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AZERBAIJAN COMPETITIVENESS AND TRADE (ACT) PROJECT

Report

**on cost determination at import
procedures, upgrading operation in this
field and building new potential: In the
case of fish and poultry feed import**

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Table of Contents

SUMMARY	6
1. Introduction. Problem description. The goal and duties of the study	8
2. Methodology and processing gathered data	9
3. Investigation of the import process by steps	11
4. The current situation in the legislation field	15
4.1. LEGISLATIVE ACTS REGULATING IMPORT OF FEED AND FEED ADDITIVES	15
4.2. LEGISLATIVE BASES OF VETERINARY PERMIT AND CONTROL ON IMPORT.....	16
4.3. LEGISLATIVE BASES OF GRANTING IMPORT QUARANTINE PERMIT AND PHYTOSANITARY CONTROL.....	21
4.4. LEGISLATIVE ACTS REGULATING CUSTOMS PROCEDURES	22
5. The factors directly or indirectly influencing import procedures	24
5.1. Inactiveness of professional rural associations.....	24
5.2. Ignorance on the part of entrepreneurs on the requirements and obligations of the legislation	24
5.3. Difficulties for persons attempting to import in accessing information.....	25
5.4. Lack of statistical base on national level	25
6. Impact of the current import process on the domestic market	26
7. Cost estimation and appraisal based on the gathered database	28
8. Findings	33
9. Proposals and assessment of their impacts	34
Appendices	43
Appendix 10.1. Receipt of veterinary permit (as per legislation	43
Appendix 10.2. Veterinary permit (actual)	44
Appendix 10.3. Receipt of import quarantine permit (as per the legislation)	45
Appendix 10.4. Receipt of import quarantine permit (actual)	45
Appendix 10.5. Official customs procedures	46
Appendix 10. 6. Actual customs procedures	47
Appendix 10.7. Bank payments	48

SUMMARY

The subject matter of this study was outlined and assigned to a study team within the framework of the project titled “Cost Implications of Import Procedures” held by the Economic Research Center in 2011.

This study aims to determine the procedures acting as administrative barriers to the import process, and to assess their impacts specifically on the import of poultry and fish feed. Based on the findings and drawing upon international best practices, draft proposals have been prepared.

Methodology. The methodological basis of the study is to interview entrepreneurs dealing with feed import, competent state bodies and produce data. To determine administrative costs, the team used the following formula:

Administrative costs = C x P

C = (H x S) + (A + E)

H – Time spent by the company (hour)

S – Average salary (per hour)

A – Official charges and taxes

E – Non-official charges

The current situation in the legislation sphere. The legislation that applies to the poultry and fish feed import process contains four laws, two codes and twelve regulations, an instruction, and a decision. The laws contain common principles based on which each state body has developed its specific rules.

The careful examination of legislative acts shows that there are inconsistencies and uncertainties in the laws and rules regulating the feed import process. There are no specific articles elsewhere in the legislative acts explaining clear procedures of feed import and articles and headings serve to provide only general information.

The double approach to the notions of “feeds” and “feed additives,” and sometimes the use of them in reference to veterinary formulas, has led to inconsistencies.

Cost estimation was conducted based on the data from interviews, followed by comparison with the costs set out in the legislation. It was established that the time spent by companies on import procedures is 82 hours, while in fact, it is 59 hours under legislation. The charges specified in the legislation amounts to 7,683 AZN, while in reality, it is 13,373 AZN (including unofficial charges of 7,220 AZN).

We found that in many cases, official expenses exceeded actual expenses in the import process. In this regard, formation of excess expenses at which the “import chain” and their reasons were investigated. (NOT CLEAR) Time is a very significant indicator for an entrepreneur. As seen above, the procedures involved in the import process specified in the current legislation contain massive wastes of time.

The second important indicator is expense. As for expenses, it was established that the official charges and fees specified in the law exceed actual costs.

1. Introduction. Problem description. The goal and duties of the study

Despite regular official information about the government's goal-oriented and targeted works to develop poultry and aquaculture, and allocation of funds to these ends, official statistical data shows that the existing situation in this area is not consistent with the tempo of promised economic development.

In particular, the Ministry of Agriculture has been assigned with urgent tasks related to developing poultry and aquaculture in Azerbaijan using state programs. The missions of these nationally significant programs, such as "Food Safety Program of the Republic of Azerbaijan (2001-2010)", "State Program regarding the reliable supply of food products to population in the Republic of Azerbaijan in the years 2008-2015", "Socio-economic Development Program of the regions of the Republic of Azerbaijan in the years 2009-2013", and "State Program on poverty reduction and sustainable development in the Republic of Azerbaijan in the years 2008-2015," have set definite goals in the agricultural field.

Among the reasons for reduced productivity and competitiveness of poultry and aquaculture farms, administrative barriers faced by private farm owners, restricted economic independence, poor technical capacity, and lack of knowledge are just a few.

As poultry and aquaculture farms are unable to provide themselves with feed independently, they become dependent in terms of raw material supply and in some cases, it leads to a rise in the net value of poultry and aquaculture products, failure to properly develop strategic plans on the farm and country levels, distortion of supply and demand equilibrium, and price increase resulting from increased imports of fish products.

Azerbaijan has increased fish and poultry products over the last 3 years (2008-2010). According to official statistical data, the import of "fish and crustaceans, other water invertebrates" group made up USD 3927.8 thousand in 2008, USD 4415.6 thousand in 2009, and USD 4722.6 thousand in 2010.

In particular, fish farms face greater challenges, as it is impossible to obtain the necessary protein on their own because fish feed is prepared using a special recipe and a highly technologically advanced process through the addition of various animal additives.

Both farm entities have to use feed produced abroad for higher productivity. But the problems in the importation of fish and poultry feed such as artificial barriers and administrative obstacles created for entrepreneurs, are a standard part of the complexity of the import process.

The goal of this study is to define the specific import procedures that act as administrative barriers to the import process for poultry and fish feed and to assess their impacts on those respective industries.

The main duty of the study is to assess the findings resulting from the study of the import process and to prepare draft proposals drawing upon international best practice.

2. Methodology and processing gathered data

The methodology of the study anticipates systemizing and processing the gathered data by converting the consumed time to money in order to identify administrative barriers and assess their impact on production volumes, internal market, and competitiveness.

Initially, the methodology involves the gathering and the expert examination of the legislation relating to the import of poultry and fish feed specifically, defining legislative obligations and requirements of potential importers.

The methodological basis of the study includes holding focus group discussions with the entrepreneurs importing poultry and fish feed and heads of competent professional associations (business associations), as well as building initial data. It also includes comparing the data gathered from discussions with those competent state bodies, (State Veterinary Service under the Ministry of Agriculture of the Republic of Azerbaijan, State Phytosanitary Service, and the State Institute of Scientific Control over Veterinary Formulas), making corrections, and formulating a distinction between practical and legislative import permit procedures as a scheme.

Similarly, drawing upon the experience covering import procedures of the countries that have set on the path of independent development under similar conditions as Azerbaijan (Latvia, Macedonia, etc.) but with their present international trade rating higher than our country is also included in the study methodology.

Yet another direction of the methodology is preparing the following sample questionnaire based on the database gathered at meetings and the information gathered during the focus-group discussions. These questionnaires serve as a tool to define the manat equivalent of all the costs in each step taken to set general principles of time and other expenses. To this end, surveys were held at poultry and fish farms and the entrepreneurship entities dealing with feed import.

Steps on import procedure	Time spent for labor (hour)	Overheads (hour) 25%	Overall time (hours)	Average hourly salary (160 manats)	Company expenses (manat)	Official charges	Non-official charges	Total expenses
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A								
B								
C								
D								

Formulas were developed to process the survey data. The following formula was used to define administrative costs:

$$\text{Administrative costs} = C \times P$$

$$C = (H \times S) + (A + E)$$

H – The time spent by the company (hour)

S – Average salary (per hour)

A – Official charges and taxes

E – Unofficial charges

The following formula was used to apply the results gained at the enterprise level on the national level.

National level:

$$P = N \times F$$

N – Number of companies

F – Volume of annual imports

We must note that actual costs at the enterprise level were computed in the example of the import of 10 metric tons of fish feed.

Draft proposals were prepared based on the facts found.

The computation results are given in the report heading of the study and in the “Appendices” section.

3. Investigation of the import process by steps

In accordance with the study’s methodology, surveys were held among six farm managers and feed importers using the questionnaire developed after expert examination of legislative acts, focus-group discussions with the entrepreneurs working in fish and poultry industry, and interviews with heads of business associations working in this field and heads of competent state authorities who are in charge of issuing import permits. Although the number of entrepreneurs dealing with the import of purely poultry and fish feed is relatively low, the geographical distribution of the survey sample covered the whole territory of Azerbaijan, and the survey results overlapped. Hence, it became clear that the number of entities surveyed was sufficient.

After conducting the survey, an initial import process chain was built (Chart 1). It reflected all the steps beginning from coordinating terms of transportation and payment with the exporter in the chain of import process, to when the authorities issue a permit for import, through the shipment of goods, entry of the goods into customs including bank payments and the process from customs area, through to the shipment to the final destination point.

As the table reflects all the steps to be taken by the importer, it presents a general picture of the import, but fails to provide detailed information on the documents and costs (time and manat equivalent) required.

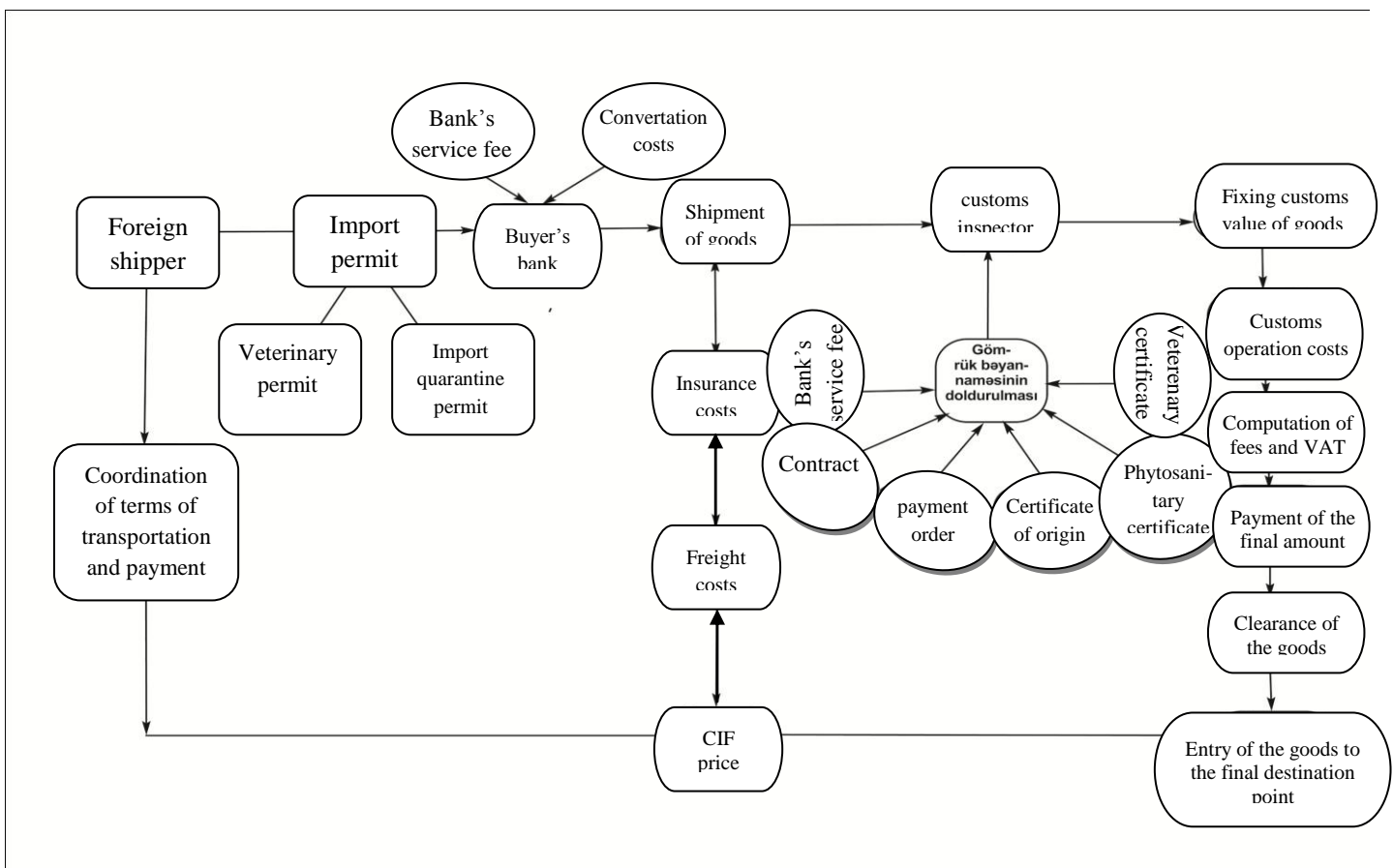


Chart 1. Import process chain (step-by-step)

