



TATA STRATEGIC MANAGEMENT GROUP



A handbook on
Export opportunities in Azerbaijan
for
Indian chemical companies



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1. Executive summary

Azerbaijan, officially the Republic of Azerbaijan, is the largest country in the Caucasus region located at the crossroads of Western Asia and Eastern Europe. It is bounded by the Caspian Sea to the east, Russia to the north, Georgia to the northwest, Armenia to the west and Iran to the south. Azerbaijan Democratic Republic was established in 1918, but was incorporated into the Soviet Union in 1920. Azerbaijan regained independence in 1991. Azerbaijan is known for its ancient and historic cultural heritage, including the distinction of being the first Muslim-majority country to have operas, theatre and plays.

Azerbaijan has diplomatic relations with 158 countries so far and holds membership in 38 international organizations. Azerbaijan became a member of the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank and the Asian Development Bank after gaining independence in 1991. Azerbaijan is also ranked 57th in the Global Competitiveness Report for 2010–2011, which is above other CIS countries.

Azerbaijan is rich in oil and natural gas, and hence is considered one of the most important spots in the world for oil exploration and development. Azerbaijan also has the largest agricultural basin in the region with over 54.9 % of the total land as agricultural land. Over the past few years, the Government of Azerbaijan has worked to integrate the country into the global economic marketplace, attract increased foreign investment, diversify its economy, and maintain positive growth during the global financial crisis. Azerbaijan has enjoyed measurable success in diversifying its economy outside of the energy sector.

Wide-ranging economic reforms implemented by Azerbaijan during the past five years have resulted in notable progress to improve regulatory efficiency and encourage domestic economic diversification, especially in the areas of agriculture, tourism, and information and communications technology. In particular, the substantial economic reforms were implemented in 2007 and 2008, which led the World Bank to name Azerbaijan as one of the top ten global reformers for 2009 in its annual “Doing Business” report.

In December 2011, Standard & Poor’s upgraded the sovereign credit rating of Azerbaijan to BBB-investment grade and concluded that the rating had a stable outlook. Fitch Ratings affirmed the long-

term sovereign rating of investment in foreign and domestic currency for Azerbaijan at BBB- and upgraded the outlook for Azerbaijan from stable to positive in September 2011. Fitch Ratings first assigned Azerbaijan the BBB- rating in May 2010. Additionally, Moody's Investor Service upgraded the outlook on Azerbaijan's sovereign rating from stable to positive and confirmed the issuer rating for government debt at Ba1 in March 2011.

Although Azerbaijan has continued to attract significant foreign investment to further develop its energy sector throughout the past decade, inefficient government bureaucracy, weak legal institutions, requests for illicit payments for cross-border transactions, and predatory behaviour by politically connected monopolistic interests continue to hinder investment outside of this sector and present challenges for foreign investors.

2. Country overview

Azerbaijan is a landlocked country in Southwest Asia located at the crossroads of Eastern Europe and Western Asia. It is bounded by the Caspian Sea, Russia, Georgia, Armenia, and Iran. The government system is a republic and follows a mixed economic system. The population of Azerbaijan was estimated at 8.9 million people in 2010. Azerbaijan is a member of the Black Sea Economic Cooperation (BSEC) (Refer figure 1).

Figure 1: Azerbaijan overview



The GDP of the country was USD 68 Bn in official exchange rate and USD 93 Bn in purchasing power parity terms in 2011 and grew by 1% in 2011, down from 5% in 2010 and 9% in 2009. Per capita GDP of Azerbaijan is ~USD 10,200 in 2011.

The industry sector is the economy's largest and accounted for 62% of GDP (2011), followed by services (32.1%) and agriculture (5.5%). The country has a unique opportunity to enter the ranks of a sustainable higher middle income country, as is evidenced by the decline in poverty rate from 50 per cent in 2001 to 7.6 per cent in 2011. While some of this improvement was driven by high growth rates

and a strong increase in wages and introduction of a well-targeted social benefit system, much of its rapid growth came from a jump in oil and gas revenues.

Better infrastructure is critical in Azerbaijan as geographical position makes it an important link between the Black and Caspian Seas and between Russia and Iran. Achieving Azerbaijan's potential as a transit economy is essential for stimulation of economic growth, non-oil economic development, safety and reduction of poverty.

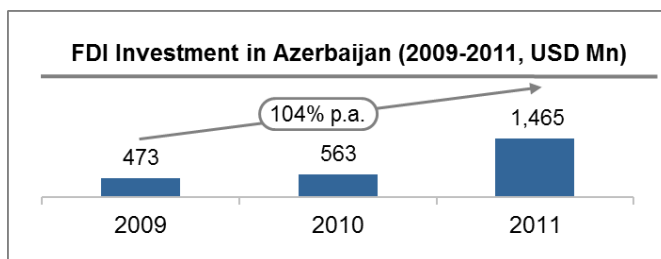
Agriculture is a meaningful component of Azerbaijan's non-oil economy and has significant potential for boosting export revenues for the country. While the sector only accounts for 5 per cent of GDP, it is still a key source of jobs and is a priority in the context of food security.

The country has extensive natural resources, including crude oil & natural gas. Azerbaijan's major imports include machinery and equipment, electrical equipment, iron & steel and cereals. And the country's major export commodities include mineral fuels, sugar, animal and vegetable oils and edible fruits.

Business Environment

The amount of foreign direct investment (FDI) in Azerbaijan exceeds US\$ 8.3 billion with investment in the oil and natural gas sector constituting more than 80% of the total amount. The World Bank reports on per capita FDI inflows rank Azerbaijan near the top among CIS and Eastern European countries. According to the WB, in 2004, private sector investments were accounting for 90.7 % of total investments, and foreign investment accounted for 73.1 %. However, since 2005 domestic public investments have gained pace, while private and foreign investments have been decreasing. As a result private sectors share in total investments have decreased to 29.6 % by 2009 and foreign sourced investment's share decline to 24.8 % (Refer figure 2).

Figure 2: FDI investment in Azerbaijan (2009 to 2011)



In 2009, despite the global financial crisis, Azerbaijan's rapidly developing economy grew by 9.4% and has continued its rapid expansion. In 2007, at the peak of economic growth, the country's GDP rose by an unprecedented 25%.

Azerbaijan is a member of the United Nations, the Organisation for Security and Cooperation in Europe (OSCE), NATO's Partnership for Peace, the Euro-Atlantic Partnership, the World Health Organisation, GUAM Organisation for Democracy and Economic Development, the European Bank for Reconstruction and Development, the Council of Europe, the International Monetary Fund and the World Bank.

3. Trade agreements

Trade with Russia and the other former Soviet republics is declining in importance, as Europe and Turkey increasingly become key trading partners.

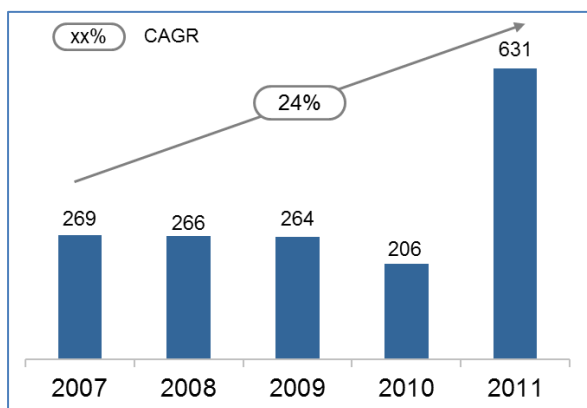
Azerbaijan has longstanding cultural and historical links with Turkey, which accounts for approximately 11.2% of Azerbaijan's imports. Through its national oil company (TPAO), Turkey has a 6.7% share in the AIOC, and hosts a major portion of the BTC oil export pipeline. Azerbaijan maintains good relations with the United States and the European Union, reflecting its desire for stronger trade and strategic ties with both political entities. A bilateral investment treaty (BIT) between the US and Azerbaijan has been in effect since 2001. Azerbaijan has also signed a Partnership and Cooperation Agreement with the EU, which is designed to harmonise Azerbaijani and European law. Azerbaijan became a member of the Council of Europe in 2001.

As evident from the above figure, India has implemented the ASEAN Free trade agreement with Azerbaijan in 2010. Azerbaijan is one of the members of ASEAN since 1992. Azerbaijan has been on a fast growth track post the reforms for the Asian Financial crisis. After opening up of economy in 1980s, Azerbaijan experienced a high growth period from 1989-1997. However, with fast economic growth, the gaps in the economy became more evident as Azerbaijan was gripped in Asian Financial Crisis in 1997. The Rupiah (Azerbaijan's Currency) fell sharply and reached 8000 to 1 USD in 1998. To overcome the financial crisis, International monetary fund introduced a series of reforms. The Azerbaijan's economy has recovered from the crisis by 2005. Multiple trade agreements have been signed by Azerbaijan since then. Azerbaijan has good trade relations with China and Japan. It is negotiating trade agreements with South Korea, the US and European Union as well. ASEAN-India Free trade agreement was signed in 2009 and implemented by both India and Azerbaijan in 2010.

Trade relation with USA

The United States established diplomatic relations with Azerbaijan in 1992, following its independence from the Soviet Union. The United States is committed to strengthening democracy and the formation of an open market economy in Azerbaijan. It stands to gain benefits from an Azerbaijan that is peaceful, democratic, prosperous, and strategically linked to the United States and U.S. allies in Europe. Imports from USA to Azerbaijan have increased at ~64% CAGR during 2007-11. The imports saw a decline in 2009 and 2010 after a peak in 2008 (Refer figure below).

