AZEBAIJAN–WTO RELATIONS, PROBLEMS AND FUTURE PERSPECTIVES

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Abstract

The present stage of the world development is increasingly characterized by globalization and regionalization trends. Azerbaijan exerts all efforts to make its contribution to these processes. Our country is a member of more than twenty international economic organizations and has observer status at the World Trade Organization. The Republic of Azerbaijan is objective to become a full-fledged member of the WTO. The country was convinced that this membership will give a strong incentive to the transformation of the country's economy into a market economy. Azerbaijan as other members of CIS also will oppose with difficulties in the way to the WTO. The breakup of the Soviet Union clearly created unprecedented demolition which may have warranted a greater adjustment period. Strong efforts of the Government of the Azerbaijan Republic to ensure for investor friendly environment, both foreign and domestic, continue. The membership will bring its problems that will affect the whole economy and welfare of people in future. The difficulties of the membership mostly will be felt by low income part of population. That’s why Azerbaijan government seriously analyzes all offers and obligations of WTO. Azerbaijan is developing from day by day and WTO membership doesn’t have to prevent this development. Hence, the doors of Azerbaijan are open both to local entrepreneurs and foreign investors to reap the full benefits the country has to offer.

Key words: WTO and Azerbaijan, Azerbaijan WTO relations, Foreign Trade of Azerbaijan, trade organizations, international trade.

JEL Classification Codes: F13

1. The Main Directions of Azerbaijan-WTO Collaboration

If state or customs territory want to become a member of the WTO they must have full autonomy in the conduct of its trade policies, but all WTO members must agree on the terms. This is done through the establishment of a working party of WTO members and through a process of negotiations.

The present stage of the world development is increasingly characterized by globalization and regionalization trends. Azerbaijan exerts all efforts to make its contribution to these processes. Azerbaijan is a member of more than twenty international economic organizations and has observer status at the World Trade Organization. The Republic of Azerbaijan is striving to become a full-fledged member of the WTO and is convinced that this membership will give a strong impetus to the transformation of the country's economy into a market economy. Azerbaijan's Working Party was established on 16 July 1997. Azerbaijan submitted a Memorandum on its Foreign Trade Regime in April 1999. The second meeting of the Working Party was held on 14 October 2004. WTO's main goal is the trade liberalization. In every round of talks new agreements are adopted and new obligations appear and it makes membership process harder from year by year.

Though WTO members seek their economic and trade interests their main goal is political factor. It shows that the membership process to WTO is more like political problem than economic. Curiously, the closer a post-Soviet country is to the EU, the less it exports there. In 2000, only 16 per cent of Ukrainian exports went to the EU, compared with 20 per cent of

Moldovan exports. By contrast, that figure was about 35 per cent in the case of Russian, Armenian and Kyrgyz exports and 60 per cent in the case of Azerbaijani exports.

Azerbaijan is the EU's largest trading partner in the Caucasus, although trade primarily relates to cotton, oil and gas. In 2003 Azerbaijan had a positive trade balance: exports to the EU amounted to Ъ 1.3 billion, while imports reached Ъ 0.8 billion. Trade in energy was the most significant: Azeri exports were worth Ъ 1.23 billion. Azerbaijan's share in EU's external trade was 0.1% in imports and 0.1% in

Profiting from the membership of WTO Azerbaijan has to create pure competitive condition and develop the national production. Azerbaijan has to obtain the maximum concession from the negotiations (not to apply all the rules and obligations of the organization to Azerbaijan in next 10-15 years) with WTO or we have to try to direct their attention not only to trade liberalization but also to solve the problems in the rural economy of Azerbaijan. The membership process and the requirements of WTO don’t have to create obstacles to the development of local industry sector of our country. The creation of good condition for newly formed market economy has to be one of the main directions of the collaboration.

Telecommunication and postal service improvements are a prerequisite to sustainable economic growth, and open access to competitive systems are needed for WTO membership.

Privatization process of the state institutions creates pure competition condition. However the existence of shadow economy is one of the factors which hinder the development process and pure competition.