From left to right: Foreign shipper; Import permit; Veterinary permit; Import quarantine permit; Buyer's bank; Bank's service fee; Conversion costs; Shipment of goods; Insurance costs; Freight costs; CIF price; Customs inspector; Completing customs declaration; Bank's service fee, Contract, Payment order, Certification of origin, phytosanitary certificate; veterinary certificate; Fixing customs value of goods; Customs operation costs; Computation of fees and VAT; Payment of the final amount; Clearance of the goods at customs; Entry of the goods to the final destination point; coordination of terms of transportation and payment.

Therefore, to have an initial view of the costs and to work out steps in greater detail for each state body control, charts detailing the State Veterinary Service (together with the State Institute of Scientific Control over Drug Formulas), State Phytosanitary Control Service, competent customs body, and bank charges were built.

The procedure of the receipt of the veterinary permit for imports (Chart 2) reflects the tasks to be carried out by the importer to receive veterinary permission, deliverables, sending samples of the feed product, and the receipt of the veterinary permit for imports as a result. It is possible to compute the expenses made by the importer based on this chart (as well as other charts hereinafter in the text).

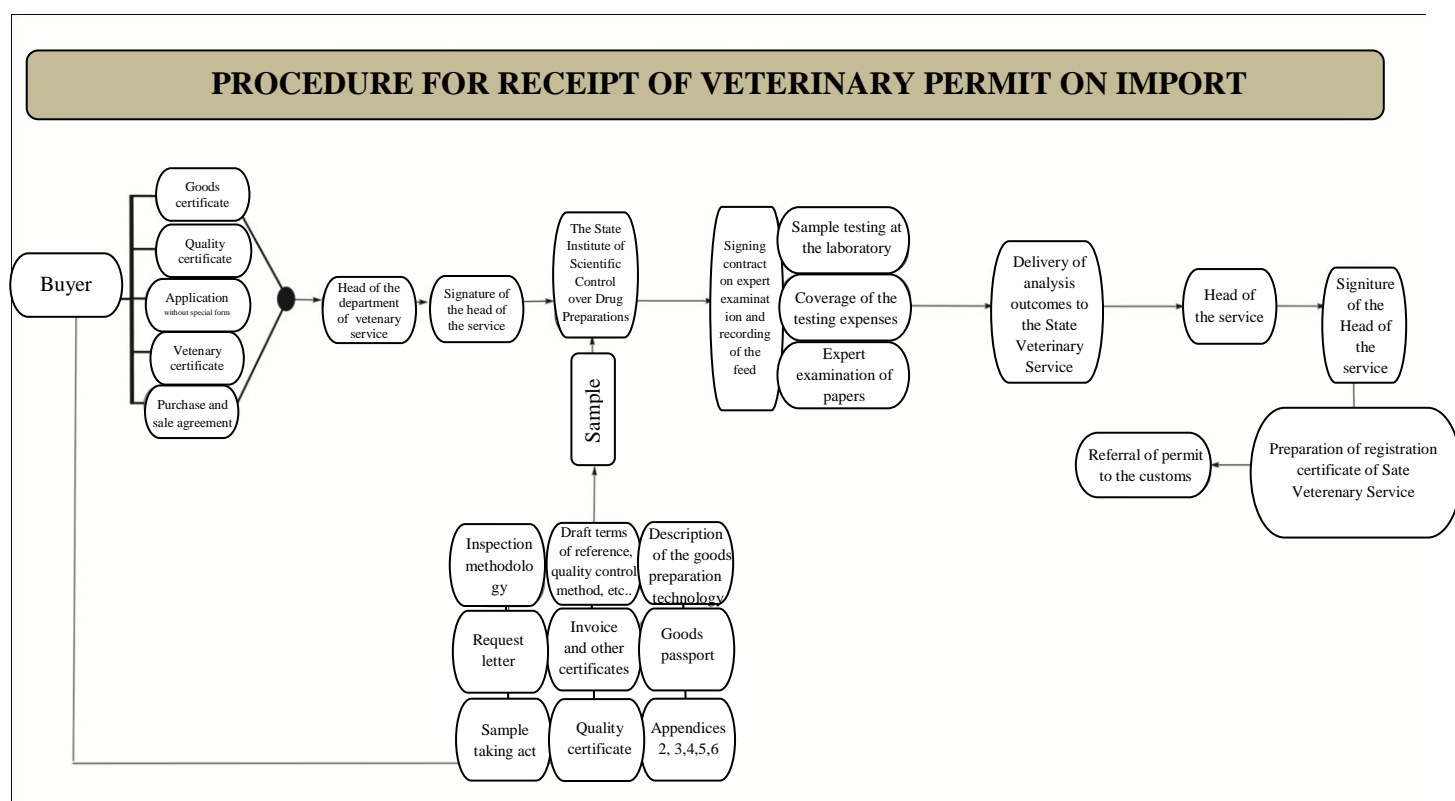


Chart 2. Receipt of veterinary permit

From left to right: Buyer; Goods certificate; Quality certificate; Application; Veterinary certificate; Purchase and sale agreement; Head of the Veterinary service; Signature of the head of the service; the State Institute of Scientific Control over Drug Formulas; Signing contract on expert examination and recording of the feed; Sample testing at the laboratory; Coverage of the testing expenses; Expert examination of papers; Delivery of analysis outcomes to the State Veterinary Service; Head of the service; Referral of permit to the customs;

Sample; Inspection methodology; Draft terms of reference, quality control method and etc. Description of the goods formula technology; Request letter; Invoice and other certificates; Goods passport; Sample taking act; Quality certificate; Appendices 2,3,4,5,6.

The State Phytosanitary Control Service is the state body from which the food importer obtains an import quarantine permit through a written request. This service issues an import quarantine only for the import of plant products. For poultry and fish feed, it is mandatory to obtain a permit from the State Veterinary Service. We developed this chart in consideration of this reality. The problem is that as the import of ready poultry feed (it is not possible to import fish feed as per components and then blend) is a complex and time-consuming process, most importers prefer importing its components (wheat, barley, soya, corn, etc.) instead of ready feed. Ready poultry feed is obtained only after the addition of feed additives (by observing proportions) at special mills thereafter.

Import quarantine permission for the aforementioned components is given by the Phytosanitary Control Service. We must note that unlike veterinary permission, the procedure for obtaining import quarantine permission is very simple (chart 3). As from the chart below, mainly informative papers are requested to be issued with the import quarantine permit.

Chart 3. Import quarantine permit

Importing country (data on origin of the product); date of entry of the product into the country, name of the state border checkpoint (sea or airport, railway station, vehicle station and etc); Final destination and place of use of the product; Official application to the State Phytosanitary Control Service chief; The application is recorded in a special book; provided not later than 15 days; decision on granting import quarantine permit is given to the applicant; Notification of competent customs phytosanitary control point on granting import quarantine permit.

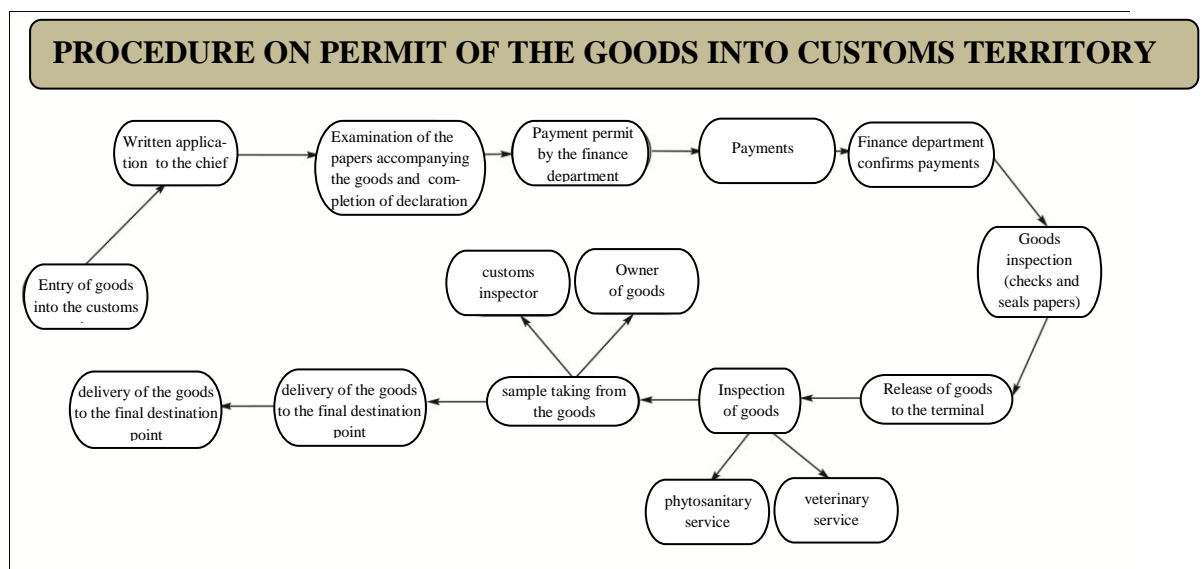


Chart 4. Release of feed from the customs

Procedure on Permit of the Goods into Customs Territory

Customs procedures (Chart 4) are laid out in a step-by-step manner in other charts. It should be noted that customs procedures have been significantly simplified over time. It helps to avoid delays at customs and loss of time. But survey results showed that there are still non-official charges at customs. The procedure is: entry of goods into the customs territory; written application to the Chief; examination of the papers accompanying the goods and completion of declaration; payment permit by the finance department; payments; finance department confirms payments; goods inspection (checks and seals papers); release of goods to the terminal; inspection of goods; customs inspector; goods owner; sample taking from the goods; veterinary service; phytosanitary service; delivery of the goods to the final destination point.

Investigation of the import process of feed and feed additives showed that the most convenient stage of import chain is bank payments. When performing these procedures, an entrepreneur doesn't have time or monetary loss, payments are made in a timely manner and many papers are required (ARE REQUIRED OR NOT REQUIRED?). You may see bank payments by steps in Chart 5.

