

## Corruption in Azerbaijan

Statement submitted by Khadija Ismayilova, Azerbaijan

November 19, 2014

Dear Mr Chairman:

I am grateful to the U.S. Helsinki Commission for holding this very important hearing and for giving me the opportunity to speak about corruption in Azerbaijan.

I am a contributor to Radio Free Europe/Radio Liberty, which is a leading source for independent news for Azerbaijanis, despite being banned on local broadcast frequencies in Azerbaijan. The radio has the leading role in uncovering corruption in the country.

Azerbaijan has joined the Open Government Partnership, initiated by U.S. President Obama and Brazilian President Rousseff in 2012. In a letter of intent in October 2011, Azeri Foreign Minister Mammadyarov informed his American counterpart U.S. Secretary of State Hillary Clinton about Azerbaijan's long history of combatting corruption. Azerbaijan has undertaken number of commitments within the context of its participation in OGP, including access to information. However, in the very same 2012, Azerbaijan has changed its legislation to restrict access to information.

Since June 2012, when the laws "On state registration and state registry of legal entities" and "On commercial secrets" have been amended, information about the founders of commercial legal entities and their shares in the charter capital is considered confidential.

With the same legislative move the law "On the right to obtain information" had been changed. The new version of the law states that information deemed contrary to the purposes of the protection of political, economic, military, financial and credit and monetary interests of the Republic of Azerbaijan, to the protection of public order, health and morality, protection of rights and freedoms, commercial and other economic interests of other individuals, ensuring the prestige and impartiality of the court, shall not be released even following information requests.

These legislative actions were the government's response to a series of journalistic investigations revealing high level corruption and conflicts of interest, including involving the president's family.

The facts cited in those investigations show that the families of the Azerbaijani president and several ministers are beneficiaries of monopolies in most of the non-oil sector of the economy. Thus, the president's daughters control more than 70 percent of mobile communications and one of two backbone internet providers, control assets in the three biggest holding companies (AzEnCo, Pasha Holding and Ata Holding) and several banks. The holdings and companies controlled or linked to the president's family enjoy biggest public contracts. In most of the cases the ownership of the companies has been hidden behind a chain of offshore companies registered in Panama and British Virgin Islands.

Most high-profile visitors to Baku, including members and staffers of the U.S. Congress, stay in the Four Seasons Hotel, which is part of the president's family's company. Over 30 architectural sites, including part of the ancient city wall, were destroyed during the construction of the hotel. This and several other business endeavors of the president's family have cost many ordinary Azerbaijanis their property. The citizens have failed to restore their property rights in the courts

of Azerbaijan. Those whom the government has failed to intimidate have sought justice in the European Court of Human Rights.

Even the construction of the National Flag square, which was presented as a symbol of pride for Azerbaijanis, has become an unfortunate example of corrupt practices. The government allocated 30 million AZN (\$38,5 millions) to build "the highest flagpole in the world." The 162 meter - high flagpole kept its supremacy only for several months, as Tajikistan, another OSCE member country also leading in corrupt listings, has built one that is higher by two meters. The contract for building the flag square was granted to AzEnCo, a company owned by President Aliyev's daughters.

Azerbaijan is a part of the Extractive Industry Transparency Initiative since 2004. As in many other global initiatives, the Azerbaijani government uses the membership as an argument against criticisms of corruption. The country is currently under scrutiny by EITI, as one of the main parts of the Initiative - civil society - is paralyzed and cannot serve as a watchdog. In non-oil extractive industries government-linked monopolies have a huge stake. In 2007 the government of Azerbaijan signed a contract to develop six gold and copper mines with a consortium that is co-owned by President Aliyev's daughters.

The oil-related extractive industry is partly under oligarchic control as well. Offshore companies, hiding Azerbaijani names and linked to the State Oil Company's management or the president's family's businesses, appear as partners in joint ventures, winning oil production and trade contracts.

Investigations also reveal that the transportation minister's son and his business partners enjoy exclusive opportunities in the public transportation sector of Azerbaijan. The money, the source of which is highly questionable, is being invested by Mr. Anar Mammadov in lobbying activities in the United States through the Azerbaijan-America Alliance. The lobbying events are attended by number of the U.S. Congress.

