Alex became a champion of development in the region, hosting Agricultural

Fairs and organizing cottage industries such as canning and planting. In the early days it was a haven for foreigners, usually sold out on weekends, and is still a very pleasant place to escape to nature.

Fast forward 2011. Park Bulvar is a miracle, built by a local entrepreneur. McDonald's franchises are owned by an Azeri. High rise towers by the dozens (or is it hundreds?) were never allowed in the old days. Besh-mertebe, (now called Fizuli Square), literally means 5-story and was so called as it had the tallest building in the city. The Baku skyline of 1992 is unrecognizable today.

Progress? Perhaps. Bulgari, Tiffany, Armani, Versace, well, it was never even on the radar 19 years ago. How does everyone feel about this leap of progress? I remember a few years ago when the huge tv screens were put up on the boulevard to show advertisements. My regular taxi driver, an old-timer, remarked to me, "Look at all the money they spend to show Fanta!" He clearly did not embrace the new "capitalism" of modern Baku. Frankly speaking, I'm not sure I do either. ■



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# Britain's New Bribery Law and how it could affect your business



**Alum Bati**  
Wicklow Corporate Services Limited

In April 2011, certain offences under the United Kingdom's new Bribery Act 2010 will come into force. The Act is in part Britain's response to pressure from the OECD to bring its laws into line with its obligations under the *Convention On Combating Bribery of Foreign Public Officials in International Business Transactions*. This Briefing explains how the Act might affect the criminal liability for acts inside the UK and overseas of British companies, British citizens and commercial organisations with operations in the UK.

The receiving and giving of bribes have been criminal offences in Britain for over a hundred years. However, the law relating to bribery will now not only apply to individuals caught in acts of bribery committed overseas but a new corporate offence has also been created that will compel commercial organisations to take active steps to prevent bribery.

The Act has two basic bribery offences relating to (a) bribing another and to (b) the taking of bribes. The term 'bribe' is taken to include the offering, promising or giving of a financial or other advantage for the improper performance of some function or activity. It does not matter if the bribe is not given directly but is channelled through a third party. Nor will it generally matter if the function or activity takes place outside the UK and has no connection with the UK (see below).

A new offence of bribing a foreign public official has been introduced. For this offence to be committed: (i) there must be an intention to 'influence' (by offer, promise or gift) a foreign public official in his official capacity; (ii) there must be an intention to obtain/retain business (or an advantage in the conduct of business); and (iii) the foreign public official must not be permitted by his country's laws to be so influenced. The penalty for these offences can be up to 10 years in prison and/or a fine.

If the offence is committed outside the UK, the bribe-giver or bribe-taker may still be found guilty in the UK if s/he is



'closely connected with' the UK, a term which includes any British passport holder or person ordinarily resident in the UK. And if the offence is committed with the consent or 'connivance' of a senior officer of a corporate body or a Scottish partnership, such senior officer will also be liable (as long as s/he is closely connected with the UK). 'Senior officer; includes a director, manager, company secretary and partner in a Scottish partnership.

Those familiar with the US Foreign Corrupt Practices Act, 1977, ('FCPA'), will know that it provides an exemption for 'facilitating payments' to further 'routine governmental action'. No specific exemption is granted by the Bribery Act and so extra care should be taken when considering making such payments. Just as with the FCPA, the Bribery Act does not require that a corrupt act be successful. However, unlike the FCPA, the Bribery Act does not limit itself to the bribery of foreign officials but can include private persons.

## Commercial organisations which fail to prevent bribery

There is also a new offence of the failure of a commercial organisation to prevent bribery, though it is a mystery why



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the legislation applies to commercial organisations only as NGOs increasingly operate like commercial organisations. The offence is punishable by a fine. (The organisation also risks being barred from participating in tenders for EU contracts.)

Commercial organisations will be liable for offences committed by persons performing services on their behalf (such as employees or agents - lawyers, accountants – subsidiaries etc.). A commercial organisation can, therefore, be liable for an offence committed by a subsidiary or a contractor performing services on its behalf.

An offence will be committed where a bribe is paid to any person to (a) obtain or retain business; or (b) to obtain or retain an advantage in the conduct of business. The offence may be committed even if the act or omission which forms part of the offence takes place outside the UK.

A 'commercial organisation' for this purpose includes companies, partnerships etc. formed under the law of any part of the UK as well as any such organisation which carries on business in the UK. Thus, a non-UK organisation (e.g. an Azerbaijani company) with business operations in the UK can be liable under this provision if a person (e.g. subsidiary, consultant, agent, contractor) on behalf of that organisation bribes someone in Azerbaijan (or elsewhere) in order to obtain/retain business or to obtain/retain an advantage in the conduct of business.

The Act provides for a special defence to this offence. It is a defence that the commercial organisation had in place adequate procedures designed to prevent persons associated with it from undertaking such conduct. Organisations need to ensure that their contractors and subcontractors have not only signed up to adequate procedures but are enforcing them. Thus, we recommend a complete review of existing Codes of Ethics, Procurement Policies etc.

What constitutes 'adequate procedures' is, of course, a moot point, though the government intends to publish guidance on this aspect early in 2011. This will be the only



defence available for a commercial organisation which has failed to prevent bribes made on its behalf. ■

*Please contact Alum Bati – [abati@wicklowcs.com](mailto:abati@wicklowcs.com) – if you require any further information or would like to discuss any issue raised. Alum, formerly a member of the OECD's panel of experts on Corporate Governance, will be happy to assist companies put in place adequate procedures designed to curb bribery or to conduct audits of your procedures.*

**This Briefing is a general summary only and does not constitute legal advice. Readers are advised to take appropriate legal advice before entering into any transaction related to matters discussed in this Briefing. No part of this Briefing may be copied or quoted without the prior written consent of Wicklow Corporate Services Limited.**

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# Fostering Intellectual Property Rights in Azerbaijan



**Polly A. Maier**  
Legal Advisor on Intellectual Property  
USAID Trade and Investment Reform  
Support Program

The Republic of Azerbaijan has made steady progress over the past decade toward its goal to become a member of the World Trade Organization (WTO). As a part of this process, Azerbaijan has been modernizing its intellectual property law regime. The WTO requires all acceding countries to conform their intellectual property laws to specific requirements set out in the WTO Agreement on Trade-Related Aspects of Intellectual Property (“the TRIPS Agreement”). These requirements deal with protection of all forms of intellectual property. In addition, a notable feature of the TRIPS Agreement is that it requires Members to enforce intellectual property rights. The WTO provides for dispute-resolution mechanisms to remedy violations of those rights.

Azerbaijan’s legal reforms in this arena are increasingly important. They coincide with the emergence of an increasing number of local products and innovations that are subjects - or potential subjects - of intellectual property rights. The country is home to an increasingly active music and arts scene. Home-grown businesses are providing goods and services under progressively better-known Azeri brands. The agricultural sector is not only building its capacity to produce unique, reliable quality agricultural products, but also providing jobs in rural areas. Approximately 300 patent applications were received last year, applicable to construction, oil processing and a host of other areas. These local creations and innovations, and the legal rights to them, stand to subsist, long into the future, to the benefit of the local population. Thus, improved intellectual property protection in Azerbaijan is very timely.

Intellectual property rights are the legal rights of creators and other owners of works that result from intellectual creativity. These may be works of authorship (protected by copyrights and related rights); marks distinguishing the origin of goods or services (protected by trademarks or service marks); or inventions (protected by patent or related rights). In addition, geographical indications identify a good as originating in a region or locality where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin. Significantly, intellectual property rights are alienable in



whole or part, separately from ownership of the physical item to which the rights may be attached. This permits an author, inventor or other innovator to capture the economic value of his or her creation while at the same time allowing members of the public to access the work.

Azerbaijan’s legal system began to incorporate these concepts in the early post-independence period with a constitutional amendment recognizing intellectual property rights. In 1995, Azerbaijan joined the World Intellectual Property Organization, the main international organization administering intellectual property rights. In following years, Azerbaijan progressively acceded to most of the major intellectual property treaties while introducing needed reforms to domestic laws.

WTO accession has taken these legal reforms to a new level, with governmental bodies responsible for intellectual property rights implementation working in partnership with the Trade and Investment Reform Support Program in Azerbaijan (“the Program”), an advisory project jointly funded by the Government of Azerbaijan and the United States Agency for International Development (USAID). The TRIPS alignment process began with a collaborative review of the country’s legal protection system. Expert consultants, working under the auspices of the Program, are assisting the development and adoption of TRIPS-compliant amendments to the laws

on patents, copyrights, related rights, trademarks and geographical indications.