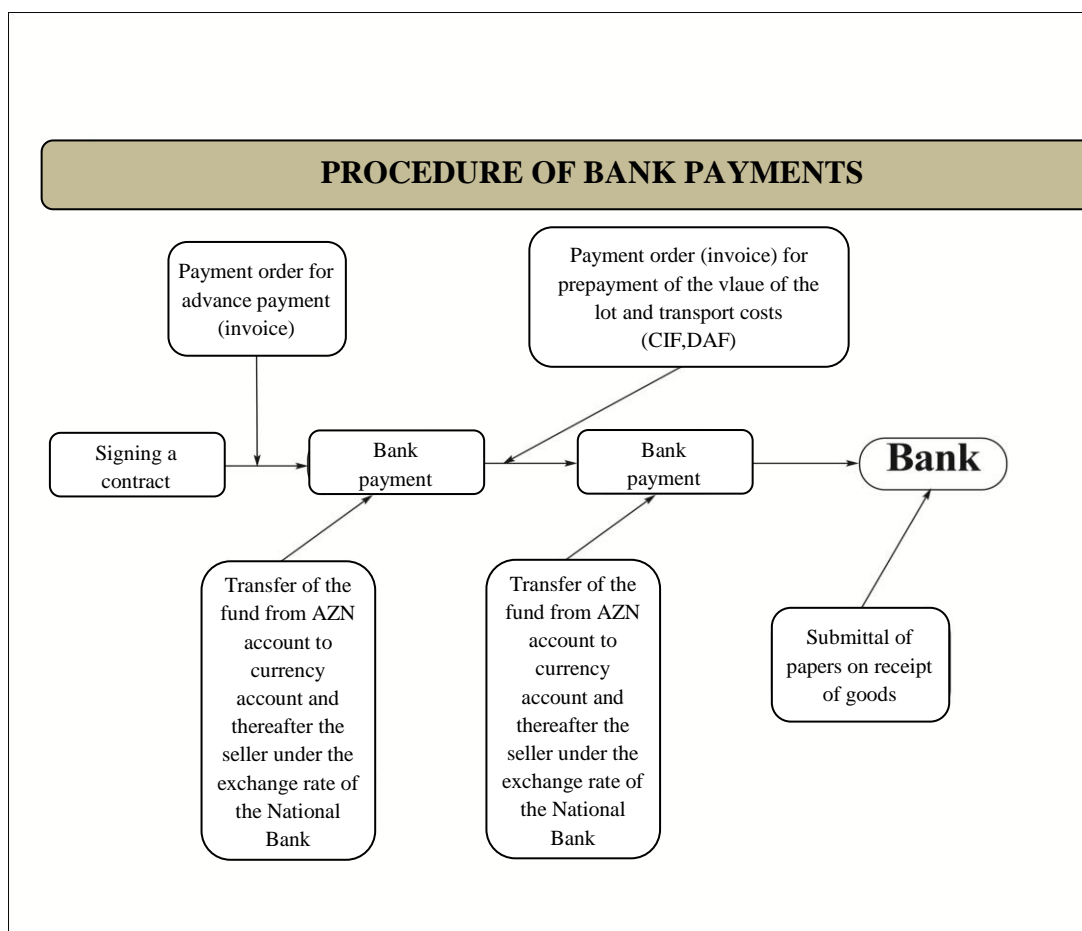


Chart 5. Bank procedures

From left to right: Payment order for advance payment (invoice); Payment order (invoice) for prepayment of the value of the lot and transport costs (CIF, DAF); Signing a contract; Bank payment; Transfer of the fund from AZN account to currency account and thereafter the seller under the exchange rate of the National Bank; Submittal of papers on receipt of goods.

4. The current situation in the legislation field

4.1.1. LEGISLATIVE ACTS REGULATING IMPORT OF FEED AND FEED ADDITIVES

The legislative base of the poultry and fish feed import process contains four laws, two codes and fourteen rules, instruction and a decision. The laws also include general principles based on which each state body has formed its concrete rules (See: Appendix 10.8. The excerpts from legislative acts covering feed imports used for study purposes).

The rules have been approved by the proper decisions of the Cabinet of Ministers. The instructions and decisions have been approved and enforced by the State Customs Committee, Central Bank, and Tariff (Price) Council of the Republic of Azerbaijan.

The major laws governing the import process are the laws of the Republic of Azerbaijan on “Veterinary,” “Phytosanitary control,” “Customs tariff,” and “State fee.” Customs and Tax codes identify general principles on making and substituting import procedures and VAT payments.

The rules containing other regulatory legislative acts of feed import are the following: “Organization of veterinary control over the products under the control of the state veterinary service as well as imported and exported goods, veterinary (veterinary-sanitation) inspection of the imported-exported animals, animal-origin products and raw-materials and issue of proper veterinary papers, delivery of the goods under the state veterinary service into the Republic of Azerbaijan and transportation of the same in the country territory”; “approbation, analysis, testing, state registration and maintaining state registry, production, import, storage, transportation, sale and use of veterinary formulas in the Republic of Azerbaijan, as well as approval of normative technical papers on production and application of new veterinary formulas, equipments and feed additives, quality control thereof and expression of opinion on their approbation”; “examination of conformity of the goods under the state veterinary control to the requirements of veterinary norms and their review”; “issue of import quarantine permit and phytosanitary certificates for import-export of plant and plant products, transit and circulation thereof in the territory of the Republic of Azerbaijan”; “rules and terms of financing the measures specified in law at the expense of the owners of the facilities to be under the control of the state veterinary service of the Republic of Azerbaijan; “VAT payment, record-keeping at deposit VAT account, VAT movement, VAT substitution and transfer to the state budget from the transactions on this account”; and Rules on completion of freight customs declarations.

Along with the laws, codes, and regulations, the goods import process is also regulated by the following regulations and instructions issued by the Cabinet of Ministers (CM), Tariff (Price) Council of the Republic of Azerbaijan, State Customs Committee (SCC), and Central Bank (CB): Decision 80 of the Cabinet of Ministers “on the rates of customs fees on import-export operations, the fees collected for customs clearance in the Republic of Azerbaijan”; Decision 161 of the Cabinet of Ministers “on the rates of customs import fees on the goods brought into the territory of the Republic of Azerbaijan”; Decision 17 of the Tariff (price) Council of the

Republic of Azerbaijan “on regulating the tariffs of the services provided by the State Phytosanitary Control Service under the Ministry of Agriculture of the Republic of Azerbaijan at the expense of the owners of facilities to be under the control of the State Veterinary Service”; Decision 18 of the Tariff (price) Council of the Republic of Azerbaijan “on regulating the tariffs of the services provided by the State Phytosanitary Control Service under the Ministry of Agriculture of the Republic of Azerbaijan”; NB “instruction on non-cash settlements and monetary transfers in the Republic of Azerbaijan”; instruction of the SCC “on computation and levying of road taxes for entry into the territory of the Republic of Azerbaijan of transport means of foreign countries and use of this territory for passenger and goods transportation purposes.”

4.2. LEGISLATIVE BASES OF VETERINARY PERMIT AND CONTROL ON IMPORT

As a result of careful examination of the abovementioned legislative acts by an expert group of the Economic Research Center (ERC), it became clear that there are inconsistent articles and uncertainties in the laws and regulations governing the feed import process. There is no concrete article in any of the legislative acts clearly explaining the feed import procedure, and chapters and articles serve to provide general information only. The state bodies issuing permits for import of feed and feed additives are the State Veterinary Service under the Ministry of Agriculture and the State Institute of Scientific Control over the Veterinary Formulas. (See: Appendix 10.8. The extracts used when studying the legislative acts covering feed import. No 1,2,3,4, 15, 16, 17)

Let us first consider the legislative definitions of “Feed” and “Feed Additives”. This double approach to these notions in proper legislative acts sometimes leads to confusion, attributing them to veterinary formulas and confusions in the legislative acts on the import of feed and feed additives. Though the law of the Republic of Azerbaijan “On Veterinary” of April 1, 2008 does not provide a separate explanation for “Feeds” and “Feed Additives”, both the explanations given in the “Main Definitions” section (1.0.5 veterinary use immunobiological, biological, chemical, and chemical-pharmaceutical substances used only for prophylactics, treatment, diagnostics of animal diseases and increase of animal products) and the law 1.0.11 (the goods under state veterinary control-animals, animal-origin products and raw materials, veterinary formulas, feed and feed additives) make it clear that “Veterinary Formulas” and “Feed” and “Feed Additives” are different, independent concepts.

The rules “on organizing state veterinary control over the products under the control of the State veterinary service, as well as imported-exported goods, inspection of the veterinary (veterinary-sanitary) condition of imported-exported animals, animal-origin products and raw materials and issue of proper veterinary papers, delivery into the Republic of Azerbaijan and transport in the country territory of the goods under the control of state veterinary service” approved under decision 66 of the Cabinet of Ministers of the Republic of Azerbaijan of 21 April 2009 “Feeds” and “Feed additives” are given as two independent concepts. Articles 1.2.3 and 1.2.4 of the Regulations invariably state that:

“1.2.3. Feeds – any kinds of natural plant and animal products that may supply the demand of animal organism on food substances and biologically active substances, special feed additives specially prepared from them to feed animals and mixed feeds enriched with biologically active substances.

1.2.4. Feed Additives – to increase the nutrition value and the amount of biologically active substances in feeds meeting demand of an animal organism, to protect quality of feeds and improve their intake, the nutritious substances added to feeds (meat-bone powder, blood powder, fish powder, chicken powder, yeasts, millcake, oil meals, oils, amino acids, etc.), biologically active substances (vitamins, minerals, microelements, etc.), protectors (stabilizers, oxidant retarders, sorbents, antiinfection agents and etc), ferments, etc.”

Only one paper - “approbation, analysis, testing, state registration and maintaining state registry, production, import, storage, transportation, sale, and use of veterinary formulas in the Republic of Azerbaijan, as well as approval of normative technical papers on production and application of new veterinary formulas, equipments and feed additives, quality control thereof and expression of opinion on their approbation” approved by decision 66 of the Cabinet of Ministers of the Republic of Azerbaijan in connection with the work of the State Institute of Scientific Control over the Veterinary Formulas of April 16 2007, define “Feeds” and “Feed additives” not as an independent concept but as a type of veterinary formulas. Article 2.1 of the “Main definitions” section of the same regulations reads:

“2.1. veterinary formulas –all the formulas, substances, materials and etc. means, veterinary use (accompanying or operational instructions of which contain information as to veterinary use thereof) formulas, antiseptics, disinfection, desinsection and deratization agents commonly used for animals and humans, chemicals, pharmaceutical substances, vitamins, biological stimulators, agricultural and industrial wastes used for feed production, any types of substances that may impact animal organism and the environment where it is bred used for treatment, prophylactics, diagnostics, artificial insemination of animals, increase of their productivity and during transplantation of animal embryos.”

It clearly demonstrates the inconsistencies in the legislative acts and is conducive to arbitrary interpretation of the laws and regulations. The laws and regulations enumerated above on the issue of an import permit for feed and feed additives contain only general information, without mentioning the concrete permit mechanism of it. These gaps in the laws and regulations ultimately lead to the requirement of strict analysis and testing of feed and feed additives as drug ingredients, and the issue of import permit after checking compliance with the requirements applicable to pharmaceutical ingredients. Article 18 titled “state veterinary control over circulation of veterinary formulas, feed and feed additives” of the Law of the Republic of Azerbaijan “On veterinary” reads:

“18.2. Legal and physical entities may import-export veterinary formulas, feed and feed additives registered in the Republic of Azerbaijan in the manner specified in the law. Veterinary formulas, feed and feed additives not registered may be imported for exhibition at

exhibits, fairs, conferences in the Republic of Azerbaijan, scientific and other purposes without the right to sell.