According to the analysis which has been led by a member of group of the fiscal analysis on tax administration and fiscal reform USAID, the general scale of shadow economy in Azerbaijan makes 60,1% from the GDP. For comparisons in Russia this parameter makes 42,2 %

while the average indices for the advanced countries is equal 12%. Some Azerbaijan authors referring to the western experts result calculate it in 50-55% of GDP. Such huge capitals require washing up, in part by means of investment in local economy or by their export abroad.

Legalizing the shadow economy can increase the inflow to the state budget and will help to facilitate the tax burden in the production sphere. Deduction of taxes can be one of the steps of creation pure competition condition.

Deduction of the taxes in the production sphere will enlarge the tax base and this will compensate the income loses because of the deduction of custom tariffs with the requirements of WTO.

2. Problems and Future Perspectives

There are positive and negative sides in the accession to the WTO. The positive side includes the free exporting of services and Azeri goods to the world market without barriers, protection our rights in international trade, creating the relations with other countries in equal terms, improve the export structure, applying the "Most Suitable Condition" to our country, and etc. The negative side includes the decrease in custom tariffs on imported goods, social and economic problems which will occur while adaptation to the international competition rules and others.

Azerbaijan's most great problem is Karabakh. Because of the occupied territories many fertilized lands and farmer industries were destroyed. As it is said that WTO became a political organization more than economic Azerbaijan has to use all political and economic measures in the frames of WTO to solve the Karabakh problem.

Azerbaijan government has to make reforms in some policies for entrance to WTO. They are **fiscal policy**, **monetary and exchange rate policy** ,**external sector policies**.

The aim of fiscal policy will be to reduce the fiscal deficit of the general government. **Government expenditures** are likely to be around 21½ percent of GDP in 1998 and are projected to increase to just over 25 percent of GDP by 2009.

Monetary policy will continue to aim for low levels of inflation. Both nominal and real interest rates are expected to decline, reflecting sustained low inflation and a steady strengthening of the financial system.

Cautious financial policies and a flexible approach to the **exchange rate** will remain the basis for building a strong international reserve position. In the light of turbulence in the oil market and international financial markets, somewhat greater variability in the exchange rate is likely than in the past. However, intervention will continue to be used to dampen excessive volatility. The authorities will monitor exchange rate developments carefully, so as to ensure that policy remains consistent with financial stability and a competitive non-oil economy, and stand ready if necessary to make adjustments to fiscal and domestic credit policies to achieve these objectives.

External sector policies will aim at **strengthening the balance of payments** and rendering it less vulnerable to external shocks. This will require strong structural and financial policies, and a flexible approach in the management of the exchange rate, to facilitate adjustment to changes in the terms of trade resulting from large swings in the oil price or other external shocks.

The acceptance process comprises all the aspects of the social-economic aspects of the society and influences to the interests of entrepreneurship structures, state and individuals. So it is main target to decrease the costs of acceptance of membership and enter the WTO with optimal conditions.

The benefits from WTO membership fall in three main categories: (a) strengthening of domestic policies and institutions for the conduct of international trade in both goods and

services which is needed before accession into the WTO can be accomplished; (b) improvements in the ease and security of market access to major export markets; (c) access to a dispute settlement mechanism for trade issues.

The entrance program to the organization must be base on the economic development of the country: The main aspects of the program is:

- Defining the entrance to the market of WTO members;
- Defining the obligations of Azerbaijan;
- Defining the national regime of trade of goods and services.

Main principles of program on the poverty context:

- National – economic security;
- Competition ability of market participants;
- Supporting labor market and reconstructing it;
- Government support to the agrarian – industrial sector;
- Supporting the low-income level of population.

WTO membership offers the opportunity for new members to lock in present relatively liberal trade regimes. While trade regimes in transition economies vary considerably, many have established regimes with relatively low tariffs and not encumbered by significant non-tariff barriers. For these countries, membership provides the opportunity to lock in these regimes by assuming legally binding obligations regarding tariff levels and other practices.