The current “Action Plan on Adjustment of Legislation of Republic of Azerbaijan to Requirements of World Trade Organization” calls for additional progress to be made by the end of 2010. TRIPS-based amendments to laws on commercial secrets and integrated circuit topographies, along with amendments to intellectual property-related provisions in the Civil Procedural Code and Criminal Code, are slated for adoption.

Concurrently, the Program is providing additional technical legal assistance to governmental agencies involved with WTO accession. This assistance draws on USAID experience and best practices developed over the course of many previous WTO accessions. An over-arching goal throughout has been the elimination of existing overlaps and contradictions among various laws and the establishment of effective and sound enforcement systems.

Related institutional reforms will support ongoing enforcement of intellectual property rights in Azerbaijan. The establishment of a new Inter-Agency Commission on Intellectual Property Rights Enforcement is underway. This agency will be charged with improving the overall efficacy of the country's institutional framework for intellectual property rights protection and with coordinating efforts among the various specialized governmental bodies dealing with different aspects of intellectual property protection. Significant institutional reforms remain to be addressed to ensure effective enforcement of intellectual property rights in Azerbaijan, including special intellectual property enforcement units within the Customs Service and the prosecutor's office, and to the judicial system's approach to intellectual property rights enforcement.

Practical capacity-building and improvement of technical resources are critical. Effective implementation of enacted laws requires service-oriented public institutions staffed with individuals expert in the enforcement actions as well as the registrations, investigations, and adjudications that add up to meaningful enforcement.

The country's history as a Soviet republic has posed challenges to legal reform in Azerbaijan. First, the introduction of TRIPS-based norms has marked a qualitative shift from the state-controlled socialist system to one based on private property protected by governmental authority. This shift was manifest, for example, in the need to loosen excessive legal strictures on private intellectual property licensing contracts, allowing greater liberty for private parties to negotiate the specific terms of their transactions. Discriminatory fees for state services relating to intellectual property rights protection, a relic of Soviet-era schemes for raising hard currency, also needed to be eliminated to achieve TRIPS compliance. Judicial, customs and police institutions were not adapted to enforcement



of private intellectual property rights and require ongoing restructuring. The post-Soviet states in general have displayed weak enforcement of intellectual property rights. Enforcement in Azerbaijan remains a work in progress. However, creation of the legal foundations for rights and enforcement is well underway and actual enforcement is improving.

The Republic's post-independence era has seen an unusually high volume of legal reforms over a relatively short period. In this dynamic context, the process of enacting TRIPS-compliant legislation is as important as the end goal. The reform process itself is an opportunity for knowledge transfer and the building of local engagement in the new legal regime. This is a period during which the logic and practical import of WTO-based reforms must be conveyed through a variety of means to government officials, local professional associations, business owners, innovators, the media, the general public, and other stakeholders. In this regard, the government's own stated commitment to improving protection of intellectual property rights, including bringing the legal system into accord with international standards, has been instrumental.

Azerbaijan's legal and institutional framework for intellectual property implementation has been strengthened in the last decade. Continued progress is expected as USAID and other donors continue to support Azerbaijan in its bid to accede to the WTO. ■

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# Acquisition of Businesses in Azerbaijan: Legal and Tax Issues



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The combination of the local construction boom fuelled by the country's oil and gas revenues coupled with the large-scale privatization of state-owned property has had the knock-on effect of creating opportunities for acquisitions in Azerbaijan. While the global financial meltdown impacted the market, it did not suppress investors' appetite for assets, particularly, in the banking and insurance sectors.

This article examines the legal and tax issues of an acquisition in Azerbaijan. The first section of this article discusses issues in a purchase of a company's shares (an equity or share deal); the second section deals with an acquisition of particular items of property (an asset deal). The final sections address pre- and post-acquisition structuring as well as closing issues.

## Equity Deal

### Legal aspects

In an acquisition of shares, the purchaser assumes the target company's liabilities. Additionally, a share deal is subject to a number of corporate, antimonopoly and other prior governmental approvals, registrations and statutory requirements imposed by the Civil Code of Azerbaijan (the "Civil Code"), privatization laws and regulations (applicable to acquisitions of state-owned or state-controlled companies) and the industry-specific laws such as those on insurance and banking.

### Corporate Approvals

#### Limited Liability Companies

Azerbaijani law does not specifically require that a target company's general meeting of shareholders or participants approve an acquisition of shares in an Azerbaijani limited liability company ("LLC"). The law does require, however, that an LLC's charter be amended to following a change in ownership. Charter amendments must be approved by the target's general meeting. As a consequence, a share acquisition is indirectly subject to approval by the target's general meeting.

#### Joint Stock Companies

Certain acquisitions are also subject to specific shareholder

approval. For example, under the Civil Code, any transaction which has a value exceeding 25 percent of the net assets of an Azerbaijani joint stock company ("JSC") requires approval by the JSC's general meeting of shareholders. Generally, a share acquisition in a JSC does not require that the target JSC be a party to the acquisition contract. As the selling shareholder is may not be able to give representations or warranties on behalf of the JSC or commit the JSC to any undertakings (both of which are needed to effectively control the JSC prior to closing of a share acquisition), however, the target JSC is almost always as a party to the deal.

### Right of first refusal in LLCs and closed JSCs.

A participant in an LLC may freely sell, transfer or otherwise dispose of its participatory interest in the LLC unless the LLC's charter prohibits such sale. Under Azerbaijani law, however, an LLC participant has a preemptive right to purchase the participatory interest of a selling or withdrawing participant. A withdrawing participant must notify an LLC of its intent to sell its participatory interest. If an LLC participant fails or elects not to exercise its pre-emptive right within one month after a right of first refusal is offered, then the participatory interest of the selling or withdrawing participant may be sold to third parties. If a non-withdrawing participant fails to exercise its right of first refusal, the Civil Code requires the LLC to purchase the withdrawing participant's interest only if the LLC's charter prohibits the sale of participatory interests to third parties.

### Notice to Creditors

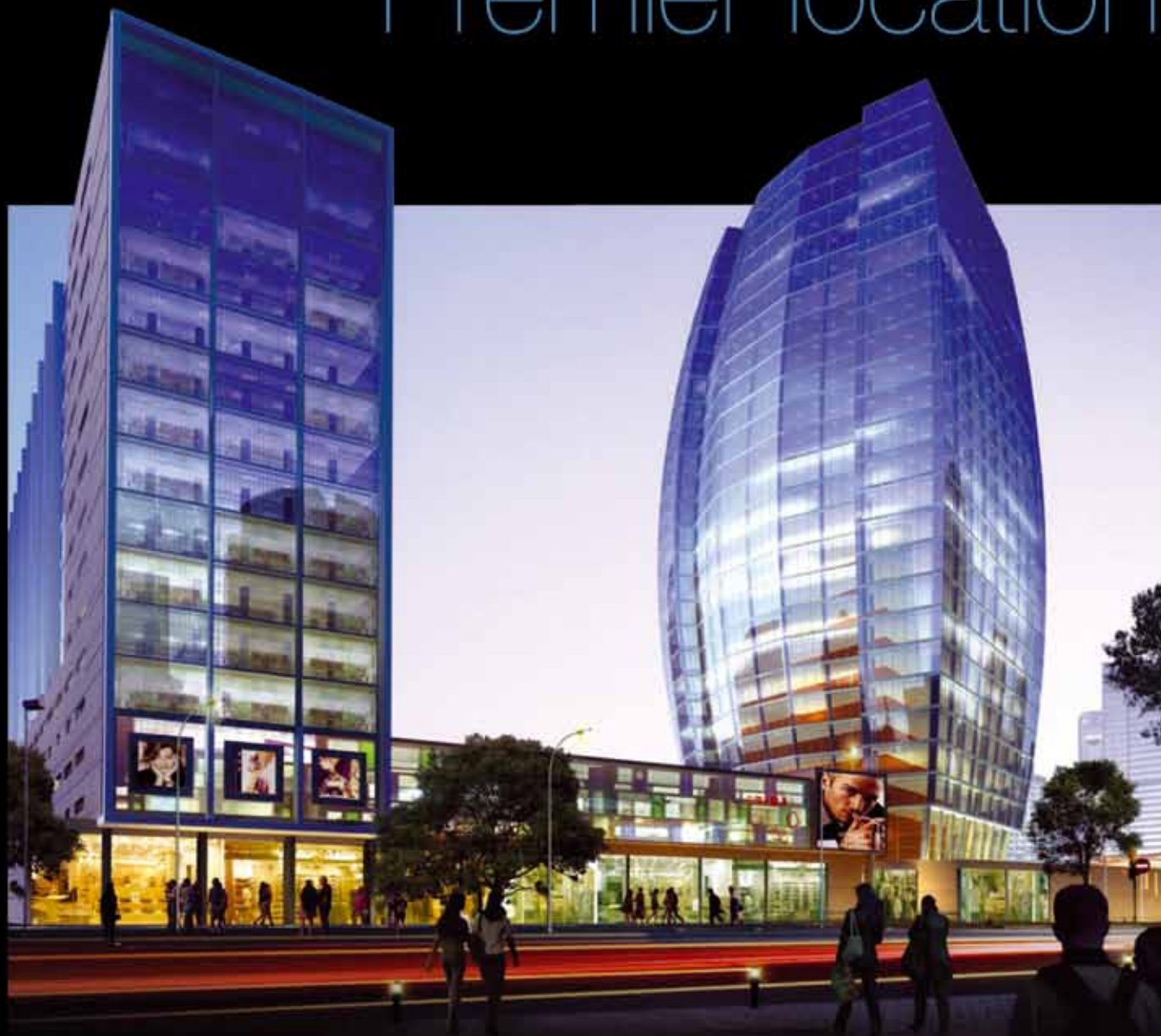
The Civil Code requires 21-day advance written notice to all target company creditors of the proposed equity acquisition of an enterprise.