18.3. The rules on import-export of veterinary formulas, feed and feed additives are defined by the competent executive power.”

Only Article 4, titled “Review of the veterinary papers issued for imported animals, animal products and raw-materials of the Regulations “On organizing state veterinary control over the products under the control of the State veterinary service as well as imported-exported goods, inspection of the veterinary (veterinary-sanitary) condition of imported-exported animals, animal-origin products and raw-materials and issue of proper veterinary documents, delivery into the Republic of Azerbaijan and transport in the country territory of the goods under the control of state veterinary service” adopted to regulate the work of the State Veterinary Service in this field indirectly touches upon feed import and only in general terms:

“4.3. When animals, animal products and raw-materials are brought into the country territory and where no requirements of the veterinary (veterinary-sanitary) legislation in force have been violated, release of goods based on the international veterinary certificate issued for such goods is carried out in the manner as specified in the law of the Republic of Azerbaijan on veterinary.”

As the only legislative act regulating the work of the State Institute authorized to make representation for registration of feed and feed additives –the Regulation on “approbation, analysis, testing, state registration and maintaining state registry, production, import, storage, transportation, sale and use of veterinary formulas in the Republic of Azerbaijan, as well as approval of normative technical papers on production and application of new veterinary ingredients, equipments and feed additives, quality control thereof and expression of opinion on their approbation” defines feed and feed additives as the veterinary ingredient, strict requirements applied to pharmaceutical ingredients are enforced to register it.

It should be noted that the previous revision of the regulations allowed for the import of feed and feed additives without registration. Section 5.6 in the previous revision of the Regulations stated: “Feed and feed additives produced in the country and abroad under the control of the state veterinary service, agricultural and industrial wastes used as feed, items used to tend animals may be produced and imported without state registration”.

“Feed and feed additives” was removed from Section 5.6 of the Regulations only under decision 125 of the Cabinet of Ministers of the Republic of Azerbaijan of May 30, 2008. The old revision of the Regulations stated that a permit is issued by the State Veterinary Service for feed and feed additives imported from foreign countries and the, Institute is not involved in it. The regulations stipulated that the sample taken shall be submitted to the Institute together with the letter by the Service on the import permit, quality certificate and other papers accompanying the goods after the feed and feed products were imported and delivered to the republic. Feed and feed additives were allowed to be sold and used only upon positive

determination by the Institute on the sample. One may see the imprints of partial changes made in the regulations and how it leads to ambiguity in the legislative act.

For instance, Article 4.1 of the regulations reads that the samples of veterinary formulas shall be sent first to the Institute in order for examination of the quality of veterinary formulas and their registration (re-registration).

Further, the regulations show that request paper (if an ingredient was registered by indicating the certificate number of the ingredient), sample-taking act, quality certificate, letter of the State Veterinary Service on import permit and applicant's letter on recording shall be accompanied with the papers accompanying the goods (invoice and different certificates).

Here, it is not understood what the letter of the State Veterinary Service on import permit means. If the Institute were to put the sample to test and expert examination before the feed is brought followed by the granting of an import permit by the Veterinary service, we may talk about the submittal of a specific permit letter in advance. It appears that when making changes in the previous regulations, they forgot the permit letter and also to remove "papers accompanying the goods" from the papers list. If the goods have not appeared yet, how could the paper accompanying it be brought and submitted?

In section 5 of the Regulations (analysis on registration of papers and samples of veterinary ingredients produced abroad), registration has strict requirements:

"5.1. To have registered the ingredient produced abroad, legal and physical entities must officially appeal to the Institute in accordance with Appendix 1 of the Regulations with the firm having processed (designed) the veterinary ingredient or its power of attorney.

5.2. The request letter shall include the set of papers relevant to the ingredient and appendices to these Regulations (Appendices 2,3,4,5 and 6).

5.3. The applicant and Institute sign an agreement regarding the review, testing, and registration of the formula.

5.4. The head of the Institute sends a copy of the set of papers and materials filed in for registration of the formula together with the samples of the formula to the laboratory of the Institute. The laboratory examines the papers pertaining to the formula, determines whether all the papers requested have been submitted and the necessary information contained therein is entire and requires to additionally sending missing papers and information."

Both enormity of papers (in this instance more than 100 pages) and difficulties qdd3wwing them (quality, origin, veterinary certificates require additional expenses, time and energy to obtain them in advance) make it practically impossible to legally register and import feed and feed additives.

Article 8 of these regulations (registration and reregistration of veterinary formula) reads that the Institute shall make representation to the State Veterinary Service on registration (re-registration) of the formula within fifteen days based on the outcomes of review and testing

of the registration papers and samples of the veterinary formula (period of implementation of these works was not specified in the regulations. The result of surveys, focus-group discussions and interviews, indicate that the process lasts about 30 days). The State Veterinary Service then registers the formula, issuing a registration certificate to the applicant within a month of receipt, and adopts substantiated decision on waiver to register based on the decision of the institute or the decision of the Scientific Technical Board only upon the revision of the opinion of the Institute on the formula by the State Veterinary Service or its Scientific Technical Board. We must note that according to the requirements of the Regulation's registration, the certificate is issued for a five-year period.

The previous regulations stipulated making an application one month before goods would be delivered. But this period is absent in the current revision of the regulations.

Rules and terms of testing of the feed samples to be brought by the feed importers and review of papers, registration of the feed and the amount of the fee to be paid are regulated by the "rules and terms of financing the actions defined by the legislation at the expense of the owners of the facilities to be controlled by the state veterinary service of the Republic of Azerbaijan" approved under the regulation 65 of the Cabinet of Ministers of March 7, 2006, decision No. 17 of the Tariff (Price) council "on tariff regulation of the services financed at the expense of the owners of facilities to be controlled by the State Veterinary Service under the Ministry of Agriculture of the Republic of Azerbaijan" of July 26, 2007 and the law of the Republic of Azerbaijan "on the state fee".

The second section of the regulations and terms titled "On veterinary actions financed at the expense of owners" presents the list of such veterinary actions. That listing also includes approbation, testing, review, recording and control expenses of the series (lots) submitted for use of feed and feed additives. Section 3 of the Regulations shows that the amount received for the provision of veterinary services is fixed by the Tariff Board of the Republic of Azerbaijan. This section also clearly states that the provision of services is carried out after making a payment. The abovementioned decision of the Tariff (Price) Board sets a definite amount for this service. Section 5 of the Decision titled "Services provided by the Azerbaijan State Institute of Control over the Veterinary Formulas" sets 950 AZN for analysis of veterinary formulas, 450 AZN for secondary analysis. 50 AZN shall be transferred to the State Veterinary Service for issuing a registration certificate and an import permit. This is regulated by the law "on State fee" rather than the decision of the Tariff (Price) Board. Article 18.66.3 of the Law reads: "Issue of registration certificate for veterinary formulas (one formula)-50 AZN".

As you may see, an importer shall pay 950 AZN for the advance testing of goods regardless of the result. If a contract is signed on payment and the importer failed to pay part of the payment (950 AZN) due to the Institute, the Institute refuses to start the testing of the feed.

4.3. LEGISLATIVE BASES OF GRANTING IMPORT QUARANTINE PERMIT AND PHYTOSANITARY CONTROL

The State Veterinary Service grants import permits for poultry and fish feed as they contain animal products, biologically active substances (vitamins, minerals, and microelements), ferments, protectors (antioxidants, sorbents, antimicrobial elements), etc. But investigation by the expert team has shown that the legislative bases of the feed import process pose administrative barriers for entrepreneurs who prefer importing various components of poultry feed (grain, barley, corn, soya and etc).

However, fish feed may not be imported in the form of various components, since fish feed is mainly imported as a cooked, finished product in different sizes according to the species and age of the fish. A permit for the import of plant components of poultry feed is given by the State Phytosanitary Control Service. We must note that unlike the veterinary permit, the process of importing plant and plant products has been clearly and plainly reflected in the proper legislation (See: Appendix 10.8. Extracts from the legislative acts covering feed import used during the investigation No 5,6, 17,and 18). The procedure of receiving an import quarantine permit is simple. The activity of the State Phytosanitary Control Service in this sphere is regulated by the Law "On Phytosanitary control" of the Republic of Azerbaijan, the Rules "On issuing import quarantine permit and phytosanitary certificates for import-export, transit and circulation in the territory of the Republic of Azerbaijan of plant and plant products" confirmed under Decision 280 of the Cabinet of Ministers of December 29, 2006, Decision 18 of the Tariff (Price) Council "On tariff regulation of the services provided by the State Phytosanitary Control Service under the Ministry of Agriculture of the Republic of Azerbaijan" of July 25, 2007, and the law of the Republic of Azerbaijan "On state fee". Draft principles are defined in Article 10 (rights of the State Phytosanitary Control Service) of Chapter 2 of the law "On phytosanitary control" (Organizing phytosanitary control) and Article 13 (phytosanitary measures applied to imported products) of chapter 3 (Phytosanitary measures): *"10.0.3. According to the regulations stipulated in the legislation, issue of import quarantine permit and phytosanitary certificates for import-export, transit and circulation of plant and plant products in the territory of the Republic of Azerbaijan;*

13.2. To prevent entry and the spread of harmful organisms into the territory of the country, the following phytosanitary measures are carried out by the State Phytosanitary Control Service regarding the import of plant and plant products:

13.2.1. To analyze (test), diagnose, store and liquidate a product, detain, return, and impose restrictions at phytosanitary control stations on import of materials and goods under another quarantine control."

The Rules "On issue of import quarantine permit and phytosanitary certificates for import-export, transit and circulation of plant and plant products in the territory of the Republic of Azerbaijan" read that in order to obtain an import quarantine permit for plant and plant products that may spread harmful organisms that are under quarantine control according to the list defined in advance of the import of goods, an official appeal shall be made to the State

Phytosanitary Control Service under the Ministry of Agriculture of the Republic of Azerbaijan. It shall contain the names of a legal entity, its organizational-legal form, legal address, for physical entities-surname, name, data on the ID proving identity (series, number, date and place of issue, address). Together with the application, a copy of the certificate on state registration of legal entities, while for physical entities –a copy of the certificate on entrepreneurship activity and registration by competent tax authorities, information on imported plant and plant products shall be submitted. The submitted applications and papers are received by making proper entries by the State Service in a special book and reviewed within 15 days beginning from registration. Where no deficiencies or reasons for refusal exist, the applicant is issued with import quarantine permit according to the sample given in Appendix 1 of the regulations by the Service.

We should note that according to the law “On state fees”, the fee for the issuance of an import quarantine permit is 3 AZN. If there is a need for visual inspection upon entry of the goods into the territory of the country, a sample may be taken to be examined at the laboratory. This process is also regulated by proper legislative act. The Regulation “On holding phytosanitary quarantine inspection and laboratory analysis of the materials brought into and out of the Republic of Azerbaijan, as well as plant and plant products carried in baggage, parcels, and luggage of passengers” approved by decision 280 of the Cabinet of Ministers of December 29, 2006 shows that where the materials under quarantine control brought into the territory of the country are accompanied with proper papers and entered the country in sealed transport means, it shall be released without opening up the goods in compliance with customs requirements and carrying out visual phytosanitary quarantine examination at phytosanitary control stations. The regulations also specify that where harmful organisms under quarantine control have been identified on the goods or transport means during visual phytosanitary quarantine inspection, the goods are detained and taken in presence of customs authorities and made secure with the consent of its owner and in the manner as specified in the law. Where the goods holder doesn’t consent, an act is made in a proper manner by the state phytosanitary inspectors and the goods are returned. An immediate official notification is made to the exporter (carrier or other authorized person) thereof. In this case, the service fee is received as stipulated in the “tariff regulation of the services provided by the State Phytosanitary Control Service under the Ministry of Agriculture of the Republic of Azerbaijan”. In the section of the decision titled “examination of the samples of plant and plant products under quarantine control at analysis laboratory”, service fees are fixed for all types of feed, 1.20 AZN per 1 metric ton of grains and cereals (high rate), 0.60 AZN (medium rata), and 0.10 AZN (lower rate).