We must think about the social results of the membership and its influence to the welfare and income of the population. We must analyze the following questions:

1. How the new foreign trade terms will influence on economic dynamics.
2. Will there be created profitable markets or we will lose them

3. How the reforms will influence on the fields where the low income level of population assembled.

4. How the reforms will influence to the certain regions on the unemployment context.

5. How the membership will influence to the national sectors especially to the profit on agrarian sector, income rate and unemployment.

6. How the membership to WTO will influence to creation of new working places

If we take into account all these problems we can predict the social results of entrance and learn the positive and negative sides of WTO membership.

Taking into account the number of people working in agriculture (about 40% of working people) and their income level it is necessary to begin the investigation of "Agrarian industry of Azerbaijan and WTO" and the following problems have to be represented in this research:

- ✓ International trade and the food security of Azerbaijan;
- ✓ Regulation problems of the foreign trade of agricultural products;
- ✓ Estimation of the mutual relations of foreign trade terms and the weak sectors of agricultural sector;
- ✓ Estimation of the possible export of agricultural products of Azerbaijan to the world market;
- ✓ Obtaining the optimal terms for agriculture from of WTO membership;
- ✓ Perspectives of agrarian sector of Azerbaijan in WTO frames;
- ✓ Protection mechanisms of agriculture sector of Azerbaijan in WTO frames.

One of the main problems for farmers is getting credit. In the period of entrance government has to lower credit rates and make them available to get. For competition in the

world market the cost and quality is one of the main factors. So the quality and low costs depend on financial support to farmers.

The legislative base of Azerbaijan republic has to be reformed. There is lack of law and no law of protection our agricultural goods. These laws are not just necessary for WTO members from the point of their interest, but also it is permitted by the juridical agreements of the organization. There must be adopted the law about special protection for, law about antidumping measures, and law about subsidies and compensations, law about the quality and security of foodstuff and raw materials.

3. Agricultural export potentials after entering WTO

The main advantage of WTO membership is the way to the market, especially to the agricultural goods market of developed countries. The applause in some countries and protests in others, following the incorporation since 1995 of agriculture into the rules-based trading system, is not surprising. Agricultural more than most sectorial policies have needed to be disciplined under the GATT/WTO, because the empirical evidence across countries and over time strongly suggests domestic political pressures are such that, without such discipline, many countries would eventually adopt policies that increasingly assist and insulate their farmers from foreign competition. Such policies in a subset of countries lower the mean and increase the variance of international food prices, thereby encouraging additional countries to adopt similar policies. Their perpetuation, though wasteful, is evidently affordable in advanced economies because of the sector's small and declining shares of GDP and employment.

Taking into account the poverty indicators of the rural population of Azerbaijan, selling the agricultural products of Azerbaijan in the markets of WTO member countries can increase the income of Azerbaijan farmers and become main factor in the development of agriculture. But

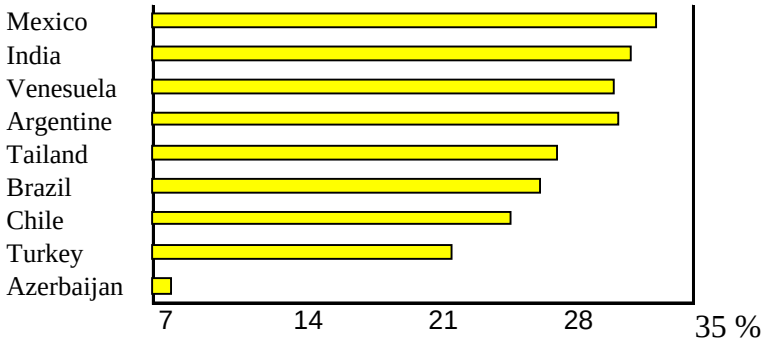
there is problems and shortcomings of the membership which can be a real problem in the achieving of the main goals from WTO membership. According to the prognoses of UN less developed countries will sustain a loss of 600mln $ while African countries will suffer about 1.2bln $ after entering the WTO. But the reality exceeded all the prognoses. Developed countries of WTO didn't decrease the tariffs and quotas to agricultural goods and but also increased subsidies to this sector. So this form of the international free trade wastes all the attempts of the developing countries for developing. The benefit from the trade liberalization can be obtained only by the prevention of the protectionist measures in industrial and agricultural sector. However the developed countries and big developing countries protect their market even if it is not threat for local producers. The figures in the table below show that Azerbaijan falls behind the other WTO members in the protection of the local market:

Using the measures for regulation of foreign policy

• Country	Complicated Custom tariffs	Quotation	Licensing	Technical Barriers in trade	Antidumping and compensation measures
USA	Yes	Yes	Yes	Yes	Yes
Japan	Yes	Yes	Yes	Yes	Yes
EU	Yes	Yes	Yes	Yes	Yes
Canada	Yes	Yes	Yes	Yes	Yes
Australia	Yes	Yes	Yes	Yes	Yes
Brazil	Yes	Yes	Yes	Yes	Yes
India	Yes	Yes	Yes	Yes	Yes
Chine	Yes	Yes	Ye	Yes	Yes
Azerbaijan	No	No	Yes	Yes	No

In USA the custom dues to textile goods and clothes are 35% and 10 % to the import of chemical goods. In EU the custom dues to clothes and textile goods are 15%. After the Uruguay round the average custom dues are so:

The average custom dues in Azerbaijan and Developing Countries



This level is 3-4 times higher than Azerbaijan (7.6 %) and more than the maximal tariff. The custom dues to the agricultural goods are more than others goods. In 2000 the average custom dues to agricultural goods was 96% in EU, 23% in USA. The custom dues in Japan is so: 444% to rise, 193% to wheat, in USA: 93% to dairy products, 91% to sugar, in EU: 231% to rise, 205% to dairy products, 279% to sugar, and 82,6% to flour products. According to in the information of World Bank the tariffs on agricultural goods are 5 times more than on industrial products in developed countries. Though there is a prohibition against the subsidies to agricultural sector, the developed countries allocate a great amount of money to support their agricultural sector.

Azerbaijan is the only country among the transition economy countries which suffer the war in its lands. War happened in the period of the USSR collapse and the beginning of transition period. The occupied districts were the agrarian places and the 75% of the people living here worked in agricultural industry. The 35% of the total agricultural goods were produced in these lands. Today the total economic damage from the war is calculated about 22.2bln $.

There are different obstacles on the way of the development of farming. They are structural obstacles which include the insufficiency in the infrastructure (roads, electricity, gas, water supply problems) and bureaucratic pressures of local authorities. Another obstacle is market obstacles which include the protection of the interests of producers, regulation of pricing in agricultural sector,

disparity in the prices of the industrial and agricultural goods, low profitability, monopoly import of low price and low quality goods to the republic. There are problems in getting the credits for buying fertilizes, high rate of credits, banks don't want to take the land as collateral and others.

Recommendations on agrarian policy

I. The period of agrarian reformation in Azerbaijan on transition to the market ended. The up-to-date stage of development of rural economy is characterized by dilemma of election: whetherto capitalize the agro-industrial sector and continue farming, create big farms of capital type, whether to change previous policy of agrarian policy, enhance the regulating role of the government, intensive support to existing small farms. Under conditions when rural economy can efficiently function under intensive assistance of the government.

Irrelevant of what model the Government choose to further develop rural economy and in regard to living conditions of farmers, problems of agrarian sector, agriculture and sector of farmers needs adoption period (2-4 years) prior to Azerbaijan's entrance to WTO. The key goals of adoption period:

- ✓ *achieving of competitiveness of farms;*
- ✓ *increase of efficiency of production in agriculture;*
- ✓ *provision of social development in the villages.*

To achieve new goals it is necessary to enhance economic instruments, based on use of material interests of economic subjects, particularly - credits, subsidies, budget investments, tax benefits.