### State Approvals

Amendments to a company's charter, including amendments relating to its ownership, must be registered with the Ministry of Taxes of Azerbaijan. Absent such registration, the acquisition of shares/participatory interests in a JSC or LLC is not effective.

The acquisition of a minority shareholding in certain industries is also subject to state notification or approval. For instance, under the Azerbaijani law On Banks (the "Banking Law"), an Azerbaijani bank is required to notify the Central Bank of a proposed transfer of shares if the transfer results in a shareholder having "significant ownership." The law defines significant ownership as: (a) ownership of at least 10 percent of a bank's charter capital or votes or (b) direct or indirect ownership of the bank's shares resulting in control over the bank's decision-making process. Acquisitions which will result

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in a shareholder passing ownership thresholds in a bank of 20, 33 and 50 percent are subject to prior Central Bank permission. Additionally, prior permission is required for a bank to acquire a significant ownership in non-banking entities, i.e., the ownership of at least 10 percent of the charter capital or votes or resulting in control over the entity's decision-making process.

Under the Azerbaijani law On Antimonopoly (the "Antimonopoly Law"), prior approval is required for an acquisition of more than a 20 percent interest in a target company if: (1) the acquisition results in control of the company selling the interest; (2) the target company, the selling company or the acquiring company have more than a 35 percent market share in Azerbaijan; or (3) the combined assets of the acquiring and target companies is at least 75,000 conditional financial units (approx USD 97,000).

#### *Employment Considerations*

As a general matter, a target company may not terminate employees as the result of an acquisition. The Labor Code does, however, permit termination of certain employees where a controlling share of the target is acquired. More specifically, the new owner of an enterprise: (i) may terminate the enterprise's managerial personnel, such as its CEO, his/her deputies, the chief accountant and heads of structural subdivisions/departments directly performing managerial functions; and (ii) change the terms of their employment in accordance with the Labor Code. No other employees may be terminated due to a change of ownership.

## Tax aspects

#### *Capital gains tax*

Although the Azerbaijani Tax Code (the "Tax Code") does not contain such a levy named as capital gain tax, it does impose corporate income tax on realized gains by treating them as ordinary income.

In general, under the Azerbaijani law this tax is imposed on an Azerbaijani taxpayer and foreign person if the income is earned from Azerbaijan source.

Azerbaijani legal entity selling an equity in another Azerbaijani legal entity will have to pay regular corporate income tax at a rate of 20 percent on the realized capital gain.

Taxation of capital gains earned by a non-resident from disposal of shares or participatory interest in an Azerbaijani company will depend if such income is treated as the one received from Azerbaijani sources. The Tax Code views an income (i) from sale or alienation of participatory interest in resident legal entity and (ii) the sale of shares or participatory interest of an enterprise where more than 50 percent of the value of assets is represented by immovable property located in Azerbaijan as earned from an Azerbaijan source and thus subjects it to corporate income tax of 20%. It is important to emphasize that in the second case noted in the previous sentence the Azerbaijan taxation does not stop at any level and may include sale of shares in a holding entity with



major assets being a real estate in Azerbaijan.

When it comes to declaration and payment of the tax by a non-resident person without a permanent establishment ("PE") or registered presence in Azerbaijan, the Tax Code does not provide for a clear and practically enforceable mechanism. It appears that in order to declare and pay capital gains tax from sale of equity in an Azerbaijani legal entity, a non-resident seller will have to register as a taxpayer in Azerbaijan which is preceded by a registration of legal presence. We may suppose that if the foreign seller fails to meet its Azerbaijan tax obligations, attempts of the tax authorities to collect the due taxes from the entity equity in which has been sold can not be ruled out, although there will be serious doubts about the legitimacy of such actions. In addition, this matter could also be raised at the stage of the registration of the change of the shareholder(s) by the Ministry of Taxes.

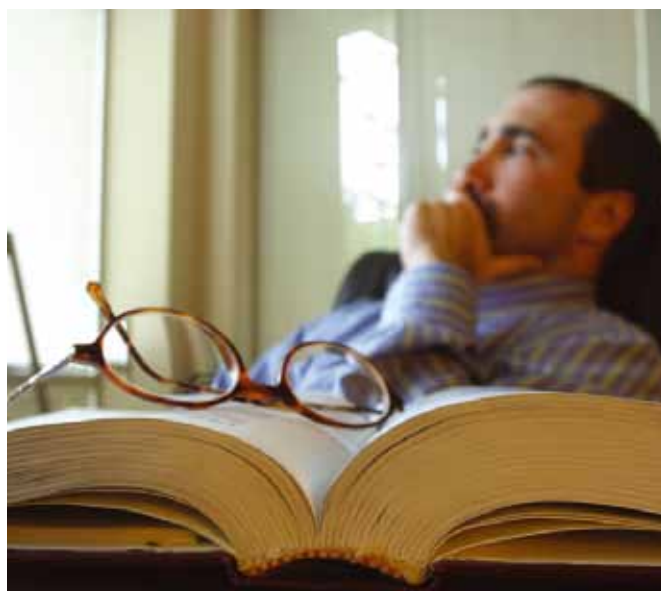
#### *Double Tax Treaties*

Azerbaijan has a relatively wide network of Double Tax Treaties ("DTT") and using these treaties can help in reducing the Azerbaijan tax liability. If the seller is a tax resident of the state with which Azerbaijan has a valid DTT, the disposal may be exempt from Azerbaijan capital gains tax. Under most of the DTTs gains derived by a resident of the other contracting state from the alienation of shares, other than the shares quoted on an approved Stock Exchange, in an Azerbaijani company will be taxable in that other state. This provision does not, however, cover cases where the major part of the underlying assets of the entity, shares of which are being sold, consist of immovable property.

#### *Tax Neutral Reorganizations*

Under the Tax Code corporate reorganizations can be achieved in a tax neutral manner. Specifically, merger of two or more resident legal entities, share swap, spin off, separation, etc. may be completely exempted from taxation, provided that the tax authority confirms that the primary purpose of the above was not a tax evasion.

#### *Availability of Loss Carry Forward*



One of the advantages of equity deal over asset deal is the availability of loss carried forward in the entity shares of which is being purchased. However, where there has been a change in the principal ownership of a legal entity for 50 percent or more, the loss carried forward will be available for the year preceding the change in the ownership provided that (i) the purchased entity carries on the same commercial activity within three years following the acquisition and (ii) it does not start a new commercial activity during the year after the change in the ownership.

#### *Transfer Pricing*

Although the Azerbaijan tax legislation lacks comprehensive transfer pricing rules, under Article 14 of the Tax Code the tax authorities may apply transfer pricing adjustments in both equity and asset deals.

#### *Value Added Tax*

“Turnover” of shares is considered as a financial service which is not subject to Value Added Tax (“VAT”). In depth analysis of the Tax Code may yield ambiguous conclusions on this matter, although never raised by the tax authorities.

Since a participatory interest in an LLC is not considered as a share within the meaning given by the Civil Code, sale of part of the participatory interest in an LLC may be subject to VAT. However, sale of an enterprise by a taxpayer to another one within one transaction is not viewed as a taxable transaction for VAT purposes. Because the Tax Code considers both JSC and LLC as enterprise, sale of all participatory interest in an LLC will not be subject to VAT

## Asset Deal

In an asset acquisition deal, the purchaser does not assume the liabilities of the target company. Like a share acquisition,

however, it is subject to a number of corporate, antimonopoly and other prior governmental approvals and subsequent registrations.