Figure 3: USA imports in Azerbaijan (USD Mn)



The United States and Azerbaijan have a bilateral trade agreement and a bilateral investment treaty. U.S. companies are involved in offshore oil development projects with Azerbaijan and have been exploring emerging investment opportunities in Azerbaijan in telecommunications and other fields. Azerbaijan has been designated as a beneficiary country under the Generalized System of Preferences (GSP) program, under which a range of products that Azerbaijan might seek to export are eligible for duty-free entry to the United States. The GSP program provides an incentive for investors to produce in Azerbaijan and export selected products duty-free to the U.S. market.

The U.S. Senate and Azerbaijan enforced a “Bilateral Investment Treaty”, concerning the Encouragement and Reciprocal Protection of Investment on August 2, 2001. The United States currently does not have a taxation treaty with Azerbaijan. Additionally, Azerbaijan does not currently have a free trade agreement in place with the United States.

Trade relation with European Union

Azerbaijan applied for membership to the World Trade Organisation in 1997 and the process is ongoing. EU and Azerbaijan started negotiations on upgrading the existing trade related provisions of the Partnership and Cooperation Agreement (non-preferential trade and investment agreement) in 2010, with a view to supporting Azerbaijan's future WTO membership and subsequent eventual bilateral Deep and Comprehensive FTA.

Figure 4: Italy imports in Azerbaijan (USD Mn)

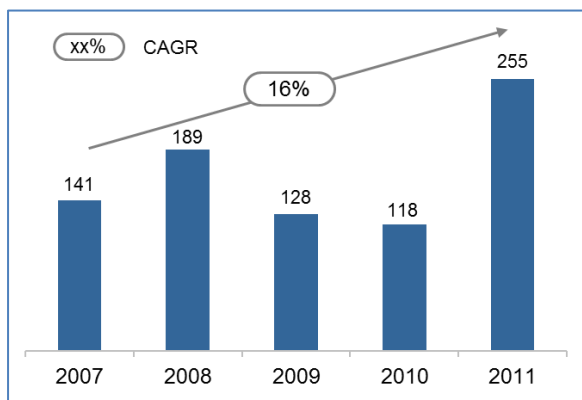


Figure 5: France imports in Azerbaijan (USD Mn)

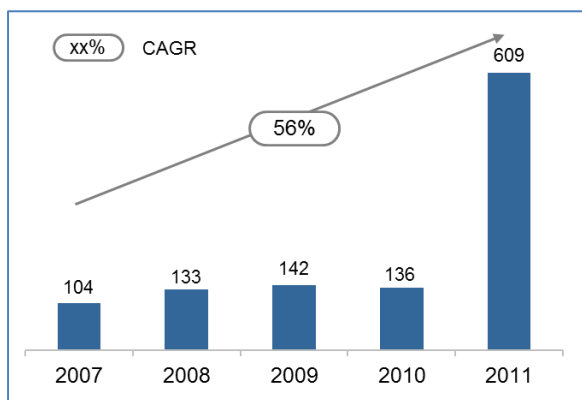
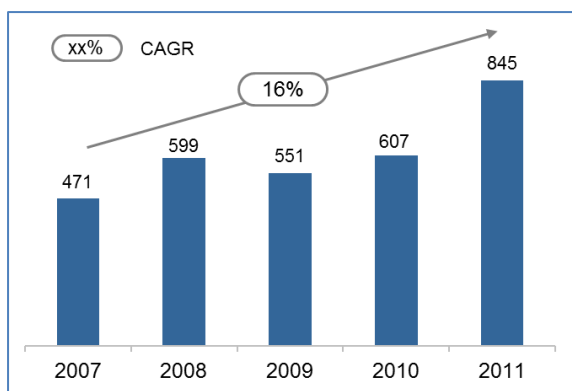


Figure 6: Germany imports in Azerbaijan (USD Mn)



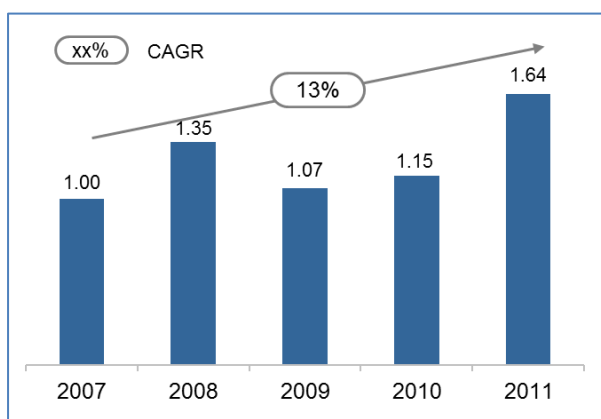
Azerbaijan's total trade with European Union reached USD 18 Bn in 2011 with imports accounting for USD 3 Bn and exports of over USD 15 Bn. France and Azerbaijan are developing trade and economic relations in all spheres including in cosmic. French companies planned to launch a satellite for Azerbaijan in 2012. French Total is also taking part in developing the biggest gas unit in the Caspian Azeri sector.

Trade relation with Russian Federation

Azerbaijan has signed bilateral free trade agreements with the Russian Federation in 1992 and other Soviet Union republics like Moldova in 1995, Ukraine in 1995, Turkmenistan in 1996, Azerbaijan in 1996, Georgia in 1996 and Kazakhstan in 1997.

The trade turnover between Russia and Azerbaijan exceeded three billion dollars in 2011. Russia has strengthened its leading positions among the group of exporters to Azerbaijan, and it is the largest importer of products from Azerbaijan, excluding crude oil.

Figure 7: Russia imports in Azerbaijan (USD Bn)

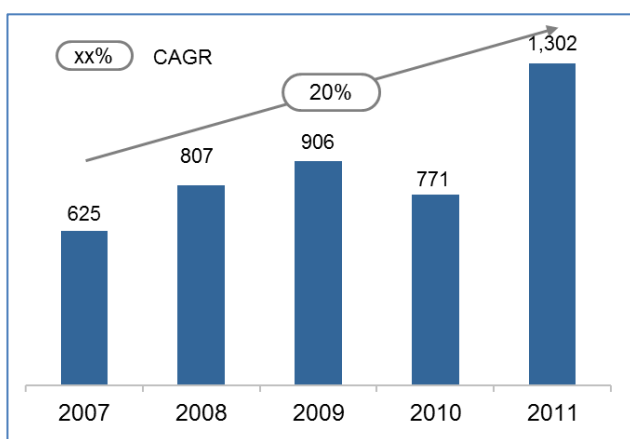


Azerbaijan has over 500 Russian companies, including one-third of them companies wholly owned by Russian businesses, and about half of them - joint ventures. Russia has also signed a free-trade deal in 2011 with seven other former Soviet republics that will scrap export and import tariffs on a number of goods. The other signature countries are Ukraine, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Moldova and Tajikistan. Azerbaijan, Azerbaijan and Turkmenistan were expected to join the agreement by 2012.

Trade relation with Turkey

Azerbaijan–Turkey relations have been strong with the two often being described as "one nation with two states". Azerbaijan is currently Turkey's largest trading partner in the Caucasus region. The legal framework of Turkish-Azeri bilateral commercial and economic relations consists of a number of agreements, including Agreement on Enhancing Economic and Technical Cooperation (1992), Agreement on Mutual Promotion and Protection of Investments (1994) and Double Taxation Prevention Treatment (1994).

Figure 8: Turkey imports in Azerbaijan (USD Mn)



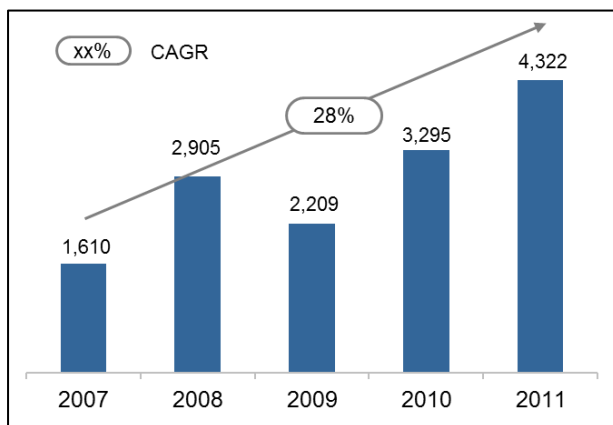
In terms of merchandise trade, Azerbaijan ranked 18th among Turkey's most preferred exports destinations in 2011 and ranked 69th among Turkey's importers in 2011. Trade surplus with Turkey was \$677 million in 2011 and trade balance was \$3.4 billion.

As of the end of December 2011, the volume of Turkish investments in Azerbaijan was approximately \$6.5 billion. Both the countries are expected to cooperate more in energy. More than 1,300 Turkish companies are operating in Azerbaijan, and they have almost 2 billion USD of investments in Azerbaijan. Also, there are 800 Azerbaijani companies operating in Turkey.

Trade relation with India

India and Azerbaijan are negotiating a comprehensive market opening pact, aimed at enhancing bilateral economic engagement between the countries. India and the 10-member Association of South East Asian Nations (ASEAN) has already implemented free trade pact in goods and are engaged in intense negotiations to widen the scope of the pact. Azerbaijan is India's second largest export market in ASEAN (after Singapore) and one of the leading export destinations among developing countries.