The group offers the following trends for enhancement of non-market methods of the government support for agriculture:

✓ improve legal provision for living conditions and work (registration of land ownership and rules of land use);

✓ save and enhance fruitfulness of land resources;

✓ create public benefits - upgrade and construction of drainage systems, construction of channels, bridges, system of electricity, water and heat supplies, communication lines and other objects of infrastructure;

✓ legal security of rural producers (ownership for real and unreal estate, protection from poor competition, organization of trade unions, cooperatives);

✓ training of staff on modern agrobusiness, create farming schools, courses, special literature and etc;

✓ enhance social benefits - daily services, medical assistance, modern facilities of information, magazines, books, libraries, cinema. The creation of urban conditions in the villages. Under market-orientation, rural producers stand on behalf of supply - under sale and demand - under acquisition of production resources.

To resolve problems of rural producer - seller (low awareness of market situation, low market price in comparison with production costs, competition of importers) it is recommended:

✓ to create marketing-consulting services, which can forecast the anticipated market situation, and provide rural producer with corresponding information;

✓ fix higher price oriented to cover production costs. The following is available: 1. additional payment for margin between purposeful and market price, 2. Acquisition of non-sold products for purposeful price, i.e. purchasing intervention (the given measure may cover products, produced in mass scale and indicating national specialization);

✓ to create farming reserve - give non-interest credits under security of reserves, estimated through special security prices;

✓ to provide special subsidies for compensation of losses to exporters, i.e. margin between home market and export price.

To support farmer-producer, it is necessary:

✓ to increase public investments in order to create infrastructure, social benefits, develop researches, concerning development and application of up-to-date technologies and know-how;

✓ enhance financial assistance to acquire industrial production facilities (subsidies, beneficial lending, partial release of profits, used to application of technologies, from taxes);

✓ public support to insure rural areas, cattle and etc. through additional payments of insurance compensation or special loans to insurance companies.

✓ Removal of price disparity.

Government should focus on the following aspects: economic development in Azerbaijan is characterized by growing tendencies which make enhancement of public attention to agriculture as objective, particularly:

1. Intensive development of oil factor brings to reduction of production in other economic sectors (refining and processing). According to economic theory, active development of raw material resources is conducted as damage to processing sectors, agro-industrial sector and their export.

2. enhancement of structure elements, pursuant to "Dutch decease", i.e. development of oil sector calls for significant capitals and absorbs tremendous governmental investments.

3. enhancement of currency elements, pursuant to "Dutch decease", i.e. increase of receipts of monetary resources drives up the rate of manat. It makes national products non-competitive, import - attractive for consumer.

4. Main Policies and Reforms that have to be done for entering WTO

For Azerbaijan to successfully enter WTO, the detailed program is required. It is necessary to take into account the following moments:

1) Period of entrance

It should be noted Russia is seeking to unite with Belorussia, Ukraine and Kazakhstan in the given problem and create general trade-economic space, enter WTO as a single block (for example - Kern group). In this context, period of entrance for Russia is till 2007. These countries are the leading trade-economic partners of Azerbaijan and their markets are perspective for Azerbaijan's agricultural output (particularly initial products). Therefore, it is expedient to arrange period for entrance not later than periods of other CIS countries.

2) Program for entrance to WTO

The program for entrance must base upon strategy of economic development in Azerbaijan, which bases on priority of each country and sector in separation. The key aspects of the program:

- ✓ *arrangement of access to the markets of WTO's member-nations;*
- ✓ *arrangement of commitments for Azerbaijan;*
- ✓ *arrangement of national regime for trade with goods and services.*

The fundamental principles of the program in light of poverty:

- ✓ *national economic security;*
- ✓ *international competitiveness of market-oriented subjects;*
- ✓ *support to functioning labor markets and creation of news ones;*

✓ *social support to poor categories of population.*

In order to develop the efficient program for Azerbaijan to enter WTO, Government has to create research base for the whole spade-work and integration stage.