#### *Corporate Approvals*

In Azerbaijani banks, supervisory council approval is required for transactions with bank-owned assets which have a value greater than 50 percent of the selling bank’s charter capital.

#### *State Approvals*

Under the Civil Code, ownership or any other rights to immovable property (including leases with a term exceeding 11 months) become effective upon state registration of these rights with the Service of the State Register of Immovable Property.

The acquisition of movable property or any rights to it need be state-registered only if the movable property is of a type subject to state registration. For example, Azerbaijani law requires registration of (i) motor vehicles and (ii) movable property converted into asset-backed securities. While motor vehicles are registered with various transportation authorities, the rights to (ii) above are registered by the State Securities Committee.

Under the Azerbaijan law On Natural Monopolies, antimonopoly consent is required to acquire or lease fixed assets from a natural monopolist (such as public utilities, electric energy transmission, oil and gas transportation and airport operators) with a value exceeding 10 percent of its charter capital or the lease of its assets to consumers.

#### *Land Ownership Restriction*

Under Azerbaijani law, other than land, foreign entities may own movable and immovable property in Azerbaijan. As a general rule, land may be leased to foreign entities. Foreigners may only own land if it was transferred to them by bequest, gift or enterprise mortgage and must be disposed of within one year of such transfer. If a foreign investor has not voluntarily disposed of its interest in land, the executive and municipal authorities may order a forced sale.

#### *Licensed Businesses*

Certain business activities in Azerbaijan, such as communication services, banking and insurance activities, are subject to mandatory licensing. Given that business licenses are not alienable or otherwise transferable, the acquisition of major assets of the licensed entities requiring a license to operate these assets is problematic. A share acquisition in the licensed entities, however, is possible with subsequent notification to the licensing authorities.

## Tax aspects

If the target entity is distressed financially, burdened with contingent tax liabilities or unattractive because of any other reason but its core assets and rights appear valuable, the asset deal is the right choice. One of the disadvantages of the asset deal when compared with equity purchase is that

accumulated loss by the selling entity cannot be transferred to the purchasing entity.

Sale of assets resulting in capital gains is subject to corporate income tax of 20 percent. The loss from the disposal is available for deduction by the seller.

In addition, an asset sale is subject to VAT at 18 percent. Since the VAT is available for recovery by the seller, it should not be considered as a cost of the transaction.

## Pre- and post-acquisition structuring

As noted earlier, Azerbaijan has a number of valid DTTs signed with foreign states. When planning an acquisition by foreign entity, it is essential to consider the preferential terms of the DTTs to minimize Azerbaijan tax liability both at the time of purchase and upon exiting the investment. Since some of the DTTs provide for reduced rates of Azerbaijan withholding tax for dividend, royalty and interest incomes, in planning acquisitions and completion of them, the use of DTTs may be critical.

There are several issues which normally arise following the closing of a deal. In some cases, the acquired group may consist of separate legal entities with an inefficient tax structure which can necessitate a reorganization. Tax efficient financing and repatriation of profits will be among the matters to be addressed by the new owners.

## Closing Issues

### Legal Issues

An acquisition, whether a share or asset deal, is also subject to certain conditions precedent at closing specified by the agreement between the parties involved or mandated by Azerbaijani law. This would typically require delivery of documents evidencing state registration of charter amendments, antimonopoly and other state approvals, and the parties' performance of their respective contractual obligations.

One unresolved issue is that of escrow services, including escrow bank accounts, to close transactions. In an asset deal, for instance, Azerbaijani law requires payment of the sale price for immovable property through a notarial bank account. A notary, however, is simply a pass through agent, not an escrow agent, creating some risk and uncertainty.

### Tax Issues

The Azerbaijani Tax Code provides tax relief for corporate liquidation. Liquidation relief will be granted if a closing entity transfers all assets to legal entity which has 100 percent

participation in the former. In relation to this, it is required to have an approval of the tax authorities confirming that purpose of the underlying transaction is not tax avoidance.

## Conclusion

Acquisitions in Azerbaijan are subject to certain notifications, corporate approvals, antimonopoly clearances and registrations with various state authorities. An acquisition structure, therefore, requires due consideration of the legal and tax issues discussed in this article. Legislative changes (such as those providing for escrow services and escrow bank accounts) are also needed to better facilitate these types of transactions. To give this market greater competitiveness, Azerbaijani law should be changed to ease certain regulatory requirements. To protect the market from monopolization, however, acquisitions in certain industries, such as telecommunications, banking, and insurance, should be subject to more rigorous requirements. ■

*Natik Mamedov is of Counsel in the Baku office of Baker & McKenzie. He is a member of the firm's M&A, Real Estate and Construction and IT/Telecommunications practice groups. He has considerable experience in mergers and acquisitions, telecommunications, real estate development and finance, hotel management, regulatory compliance and foreign ventures. Having advised on major transactions in Azerbaijan, Natik is listed as a leading lawyer in Azerbaijan by Chambers Global and IFLR1000.*

*Natik graduated with honors from the law school at Baku State University in 1992 and received his LL.M. degree in Corporate Finance from Widener University Law School, Wilmington, Delaware, in 1996. He was admitted to the New York bar in 1997.*

*Nuran Kerimov is a Partner heading up Deloitte Tax & Legal practice in Azerbaijan. He has significant experience in advising both on international and Azeri companies and individuals on a variety of tax and associated business issues. Nuran has participated in numerous projects related to development of corporate structures, including international corporate structures for Azerbaijan based companies, and also structuring investments of foreign multinationals into Azerbaijan based companies.*

*His practice was centred on financial, oil and gas, international tax, corporate and individual taxation, with a particular emphasis on transactions in the former Soviet Union.*

*Nuran has participated in a number of due diligence investigations and advised clients in relation to currency and foreign investment regulations. He has advised clients on international taxation, privatization, production sharing agreements, currency and customs regulations in Azerbaijan. Nuran holds Master of Laws (LL.M.) degree from the University of Georgia, USA, and Bachelor of Laws degree from the Voronezh State University, Russia.*

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The American Chamber of Commerce in Azerbaijan is a private, non-profit business association supporting and promoting the interests of business in Azerbaijan.

Established in 1996, AmCham is composed of over 220 members and associates active in every sector of the Azerbaijani economy. We represent 80% of all foreign investment, as well as a significant portion of local investment which allows us to promote American, Azerbaijani and multinational corporations. This includes leading companies in Energy, Banking, ICT, Legislative/ Financial Consulting, Professional Services, Education, Real Estate Development, Health, Transportation, Travel and Production fields.

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# About us



## Membership

There are two types of affiliation with AmCham: Member and Associate.

Member status includes voting privileges and eligibility for Board and committee chairmanships in addition to the privileges granted to Associates. For affiliation as a Member, a candidate must be a legal entity, registered and doing business in Azerbaijan and be in good standing in the community, as determined by the Board of Directors.

A legal entity, branch or representative office of a legal entity is eligible to be affiliated with AmCham as an Associate, subject to the Board of Directors' determination of good standing in the community.

Associates are eligible to participate in various activities; receive our regular publications, including the Membership Directory, Annual National Employee Salary Survey and Quarterly Inflation Survey. Associates, however, are not entitled to vote or serve on our Board of Directors.

## To apply

To apply for affiliation with AmCham, a candidate must submit a written application in the form adopted by the Board of Directors. Membership applications are available at the AmCham office or on our website at [www.amchamaz.org](http://www.amchamaz.org). The application form should be completed and sent to our office with the company registration certificate issued by the Ministry of Justice of Azerbaijan.

A candidate meeting the objective and subjective requirements for affiliation with AmCham is accepted as either a Member or Associate upon receiving an affirmative majority vote of the Board of Directors and paying the first year's fee for the candidate's category of affiliation.

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and Trading Limited

# Business Events

## Business after hours cocktail

September 2010

AmCham Azerbaijan started the business season with our first Business After Hours Cocktail this autumn! With over one hundred people in attendance, this event was held in the exquisite Shin Shin restaurant on the 20th floor of the Landmark Hotel. We were happy to give our Members yet another opportunity to enjoy a wonderful sea view and networking at the penthouse of Baku's tallest building!