4.4. LEGISLATIVE ACTS REGULATING CUSTOMS PROCEDURES

The customs law regulating the import process is comprised of the Customs Code of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan “On customs tariff”, “customs fee rates on import-export operations in the Republic of Azerbaijan, the amount of dues collected for customs clearance” approved by the CM on April 12 2001, Decision 80, the Rules “On completion of goods customs declarations” (June 17 1998), the Instruction “On computation

and levy of road taxes for entry of transport means of foreign countries into the territory of the Republic of Azerbaijan and use of this territory for passenger and goods carriages” as approved by order 001 of the chief of the State Customs Committee of the Republic of Azerbaijan of January 5 2001 and the Tax Code of the Republic of Azerbaijan. The Code and the law “On customs tariff” stipulate the following: customs charges (customs fees, value added tax, customs levies for customs clearance, customs levies for storage, value added tax and etc), due payment dates of customs charges, their order of payment, currency, taking samples from goods for customs clearance purposes, notification to the customs authorities on customs border- crossing or intention to take goods and transport means out of the customs territory, delivery of goods, transport means and the papers pertaining to them to relevant bodies, declaration of goods and transport means and its forms, place of declaration, receipt of customs declaration, declarant’s rights and responsibilities, papers necessary for customs purposes, and initial draft principles on additional data and etc. (*See: Appendix 10.8. The extracts from the legislative acts covering feed import used during the study № 6,7,8,9,10,11,12, 13, 14, 20*).

Import fees are the regulated “rates of customs import fees on the goods brought into the territory of the Republic of Azerbaijan” approved by decision serving as an appendix to decision 80 of December 22 2003. Feed and feed additives haven’t been specified as a separate goods position in the paper. Feed and feed additives may be attributed to goods position 051199809 0 (others) of group 05 (animal products not mentioned or classified elsewhere), Section I (life animals, animal products). In general, in this section import fees range between 0-15. Import fee of goods position 0511 99 809 0 is 15%.

The Regulations “On completion of goods customs declarations” reflects rules to complete the information on goods. It includes all the information from the identity of goods sender to the destination point. In the text , “the amount of customs levies collected for customs clearance” as approved under decision 189 of the Cabinet of Ministers of November 27 2007 as an appendix to its decision 80 of April 12 2001 shows that the following customs levies are collected depending on the customs value of the goods against each customs declaration or customs cash order for customs clearance of goods transmitted across the border of the Republic of Azerbaijan including also the transport means (also in unaccompanied baggage and international mail delivery):

- *customs values up to 1.000 manats, 10,0 manats;*
- *customs values from 1.001to 10.000 manats, 50 manat;*
- *customs values from 10.001 to 100.000 manats, 100 manats;*
- *customs values above 100.001 manats, 275 manats.*

Besides, for each additional paper of the customs goods declaration, a 10 manat customs fee is levied regardless of the nature of transaction for each additional paper.

After customs fees and dues are added to the customs value, value added tax (VAT) is computed on it. Information about it is provided in heading XI titled “Value added tax” of the Customs Code. It is mentioned in the Code that the persons importing goods to the Republic of Azerbaijan subject to VAT are considered VAT payers on such import goods. The value of taxable import consists of customs value defined in accordance with the customs law of the Republic of Azerbaijan and the fees and taxes (except VAT) to be paid when importing goods into the Republic of Azerbaijan. VAT rate is 18% of each taxable transaction and taxable import. According to our estimates, goods customs value, fees, dues, and VAT make up 36 % of goods value.

5. The factors directly or indirectly influencing import procedures

Step-by-step assessment of the process of importing feed and feed additives revealed that there are a lot of problems in this area. Such factors may be grouped as given below.

5.1. Inactiveness of professional rural associations

The entrepreneurs having large poultry and fish farms mainly deal with import of poultry and fish feed. Unfortunately, professional knowledge of entrepreneurs representing this area (business associations) is either non-existent or very poor. Though there is such an association in the poultry industry (Azerbaijan Qushchular Jamiyyati), but an entity called Hunting and Aquaculture Association in the republic is mainly engaged in hunting. (NOT CLEAR)

These associations have been set up to make an impression rather than protecting the rights of their members before the state bodies and lobbying their interests to legislative authorities. They are unaware of the amendments and additions to the legislative acts regulating import of feed and feed additives, complexity of import procedures or have intentionally ignored these facts.

International best practice shows that the amendments made in legislation shall serve business development. Farms may not professionally deal with such complex matters separately. It is vital to create and activate independent rural associations on account of membership fees from the same farms.

5.2. Ignorance on the part of entrepreneurs on the requirements and obligations of the legislation

After meeting business heads on various levels during the survey, it became clear that they are unaware of the requirements and obligations of the legislative acts regulating this area. Consequently, they accept the requirements orally expressed by the competent state authorities as the requirements of legislation and believe it is meaningless to investigate them. They strongly believe that if they decide to do it in a legal order, they will have higher expenses and it will be a waste of time.

5.3. Difficulties for persons attempting to import in accessing information

The entrepreneurs dealing with import of feed and feed additives or attempting to do so face difficulties when attempting to access information on import permission from state bodies. In this case, they learn it either from the official site or informed orally. Investigation of official internet sites by study team showed that they are extremely confusing, and a lot of time and skill is needed to find information on import of poultry or fish feed and organize it. The only possibility is to ask a question on the site of the State Customs Committee (www.customs.gov.az). However, questions on this website are answered in a general way that doesn't meet an inquirer's information needs. The site of the Veterinary Service has been newly created and it is being updated. The list of the required documents to obtain an import permit is not available on the site. The State Institute of Control over the Veterinary Formulas has no website. To obtain information from this institute, which is the main authority for issuing import veterinary permit, it is necessary to travel to Hokmali village where its headquarters are located.

Likewise, there are marked differences in data on fees in the legislative acts placed in the sites of official state bodies. For example, in the decision 17 "On regulating the tariffs of the services provided by the State Phytosanitary Control Service under the Ministry of Agriculture of the Republic of Azerbaijan at the expense of the owners of facilities to be under the control of the State Veterinary Service" of July 26 2007 on site of the Tariff (Price) Council (<http://www.tariff.gov.az/?/az/resolution/view/47/>), the service fee for analysis of veterinary formulas is given as 950 manats. The same decision is also on the site of the Ministry of Agriculture, but (<http://www.vet.gov.az/view.php?lang=az&menu=78&id=162>) 1000 manats is given as a service fee for analysis and registration of veterinary formulas.

Apart from placing the same decision on 2 websites in different ways, the Regulation "On organizing state veterinary control over the products under the control of the State veterinary service as well as imported-exported goods, inspection of the veterinary (veterinary-sanitary) condition of imported-exported animals, animal-origin products and raw-materials and submission of proper veterinary documents, delivery into the Republic of Azerbaijan and transport in the country territory of the goods under the control of state veterinary service" reads that registration of veterinary formulas shall be conducted by the State Veterinary Service. Consequently, 50 manats registration fee must be paid.

Such inconsistencies, uncertainties in laws and regulations confuse the people requesting information from the sites of the competent state authorities.

5.4. Lack of statistical base on national level

The fact that feed and feed additives are not contained in the “customs fee rates on the goods imported into the Republic of Azerbaijan” as approved under decision 161 of the Cabinet of Ministers of December 22 2003 as a separate goods category causes confusion among importers on one side leading to some statistical problems. Therefore, the statistical data disseminated by the State Statistics Committee on foreign trade has no index relating to import of feed and feed additives. It will not be able to measure the impacts econometrically after the changes proposed as a result of the study.

6. Impact of the current import process on the domestic market

The present state of import procedure and process may be characterized as “medium advantageous”. The reason for such semi-advantageous situation is that progressive changes at certain stages of the import process are difficult because of factors precluding and hampering trade operations. For example, there has been a marked trend of simplifying customs procedures and alleviating operations over the last few years. The single window principle relating to customs formalities facilitated reduction of the number of requisite documents to be completed to a minimum. Application of a broader range of orders of payment for customs fees and dues has enabled importers to operatively settle their financial transactions.

Regardless of these advances, the recent decisions adopted at another step of the import process, namely the extension of the time for receipt of import permit, has reduced the number of potential importers. The time spent on receipt by enterprises and competent state bodies of the veterinary import permit, according to the legislation, lasts more than 3 months. The volume of papers requested in this case reaches 200 to 300 hundred pages. Such requirements make potential importers of finished fish feed reluctant to import and as a way out, they prefer importing components of the feed that require simpler procedural regulations. Scientific researches shows that use of rich finished fish feed makes it possible to increase productivity two-fold. Artificial barriers impact the domestic market at the import procedures level in the following ways:

First, if we take official statistics for granted, there are around 200 fish farms in Neftchala-Salyan region alone with a lot of smaller farms unable to influence domestic market among them. There are about 180 farms having some significance in the domestic market. Fish feed may be imported from foreign countries by 5-6 farms on an occasional and not a regular manner.

Second, except for 6-7 farms, others are engaged in primitive fish raising practices where fish are fed by plant feed. They are occasionally fed by intestines of killed animals. Such feed doesn't contain protein and vitamins necessary for development of fish. Consequently, such farms are characterized by weak growth, small production capacity, and low-quality products.

Third, the import of fish and fish products supersedes domestic production as the volume of products marketed by local farms at the domestic level is small. There is an ongoing tendency of pushing domestic products out of domestic market by foreign seafood companies.

Fourth, the situation in poultry farms has considerably improved. Domestic poultry farms have virtually pushed foreign products out of the domestic markets. Yet there is the problem of insufficient laboratory equipment because of their high prices and the problem of importing high-quality feed. It precludes enterprises from enhancing their industrial capacity and accessing foreign markets.

The sale price of domestic fish products in the domestic market is 6 manats (carp) and 11 manats (river trout) respectively. Considering sales costs of the fish products, their net value makes up 4-4.5 (carp) manats and 8-8.5 (trout) manats. 1 kg of ready-feed integrating all the vital ingredients and proteins is 0.40 manats for carp and 1.20-1.40 manats for goldfish. The surveys show that the administrative barriers in the area of receipt of permit for ready-feed import prompts fish farms to use various plant components. The price of 1kg of such feed is about 0.25 manats. Experience shows that 3-3.5 kg ready-feed is equivalent to 1kg increase in the weight of carp, while 1 kg increase of the fish weight fed by plant components needs 6 kg feed. 1-1.5 kg ready-feed is needed to achieve 1 kg increase in the weight of trout.

So, despite the low price of plant feed, it demands higher costs due its use. Unlike ready-feed, plant feed also incurs grinding, loading-unloading costs.

Risks of feeding fish with plant feeds instead of ready feed:

1. The price of cereals in the world market is changeable. There has been a marked growth tendency in the prices caused by climatic changes recently;
2. Sometimes owners of fish farms plant cereals in their soil to feed fish. Productivity of such growths are usually low and hence, the lands under cultivation aren't used efficiently;
3. Feeding of fish this way increases their risk of being diseased and perishing in large numbers;
4. The quality of fish meat is low. The nutritional value to humans is lower than ready feed raised fish because of the lower amount of vitamins and proteins in the content of feed given to fish. This increases the net value and decreases the quality of fish, thus leading to lower competitive capacity compared to their foreign counterparts.

