



German
Economic
Team

01 | APR 2024

TECHNICAL NOTE

Economic relations between Germany and Azerbaijan

Manager Training Programme of the Federal Ministry
for Economic Affairs and Climate Action

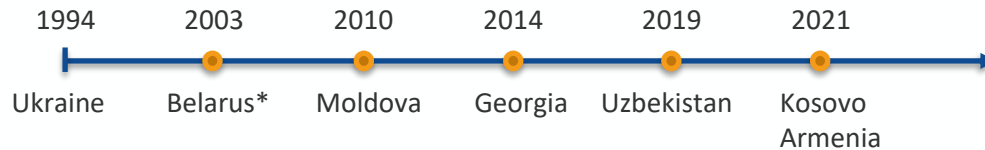
*Keynote for the kick-off event at TÜV Rheinland
Akademie Köln Poll*

By Sebastian Staske and Dmitry Chervyakov

About the German Economic Team

Government consulting

- » Beginning: consulting in Ukraine from 1994, since then gradual expansion to other countries



**Advisory activities in Belarus are currently suspended.*

- » Advising on economic policy issues at the request of the governments in those countries
- » Azerbaijan is not a project country of the German Economic Team

Financing and implementation

- » Financing: Federal Ministry for Economic Affairs and Climate Action (BMWK)
- » Implementation: Berlin Economics (private consulting company, focus: economic policy advice)

Strategic objectives

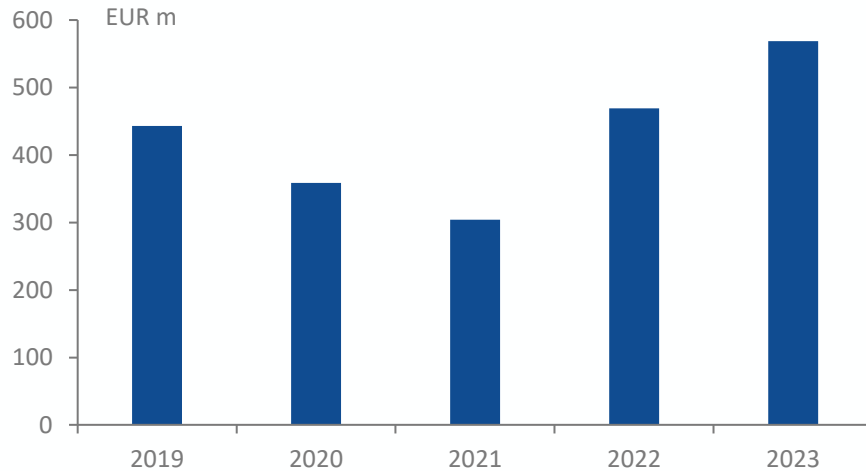
- » Support for economic reforms, development/promotion of market economy structures
- » Promotion of bilateral economic relations (trade, investment)

Benefits for other stakeholders

- » Discussions with stakeholders (e.g. entrepreneurs) influence drafting of policy documents
- » Publication of regular newsletters (6x per year) outlining economic policy issues in project countries