During the cocktail hour, our guests had an unique chance to enjoy a very special exposition of unique national craft culture by the Honorary Member of the Union of Artists of the Azerbaijan Republic, Ms Tamilla Gourbanova ([www.puppetaz.com](http://www.puppetaz.com)), an artist who has created characters featuring "Soltan", "Oriental Beauty", "Gossips", "Meclis" ("Feast"), as well as the classics of national cinema art "Meshedi Ibad", "Arshin Mal Alan", "Gaynana" and many others. Each of the above mentioned characters is professionally revealed by the artist by means of poses and gesture, hand-made jewelry and traditional attributes of national costume. In addition to portrait and ethnic genre, the author has recently developed another avant-garde line of themed doll-characters such as "House-spirit", "Childhood", "Moon Clown", "Dreams in the Clouds", "Seasons of the Year", "Chess Queen", "A moment" and many other samples of unusual modern art. ■

## Meeting with the State Migration Service

September 2010

AmCham Azerbaijan organized a meeting for its members with the Head of State Migration Service (SMS) General Arzu Ragimov. The main topic of the meeting was the latest change in the procedure of submission of documents for Work and Temporary Residence Permits by the legal entities.

General Rahimov announced that application documents of companies' expatriate employees will no longer be accepted from third part consulting firms but will have to be submitted by the representative of the company applying for the relevant permit or the applicants themselves.

General Ragimov highlighted how highly SMS values the cooperation with AmCham and ensured member companies in his agency's full readiness to provide any assistance and/or training sessions to the company representatives involved in dealings with SMS. ■

## Legislative Update Session

September 2010

As always, trying to be up-to-date with the recent changes in legislation, we at AmCham called this session with the sole intention of providing our members with an overview on a

number of legislative updates. Conducted by USAID Trade and Investment Program expert Mr John Corrigan, the meeting Agenda covered the following topics:

- 1) Draft Law on Investment Funds (a/k/a Collective Investment Scheme Law)
- 2) "Joint Stock Company" Amendments to Chapter 4 of the Civil Code
- 3) Draft Law on Investment Activity
- 4) Draft Competition Code
- 5) Draft Law on Secured Transactions
- 6) Plenary Session: AmCham membership's views on development cooperation interventions and initiatives. ■

## Monthly Member Luncheons

September 2010

Our first Monthly Member Luncheon after the summer break coincided with the Extraordinary General Meeting (EGM) called to elect a Board Member to replace Stanley Escudero who has resigned from the Board due to re-location, and approve amendments to the Charter of AmCham Azerbaijan.

According to the election held among our voting members, Randolph Decker, the Managing Director of Pasha Construction will now replace his predecessor as a Board Member of AmCham. We'd like to once again take a moment to thank Mr. Stanley Escudero for his valuable support and outstanding contribution to the chamber for many years and welcome Mr Randolph Decker on board!

In addition to the EGM, the program included a number of important announcements and member presentations. ■

October



We were delighted to have our special guest speaker during the October luncheon, Mr. Hussein Bagirov, Minister for Environment and Natural Resources of Azerbaijan Republic. In light of 2010 being declared the Year of Ecology by President Ilham Aliyev, we requested Mr Bagirov to give us a

full overview of the Government's activities aimed to improve the environmental situation in Azerbaijan.

Born on December 17th, 1955 Dr. Bagirov graduated from Azerbaijan State University in 1978, received his Ph.D in Philosophy from Institute of Youth (Moscow) and graduated from the Philosophy Society of Soviet Union, Association of Political Sciences of SU (Moscow) in 1987. In 1998 he was granted a Fulbright Scholarship as a research professor from Indiana University, Bloomington, USA. Mr. Bagirov took up the post of Minister of Ecology and Natural Resources in May 2001 following his position as a Minister for Trade, Azerbaijan Republic for the period of April 2000-May 2001. ■

## December



This month we were delighted to present to our members the exciting proposed plan of Baku White City, a 220 hectare project developed by the world's top consulting firms like Atkins, Fosters & Partners and F&A Projects. Our special guest speaker was Mr Shirkhan Abdullayev, the Project Manager of Baku White City, who gave us a detailed presentation followed by an extensive Q&A session on this ambitious undertaking. Shirkhan Abdullayev is an Automation Engineer with about 10 years of professional experience in the field

of Quality Assurance/Inspection, International auditing and Assessment of ISO Management Systems. Shirkhan worked as Quality and Health & Safety professional for Bertling Freight Forwarding Company and a number of local companies with projects in Azerbaijan and Georgia. Shirkhan joined Baku White City for coordination of all design and technical issues between the client and three main design Partners, and has been a key client contact during the project.

Early on the agenda, the Executive Director of AmCham, Nargiz Nasrullayeva-Muduroglu, presented findings of our newly completed 2010 National Employee Salary Survey. This report contains information on the employment conditions in 100 leading foreign and local companies operating in this market, the salary information of over 17,193 employees and is an invaluable source of information on the country's labor market. The presentation included the comparison of major indicators with those of the past five years. ■

## Competition Code Seminar

### December 2010

On December 15, 2010 the American Chamber of Commerce together with Azerbaijan Competitiveness and Trade Project of USAID organized a seminar on "Past and Future of the Competition Code in Azerbaijan". US antitrust attorney and advisor to USAID Lynn Guelzow lead a discussion and presentation focused on the important changes being considered to the laws governing the competitive markets of Azerbaijan. As the Azerbaijan executive and legislative branches begin new work on the competition code, input from the private sector was essential. In this sense, the seminar was the first step in expanding the public-private dialog relating to the planned Competition Code. Participants from the private sector and Parliament of Azerbaijan discussed issues of concern in a constructive and friendly manner. It was decided to form a Working Group and focus intensely on issues that arise from the drafted Competition Code. ■

# Committee Highlights

## Information & Communications Technology (ICT)

Following two successful years of committee chairmanship, we expressed our deepest gratitude to Mr Igor Yakovenko, President of Azerbaijan Electronics for his valuable time and efforts spent on committee work and welcomed Mr Farid Ismayilzadeh on board as the new Chairman. Same as with other committees, AmCham ICT committee's main challenge for 2010 was launching the process of the ICT section of Whitepaper 2010 containing member concerns on the situation and existing problems, including corruption and monopolies. As a highlight of the committee's work for 2011

the members are planning to host the global ICT conference on the following suggested topics: Cloud Computing, Social Networking, Social Impact of Telecom

The following issues have also been discussed during the recent committee meetings:

- Meeting with the Ministry of Information and Communication Technologies and other relevant government bodies to follow-up AmCham Whitepaper
- Training sessions for the rest of the members on various topics
- Best practice sharing/ exchange of experience/ presentations by committee members. ■

## Banking, Finance and Insurance

Same as with other committees, AmCham BFI Committee's main priority for the past quarter was AmCham Whitepaper. After comprehensive discussions on the issues the draft was finalized and submitted for further procession within the committee. The document will be released to the Government and members by the end of the first quarter. Along with that, recent BFI Committee meetings featured member presentations by Deloitte & Touche, Ernst & Young, and PricewaterhouseCoopers themed "Preparing for the Annual Audit" followed by extended Q&A sessions.

The committee's quarterly agenda also included:

- Discussion around the application of withholding tax on capitalization of retained earnings
- "Risk and Opportunities - Outlook for Azerbaijan's Banking and Financial Sector" – presented by guest speaker Christopher Falco (EBRD)
- "Preparing for the Annual Audit" presentation introduced by guest speakers from Deloitte & Touche, Ernst & Young, and PricewaterhouseCoopers. ■



## Tax and Customs Committee

During the last quarter the Committee met many times to discuss the Tax and Customs part of the White Paper, issues related to Social Protection contributions, Tax conference to be organized with the Ministry of Taxes as well as the draft laws initiated by government. The working group met corresponding representatives from the Ministry of Taxes to discuss the upcoming conference scheduled in mid February. The Committee hosted Jamil Alizadeh from the Ministry of Finances who briefed members on current trends in taxation from the government's perspective and it was agreed to prepare a separate document describing

concerns of the private sector on them. At the last session of the Committee members agreed on an Action Plan for 2011.

The committee's quarterly agenda also included:

- Proposal to the Social Security Fund on changes in the current law
- Guest speaker from the Ministry of Finance who briefed the committee members on the latest developments in tax planning
- Update on the double tax treaties signed by Azerbaijan and tax planning opportunities that can benefit taxpayers by Deloitte & Touche. ■

## Health, Safety and Environment

Another step in the implementation of a series of ecological projects initially laid out by the committee members was the "Tree Planting Campaign" held in October 2011. Nearly 100 volunteers from AmCham membership and the US Embassy community planted over 300 fruit-bearing and decorative trees in SOS Children Villages.

See more about this campaign in the "Corporate Social Investment" section.