Figure 9: India imports in Azerbaijan (USD Mn)



The bilateral trade between India and Azerbaijan stood at over USD 20 billion in 2010-11. The bilateral trade target has been set at USD 25 billion for 2015. The emphasis has been laid on increasing economic cooperation in sectors like mining, energy and infrastructure building. India and Azerbaijan have also identified certain areas for joint working groups which includes manufacturing and skill training; healthcare and pharmaceuticals; mining, agro and food processing.

Azerbaijan's exports to India include palm oil and its derivatives, palm kernels, coal, briquettes, copper ore and copra, while its imports include petroleum oil, transmission applications for radio-telephony, trucks, and cyclic hydrocarbons.

Summary of trade agreements

An analysis of Azerbaijan's trade relations with other major exporters showcase the fact that India needs to actively pursue trade relations to capture the upcoming window of opportunity for import in Azerbaijan.

Other countries like China, Japan and Korea have an advantage over India as they have established trade relations with Azerbaijan. India and Azerbaijan's trade basket consists of complimentary goods and hence India's trade had been limited with Azerbaijan. However, India has recently increased its focus on improving bilateral trade with Azerbaijan, India needs to increase its focus towards developing a comprehensive FTA with Azerbaijan to ensure its cost competitiveness as compared with other Asian exporters and develop trade agreements for niche segments where the needs of Azerbaijan and capabilities of India is a good match.

4. Product segments

We look in detail at some of the focus segments and understand which products are the key import requirements of Azerbaijan and what Indian companies (Especially SMEs) need to do to ensure a strong presence in Azerbaijan.

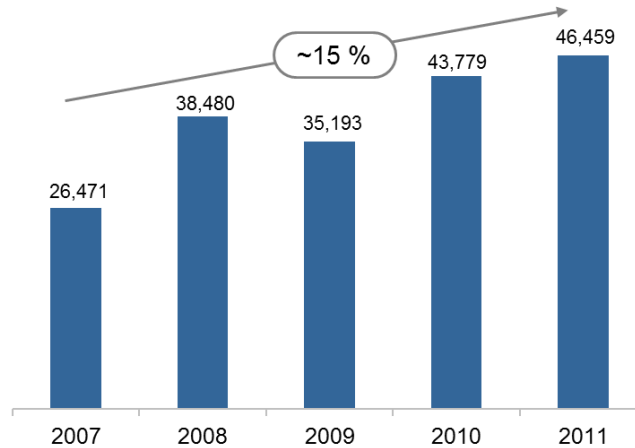
The key segments covered are:-

1. Essential oils, perfumes, cosmetics & toiletries (HS 33)
2. Inorganic chemicals (HS 28)
3. Castor Oil (HS 15)
4. Dyes (HS 32)
5. Organic chemicals (HS 29)
6. Agrochemicals (HS 38)
7. Soaps (HS 34)

1. Essential oils, perfumes, cosmetics & toiletries

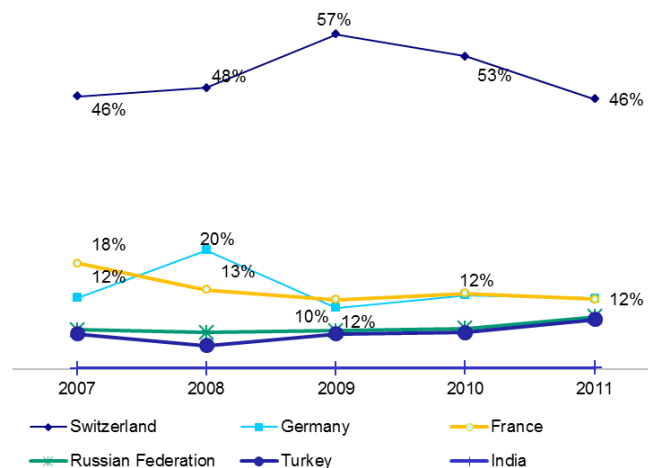
Azerbaijan has seen a strong rise in imports of these products over the last few years. The imports have grown at ~15% p.a. during 2008-2011. Figure below represents the growth scenario:

Figure : Imports in Azerbaijan ('000 \$)



Historically, Switzerland has been the leading exporter, its geographic reach and trade relations with EU of Azerbaijan have promoted such a result. The users in this segment are very quality conscious and are driven by product innovation more than cost considerations. Hence other European nations have also found decent imports share. India has a miniscule share of ~0.1 % only.

Figure : Imports in Azerbaijan (% share of imports)

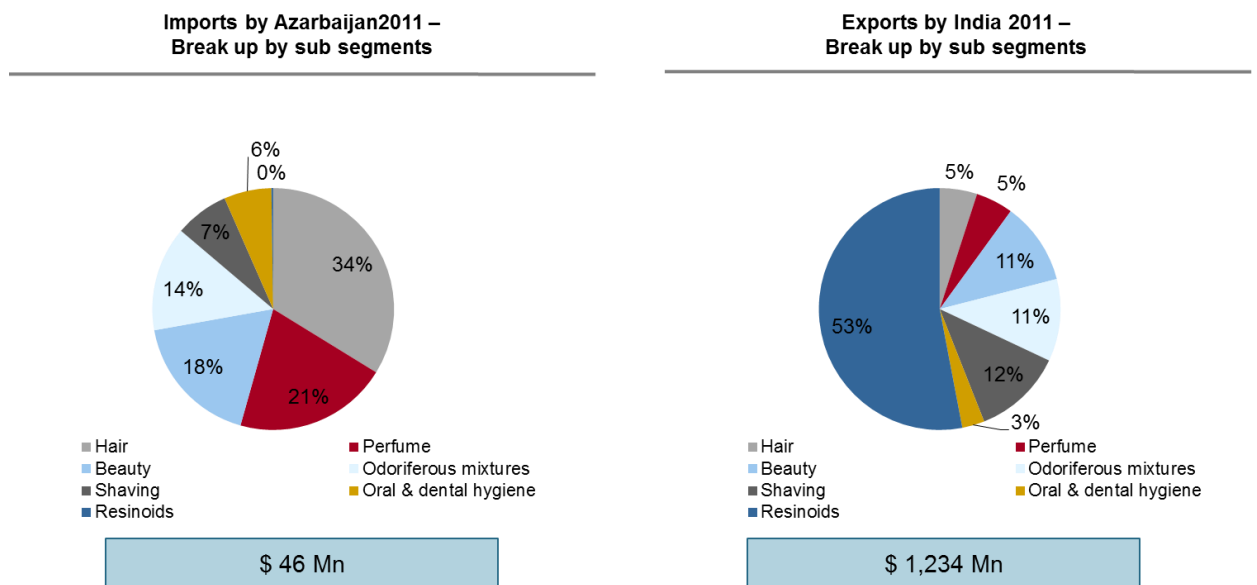


The sub segments within this group are:

- 3301- Resinoids,
- 3302- Odoriferous mixtures,
- 3303- Perfumes,
- 3304- Beauty products,
- 3305- Hair products,
- 3306- Powder,
- 3307- Shaving preparations

From the figure below we conclude that hair products, Perfumes & beauty products are the major imports for Azerbaijan. While India's competitiveness in some of these segments is high the import requirement of Azerbaijan for these products is very low.

Figure : Mapping of sub segment focus of Azerbaijan and India



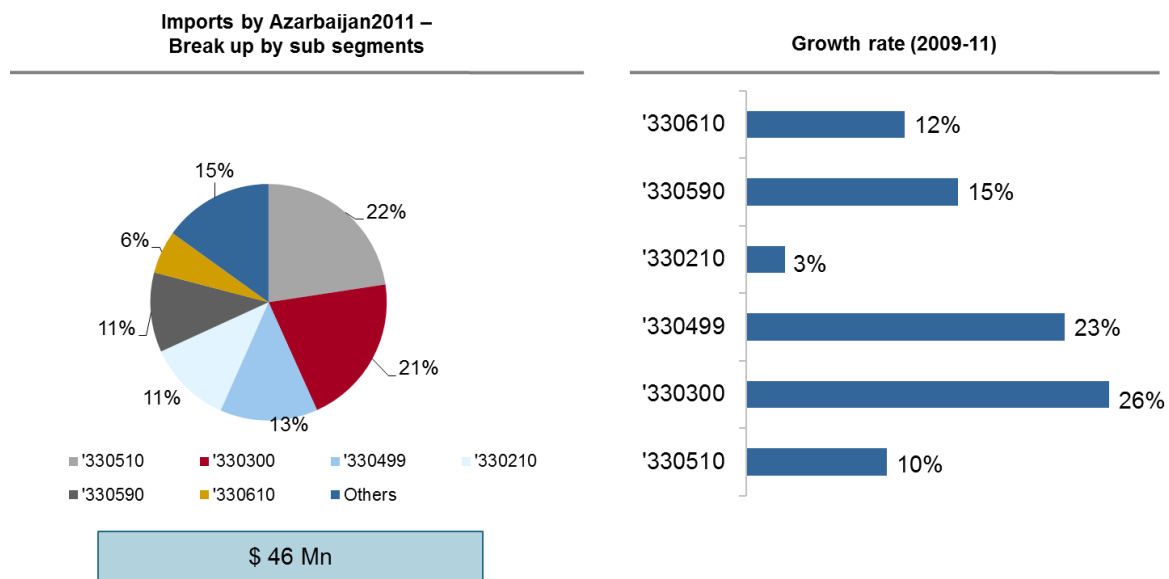
For Azerbaijan, the total market for the entire essential oils, perfumes, cosmetics & toiletries is only \$46 Million. Even though the growth has been ~15%, the sheer volume of this market is too small to be an attractive target.