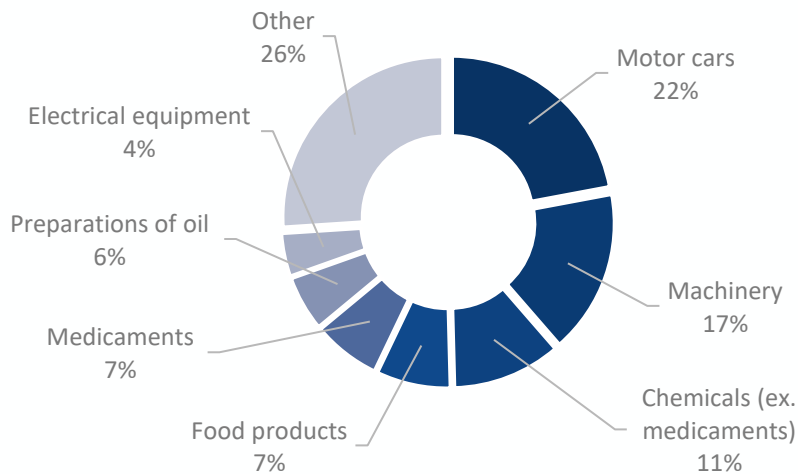
German exports of goods to Azerbaijan

German exports to Azerbaijan



Source: German Federal Statistics Service; Note: trade in goods

Structure of German exports to Azerbaijan



Source: German Federal Statistics Service, 2023; Note: trade in goods

Overview

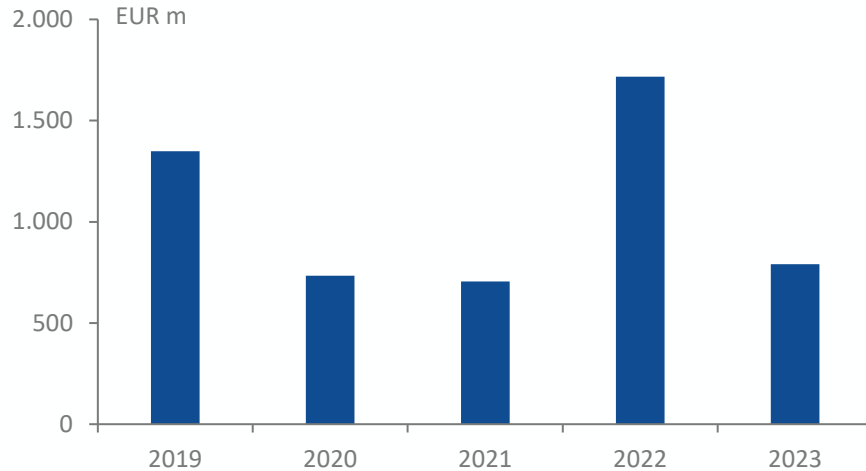
- » Positive general dynamics before COVID-19 and afterward
- » Slight decline in demand during the pandemic
- » Main export goods:
 - Cars (and parts)
 - Chemicals
 - Machinery

2023

- » Total: EUR 569 m
- » Strong growth: +21.2% yoy
- » Main drivers: vehicles, but also preparations of oil
- Strong growth in exports after pandemic
- Typical export structure, dominated by vehicles and machinery

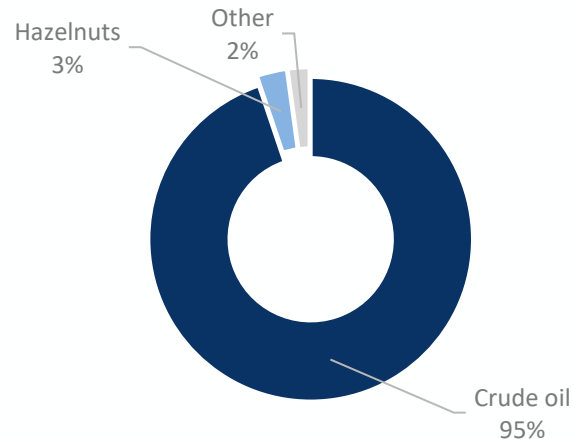
German imports of goods from Azerbaijan

German imports from Azerbaijan



Source: German Federal Statistics Service; Note: trade in goods

Structure of German imports from Azerbaijan



Source: German Federal Statistics Service, 2023; Note: trade in goods

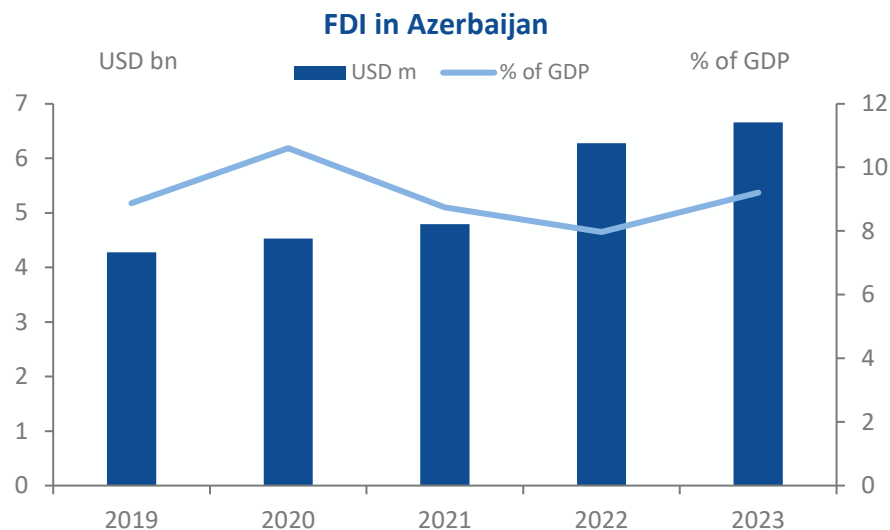
Overview

- » Strongly dominated by crude oil
- » Share for crude oil regularly around 95% (or more) of total import value
- » On the other hand: natural gas is not important in the DEU-AZE trade