Within the framework of AmCham's constant dialogue with the government, the committee is planning to cooperate with the relevant authorities in terms of improving the existing legislation in accordance with international practices and latest trends. A separate sub-committee will be formed to work on this particular project. At the initial stage, a group of qualified specialists will be committed to draft a list of changes and amendments that committee members want to see in the legislation to further proceed with this guideline and establish contacts with relevant government bodies accordingly. ■



## Human Resources and Labor

AmCham HR committee has two main achievements over the past quarter. First is the completed Annual National Salary Survey Report with special highlights featuring Banking and Finance, Telecommunications and Oil and Gas as well as separate reports for the Regions and Top 20 Employers. The second highlight is the completed draft of the Labor section of the Whitepaper that has been already finalized by the working group members.

Along with that, the committee's agenda also included:

- Labor inspections - dos and don'ts
- Employment of disabled employees – statutory requirements and how the HR community/committee can participate
- Recruitment agencies - presentation by CBSolutions
- Changes in Pension legislation – pro's and con's. ■



## Travel, Hospitality & Tourism Committee

According to the policy of the chamber, the committee structure changes once in every two years, based on the rotation principle. Thus, after two successful years of Mr Wolfgang Groeger's chairmanship, it was time to pass the floor to Ms Sada Isayeva who has been contributing to the committee as the Deputy Chairman up to now. Mr Stefan Koehr, General Manager of Park Inn, has been elected Deputy Chairman of the committee.

The Committee met once to introduce the new vice Chairman and to discuss the Action Plan for the upcoming year. Members also discussed White Paper and agreed to establish a sub-committee to have detailed discussions on the issues to be raised in the 2011 edition of the White Paper. ■

Airport Hotel



### AmCham Benefit Package

**Enjoy 1 night accomodation including breakfast for 175 AZN (including VAT)**

Please make your booking in advance through

reception@hotelsgroup.az  
[www.bakuaairporthotel.az](http://www.bakuaairporthotel.az)  
 Tel: +994 12 437 4949  
 Heydar Aliyev International Airport  
 AZ1044, Baku, Azerbaijan



# Projects

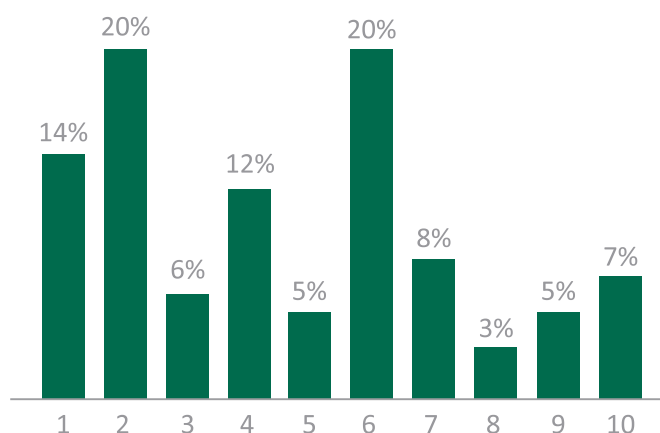
## Annual National Salary Survey 2010

With 100 companies participating, AmCham Azerbaijan completed its 12th Annual National Salary Survey and released the Final Report to members in December 2010. In addition to the main report this year's survey featured:

- 3 Separate Sector reports- Oil & Gas, ICT and Banking
- Separate Report for employees working in regions
- Top 20 payers Report

### BREAKDOWN BY INDUSTRY SECTOR

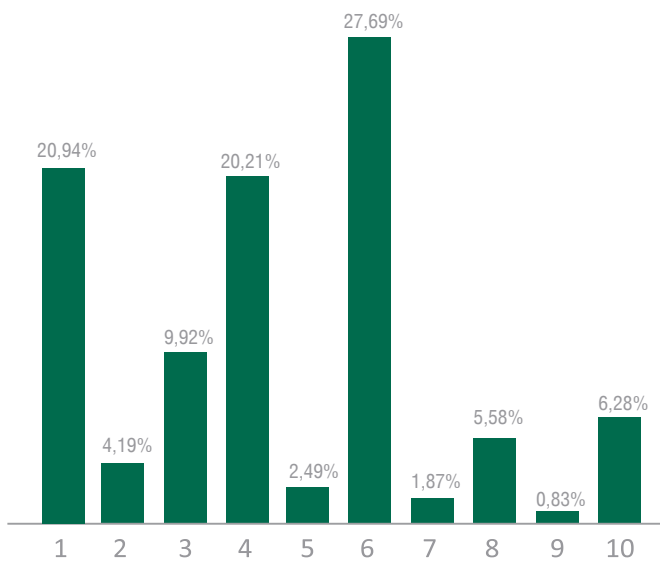
1	Oil & Gas Exploration, Development, Production	14.00%
2	Industrial, Engineering, Const, & Energy Support Services	20.00%
3	Hospitality, Hotel, Restaurant, Travel & Tourism	6.00%
4	IT/Communications	12.00%
5	Transportation & Logistics	5.00%
6	Legal, Finance, Banking, Tax/ Audit, Insurance & Professional Services	20.00%
7	Social Services (Diplomatic Missions, Education, Health & Medical, NGO & Other)	8.00%
8	Production & Manufacturing	3.00%
9	Marketing Support, Advertisement, PR & Distribution	5.00%
10	Other	7.00%



### AVERAGE COMPANY SIZE

#### NUMBER OF EMPLOYEES 1998-2010

1	Oil & Gas Exploration, Development, Production	20.94%
2	Industrial, Engineering, Const, & Energy Support Services	4.19%
3	Hospitality, Hotel, Restaurant, Travel & Tourism	9.92%
4	IT/Communications	20.21%
5	Transportation & Logistics	2.49%
6	Legal, Finance, Banking, Tax/ Audit, Insurance & Professional Services	27.69%
7	Social Services (Diplomatic Missions, Education, Health & Medical, NGO & Other)	1.87%
8	Production & Manufacturing	5.58%
9	Marketing Support, Advertisement, PR & Distribution	0.83%
10	Other	6.28%



## Real Estate Survey

Striving to make membership in AmCham even more beneficial we're continuously working on expanding the portfolio of the services provided exclusively for our Members. Meeting numerous member requests, AmCham Azerbaijan in cooperation with Caspian Property Services has piloted our first ever Real Estate Survey designed to better understand the price dynamic for residential and commercial real estate, housing policy of companies, factors influencing peer companies' decisions while

selecting office and residential space, challenges faced while choosing and using the property and many more.

Same as our Salary Survey this survey is completely confidential and the questionnaire is password protected. The overall process requires only five minutes downloading the questionnaire, answering the questions and uploading the questionnaire to the website. The final report will be released to members by the end of the first quarter of 2011. ■

# INTERNATIONAL EXHIBITIONS AND CONFERENCES IN AZERBAIJAN

## 2011



7<sup>th</sup> Azerbaijan International  
**AUTOMOTIVE EXHIBITION**  
16-19 MARCH  
[www.autoshow.az](http://www.autoshow.az)



4<sup>th</sup> Azerbaijan International  
**SPARE PARTS, ACCESSORIES AND SERVICE EQUIPMENT EXHIBITION**  
16-19 MARCH  
[www.autoparts.az](http://www.autoparts.az)



10<sup>th</sup> Anniversary Azerbaijan International  
**TRAVEL AND TOURISM FAIR**  
28-30 APRIL  
[www.aitf.az](http://www.aitf.az)



Caspian: Technologies for Environment  
**INTERNATIONAL ENVIRONMENTAL EXHIBITION AND CONFERENCE**  
10-12 MAY  
[www.cte.az](http://www.cte.az)



17<sup>th</sup> Azerbaijan International  
**FOOD INDUSTRY EXHIBITION**  
25-27 MAY  
[www.worldfood.az](http://www.worldfood.az)



1<sup>st</sup> Caspian International  
**PLASTICS AND RUBBER EXHIBITION**  
25-27 MAY  
[www.plastex.az](http://www.plastex.az)



5<sup>th</sup> Anniversary Caucasus International  
**HOSPITALITY FAIR**  
25-27 MAY  
[www.horex.az](http://www.horex.az)



1<sup>st</sup> Caspian International  
**FAST FOOD FAIR**  
25-27 MAY  
[www.iteca.az](http://www.iteca.az)



18<sup>th</sup> International  
**CASPIAN OIL AND GAS EXHIBITION INCORPORATING REFINING AND PETROCHEMICALS**  
7-10 JUNE  
[www.caspianoilgas.az](http://www.caspianoilgas.az)



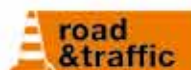
1<sup>st</sup> Caspian International  
**POWER AND ALTERNATIVE ENERGY EXHIBITION**  
7-10 JUNE  
[www.caspianpower.az](http://www.caspianpower.az)



18<sup>th</sup> International  
**CASPIAN OIL AND GAS CONFERENCE INCORPORATING REFINING AND PETROCHEMICALS**  
8-9 JUNE  
[www.oilgasconference.az](http://www.oilgasconference.az)