3) Research base under Azerbaijan's entrance to WTO

I. Macroeconomic results

The Government should develop research on macro-economic results of Azerbaijan's entrance to WTO. The document should read forecast on impact of entrance upon fields, assessment of multiple effect in short and long-term perspective; scenario of impact of changes in foreign trade regime on economic growth and dynamic of import-replacing productions, particularly agriculture, textile, food industry, services, tourism. We offer to assess economic results from Azerbaijan's entrance to WTO through the model of equivalent duty, applied by Russia to estimate economic implications from entrance to WTO. Meanwhile, the qualitative results of entrance to WTO must be gained within two methods:

1) method on assessment of economic results of change on import duties by means of static inter-sector model.

2) Method on assessment of economic results of change on import duties within dynamic scenarios. So, it is expedient to apply RIM model, created in the Institute of National Economic Forecasts (Russia).

Within static inter-field models it is necessary to estimate impact of entrance to WTO on fields through calculations on goods and groups of goods.

Goal of assessment is to find out vulnerable, sensitive, perspective and non-perspective fields, goods and their groups.

The results, received under mathematic calculation, on level of import duty for a certain good, import and home production corresponding to the given level, will allow to offer certain levels for import duties for some goods under negotiations.

The document should stipulate assessment of impact of Azerbaijan's entrance to WTO upon regional economy.

II. Social results of entrance to WTO

The document must analyze feasible impact of entrance to WTO upon social indicators of national development, dynamic of profits in the most vulnerable fields and sectors, living level of population, positions of poor categories of population.

The studies on social results must give answers to the following questions:

1) how new foreign trade conditions may affect economic dynamic;

2) whether efficient markets disappear;

3) how reformation may touch upon types of activity where poor categories of population concentrate;

4) how reform may affect some regions in Azerbaijan;

5) how Azerbaijan's entrance to WTO can change profits and employment in the national sectors, particularly agrarian sector;

6) how Azerbaijan's entrance to WTO can create new jobs.

We have to study experience of China which developed CGE model to assess impact of foreign trade on economic and social situation in the country. This model will allow to estimate co-efficient of tariff elasticity on vulnerable fields (elastic employment and salary due to tariffs). is also necessary to work out forecast on dynamic of unemployment with respect to membership

in WTO and without indicators for 2003-2007. These figures will allow to precisely forecasting social results of entrance to WTO (positive or negative).

The key moment for co-relation of foreign trade and poverty is a labor market.

III. WTO and AIS

Taking into account number of employed in agriculture (40% of employees) and level of their profits, it is recommended to kick-start full-scale studies "Agro-industrial sector of Azerbaijan and WTO", covering the following problems:

- ✓ *international trade and foodstuff security in Azerbaijan;*
- ✓ *problems of public adjustment on foreign trade with rural products;*
- ✓ *assessment of co-relation of foreign trade conditions and the most vulnerable sectors of rural economy in Azerbaijan;*
- ✓ *assessment of feasible sale of agro-industrial sector's output, produced in Azerbaijan, in the international markets;*
- ✓ *the most optimal conditions for Azerbaijani agriculture under membership in WTO;*
- ✓ *perspectives for agrarian sector of Azerbaijan within WTO;*
- ✓ *mechanism for protection of agrarian sector of Azerbaijan within WTO.*

Recommendations on legislative base.

I. As a result of studies, we came to conclusion that legislation, applied by Republic of Azerbaijan, lacks fundamental laws to regulate mechanism for protection of home market of domestic production, particularly - agrarian production. These laws are initiated for national interests of WTO's member-nations and available through legal agreements of the organization.

1). *Law "Special Protecting Measures*"**.**

Goal of law. The legal ground for protecting measures applied to product which may cause losses to economic operations of the national enterprises, producing the same or competing product, in the analogue field.