i. Strategic recommendations

Since the volumes are so small that India can easily serve each segment of this market and if any Indian SME wishes to serve this market with limited volumes the key sub segments for entry will be:

- a. 330510 & 330590: Hair shampoo & hair preparations
- b. 330300: Perfumes and toilet waters
- c. 330499: Beauty or make up preparations, e.g. Sunscreen or sun tan preparation etc.
- d. 330210: Mixtures of odoriferous substances for the food or drink industries
- e. 330610: Dentifrices

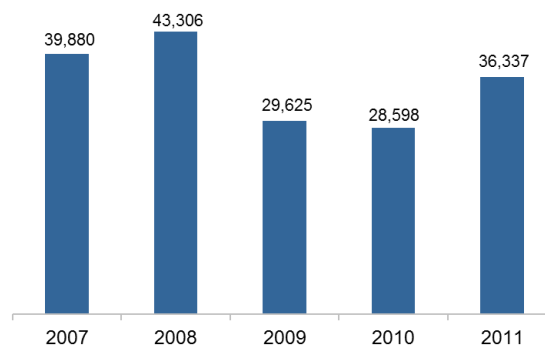
The figure below explains their current market share & growth rate which justifies them as the key likely focus segments and since most of these are currently served by European countries hence Indian players can position themselves as low cost but with high quality suppliers and catch the incremental import growth volume of additional \$30 Mn by 2017 from the following products.



2. Inorganic chemicals, precious metal compound, isotopes

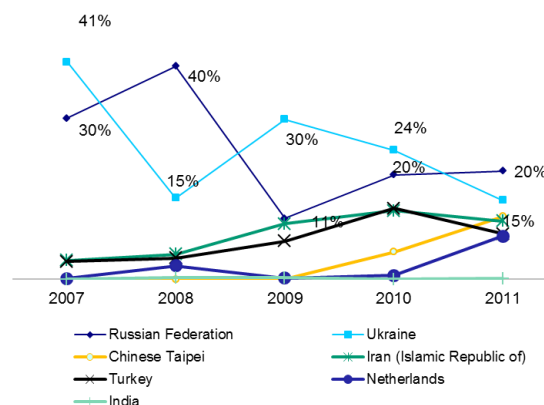
Azerbaijan has seen a very interesting imports scenario for inorganic chemicals in last four years. Imports rose up till 2008 but took a sudden strong hit and fell down by ~45%. Continued recession led to further slide in imports in 2010. However in 2011 the market has shown strong signs of bounce back. Figure below represents the growth scenario:

Figure : Imports in Azerbaijan ('000 \$)



Historically, Russia and Ukraine have been the key exporters to Azerbaijan and their share of imports keeps fluctuating as they both keep capturing each other's share. Slowly by 2011 their share has dropped to ~40% from 70% in 2007. Their share has been mostly captured by Chinese Taipei, Iran and Turkey. However, India has almost nil presence.

Figure : Major exporting nations to Azerbaijan (% share of imports)



The sub segments in this category are -

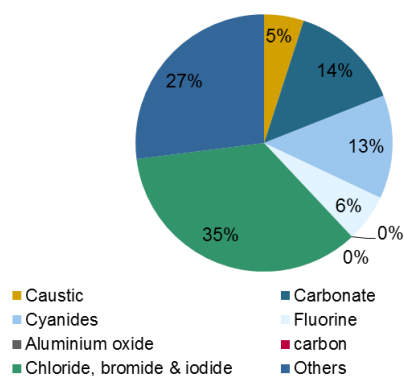
- 2836 - Carbonate; peroxy carbonate, commercial ammonium carbonate
- 2846 - Rare-earth metal compounds of yttrium or scandium
- 2803 - Carbon (carbon blacks & other forms of carbon)
- 2814 - Ammonia, anhydrous or in aqueous solution
- 2833 - Sulphates; alums; per-oxo-sulphates (per-sulphates)
- 2811 - Inorganic acids, other inorganic oxygen compounds of non-metals
- 2835 - Phosphinates, phosphonates, phosphates & polyphosphates hypophosphites
- 2815 - Hydroxide, sodium (caustic soda)&caustic potash; peroxide of sodium & pot
- 2839 - Silicates; commercial alkali metal silicates
- Others – Including 2818 (Aluminium oxide (including artificial corundum); aluminium hydroxide), 2840 (Borates; per-oxo-borates (per-borates)), 2817 (Zinc oxide; zinc peroxide), 2827 (Chlorides, bromides, iodides & their oxides; chloride hydroxides), 2825 (Hydrazine & hydroxylamine & their inorganic salts; other inorganic bases), 2843 (Colloidal precious metals; precious metal compounds; amalgams of precious metals), 2823 (Titanium oxides), 2828 (Hypochlorite; commercial calcium hypochlorite; chlorites; hypobromites), 2847 (Hydrogen peroxide), 2804 (Hydrogen, rare gases & other non-metals), 2807 (Sulphuric acid), 2821 (Iron oxides & hydroxides), 2849 (Carbides, whether or not chemically defined), 2844 (Radioactive chemical elements & isotopes, their compounds, mixtures & residues), 2842 (Salts of inorganic acids or per-oxo-acids, excluding azides), 2841 (Salts of oxo metallic or per oxo metallic acids), 2834 (Nitrites; nitrates), 2831 (Dithionites and sulphoxylates), 2819 (Chromium oxides and hydroxides), 2809 (Di-phosphorus penta-oxide; phosphoric acid and polyphosphoric acids), 2829 (Chlorates & perchlorates; bromates & perbromates; iodates & periodates), 2808 (Nitric acid; sulphonitric acids), 2820 (Manganese oxides), 2837 (Cyanides, cyanide oxides and complex cyanides), 2853 (Inorganic and organic compounds, incl. distilled or conductivity water), 2832 (Sulphites; thio sulphates), 2805 (Alkali/alkaline-earth metal; rare earth metal, scandium & yttrium; mercury), 2810 (Oxides of boron; boric acids), 2802 (Sulphur, sublimed or precipitated; colloidal sulphur), 2830 (Sulphides; polysulphides), 2826 (Fluorides; fluorosilicate, fluoro aluminates & other complex fluorine salt), 2824 (Lead oxides; red lead and orange lead), 2822 (Cobalt oxides and hydroxides; commercial cobalt oxides),

2848 (Phosphides, excluding ferrophosphorus), 2816 (Hydroxide & peroxide of magnesium; oxide, hydroxide & peroxide of strontium), 2852 (Compounds, inorganic or organic, of mercury (excl. amalgams)), 2845 (Isotopes, and their compounds), 2806 (Hydrogen chloride (hydrochloric acid); chloro sulphuric acid), 2801 (Fluorine, chlorine, bromine and iodine), 2812 (Halides and halide oxides of non-metals), 2850 (Hydrides, nitrides, azides, silicides & borides), 2813 (Sulphides of non-metals; commercial phosphorus trisulphide), 2851 (Other inorganic compounds; liquid & compressed air), 2838 (Fulminates, cyanates and thiocyanates)

From the figure below we could conclude that the leading sub segments in imports of Azerbaijan are Caustic, Carbonates, Cyanides & Fluorine etc. While India's competitiveness in some of these segments is high the import requirement of Azerbaijan for these products is very low (~\$36 Mn) as compared to total exports of India in this segment of \$1,409 Mn.

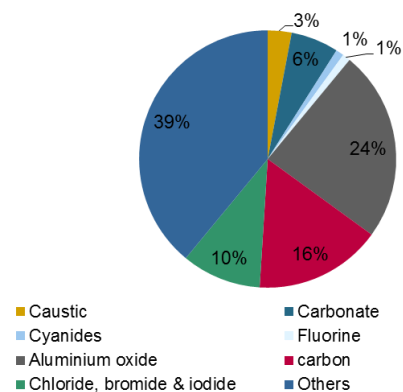
Figure : Mapping of sub segment focus of Azerbaijan and India