10<sup>th</sup> Anniversary International  
**TRANSPORT, TRANSIT AND LOGISTICS EXHIBITION**  
16-18 JUNE  
[www.transcaspien.az](http://www.transcaspien.az)



1<sup>st</sup> Caspian International  
**ROAD INFRASTRUCTURE AND PUBLIC TRANSPORT EXHIBITION**  
16-18 JUNE  
[www.roadtraffic.iteca.az](http://www.roadtraffic.iteca.az)



17<sup>th</sup> Azerbaijan International  
**HEALTHCARE EXHIBITION**  
13-15 SEPTEMBER  
[www.bihe.az](http://www.bihe.az)



6<sup>th</sup> Azerbaijan International  
**STOMATOLOGY EXHIBITION**  
13-15 SEPTEMBER  
[www.stomatology.az](http://www.stomatology.az)



5<sup>th</sup> Anniversary Azerbaijan International  
**BEAUTY AND AESTHETIC MEDICINE EXHIBITION**  
13-15 SEPTEMBER  
[www.beauty.iteca.az](http://www.beauty.iteca.az)



5<sup>th</sup> Anniversary Azerbaijan International  
**EDUCATION AND CAREER EXHIBITION**  
5-7 OCTOBER  
[www.education.iteca.az](http://www.education.iteca.az)



17<sup>th</sup> Azerbaijan International  
**CONSTRUCTION EXHIBITION**  
19-22 OCTOBER  
[www.bakubuild.az](http://www.bakubuild.az)



3<sup>rd</sup> International  
**INTERNATIONAL EXHIBITION FOR HEATING, VENTILATION, AIR-CONDITIONING, WATER SUPPLY, SANITARY, ENVIRONMENTAL TECHNOLOGY, SWIMMING POOL AND RENEWABLE ENERGIES**  
19-22 OCTOBER  
[www.aquatherm-baku.com](http://www.aquatherm-baku.com)



9<sup>th</sup> Caspian International  
**FURNITURE, INTERIORS AND DESIGN EXHIBITION**  
19-22 OCTOBER  
[www.caspianmebelexpo.az](http://www.caspianmebelexpo.az)



Caspian International  
**REAL ESTATE EXHIBITION**  
19-22 OCTOBER  
[www.azrealty.iteca.az](http://www.azrealty.iteca.az)



4<sup>th</sup> Caspian International  
**PROTECTION, SECURITY AND RESCUE EXHIBITION**  
19-22 OCTOBER  
[www.cips.az](http://www.cips.az)



17<sup>th</sup> Azerbaijan International  
**TELECOMMUNICATIONS AND INFORMATION TECHNOLOGIES EXHIBITION AND CONFERENCE**  
23-26 NOVEMBER  
[www.bakutel.az](http://www.bakutel.az)

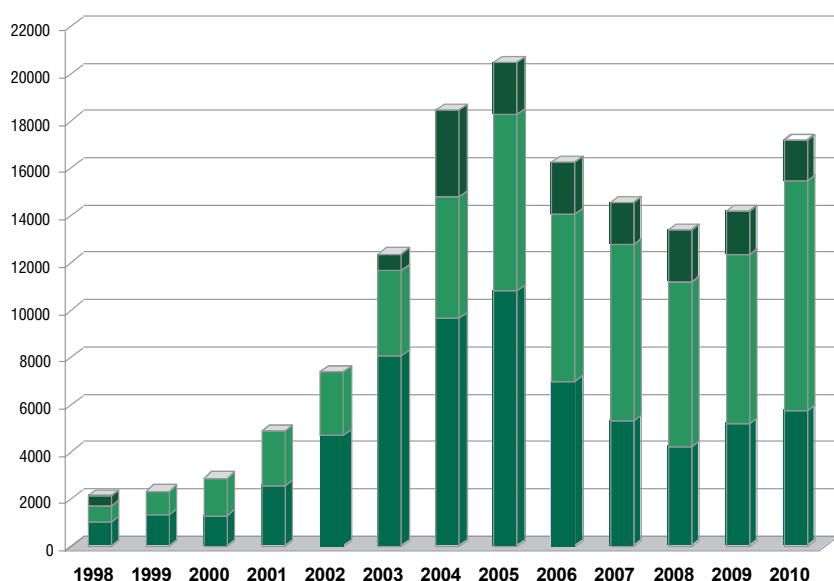
ORGANISERS



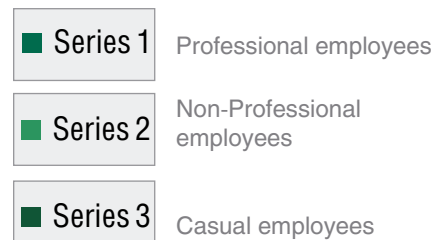
Tel.: +994 12 447 47 74; Fax: +994 12 447 89 98  
E-mail: [office@iteca.az](mailto:office@iteca.az)

[www.iteca.az](http://www.iteca.az)  
[www.caspianworld.com](http://www.caspianworld.com)





## Employee Categories by Year



### PAY REVIEWS AND INCREASES

49% of the companies have Position grades

- 4 companies have from 1 to 3 Position grades
- 13 companies have from 4 to 6 Position grades
- 11 companies have from 7 to 9 Position grades
- 21 companies have more than 10 Position grades

This year 69% of the participating Companies reported giving regular salary increases.

20 of participating Companies had special salary increases for inflation.

Average Salary Increase for all

National employees

12.14%

Average Salary Increase for Non-Specialist

Level National Employees

10.18%

Average Salary Increase for Managerial or

Specialist Level National Employees

12.26%

Special Salary Increase for Inflation

9.84%

Monthly Salary Adjustments

for Exchange Rate fluctuations

-

### SALARY DISTRIBUTION BY LEVEL

AVERAGE	Junior	Intermediate	Senior	Head of Department
Accounting	835.57	1,761.88	2,394.56	4,181.36
Admin & Support	508.58	855.31	1,793.97	-
Banking	475.48	706.80	1,056.80	1,863.99
Drilling Engineering	1,879.07	3,176.57	5,193.82	7,956.00
Engineering & Constr.	1,718.80	2,080.84	2,902.89	5,670.53
HR	868.01	1,609.44	2,203.94	3,392.41
HSE	658.23	2,425.64	3,560.60	4,658.23
ICT	1,039.68	1,498.75	2,513.61	3,810.15
Marketing & Sales	665.46	1,379.17	2,161.09	3,767.20
P&G Relations	1,475.23	2,235.41	2,341.45	3,843.17
Purchasing & Warehouse	676.30	1,677.27	2,325.78	3,698.12
Quality Control	617.96	744.19	1,016.49	3,445.39
Subsurface Staff	1,980.00	2,717.75	4,447.46	6,240.67
Translator	1,041.35	1,354.28	2,328.00	-
Tax & Legal	808.83	1,667.16	2,813.76	5,618.79
Customer Care/ Services	620.18	1,012.64	1,346.83	2,279.06

# Corporate Social Responsibility

## Investing Time: By the People, For the People, With the Children

In a spirit of the New Year AmCham Azerbaijan together with Save the Children, a non-governmental organization, visited Orphanage # 11 located in Bilgeh Settlement – a place which houses children, predominantly diagnosed with light mental disabilities. The school's physical infrastructure was recently renovated. There are now facilities to accommodate children's age and ability-appropriate learning and development, including sports facilities, ITC room and physical rehabilitation room established by Save the Children.

In addition, Save the Children conducted a series of trainings and teacher development activities in areas of rehabilitation, interactive teaching methodology, inclusive education, child rights issues, personal development and ITC to strengthen staff's ability to not only provide appropriate care, but also encourage and facilitate learning and development, enabling the children to make independent and sound choices in terms of livelihoods and their post-institutional lives.

The school consists of two bodies and includes an associate school for children with mental disabilities that boards 177 children in total, with 55 girls and 122 boys among them. The number of children educated at the main school is 481, with 159 girls and 322 boys. A total of 18 of the children are completely abandoned. Currently, a staff of 76 caregivers and teachers are working with the children.

The aim of the visit was for AmCham Members to invest their time which they spent decorating a New Year tree, playing interactive games, and giving presents to make the New Year for these vulnerable children truly memorable. Additionally, it set an example for other private-sector agencies to spend not only their funds but their time and energy with and for children in need. ■



## Plant a Tree. Help a Child. Make an Impact

While AmCham is recognized as a voice of business and a strong promotional vehicle among the international and local community, we tend not to forget about socially important initiatives within and beyond our membership. As a next step of AmCham CSR strategy, our HSE Committee held the Tree Planting SOS Children Villages in October 2010. Together with AmCham membership, US Embassy community and Peace Corps volunteers, we've planted over 300 fruit-bearing and decorative trees on the premises of the SOS Children Village in Akhmedli District where they will be further taken care of by over 90 young inhabitants of the village and their SOS parents. We are very happy to announce that thanks to our generous sponsors, the working committee has raised around 2700 AZN for this project! The event was widely covered by mass media and TV outlets as well as through AmCham internal communications channels.