Content of law. The law must stipulate mechanism for identification of serious damage to the national producer: criteria for scale of protecting measures in order to promote refurbishment or adoption of the fields; mechanism for basing and procedure of application of protecting measures; length of protecting measures -maximum up to 4 years with re-continuation for 4 years. The criteria for serious damage should be the following factors: growth of tempos and volume of import in relative and absolute indication. The growth of share of import in the national market, reduction of sales of national products, loading of production capacities, cut of profits of employment in the given sector. The expert group considers the law may really ensure adequate level of protection for initial production sectors, concerning rural products and processed products.

2). Law "Anti-dumping measures".

We consider protection of national producers from import of anti-dumping products needs separate law under growing unfair competition and anti-dumping disputes within WTO. Goal of law. The law must stipulate in details the anti-dumping procedure: criteria of analysis on impact of dumping with assessment of all economic factors (real reduction of sales on national products, production and cut of share of domestic products in the market, decrease of performance, employment, salary and etc.). It should be noted anti-dumping measures must be supported by the domestic producers, ensuring at least 25% of production of the analogue product. The anti-dumping measures (duties) may be applied for up to 5 years.

3). Law on subsidies of compensating measures

Goal of law. The protection of home market and domestic producers from import of products, production of which is subsidized, what is a direct violation of principles of fair competition and runs adverse to WTO's requirements.

Content of law. The law must stipulate mechanism for analysis and investigation on damage, caused to national sectors from import of goods; co-relation between subsidized import and claimed damage.

The compensating measures may last 5 years. But under resuming damage, their period may be prolonged. This law must stipulate the following subsidies, available within WTI:

✓ *assistance for research assistance to poor regions through general regional development;*

✓ *assistance for adoption of existing infrastructure with new environmental requirements;*

✓ WTO permits to apply the following subsidies, being of great importance for Azerbaijan. Within these subsidies, the Government of Azerbaijan may help agrarian producers (indirect assistance).

4). Law "Quality and security of foodstuff and raw material".

I. The law must stipulate national system of quality and security, based upon scientific standards; requirements to packing and marking; sanitary-hygienic norms, ecological and biological normative. The law must stipulate mechanism to prove need in protection of consumers.

II. The studies showed farms are vulnerable and risk from annual climate catalysts is high. Taking into account low commercial attractiveness of insurance on agrarian risks from poor harvest, it is important to amend the law "Stimulation of insurance on farms". Particularly, it is offered to draw in mechanism for 50%budget subsidizing of insurance.

III. Besides, expert group offers to discuss need to approve such laws as "Certification of products", "Protection of competition at the market of financial services".

Recommendations on Customs Tariffs

Tariff policy for period of entrance should have multiple functions:

✓ *protecting for sectors vulnerable to import;*

✓ *stimulating in relation to domestic producers;*

✓ *fiscal (increase of revenue).*

The basis for tariff proposals of Azerbaijan needs scientific reasoning. The basis of customs duties (particularly for rural products) should base upon the following factors:

✓ *social-economic situation in agriculture and agro-industrial sector;*

✓ *need in structure reconstruction;*

✓ *impact of customs tariff on production volume, loading of production capacities, volume of investments, number of employees.*

What should be taken into account under tariff policy?

✓ *small territory of Azerbaijan, changes in consumption of which exert no impact on global prices;*

✓ *level of customs taxation should be increased in parallel with increase of processing degree (tariff escalation);*

✓ *level of duties for rural products must be over than those for industrial duties;*

✓ *complicated (multi-column) tariff per good provides better measurability in the customs policy;*

✓ *active use of seasonal duties till harvesting allows to regulate saturation of home market and protect vulnerable sectors;*

- ✓ *high tariffs allow to back up level of profits raised by farmers.*

II. The key goal in the customs policy is to secure home market and producer in regard to long-term perspectives of national economic and foodstuff security.