The costs incurred in connection with feed and feed import to raise 1 kg trout are estimated through the following formula:

$$M = (C + \dot{i} + T) \times K$$

C – Price of ready feed

\dot{i} – cost of import process (including also unofficial payments)

T – transportation, loading-unloading costs

K – adjustment coefficient equals 1.5

$$M = (1.4 + 1.34* +0.40) \times 1.5 = 4.71 \text{ manats}$$

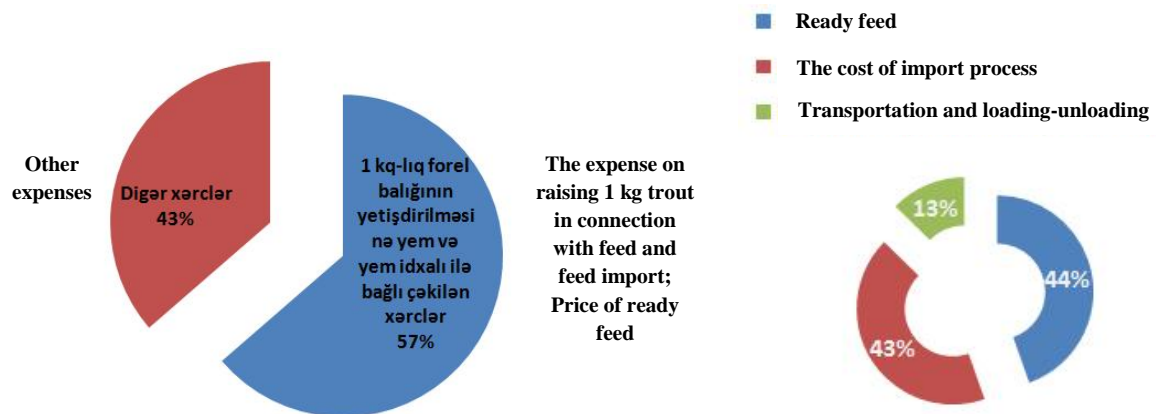
**Note: As seen from estimations in section 7, 13 403 manats (together with unofficial payments) is actually spent for import of 10 metric tons of feed. In this case, import of 1 kg feed comes to 1.34 manats.*

Since the net value of trout is 8.25 manats, then expenses related to feed and feed import make up 57% of the net value.

In the costs incurred due to feed and feed import for raising 1 kg trout, feed price is 44.6%, the cost on import process 42.7%, and transportation costs 12.7%.

Chart 1. Share of expenses in the net value of 1 kg trout related to feed

Chart 2. Structure of expenses related to feed



7. Cost estimation and appraisal based on the gathered database

Processing estimation outcomes

According to the data and statistical base obtained as a result of the interviews (C (Administrative expenses) = (H x S) + (A + E)) cost estimations conducted on each step. The results can be seen in Appendices 10.1, 10.2, 10.3, 10.4, 10.5, 10.6 and 10.7.

Actual expenses on import procedures were identified after processing the results and wastes of time converted to cash for comparison purposes. We must note that according to official statistical data, average salary in agriculture, forestry and aquaculture in 2010 was 160 manats. But as a result of the surveys, it became clear that the average salary in poultry and aquaculture

is 250 manats. Based on this actual indicator, salary/hour was computed and waste of time converted to cash.

The results of actual import expenses on the enterprise level are reflected in the following table:

Table 1. Import expenses (actual)

	Types of expenses	Import quarantine permit	Bank service	Veterinary permit	Customs transaction	Total
1.	Labor, hour	8.5	6.5	12	20	47
2.	Additional time, hour (25 %)	2.1	1.6	3.3	5	12
3.	Average salary (260 manats), hour, manats	1.51	1.51	1.51	1.51	
4.	Monetary expression of waste of time	16	12.23	23.1	37.75	89
5.	Official payments, manat	3	320	70	5760	6153
6.	Unofficial payments, manat	50		200	7000	7250
7.	Total expenses on all the procedures (official and unofficial), manat					13 492

So, actual expenses of the import process across all the steps are estimated based on the following formula:

$$TC(\text{real}) = (a+b) + c + (d+e) + (f+g)$$

- a – import quarantine permit payments (official);
- b – Import quarantine permits payments (unofficial);
- c – Bank charges (official);
- d – Veterinary permit (official);
- e – Veterinary permits (unofficial);
- f- Customs costs (official);
- g – Customs costs (unofficial).

TC (real) = (3+50) + 320 + (70+200) + (5760+7000) = 13492 manat

So, the process of importing 10 metric tons of fish feed is 13492 manats. The product and transportation costs are not included here.

The expenses defined according to the law (time, money) are given in Chart 2. Here the goal is to estimate actual and official (in legislation) costs finding any deviations.

Table 2. Import costs (on legislation)

	Types of expenses	Import quarantine permit	Bank service	Veterinary permit	Customs operations	Total (manat and hour)	Manat and hour
1.	Labor, hour	8.5	6.5	30.5	20	65.5	65,5
2.	Additional time, hour (25 %)	2.1	1.6	7.8	5	16.6	16,6
3.	Average salary (260 manats), hour, manat	1,51	1,51	1,51	1,51		
4.	Costs, manat	16	12.2	57.8	37.8	123.8	74,22
5.	Official	3	320	1600	5760	7683	7683

	fees and charges, manat					
7.	Official time, hour	120		720		

Computation of the expenses on the import process in accordance with the legislation, is through the following formula:

$$TC (law) = (a+b) + c + (d+e) + (f+g)$$

a – company expenses on receipt of import quarantine permit;

b – fee of import quarantine permit;

c – bank service charges;

d – company expenses on receipt of veterinary permit;

e – charge and service fee of veterinary permit;

f- company expenses on customs operations;

g – customs tax, fee, and dues.

$$TC (law) = (16+3) + 320 + (657.8+1000) + (37.8+5760) = 7775.6 \text{ manat}$$

So, the import of 10 metric tons of fish feed is to be 7775.6 AZN within the legislation. Here, the value and transportation costs of the goods are not considered.

Main indicators of both computations have been grouped in Table 3 for comparison purposes.

Table 3. Import costs (actual and official)

	Indicators	Actual	Legislative
1	The hours spent on import procedures of the company	59	82
2	Monetary expression of time consumption	89	123.8
3	Official charges, manat	6153	7683
4	The hours spent by the company and state authorities on import procedures	59 + 13 = 72	82+720 +120 = 922
5	Unofficial charges, manat	7250	

As seen from the table, the expenses specified in legislation in most stages of import process supersede actual expenses. The study group has defined where additional expenses appeared and their reasons in terms of import procedures.

The first important indicator for an entrepreneur is the time spent on import procedure. A chart was built on the time spent on the actual import process and the time specified in the legislation based on the estimations.

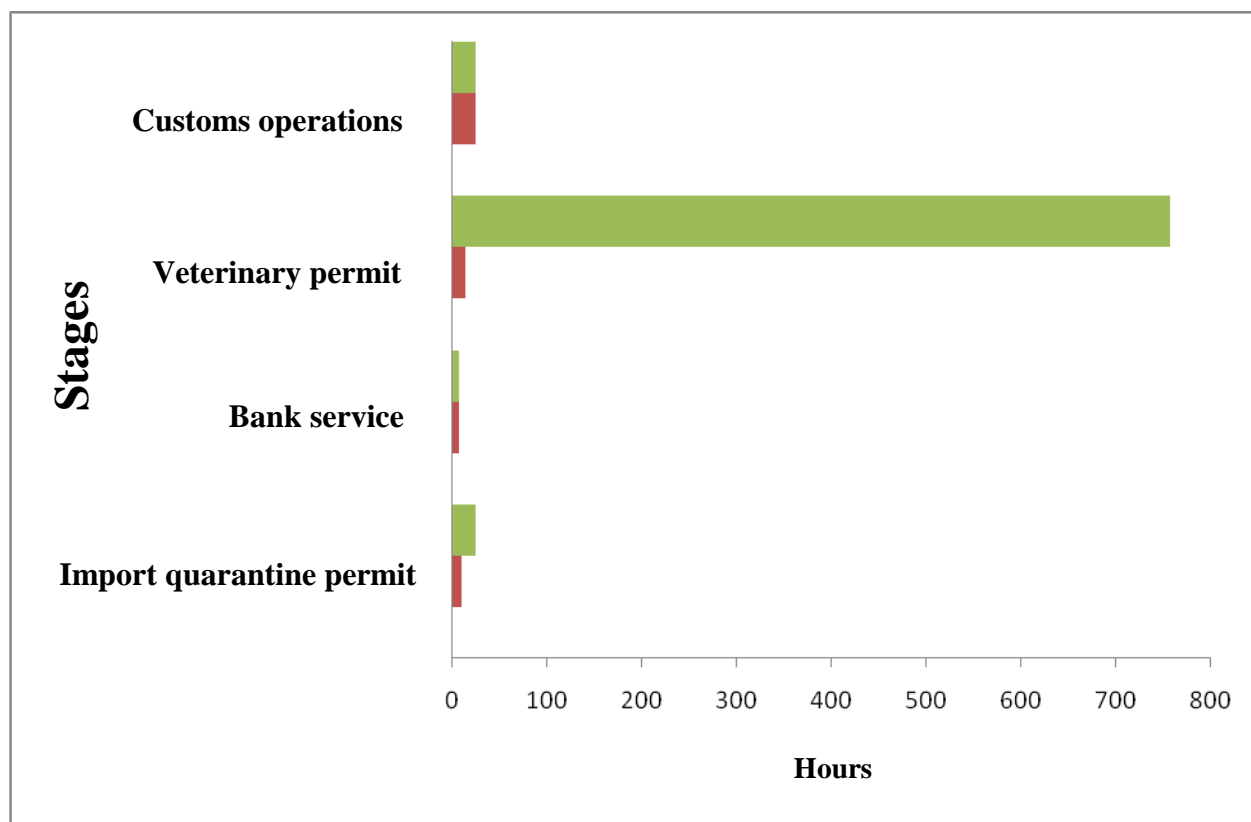


Chart 3. The time spent for the import process, in hours (actual and legislative); the green specified in legislation, while the red is actual amount of time wasted.

The amount of time wasted on the import process in the manner as specified in the law is greater than the amount of time wasted. If companies' total real waste of time is 82 hours (10.25 days), the waste of time of state authorities in legislation is 840 hours (105 days). So within the law all the time spent on import process is 922 hours (115 days). 9% of the total spent time falls to companies and 91 % state entities.

As seen from the chart, the reason of it is that more time is spent (90 days) on the receipt of a veterinary permit.

Cost is the second most important indicator for an entrepreneur. As for the costs, it was found that official charges and fees and even real and legislative costs of companies in connection with other procedures vary. A cost diagram makes it possible to observe these variances.