### AMCHAM HSE COMMITTEE TREE PLANTING CAMPAIGN

SOS Children Villages  
30 October 2010



### PLANT A TREE. HELP A CHILD. MAKE AN IMPACT.

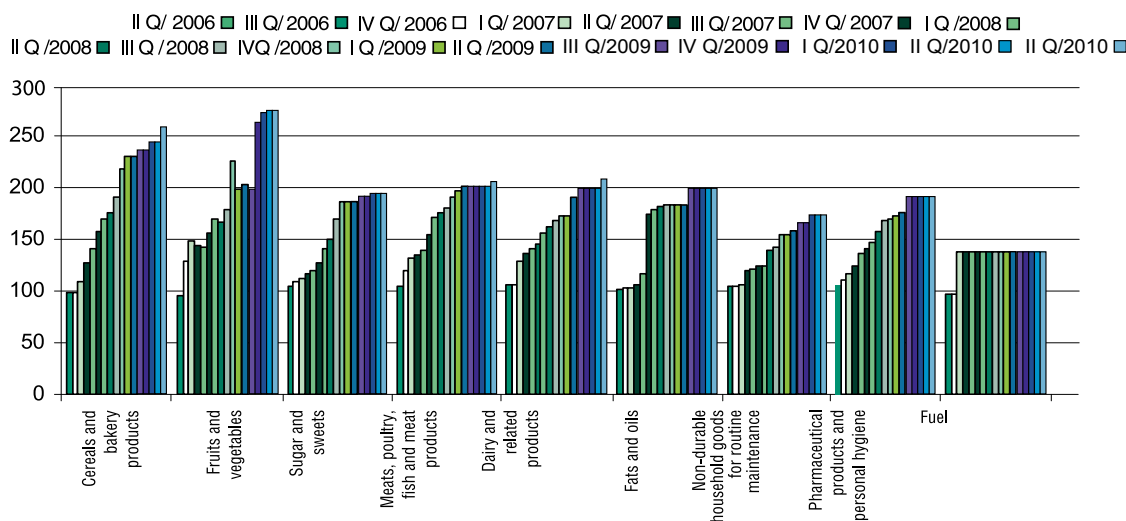


Many thanks to our colleagues and sponsors who joined us to make even a small positive input to the health and

overall spirit of around 90 kids bereaved of the most indispensable asset - parent care! ■

## Inflation Survey – Consumer Price Index October 2010

### Breakdown of AAIP changes (the base is 100 at 31 March 2006)



In Q3 the AAIP rose by 0.67% for Azerbaijani consumers and 0.48% for Expatriate consumers. The largest upward effects came from two most essential groups of commodities like Cereals & Bakery products and Dairy & related products where Index of Prices rose by 7.39% and 2.16 % respectively. The only downward effect on the

AAIP rate came from Fruits & Vegetables where Index of Prices went down by 0.49% which is explained by seasonal changes.

Over the last year (the base is 100 at 30 September 2009) the AAIP rose by 3.91% for Azerbaijani consumers and 4.33% for Expatriate consumers. ■

# (M2M) Discount Program



## HYATT HOTELS BAKU

15% off in all restaurants and bars. 15% off on all laundry and dry cleaning services



## ATA HOLDING

Up to 15% on all types of insurance



## AZEL

Up to 10% on all products



## LUFTHANSA

Up to 7% for tickets  
Access to the business class lounge in H.Aliyev Airport included



## SEABAK

Up to 10% for onsite helpdesk support  
Up to 15% for remote administration



## WICKLOW CORPORATE SERVICES

5% discounts on hourly fee rates



## EXCELSIOR

10% on all catering contracted with rentals and on F&B in Belvedere Restaurant; 15% on Duke and Heritage rooms and for rentals of conference rooms; 20% on one year membership in Aura Spa



## ALTES GROUP

5% for all Altes Group apartments portfolio



## CRESCENT BEACH HOTEL

10% for Accommodation; 10% Food & Beverage; 15% discount on accommodation & all F&B



## 3M

10% on following 3M products: Visuals (Digital and Rear Projection Film); Construction; Stationary (Post It, Scotch)



## PHILOSOPHY TRAVEL

5% on any travel arrangements



## PARK INN

10% in all F&B Outlets.



## RADISSON

10% on all Published Retail Room Rates



## OFFICE SYSTEMS

10% on all office chairs  
15% on office furniture (excluding metal)



## MOZAIK LLC

10% on all our products



## PURPLE CREATIVE AGENCY

up to 20% discount



## GARANT SIGORTA

Up to 20% on various types of insurance



## BAKER & PARTNERS

Up to 25% on various services



## INDIAN CLINIC

Up to 15% on medical services



## AG BANK

50% on AG Club Premium Package; 20% on AG Club Gold HEI Package



## CITIMART

5% discount on all the groceries and entire purchase

### How to join the Program:

Members willing to join the Program and offer their products/services at special discount to AmCham Regular Members have to inform the AmCham office in writing. A discount provider has to indicate the product(s) or service(s) and discount rate(s).

### How to obtain discounts:

All Regular Members, no matter whether they provide discounts as part of the Program or not, can obtain discounts. Members can find information about the discounts in the M2M Section of our website [www.amchamaz.org](http://www.amchamaz.org)

### How is M2M advertised?

The program will only be advertised internally through the AmCham communications channels: AmCham Website and AmCham Quarterly Magazine – "IMPACT Azerbaijan".

**Note:** The cards are for personal use only. A card holder is committed to return the card to AmCham in case he/she leaves a Member establishment.





The Landmark  
Hotel.Baku

The Landmark is a multi-occupancy complex located in the centre of Baku, a few blocks from the Caspian Sea.



The Landmark complex is the office location of choice for the international business and diplomatic community operating in Azerbaijan. The Landmark Hotel occupies the top twelve floors of the Landmark III Building.

The Landmark Hotel is a highly individualized five-star boutique hotel offering 78 guest rooms and 25 suites. Average room and suite sizes are 43 and 92 square meters respectively. Six suites are apartment-style designed for long staying guests and feature a separate guest toilet. All rooms have high ceilings, an abundance of natural light and floor-to-ceiling windows provide views of the city skyline or the Caspian Sea. Each room is decorated in warm earth tones and has authentic works by Azeri artists. Rooms feature complimentary high speed internet access, data port, large flat-screen TV, DVD player and electronic safe. Local phone calls are complimentary. Oversized

All-day casual dining and a lavish buffet breakfast are served in the Caspian Lounge & Terrace on the 20th floor. Other dining options include international cuisine at 90A, Chinese at Shin-Shin and Japanese at Seto. Cocktails and finger sandwiches can be enjoyed at the Sky Bar till late at night. The Snack & Salad Bar and La Bodega Tapas & Wine Bar are located in the office complex and are open from 10 am to 6 pm Mondays to Fridays. Barbeque dinners are served on the Rotunda Roof Garden from April to October.

There are eight conference and meeting rooms including two banqueting rooms for up to 500 people each for cocktail receptions, one with natural daylight coming from a breathtaking glass dome, the other with a dedicated foyer.

The Landmark Hotel is licensed by the Ministry of Culture and Tourism and has been awarded 5 Stars.



bathrooms feature heated floors, washlet, deep bathtub and separate walk-in rain-shower.

The Landmark Hotel was designed to meet the expectations of business executives. Complimentary use of computers with internet access, printing and scanning facilities is available in the Sky Lobby. All guests receive upon arrival a welcome drink and a bowl of fresh fruit in their rooms. Landmark guests also benefit from the hotel's flexible check-in and check-out times policy. A disability-friendly room is available.

The Landmark Health Club is located on the ninth and tenth floors and encompasses 2,500 square meters including a south facing terrace for sunbathing. Floor-to-ceiling windows provide views of Baku from the large swimming pool and exercise areas equipped by Technogym. A sauna, steam room and three treatment rooms are available. Fitness, yoga and dance classes are provided. Guests have complimentary access to the Health Club.

**The Landmark Hotel Baku**

**Phone: +994 12 465 2000, Fax: +99412 465 2010**

**info@thelandmarkhotel.az**

**90A Nizami Street, Baku Az1010, Azerbaijan**

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is a highly individualized  
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