Imports by Azarbaijan 2011 – Break up by sub-segments



\$ 36 Mn

Exports by India 2011 – Break up by sub-segments



\$ 1,409 Mn

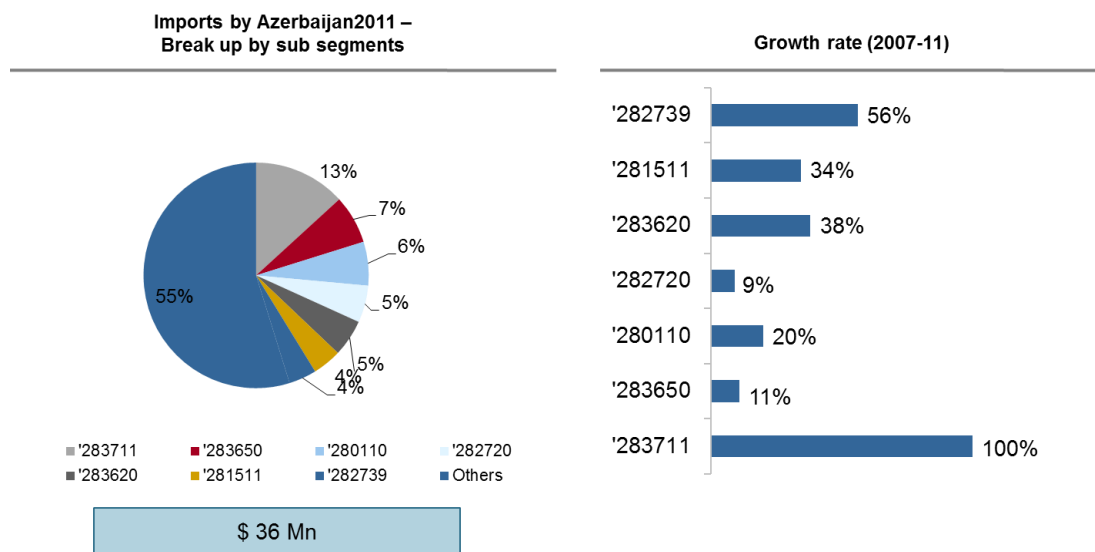
For Azerbaijan, the total market for the entire Inorganic chemicals is only \$36 Million. Even though since 2011 the market has picked itself up, the limited volume of this market is small to be an attractive target.

i. Strategic recommendations

Since the volumes are so small that India can easily serve each segment of this market and if any Indian SME wishes to serve this market with limited volumes the key sub segments for entry will be:

- a. 283711: Cyanides and cyanide oxides of sodium
- b. 283650: Calcium carbonate
- c. 280110: Chlorine
- d. 282720: Calcium chloride
- e. 283620: Disodium carbonate
- f. 281511: Sodium hydroxide (caustic soda) solid
- g. 282739: Chlorides of metals

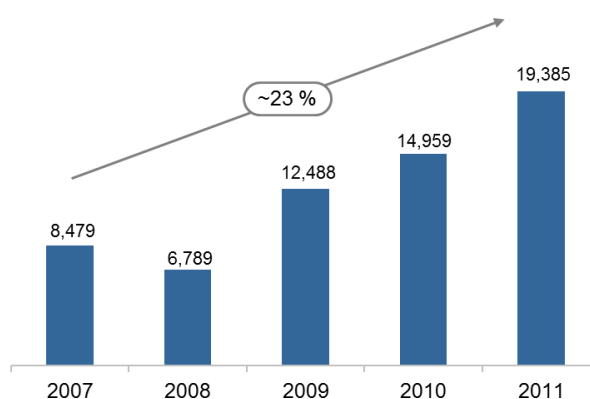
The figure below explains their current market share & growth rate which justifies them as the key likely focus segments. The incremental growth opportunity across these segments is likely to be ~\$25 Mn by 2017.



3. Fixed vegetable fats & oils and their fractions

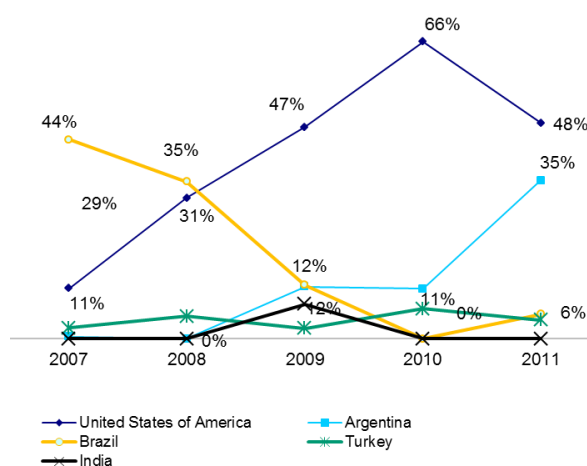
The HS code for this section is 1515, which represents fixed vegetable fats & oils and their fractions. Azerbaijan import requirements for this product segment are very small but it has been rising at a drastic pace in the last five years. Currently the imports stand at \$0.2 Mn which is growing at ~23% p.a. However this is very small in comparison to exports of \$833 Mn by India, hence it is not an attractive segment. Figure below represents the growth scenario & import requirement:

Figure : Imports in Azerbaijan ('000 \$)



Over the last years the key importer has turned out to be USA followed closely by Argentina. However there high share is because the overall volume is small providing high volatility in import shares. Also the need for specific innovative products related to maize has resulted in imports from these countries. India captured 8% share in 2009 due to recessionary constraints which force opportunistic selling. But in general India's presence is very limited.

Figure : Major exporting nations to Azerbaijan (% share of imports)



The sub segments in this category are -

- 151529 - Maize (corn) oil and its fractions, refined but not chemically modified
- 151590 - Veg fats & oils & their fractions, refined or not but not chemically modified
- 151519 - Linseed oil and its fractions, refined but not chemically modified
- 151550 - Sesame oil & its fractions whether/not refined, but not chemically modified
- 151530 - Castor oil & its fractions, whether/not refined, but not chemically modified
- 151511 - Linseed oil, crude
- Others – Including 151560 (Jojoba oil & its fractions whether/not refined, but not chemically modified), 151540 (Tung oil & its fractions, whether or not refined, but not chemically modified) and 151521 (Maize (corn) oil crude)

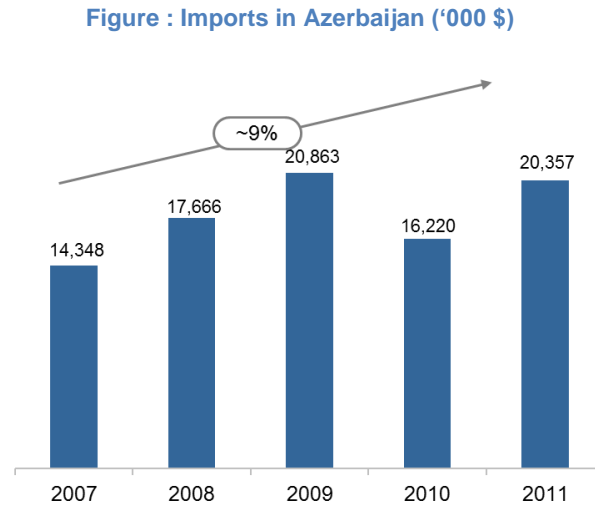
i. Strategic recommendations

Since the volumes are so small that India can easily serve each segment of this market and if any Indian SME wishes to serve this market with limited volumes the key sub segments for entry will be:

- a. 151521: Maize (corn) oil crude - Import demand of ~\$17 Mn
- b. 151529: Maize (corn) oil and its fractions, refined but not chemically modified – import demand of ~\$2 Mn

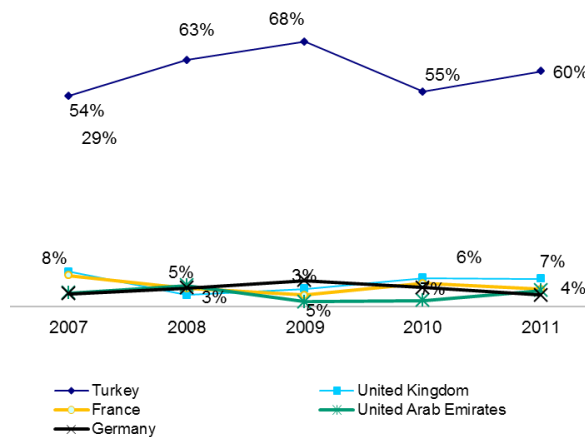
4. Tanning or dyeing extracts, tannins & their derivatives, pigments etc.

Azerbaijan has seen a moderate to high growth in imports of these products over the last few years. The imports have grown at a CAGR of ~9% from 2007 to 2011. The good news is that the imports growth has been able to bounce back since the stagnations in 2010 quite rapidly. Figure below represents the growth scenario:



The key exporter to Azerbaijan is Turkey, which has maintained its strong share of more than 50% over the last five years. India's share is almost negligible.

Figure : Major exporting nations to Azerbaijan (% share of imports)



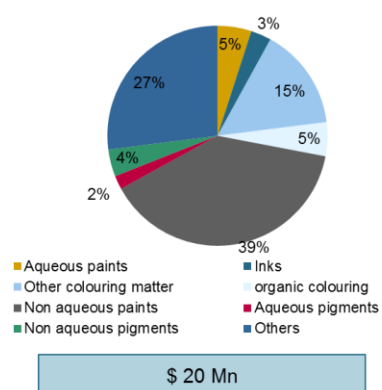
The sub segments in this category are -

- 3206 - Other colouring matter; inorganic products used as luminophores
- 3204 - Synthetic organic colouring matter & preparations
- 3208 – Non-aqueous solution of paint & varnish
- 3215 - Printing, writing or drawing inks & inks
- 3207 - Pigments, opacifiers, colours; enamels & glazes; engobes; liquid lustre
- 3214 - Glaziers putty, grafting putty, resin cements, painters fillings
- Others – Including 3209 (Aqueous solution of paint & varnish), 3212 (Pigments non-aqueous media, (liquid, paste) for paints and dyes), 3210 (Paints & varnishes), 3202 (Synthetic organic or inorganic tanning substances; tanning preps; enzymes), 3205 (Colour lakes and preparations based thereon), 3203 (Colouring matter of vegetable/animal origin), 3213 (Artists' colours, modifying tints, amusement colours), 3211 (Prepared driers), 3201 (Vegetable tanning extracts; tannins & their salts)

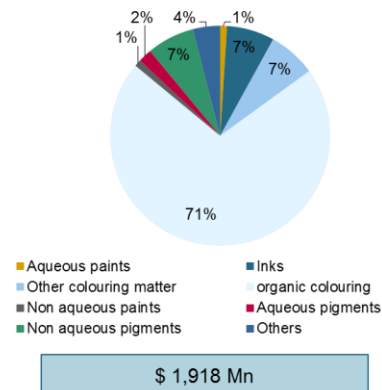
From the figure below we could conclude that the leading sub segments in imports of Azerbaijan are Non aqueous paints, Colouring matters (both inorganic & synthetic organic) etc. While India's competitiveness in some of these segments (especially synthetic organic colouring matters) is high the import requirement of Azerbaijan for these products is very low (~\$20 Mn) as compared to total exports of India in this segment of \$1,918 Mn.