To achieve the aforesaid goal it is offered to apply differential structureof import customs duties as follows:

- ✓ *mercantile goods, important for national production - 0%;*
- ✓ *non-perspective groups of goods - 5-10%;*
- ✓ *vulnerable mercantile groups - 15-20%;*
- ✓ *vulnerable mercantile groups - 100-200%.*

The main criteria for classification of goods are as follows:

- ✓ *priorities of development in economy and sectors;*
- ✓ *opportunity to produce goods due to nature-climate, technical-technological conditions;*
- ✓ *perspectives on export orientation of sectors;*
- ✓ *level of profits and poverty in some sectors.*

The transition period for each good, for which reduction is envisaged, should vary from 3 up to 7 years.

III. Level of customs protection of Azerbaijani economy is comparatively low in comparison with WTO's member-nations and it ensures opportunities for flexible policy during negotiations. The main principle for negotiations on tariffs must be not cut of duties on goods since as soon as Azerbaijan enters WTO but upon expiration of transition (implementation period). The final level of connection may be lower than initial (by 3-5%) but only in the sectors where reduction exerts no serious impact on domestic producers. The compromise on connected tariffs is available in those goods, import of which is important for Azerbaijan.

IV. The principle moment is the level of tariff protection on vulnerable goods. The rates on these goods must be connected with respect to real level of support which the Government can ensure in medium-term perspective as well as volume and norms, permitted by WTO.

Conclusion

People have different views of the WTO's "multilateral" trading system and of the WTO as a forum for countries to thrash out their differences on trade issues. Critical remarks about the WTO, however, are often based on an improper understanding of how the system works. There is thought that The WTO dictates state policy to member government**s.** This is not true. The WTO does not tell governments how to conduct their trade policies. Rather, it's a "member-driven" organization. WTO agreements result from negotiations among member governments, decisions are made by consensus and are ratified by all members' parliaments.

The only occasion when a WTO body can use an enforcement mechanism and thus have a direct impact on the government's policies is the case of a ruling given by the Dispute Settlement following filing the complaint about it to the WTO.

Another misunderstanding is that WTO membership results in loss of sovereignty by its members. In fact, the WTO is in no way different from other international organizations, which do not require from their member states to delegate any part of their national sovereignty. The WTO does not regulate property issues, macroeconomic, structural, antimonopoly policy, currency exchange policy, budget issues, investments regime (except investments in the services sector, as well as trade related investment measures); it does not interfere with defense and security issues. Any trade agreement, and this is also true for the World Trade Organization, does not prevent member governments from withdrawal from it, when they consider this necessary.

Some people think that The WTO is for full liberalization of market access and for free trade at any cost. However though one of the principles of the WTO system is lowering the trade barriers by the countries thus allowing for freer trade flows, how low those barriers should be is bargained by the member countries. Their negotiating positions depend on how ready they feel they are to lower the barriers, and on what they want to obtain from other members in return. So, in the process of WTO accession new members may stick to the acceptable level of tariff protection for goods and services market.

Some people can say that commercial interests in the WTO take priority over development. Free trade boosts economic growth and maintains development. This fact is underlying the WTO's trading system. At the same time, whether or not developing countries gain enough from the system is a subject of continuing debate in the WTO. The WTO agreements include many important provisions that specially take developing countries' interests into account. Developing countries are given a longer transition period to apply numerous provisions of the WTO agreements. Least developed countries (LDCs) are granted special treatment, including exemption from many provisions. The developmental needs can also be used to justify actions that might not normally be allowed under the agreements, for example governments giving certain subsidies.

Most of countries think that small countries are powerless in the WTO. However in WTO trading system everyone has to follow the same rules, which increases the bargaining power of small countries. As a result, in the WTO's dispute settlement procedure, developing countries have successfully challenged some actions taken by developed countries. Without the WTO, these smaller countries would have been powerless to act against their more powerful trading partners. Both developing and developed countries should be ready to make concessions in the

course of negotiations. The Uruguay Round (1986-94), for example, was only possible because developed countries agreed to reform trade in textiles and agriculture – both issues were important for developing countries.

The rules of WTO can bring profits only if the industry of the country is ready to the competition and adaptation. If it is impossible now then in near future country will lose and only in future after long period can benefit from the membership.

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