Unlike U.S. officials and members of Congress, Azerbaijani officials and members of parliament do not file asset declarations. The Azerbaijani president signed a decree requiring to do so, but none of the officials, including the president himself, has ever filed a declaration, referring to the fact that the Cabinet of Ministers has neglected to create a template for such a document.

The candidates for the presidency and parliament are required to fill in a form declaring their assets, however, this information is not provided. I sued the Central Election Commission for refusing to provide this information.

Investigations reveal that some members of the Azerbaijani parliament own businesses. A constitutional requirement to stop their mandate in case of a conflict of interest is neglected.

Corruption in Azerbaijan undermines not only the well-being of the country's citizens but also endangers the country's independence. Corruption in education and healthcare puts people's lives at risk, and as a solution, they seek remedy in neighboring countries.

You might have heard many times from Azerbaijani interlocutors that the country exists in very difficult geography: it is sandwiched between Russia and Iran. These are the two main destinations for people who fail to find healthcare and jobs in Azerbaijan. Monopolies and corruption in Azerbaijan have created a huge problem with the availability of basic services. According to WHO data, Azerbaijanis pay 70 percent of their healthcare expenses, even though the country claims to provide medical care for free.

The country has failed to establish an insurance system. The Soviet style healthcare management is corrupt, and the failure of the education system and drug monopolies make it impossible for Azerbaijanis to receive even basic medical services in the country. The solution is right there, next door, in Iran. Azerbaijani citizens enjoy healthcare services there at far more affordable prices than in their own country. Iranian government and private clinics attract more Azerbaijanis by providing special promotion packages. According to the Iranian embassy in Baku, every year 800,000 citizens out of a population of ten million Azerbaijanis travel to Iran for healthcare.

Millions of Azerbaijanis still depend on remittances coming from guest workers in Russia - those Azerbaijanis who could not find opportunities in their own oil-rich country and have left to earn their living on the territory of their northern neighbor.

Azerbaijanis will feel the full impact of corruption and mismanagement when the oil money runs out. A devastated economy and environment, in addition to the lack of savings for the future, may become a cause of societal unrest in foreseeable future. Seventy percent of Azerbaijan's budget comes from oil production. Oil is the main commodity of Azerbaijan, making up 92 percent of its exports.

Oil fuels corrupt construction projects, which create temporary employment. The so-called "white elephant" projects like the concert halls for Eurovision or stadiums for the Euro Olympics will hardly return investments and help Azerbaijanis earn a living in the post-oil period.

The state procurement system has become more transparent in the past two years, however it still fails to allow access to information enabling citizens to monitor procurement procedures. Even with minimum access to information, using public sources, journalists have revealed facts of corruption.

Azerbaijani journalists and NGOs combatting corruption pay a personal price for these efforts. The country's broadcast media is under state control, Azadliq newspaper, the only newspaper that publishes investigative reports about the president's family, is barred from nationwide distribution and faces financial difficulties, and RFE/RL, BBC and VOA are banned on local broadcast frequencies. Online penetration is not good enough for the internet to become a substitute for TV. Weekly satellite TV programs from abroad are being jammed. The individual journalists who investigate corruption are being punished by intrusion into their privacy and smear campaigns in pro-government and the ruling party's media, and they are labeled enemies of the state. In some cases the journalists are being subject to enormous libel fines, even in cases when their story was not libelous.

The latest wave of pressure on NGOs has targeted the remnants of the research centers and media support institutions. The bank accounts of those NGOs are frozen, and leaders have had to leave the country or hide.

With the downgrading of the OSCE's mandate inside the country, most of the projects related to media and combatting corruption have stopped. The government of Azerbaijan has not approved any of the media-related proposals of the Baku project coordinator's office.

Investigative journalists in Azerbaijan have done their best to show the government where the problems are. In fact, the system of corruption in Azerbaijan is managed from the top, and top government officials are the main beneficiaries of corruption. Recent reforms made the

corruption even more centralized, leaving less room for low-level officials to participate in corruption schemes.