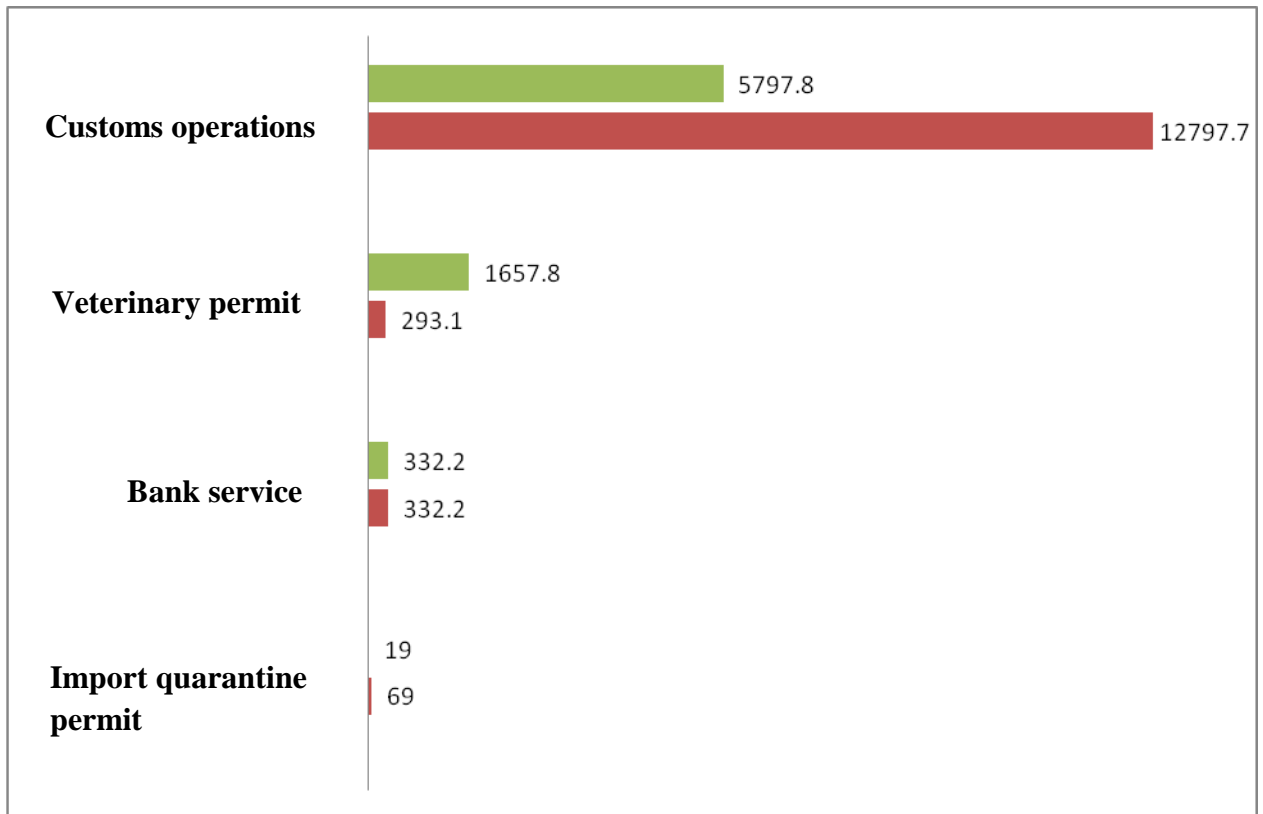


Diagram 4. The costs spent on import process, manats (actual costs in red, legislative costs in green)

The diagram shows that except for bank procedures, the actual costs at other import stages exceed official costs specified in the legislation. Although this is not so apparent in veterinary and import quarantine permit stages, according to what survey participants said, it varies significantly at the customs procedures stage.

The time spent by the companies on import process within the law is 74.22 gapik. Official payments (fees, taxes, service charges, etc.) are 7683 manats. So, total expenses within the law makes up 7757.22 manats. Monetary expression of time is 1% in total expenses and official payments is 99%. Moreover, it should be noted that the actual company costs vary from the law and make up 13462 manats. There are also 7220 manats (53%) in unofficial charges.

8. Findings

The study has revealed that the waste of time in the process of importing feed and feed additives, as well as the complex stage of official payments for the receipt of veterinary permit, contribute most to the inefficiency of the poultry and aquaculture industry. The fact that regulations governing import veterinary permits are strict with respect to importers, combined with the enormity of information obligations, unreasonably long time for permit, and higher fee amounts, creates huge administrative barriers. Hence, as a result of this study, it became clear that:

- The procedures for the issuance of a veterinary permit have not been clearly identified in the legislation;
- The section called “General definitions” of the regulations specifying import permit incorporates feed and feed additives into the “Veterinary formula” concept;
- Importers are forced to pay a high service fee to get an import permit;
- The time for granting import permits in the legislation is long and the requirement is not real; also, potential importers refuse to import finished feed;
- It is difficult, and sometimes impossible, to obtain the information on import procedures and payments in electronic form;
- Artificial extension of the time for an import permit, and failure to concretely specify the information obligations required under the law sometimes makes importers pay unofficial fees.
- Entrepreneurs are poorly aware of the information obligations in the legislation.
- The technical capacity of the specialists of the State Institute of Control over the Veterinary Formulas does not allow for holding examinations and tests according to the requirements of the day;
- Customs procedures have been simplified recently, the number of requisite documents has been reduced and upgraded. The time spent on these procedures is close to international best practice;
- Bank operations are carried out in a short time and without administrative barriers. Further, there is inconsistency between the terms of delivery and money transfer orders. Banks assume that they are not responsible for this matter.

9. Proposals and assessment of their impacts

Item No	Proposals	Content	Impacts
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1.	Remove the words “feed and feed additives” from Article 2.1, Section 2 of Decision 66 titled “Main definitions” of the Cabinet of Ministers of April 16, 2007.	Proceeding from the revealed facts, the study team proposes to simplify issue of import veterinary permit according to international best practice. It is necessary to make a number of amendments and additions in the legislative papers for this end. Considering that making amendments and additions to the law “On Veterinary” of the Republic of Azerbaijan is even more complex and this paper is of a draft character, there is no need to make amendments to this law.	<p>a. This automatically means the procedures of registration of feeds as drug formula and bringing samples for test become invalid;</p> <p>b. Import permit is both simplified and it is concentrated in the hands of one authority (Veterinary Service).</p>
2.	Instead of the current complex registration system of feed and feed additives, transition to a simpler form - developing and approving the list of certified feed producers in accordance with international best practice.	<p>The international best practice shows that the responsibility for developing the list (registration) of feed and feed additives permitted to be imported into the country is not to be delegated to the importer. It is the responsibility of relevant state body-veterinary authority. In this issue, the Institute may provide necessary help to the Service. (See: International best practice 1)</p> <p>That list may be examined several times a year according to the data from International Epizootic Bureau, any feed produced may be withdrawn from or incorporated into the list considering the epizootic situation in the country. (See: International best practice 2)</p>	<p>a. Huge loss of time disinsentivising importers away from importing is minimized. The time spent on receipt import permit falls from 90 days to 2-3 days, the total time spent on import process falls from 118 to 12 days. Consequently, total time spent on the whole import process reduced 89.9%.</p> <p>b. There appears to be no need for additional papers (200-300 pages) to get required for registration;</p> <p>c. Around 600 manats fund spent on translation from foreign language into Azerbaijani and notary certification is economized and it means 7% reduction of the expenses stipulated in the legislation.</p> <p>d. The State Institute of Control over the Veterinary Formulas acts as an ancillary organization for Veterinary Service in the process of importing feed and feed additives (when developing the list of the countries and enterprises producing feed and feed additives</p>

			cooperation with internationally certified laboratories and etc).
3.	The list of enterprises developed by the State Veterinary Service shall be placed on the website of the Service. Besides, the list shall be referred to the State Customs Committee. The Committee shall be regularly updated on the amendments made to the List.	To deliver any feed in the registration of the importer's site, a contract may be signed with the plant, when feed enters the customs area of Azerbaijan it becomes clear that the State Veterinary Service has prohibited import of the feed from that country according to the data from the International Epizootic Bureau. To avoid such situations it might be better for the importer to appeal in writing to the Veterinary Service to obtain permission for import of the feed and this permit is in force 1 month.	<p>a. Transparency of information for enterprises is secured;</p> <p>b. Competitiveness between feed importers (including distributors) intensifies;</p> <p>c. Impetus is given to the competitive environment between Poultry and Fish farms.</p>
4.	A new addition shall be made to the Regulations "On organizing state veterinary control over the products under the control of the state veterinary service, including imported-exported goods, inspection of the veterinary (veterinary-sanitary) conditions of imported-exported animals, animal products and raw-materials and issue of proper veterinary paper, import into Azerbaijan of the goods under the control of veterinary service and transportation of the same in the territory of the country" as approved by decision 66 of the Cabinet of Ministers of April 21, 2009.	<p><u>Registration of import section of feed and feed additives</u></p> <p>1.Feed and feed additives are imported into the Republic of Azerbaijan according to the list of foreign feed producers developed by the State Veterinary Service (hereinafter Service) of the Republic of Azerbaijan.</p> <p>2.The Service develops the registration list of foreign feed producers considering the following factors: recommendations of the International Epizootic Bureau, results of the analyses by certified laboratories or agreements on mutual recognition of goods</p> <p>3.A foreign feed producer may have his name in the list on his own discretion as well. In this case the producer (or his representative) shall submit the information on the internal</p>	<p>a. By these amendments and additions to the legislation the process of simplifying feed import is finalized;</p> <p>b. Simplification of import of poultry and fish feed lays foundation for simplification on other import products and serves as an example;</p> <p>c. To test the sample of feed and feed additive and analysis of requisite documents, the 1000 (thousand) manats service fee obtained from importer is nullified. It means 16% reduction of costs specified in the legislation.;</p> <p>d. Increased transparency as a result of simplification of import-export process, elimination of administrative barriers and unofficial charges meet the requirements of the World Trade Organization.</p>

		<p>standard of his country, the results of analysis at internationally certified laboratory, certificates of origin and quality to the Service. The Service shall present to the producer (or his representative) the information on either inclusion of the feed producer in the list or substantiated waiver from it.</p> <p>4.The list of the registered feed producers is developed by the Service and placed on the website of the Service; besides, it is electronically sent to the State Customs Service of the Republic of Azerbaijan.</p> <p>5.The list of registered feed producers may be changed according to the information from the International Epizootic Bureau on change of the epizootic situation in foreign countries. The new list shall be sent to the customs authority in a matter of a day.</p> <p>5.Import permit is given for legal and physical persons within 3 day period to whoever appealed to the Service to import feed and feed additives from the list of the Service. The permit is given to each lot. The application shall contain description of the feed content, the origin, final destination point.</p> <p>6.A legal or physical person who has received import permit may carry out import of the feed lot within a month.</p> <p>7.Where the goods consisting of feed and feed additives delivered to the country is accompanied with proper papers and enters the country</p>	
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5.	<p>The access of potential importers to electronic information shall be broadened. The rules on use of sites shall be simplified, questions - answers rubrics organized on websites. The papers and steps required for import of feed and feed additives in proper sites shall be placed in the form of a simple table.</p>	<p>Study of import of feed and feed additives has shown that entrepreneurs can't obtain the information on import permit and in general, import process in electronic form. This was confirmed when investigating the sites of state bodies in connection with import process.</p> <p>For example, the name of the State Veterinary Service that is responsible for granting import veterinary permit in the "Kechidlar" menu of the site (http://www.agro.gov.az) of the Ministry of Agriculture is inaccurate and instead, written as the State Scientific-Research</p>	<p>a. The time and financial costs (transport, food and etc) incurred by the potential regional importers to get information is minimized;</p> <p>b. Familiarization of potential importers with legislative requirements and obligations in electronic form leads to little communication with state officers and thus the barriers creating unofficial payments are eliminated.</p>