2023

- » Total: EUR 791 m
- » Decrease of 54% yoy
- » Reason: strong decline in crude oil imports
- » Imports strongly dominated by crude oil
- » Overall, consistent DEU deficit in trade balance (currently around EUR 220 m)

Foreign direct investment (FDI) in Azerbaijan



Source: Central Bank of Azerbaijan

FDI inflows by countries (2023)

	USD m	% of total
United Kingdom	1,857.1	27.9
Turkey	1,302.4	19.6
Cyprus	791.6	11.9
Russia	617.3	9.3
Iran	396.0	5.9
Germany	26.5	0.4
Other	1,667.2	25.0
Total	6,658.1	100.0

Source: Central Bank of Azerbaijan

Overview

- » FDI important driver for development in Azerbaijan
- » Continuous growth trend in absolute value
- » Share of GDP around 8-10%
- » No significant changes in trend despite COVID-19 and war in Ukraine

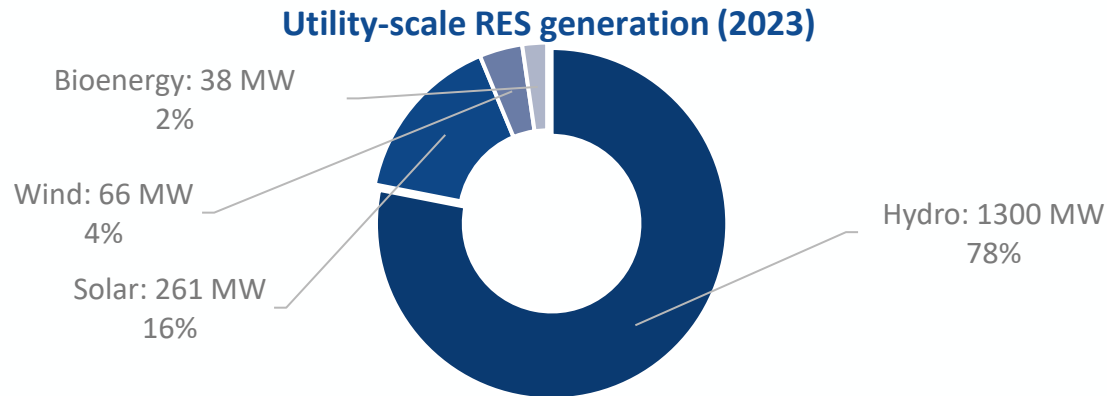
2023

- » Total inflows: USD 6.7 bn
- » Strongly dominated by UK and its activities in oil and gas
- » Additionally, some RUS investments in real estate sector
- So far, rather low DEU FDI into AZE
- But: this could change if the role of renewable energy is expanded

Energy: general overview and projects

Power generation

- » Total power generation capacity (2023): 8.3 GW, of which 1.7 GW (20%) is renewable



Source: Ministry of Energy of Azerbaijan

- » Goal: 30% of total installed capacity from RES by 2030

International cooperation in renewable projects

- » Various international initiatives to support the development of renewable energies in AZE, including active involvement by the EU
- » Example: 2nd Ministerial Meeting of EU-Azerbaijan Green Energy Advisory Council in Baku (Mar-24)
 - WindEurope and the Azerbaijan Renewable Energy Agency signed a Memorandum of Understanding (MoU) to advance the deployment of **onshore and offshore wind energy** in AZE and the wider Caspian Sea area
- » Example: Black Sea Submarine Cable project (next slide)