Figure : Mapping of sub segment focus of Azerbaijan and India

Imports by Azerbaijan 2011 – Break up by sub-segments



Exports by India 2011 – Break up by sub-segments

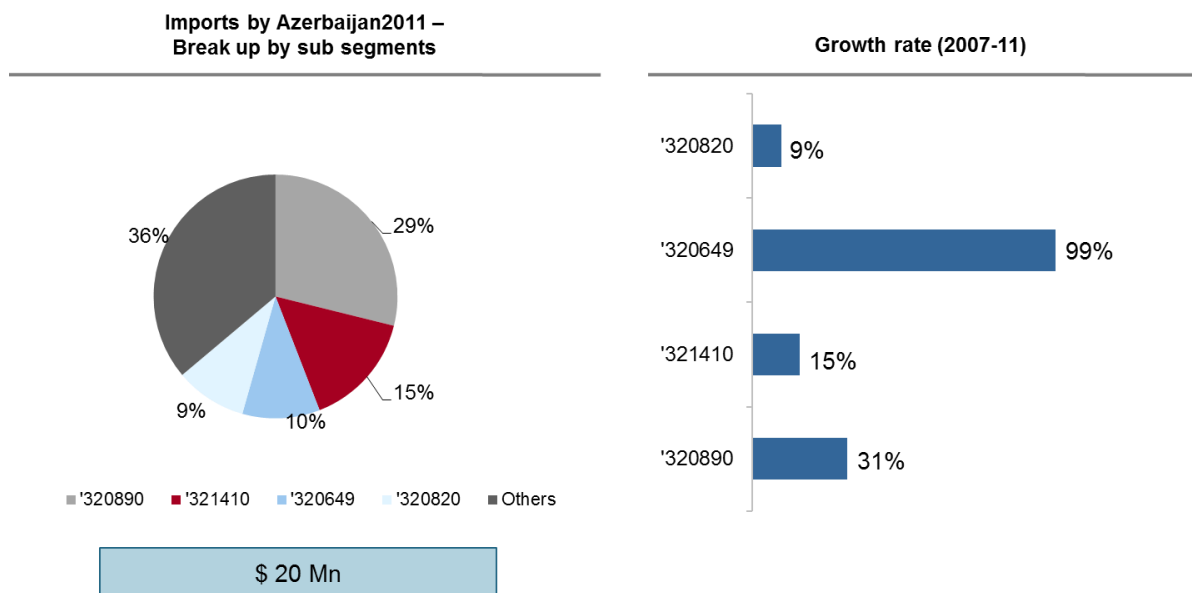


For Azerbaijan, the total market for the entire Dyes, pigments & tanning materials is only \$20 Million. Even though the growth has been moderate at ~9%, the sheer volume of this market is small to be an attractive target.

i. Strategic recommendations

Since the volumes are so small that India can easily serve each segment of this market and if any Indian SME wishes to serve this market with limited volumes the key sub segments for entry will be:

- a. 320890: Paints & varnishes based on polymers dissolved in a non-aqueous medium
- b. 321410: Mastics; painters' fillings
- c. 320649: Inorganic colouring matter nes and preparations based thereon
- d. 320820: Paint & varnishes based on acrylic/vinyl in a non-aqueous medium

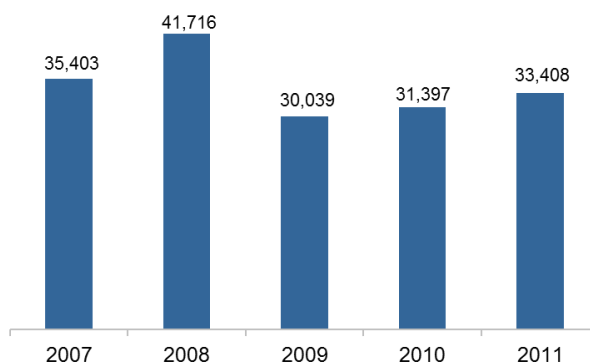


The figure below explains their current market share & growth rate which justifies them as the key likely focus segments. The incremental growth opportunity across these segments is likely to be ~\$10 Mn by 2017.

5. Organic chemicals

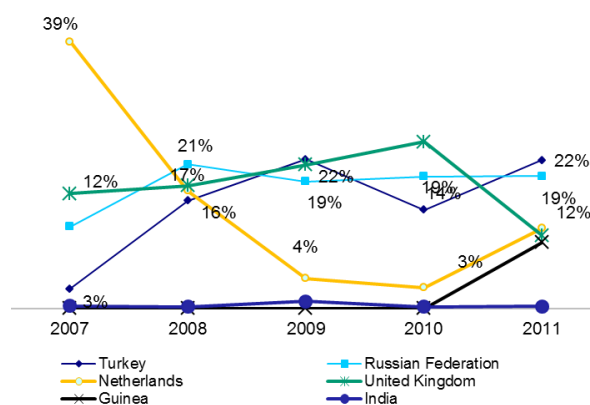
Azerbaijan has seen volatile imports in organic chemicals. In 2009 due to recession the imports dropped significantly. And it has been growing moderately since then. Figure below represents the growth scenario:

Figure : Imports in Azerbaijan ('000 \$)



Earlier in 2007, Netherlands & UK were the key exporters however by 2011 the field has become level playing with Turkey & Russia also capturing almost equal share. India's share is very small and is mostly opportunistic selling.

Figure : Major exporting nations to Azerbaijan (% share of imports)



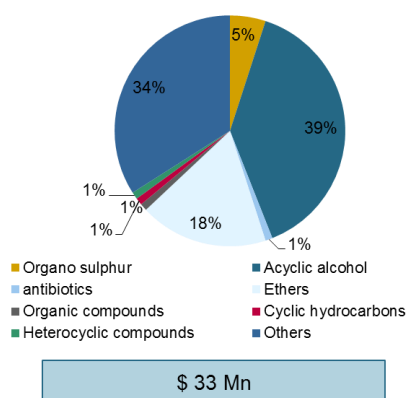
The sub segments in this category are -

- '2917 Polycarboxylic acids, their anhydrides, halides etc & their derivative
- '2905 Acyclic alcohols and their derivatives
- '2903 Halogenated derivatives of hydrocarbons
- '2915 Saturated acyclic monocarboxylic acids & their derivatives
- '2922 Oxygen-function amino-compounds
- '2902 Cyclic hydrocarbons
- '2933 Heterocyclic compounds with nitrogen hetero-atom; nucleic acids
- '2916 Unsaturated acyclic & cyclic monocarboxylic acid & anhydrides, halides
- '2941 Antibiotics
- Others –Including 2936 Provitamins&vitamins, natural/reproduced by synthesis, 2929 Compounds with other nitrogen function, 2930 Organo-sulphur compounds, 2914 Ketones & quinones, & their derivatives, 2934 Heterocyclic compounds, 2932 Heterocyclic compounds with oxygen hetero-atom(s) only, 2924 Carboxyamid-functn compound; amide function compound of carbonic acid, 2923 Quaternary ammonium salts & hydroxides; lecithins, 2918 Carboxylic acids & their derivatives, 2909 Ethers, ether-alcohols, ether-phenols & peroxides & their derivatives, 2921 Amine-function compounds, 2906 Cyclic alcohols & their derivatives, 2931 Organo-inorganic compounds, 2927 Diazo-, azoor azoxy-compounds, 2912 Aldehyde;cyclic polymer of aldehyde;paraformaldehyde, 2920 Esters of inorganic acids nes, their salts and their derivatives, 2919 Phosphoric esters, their salts and their derivatives, 2937 Hormones; their derivatives; steroids, 2926 Nitrile-function compounds, 2939 Vegetable alkaloids & their salts, ethers, esters & other derivatives, 2935 Sulphonamides, 2904 - Hydrocarbon derivatives, sulfonated, nitrated, 2907 Phenols; phenol-alcohols, 2901 Acyclic hydrocarbons, 2940 Sugars, chemically pure, their ethers, esters and their salts, 2925 Carboxyimide-function compounds; imine-function compounds, 2942 Organic compounds, 2908 Derivatives of phenols, 2928 Organic derivatives of hydrazine or of hydroxylamine, 2938 Glycosides & their salts, ethers, esters & other derivatives, 2910 Epoxides, epoxy alcohols, epoxy phenols & epoxy ethers & their derivatives, 2911 Acetals & hemiacetals & their derivatives, 2913 Derivatives of aldehydes, cyclic polymers of aldehydes

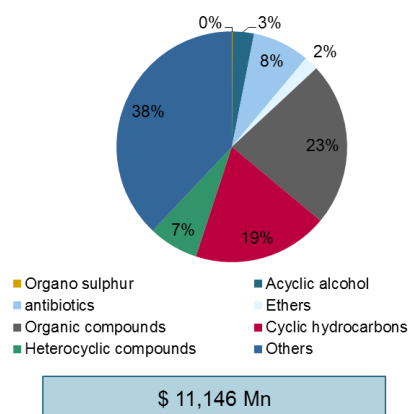
From the figure below we could conclude that the leading sub segments in imports of Azerbaijan are Acyclic alcohol, ethers, organo sulphur, Oxygen function amino products etc. While India's competitiveness in some of these segments is high the import requirement of Azerbaijan for these products is very low (~\$33 Mn) as compared to total exports of India in this segment of \$11,146 Mn.