		<p>Institute of Control over Veterinary Formulas.</p> <p>Though the site of the State Veterinary Service is at the initial preparative level, (http://www.vet.gov.az/) the laws and regulations regulating import permit and service tariffs have been placed there. The site of the State Phytosanitary Control Service (www.azerinppo.az) is not active, and the State Scientific-Research Institute of Control over Veterinary Formulas has no site of its own.</p> <p>Though the site of the State Customs Committee (http://customs.gov.az/) is rich in information, it is very difficult to find required information via search. Weakness of access to electronic information leads to increased expenses by potential importers working in the regions.</p> <p>The websites of Phytosanitary Service and Institute shall be brought in order. Besides, care shall be taken to give more detailed answers to the questions - answers rubrics of the Customs Committee. The site of the Tax Ministry may be exemplified for that.</p>	
6.	<p>Strengthening technical abilities and specialists' capacity of the State Scientific-Research Institute of Control over Veterinary Formulas</p>	<p>New buildings have been built for the State Veterinary Service within the state program over the last few years, administrative buildings commissioned for veterinary services in the regions, laboratory and veterinary stations of the Service have been equipped with modern equipment. The specialists of the service are frequently sent</p>	<p>a. Increased capacity to conduct quality analysis and certification of local producer's products;</p> <p>b. Building linkages to internationally certified laboratories and increased opportunities for gaining expertise and knowledge;</p> <p>c. The possibility to get international certification;</p>

		<p>on work trips to learn international best practice. But unfortunately, there is no provision in the state program on supplying new laboratories and equipments and highly-qualified specialists for State Scientific-Research Institute of Control over Veterinary Formulas. The administrative building of the Institute is in condition, only one storey of it is in use. Purchase of new equipment required for the Institute must be done, even it is very expensive. It is vital for certification of the goods produced in Azerbaijan before export. Modernization of the Institute is important in terms of building and developing linkages to the certified international laboratories, and mutual recognition of the results of analyses and tests with different countries having high standards.</p>	<p>d. Starting to serve as an international services institute by becoming an unprecedented institute in the South Caucasus region;</p> <p>e. The help provided to the Veterinary Service in developing the list of feed and feed additives producers is increased.</p>
7.	<p>Give preference to the accreditation method at financial bank operations (payments).</p>	<p>When investigating the agreements signed between the importers and sellers it became clear that goods are mainly imported via FOB or DAF terms of delivery (Incoterms-2000). In this case, sellers have greater obligations and he is responsible for the safety of the goods he delivers to the buyer. Further, the payment section of the agreement reads that the value of the goods shall be 100 % prepaid. It is against the obligations specified in the terms of delivery. It is almost universal best practice that around 90 percent of such payments are conducted through accreditation method over the last 20 years.</p>	<p>a. Accreditation method facilitates a more civil financial operations between the buyer and seller, accepted in the international trade relationships;</p> <p>b. In this case risks (goods, cash losses) are minimized;</p>

8.	The Ministry of Economic Development and Agriculture shall prepare an incentive plan to found business associations and carry out awareness campaign among entrepreneurs.	There is a direct linkage between lack of available knowledge in Azerbaijan given by state bodies and unawareness of entrepreneurs. Developing organizational skills and enlightenment of entrepreneurs can have a big impact on elimination of artificial barriers created before import process.	<p>a. Increased skills and knowledge among entrepreneurs;</p> <p>b. The process of adoption of unified standards is intensified;</p> <p>c. Import of feed and feed additives increased.</p>
<p>If the proposals made are adopted and implemented, then the administrative barriers to the process of importing feed and feed additives are eliminated. All the time spent on all procedures falls from 115 days down to 12 days. And it means 89.6% reduction in the time spent on importing. The official payments paid by companies in cash (levies, dues, taxes, service fees, etc.) could go down from 7683 manats to 6083 manats and it means 20% cost reduction.</p>			
<p>Note: <i>The estimations have been conducted in the example of 10 metric tons fish feed, only the costs relating to import procedures have been considered.</i></p>			

International best practice 1:

Certification of veterinary laboratories and the standards in different countries is widespread. A Veterinary Service develops a list of the enterprises at the level of its country or higher. When selecting enterprises, the service considers whether its products have been checked at the certified international laboratories. In this case, a food importer receives only the certificates of quality and origin from the producer. For example, Latvian Veterinary Service makes a list of the countries the laboratories and standards of which it has recognized. If a feed producer in Turkey wishes to sell its product registered in its own country in Latvia and Latvia recognizes Turkish standards, a sample is not tested and direct permit is given for the import of feed.

International best practice 2:

Extract from the order of “Rosselkhoznadzor” (A federal entity dealing with veterinary and phytosanitary control of Russia):

“On incorporation of EKBORK company producing feed and feed additives in Poland into the list of enterprises allowed to import animal feed to Russia”

Considering the provision given by the Polish Veterinary Service, **EKBORK** company **shall be incorporated into the list of enterprises importing animal feed to Russia** (“Rosselkhoznadzor”, 10 10 10)

International best practice 3:

“ILAC MRA” is an international organization responsible for accrediting veterinary laboratories in the world.

“ILAC MRA” helps the world trade by strengthening intercompany confidence and recognition of the results of accredited laboratories. The organization also helps with reduction of such technical barriers as secondary analysis and testing of products in the world trade.

International best practice 4:

The following companies are recognized as the most prominent feed producers in the world exporting their products to 40 to 50 countries:

Austrian “AquaTech”, French “Le Gouessant” (“Le Quessant”), Danish «Aller Akva», Italian “Arbi Dario S.p.A.”, Canadian “Area 19 Snow Crab”, Argentinian “Arhepez S.A.”, the US “Ashworth Bros., Inc.”, Turkish “Chagatay Yag-yem urunleri San.Tic.Ltd. Shti” companies.

This list may also include some enterprises of Turkey, Russia, Iran, Ukraine, etc. countries.

Appendices

Appendix 10.1. Receipt of veterinary permit (as per legislation)

N	Steps	Labor, minute	Additional time, minutes (25 %)	Orta Average salary (260 manats), minutes, gapik	Official time, minutes	Expenses, gapik	Official payment, manats
1.	Application to the chief of State Veterinary Service	240	60	1.51		453	
2.	Signing by the chief of the service of the application and delivering it to the Institute	180	45	1.51		339.75	
3.	Studying requirements of the Institute	180	45	1.51		339.75	
4.	Ordering from the seller of papers and samples conforming to the requirements	240	60	1.51		453	
5.	Receipt of papers and sample via mail	60	15	1.51		113.25	
6.	Translation and notary certification of papers	240	60	1.51		453	600
7.	Delivery of the papers and sample to the Institute	240	60	1.51		453	
8.	Signing an agreement with the Institute	60	25	1.51		113.25	
9.	Paying service fee to the Institute	30	8	1.51		57.38	950

10.	Analysis of papers and sample testing				21600		
11.	Making representation to the Veterinary Service on the results				7200		
12.	Paying registration fee to the Veterinary Service	180	45	1.51		339.75	50
13.	Registration, issuing permit to the customs and customer	180	45	1.51	14400	339.75	
	Total:	1830	468	1.51	43200	3454.9	1600

Appendix 10.2. Veterinary permit (actual)

N	Steps	Labor, minutes	Additional time, minutes (25 %)	Average salary (260 manat), minutes, gapik	Official time, day	Expenses	Official payment, gapik	Unofficial payments, manats
1.	Studying requirement of the Veterinary Service	180	45	1.51		339.75		
2.	Ordering veterinary and quality certificates and the certificate of origin to the Seller	180	45	1.51		339.75		
3.	Receipt of certificates	60	30	1.51		135.9		
4.	Coverage of the expenses for delivery of certificates						2000	

5.	Submittal of the copies of the application, agreement, and certificates	120	30	1.51		226.5		
6.	Signature, seal of the chief of the service and granting customs permit	180	45	1.51		339.75	5000	500
Total:		720	195	1.51		1381.65	7000	500

Appendix 10.3. Receipt of import quarantine permit (as per the legislation)

N	Steps	Labor, minutes	Additional time, minutes (25 %)	Average salary (260 manats) , hours, gapik	Official time, minutes	Expenses, gapik	Official fee, manats
1.	Preparing papers for permit	30	8	1.51		57.38	
2.	Writing the application and submitting papers	240	60	1.51		453	
3.	Issue of import quarantine permit	240	60	1.51	1920	453	3
Total:		510	128	1.51	1920	963.4	3

Appendix 10.4. Receipt of import quarantine permit (actual)

N	Steps	Labor, minutes	Additional time, minutes (25 %)	Average salary, hours, gapik	Period, minutes	Expenses	Official payment , manats	Unofficial payments, manats
1.	Preparing papers for permit	30	8	1.51		57.38		

2.	Registrati on of submitte d applicati ons and papers	240	60	1.51		453		
3.	Granting import quaranti ne permit	240	60	1.51	1920	453	3	200
Total:		510	128	1.51	1920	963.4	3	200

Appendix 10.5. Official customs procedures

N	Steps	Labor, minutes	Additional time, minutes	Average salary (260 manats), minutes, gapik	Expenses , gapik	Official payments (all payments-36% of all expenses)
1.	Writing an application	30	8	1.51	57.38	
2.	Acceptance of the papers accompanying the goods	30	8	1.51	57.38	
3.	Completion of the customs goods declaration	60	15	1.51	113.25	
4.	Coordination with the finance department, making payment and receiving permit	60	15	1.51	113.25	
5.	Making payments	120	30	1.51	226.5	
6.	Submittal of the information on payment to the finance department	120	30	1.51	226.5	
7.	Submittal of papers to the goods terminal	60	15	1.51	113.25	
8.	Goods inspection (veterinary, phytosanitary, together with the customs officers)	120	30	1.51	226.5	
9.	If any, taking samples from goods					
10.	Release of the goods through terminal and delivery of it to the final destination point	360	90	1.51	679.5	

	under customs control					
11.	Unloading the goods	240	60	1.51	453	
	Total	1200	301	1.51	2266.5	5760

Note: The calculations have been made on the import of 10 metric tons of fish feed, all the customs fees, VAT, and payments constitute about 36% of the feed amount.

Appendix 10. 6. Actual customs procedures

N	Steps	Labor, minutes	Additional time, minutes	Average salary (260 manats), minutes, gapik	Expenses, gapik	Official payments, manat	Unofficial payments, manat
1.	Writing an application	30	8	1.51	57.38		
2.	Acceptance of the papers accompanying the goods	30	8	1.51	57.38		
3.	Completion of the customs goods declaration	60	15	1.51	113.25		
4.	Coordination with the finance department, making payment and receiving permit	60	15	1.51	113.25		
5.	Making payments	120	30	1.51	226.5		
6.	Submittal of the information on payment to the finance department	120	30	1.51	226.5		7000
7.	Submittal of papers to the goods terminal	60	15	1.51	113.25		
8.	Goods inspection (veterinary, phytosanitary, together with the customs officers)	120	30	1.51	226.5		
9.	If any, taking samples from goods						
10.	Release of the goods through terminal and delivery of it to the final destination point under customs control	360	90	1.51	679.5		
11.	Unloading the goods	240	60	1.51	453		
	Total:	1200	301	1.51	2266.5	5760	7000

Note: The calculations have been made on the import of 10 metric tons of fish feed, all three customs fees, official payments constitute about 36% of the feed amount.

Appendix 10.7. Bank payments

N	Steps	Labor, minutes	Additional time, minutes (25 %)	Average salary (260 manats), minutes	Expenses, gapik	Bank service, manat
1.	Preparing payment order for advance payment	30	8	1.51	57.38	
2.	Advance payment to the Bank	120	30	1.51	226.5	
3.	Preparing payment order to pay the remaining amount	30	8	1.51	57.38	
4.	Making payment to the Bank	120	30	1.51	226.5	
5.	Submittal to the bank of the papers on delivery of the product to the final destination point	90	22	1.51	169.12	
6	Conversion and transfer service (2% of total amount)					320
	Total:	390	98	1.51	736.88	320