Energy: Black Sea Submarine Cable Project

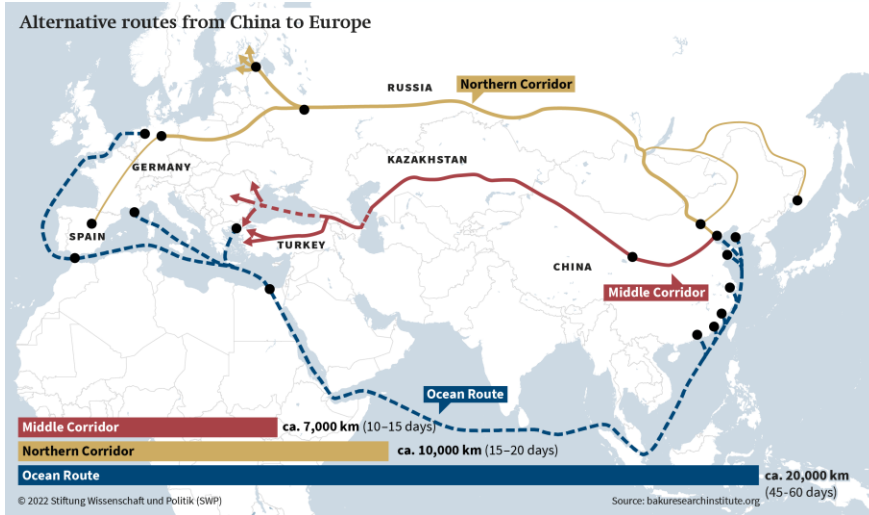
- » GEO government is considering a project for a 1,200 km submarine HVDC cable linking GEO with ROU, also involving AZE and HUN
 - Initial planning: transmission capacity of 1 GW by 2029 with an estimated cost of EUR 2.3 bn
 - Current estimates: transmission capacity of up to 1.3 GW by early 2030s with an estimated cost of EUR 3-4 bn (informal estimates by key stakeholders and insiders)
- » ROU, HUN, GEO and AZE signed agreement for realisation of the project in early 2023 (BGR and ARM expressed interest in joining the project later)
 - Two-year technical feasibility study expected to be completed by summer 2024
- » Combines ambitions to develop Azeri wind power resources in the Caspian Sea, strengthen EU integration and address the seasonality of GEO power supply
- **GET analysis: The project would require significant investment in renewable energies in AZE (and GEO) to be economically viable (strategic aspects notwithstanding)**



Source: Own illustration; Note: Bulgaria and Armenia in light blue expressed interest in the project later. Location of subsea cable and land-based transmission infrastructure purely illustrative

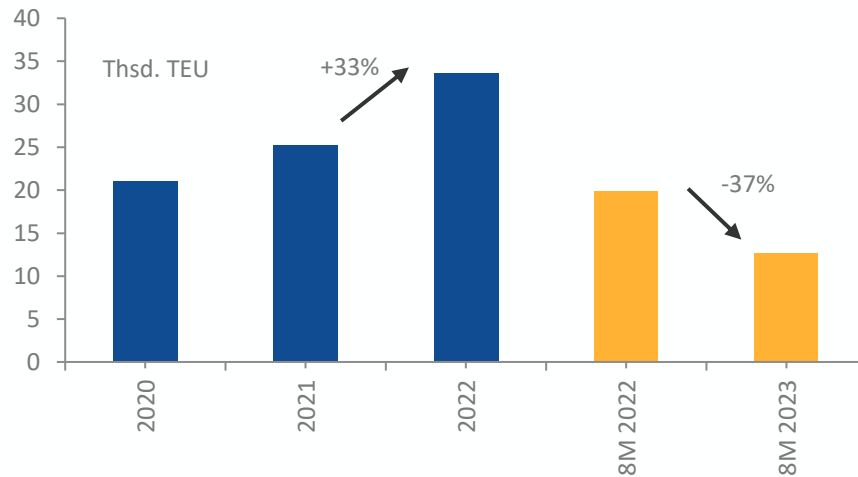
Trans-Caspian transportation route (TITR)

Trade routes from China to Europe



Source: SWP

Container traffic TITR



Source: World Bank

General overview

- » RUS invasion of UKR had significant impact on existing trade routes
 - Bans on truck drivers entering the respective territory of the EU or RUS
- » Result: shift of trade flows to TITR, the so-called “Middle Corridor”
 - Connects Asia with Europe, bypassing RUS
- » Caucasus and central Asia countries are expected to benefit from the new corridor and the planned investments in infrastructure
 - EU announced in Jan-24 to invest EUR 10 bn in TITR
 - AZE also important part of the project
 - Port of Baku important hub
- » However: bottlenecks remain along the route concerning hard infrastructure as well as organisational inefficiencies
 - Decline of transported containers in 2023
- Also significant potential in transport

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

CONTACT

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