Figure : Mapping of sub segment focus of Azerbaijan and India

Imports by Azerbaijan 2011 – Break up by sub-segments



Exports by India 2011 – Break up by sub-segments



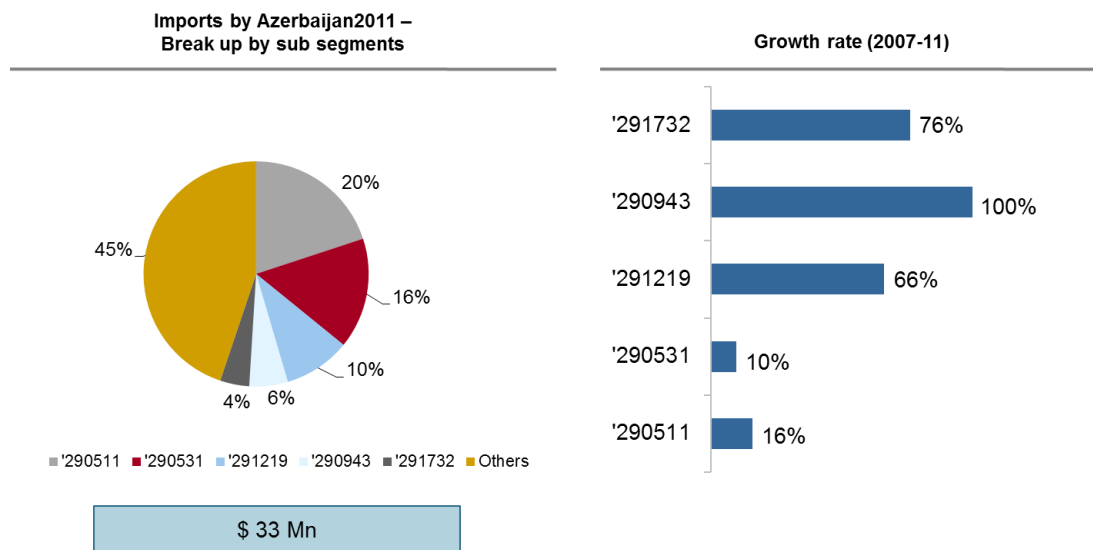
For Azerbaijan, the total market for the entire organic chemicals is only \$33 Million. The volume of this market is small to be an attractive target.

i. Strategic recommendations

Since the volumes are so small that India can easily serve each segment of this market and if any Indian SME wishes to serve this market with limited volumes the key sub segments for entry will be:

- a. 290511: Methanol (methyl alcohol)
- b. 290531: Ethylene glycol (ethanediol)
- c. 291219: Acyclic aldehydes w/out other oxygen function
- d. 290943: Monobutyl ethers of ethylene glycol or of diethylene glycol
- e. 291732: Dioctyl orthophthalates

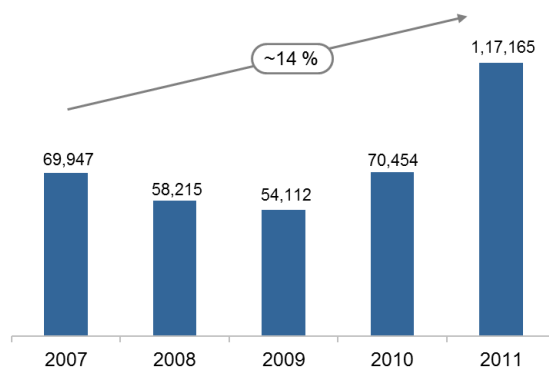
The figure below explains their current market share & growth rate which justifies them as the key likely focus segments. The incremental growth opportunity across these segments is likely to be ~\$20 Mn by 2017.



6. Agrochemicals

Azerbaijan has seen a moderate rise in imports of these products (HS 38: Miscellaneous chemical products) over the last few years. The imports have grown at a CAGR of ~14% from 2007 to 2011. The growth has been on a fast track recovery since the drop in 2009; this is most likely due to the growth in overall economy. Figure below represents the growth scenario:

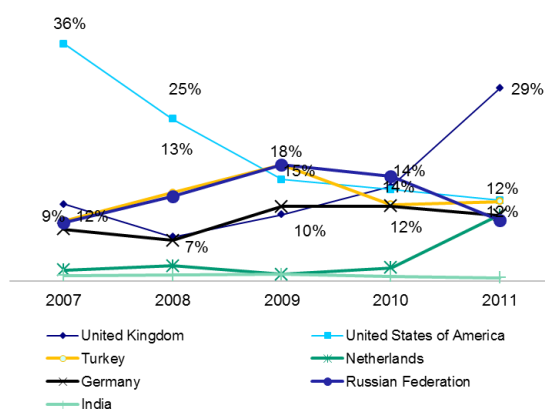
Figure : Imports in Azerbaijan ('000 \$)



Currently UK is the top exporter; it has been able to garner the incremental share of imports based on its product innovation. Other key exporters to gain market share are USA, Turkey etc.

However India has not been able to establish foothold here with only ~1% of imports share.

Figure : Major exporting nations to Azerbaijan (% share of imports)

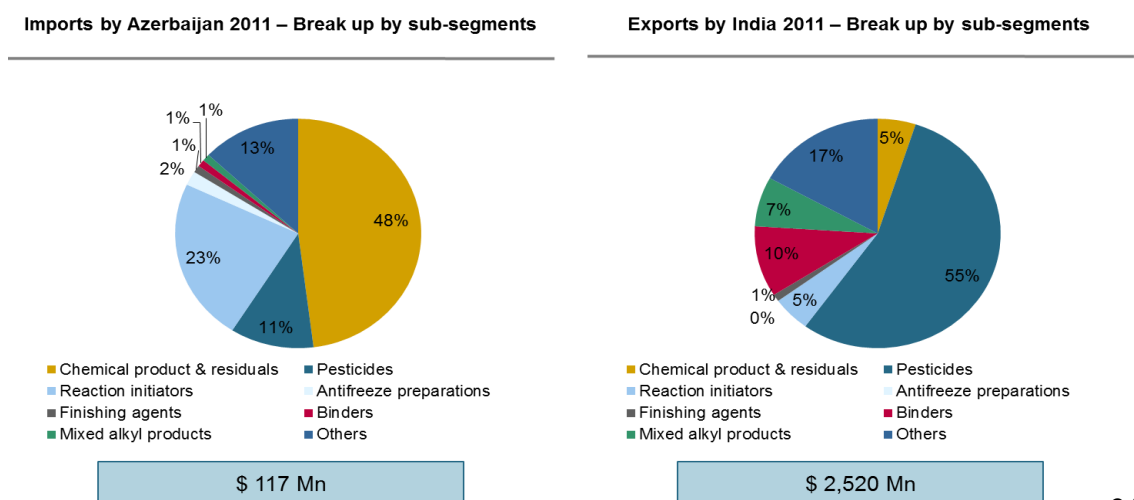


The sub segments in this category are -

- 3808 Insecticides, fungicides, herbicides packaged for retail sale
- 3824 Chemical industry products and residuals nes
- 3817 Mixed alkylbenzenes & mixed alkyl naphthalenes, nes
- 3809 Finishing agents, dye carriers or fixing for text., paper, leather etc., 3812 Prepared rubber accelerators; compound plasticizers, & other compound, 3811 Antiknock preparations, oxidation & gum inhibitors, viscosity improver, 3822 Composite diagnostic or laboratory reagents, 3814 Organic composite solvents & thinner, paint/varnish removers 3810 Pickling preparations for metal surfaces; powders, pastes, coatings, 3823 Binders for foundry molds or cores; chemical products and residuals, 3815 Reaction initiators & accelerators, catalytic prep, 3816 Refractory cements, mortars, concretes and similar compositions, 3801 Artificial graphite; colloidal or semi-colloidal graphite, 3802 Activated carbon; activated natural mineral products; animal black, 3818 Chemical compound in form of disc, 3806 Rosin & resin acids, and derivatives; rosin spirit & oils; run gums, 3804 Residual lyes from the manufacture of wood pulp, ecl. Tall oil, 3819 Hydraulic brake fluids & liquids for hydraulic transmission,

From the figure below we could conclude that the leading sub segments in imports of Azerbaijan are Chemical products & residuals, Pesticides, and Reaction initiators etc. While India's competitiveness in some of these segments is high the import requirement of Azerbaijan for these products is very low (~\$117 Mn), as compared to total exports of India in this segment of \$2,520 Mn.

Figure : Mapping of sub segment focus of Azerbaijan and India



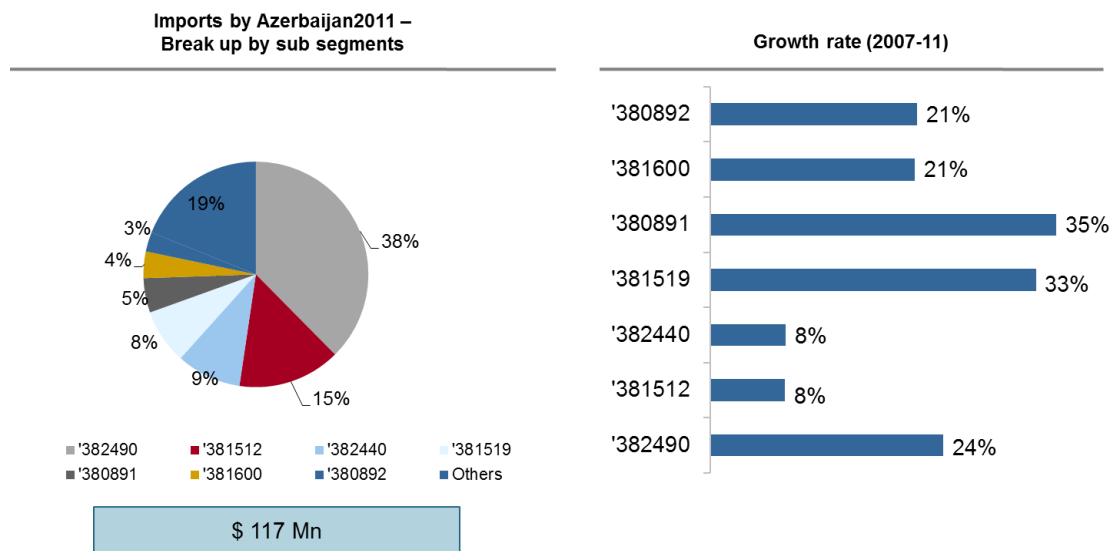
For Azerbaijan, the total market for the entire organic chemicals is only \$117 Million. And even though it's overall growth is also high at ~22% p.a. Still this entire segment should not be a key focus.

i. Strategic recommendations

Since the volumes are so small that India can easily serve each segment of this market and if any Indian SME wishes to serve this market with limited volumes the key sub segments for entry will be:

- a. 382490: Chemical/allied industry preparations
- b. 381512: Supported catalysts precious metal/compounds
- c. 382440: Prepared additives for ceramics, mortars, concretes
- d. 381519: Supported catalysts
- e. 380891: Insecticides
- f. 381600: Refractory cements, mortars, concretes and similar compositions
- g. 380892: Fungicides

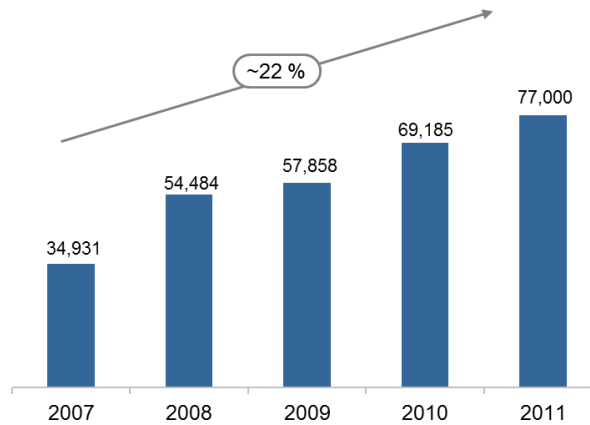
The figure below explains their current market share & growth rate which justifies them as the key likely focus segments. The incremental growth opportunity across these segments is likely to be ~\$90 Mn by 2017.



7. Soaps

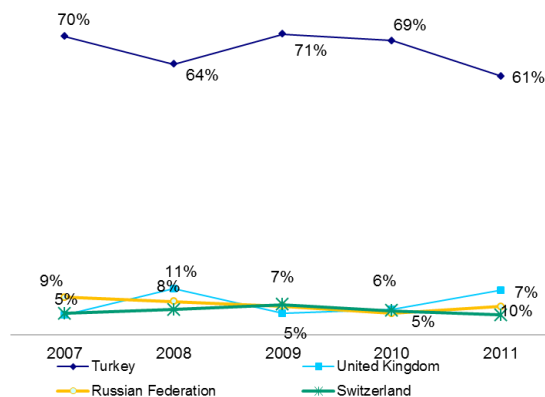
Azerbaijan has seen a rapid rise in imports of these products over the last few years. The imports have grown at a CAGR of ~22% from 2007 to 2011. The growth however has been intermittent with some years like 2008, 2010 & 2011 observing very high growth as compared to others. The growth in 2010 may be as the bounce back effect of post-recession. Figure below represents the growth scenario:

Figure : Imports in Azerbaijan ('000 \$)



Turkey has strong presence in Azerbaijan and has maintained its position. India has a miniscule share with ~0.2% and has not put any dedicated effort rather only opportunistic selling.

Figure : Major exporting nations to Azerbaijan (% share of imports)



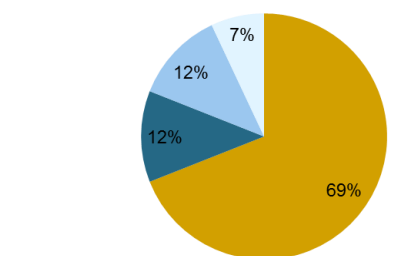
The sub segments in this category are -

- 3402 Organic surface-active agents, washing & clean preparations, nes
- 3403 Lubricating preparations, antirust or for treating textiles, leather
- 3401 Soap; organic surface-active preparations for soap use
- Other - 3405 Polishes & creams for footwear , furn, floors, glass, metal etc., 3404 Artificial waxes & prepared waxes, 3407 Modelling pastes including those for children; dental wax, 3406 Candles, tapers & the like

From the figure below we could conclude that the leading sub segments in imports of Azerbaijan are Organic surface active agents, soaps, lubricants, polish & cream etc. While India's competitiveness in most of these segments is high the import requirement of Azerbaijan for these products is very low (~\$77 Mn), as compared to total exports of India in this segment of \$452 Mn.

Figure : Mapping of sub segment focus of Azerbaijan and India

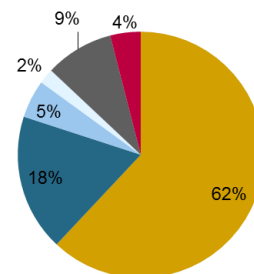
Imports by Azerbaijan 2011 – Break up by sub-segments



■ Organic surface active agents ■ Soaps
■ Lubrications ■ Polish & Cream
■ Candles ■ Others

\$ 77 Mn

Exports by India 2011 – Break up by sub-segments



■ Organic surface active agents ■ Soaps
■ Lubrications ■ Polish & Cream
■ Candles ■ Others

\$ 452 Mn

For Azerbaijan, the total market for the entire organic chemicals is only \$77 Million. Even though the growth has been very high of ~22% p.a. still the opportunity size is small to make it a key focus segment.

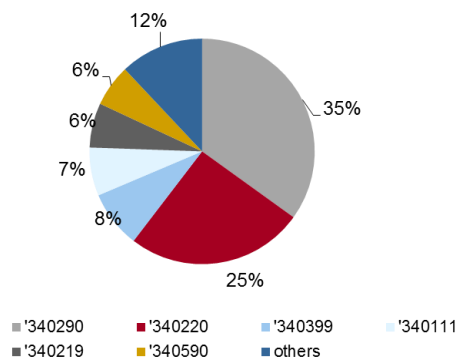
i. Strategic recommendations

Since the volumes are so small that India can easily serve each segment of this market and if any Indian SME wishes to serve this market with limited volumes the key sub segments for entry will be:

- a. 340290: Surface-active preparations, washing and cleaning preparation
- b. 340220: Surface-active preparations, washing & cleaning preparations put up for retail sale
- c. 340399: Lubricating preparations & similar preparations
- d. 340111: Toilet soap & preparations, papers & nonwovens
- e. 340219: Organic surface-active agents
- f. 340590: Polishes, creams and similar preparations

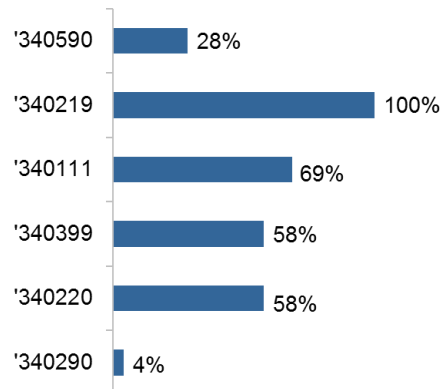
The figure below explains their current market share & growth rate which justifies them as the key likely focus segments. The incremental growth opportunity across these segments is likely to be ~\$60 Mn by 2017.

Imports by Azerbaijan 2011 – Break up by sub segments



\$ 77 Mn

Growth rate (2007-11)



References

The following resources were looked at for reference and data:

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 3. Annual Report 2011-12, Department of Chemicals & Petrochemicals
 4. Working Group on Indian chemical industry for formulation of the 12th Five Year Plan, Planning Commission, Government of India
 5. The Board of Investment of Azerbaijan,
 6. www.gcimagazine.com
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