And here I want to mention a positive part of the story. I want to single out the partial reform of the public service, in particular the establishment of so-called ASAN (easy) services. ASAN is an agency of the Azerbaijani government which provides a variety of public services to citizens. Services are made available at public service halls throughout the country. Currently, ASAN endeavors to provide over 50 services at the main location in Baku.

These islands of good governance show that the Byzantine style of business is not a destiny for Azerbaijanis, and that public servants can be professional and effective when they wish. Although there are some open questions related to ASAN procurements, the agency has decreased petty corruption in many areas of service. However, the service is yet to become a nationwide provider of public services and lacks authority in key areas like custom clearances, NGO registration, etc.

Even these islands of good governance though cannot reduce all the risks. Does the Azerbaijani government understand the risks of corruption? It probably does, although the overall system is based on every citizen's contribution to corruption and lies. As Alexander Solzhenitsyn has described in his essay, "Live Not By Lies," the system, designed by the Soviet KGB, depends on everyone's participation. Azerbaijanis are tempted to pay bribes to ease their lives on many occasions every day. The country has failed to complete the land and property registry of the capital city, leaving up to 500,000 households outside the law. Doctors and teachers, who receive \$150 monthly salary, are forced to demand bribes. An analysis of cross-border trade statistics of neighboring countries shows that Azerbaijani customs have hid imported goods worth billions of dollars. The non-registered goods end up in the black market and create illegal businesses. Hundreds of thousands of Azerbaijanis have become forced accomplices of the corrupt system, thus becoming vulnerable and silent, making it easier for the government to suppress and rule.

Here I want to speak on how the global powers of the international community can help Azerbaijanis to stop living by lies.

## CONCLUSIONS

International institutions must pay more attention to the development of investigative journalism. Bad guys know how important investigative journalism is, and they invest a lot of money in buying out the broadcasters and silencing journalists. Good guys should know its importance as well.

The Azerbaijani government had been successful in jamming hour-long satellite TV programs, but it will be impossible for them to jam 24/7 programming. Azerbaijanis should receive 24/7 TV broadcasts of independent content which will not only inform the citizens on what is going on inside the country, but also become an alternative source of news to what is coming from Russia.

Azerbaijan needs to be held accountable to the Open Government Partnership and fulfill its commitments by granting access to information and by stopping harassment of journalists.

*These remarks are submitted in my individual capacity, and do not necessarily represent the views of RFE/RL.*

*\*Below are articles written from Radio Free Europe/ Radio Liberty*

## **Azerbaijani President's Family Benefits From Eurovision Hall Construction**

By Khadija Ismayilova  
May 09, 2012

Later this month, the eyes of the world will be focused on a shimmering glass-and-steel building newly erected on the shores of the Caspian Sea to welcome the pop stars and television crews from the more than 40 European countries that will broadcast the Eurovision Song Contest 2012 spectacle.

Azerbaijan won hosting rights to the popular extravaganza last year, when its pop duo of Ell and Nikki sang their way to victory in Eurovision 2011. The Azerbaijani government responded proudly with plans for a new \$134 million concert showplace called the Crystal Hall, which seats 23,000.

Finished only a few weeks ago, it was a tense race to get the venue ready in time. Its importance was signaled by the frequent visits made by President Ilham Aliyev and First Lady Mehriban Aliyeva to the bold geometric structure as it rose amid the construction site.

But their interest was not just ceremonial and patriotic. An investigation by the Organized Crime and Corruption Reporting Project (OCCRP) and RFE/RL has discovered that the first family is personally profiting from the massive construction project through its hidden ownership in the Azenco construction company.

The company contracted for the work has long been identified in all official announcements as Germany's Alpine Bau Deutschland AG. Yet some of the equipment at the construction site is stamped with the company name Azenco. Rolf Herr, a representative of Alpine Bau in Azerbaijan, described Azenco as a subcontractor.

He would give no other details of its involvement. The Alpine Bau press office in Germany did not respond to questions about how subcontractors and vendors had been chosen.

### **Front Companies**

Azenco is owned through a series of front companies that mask the real owners. The official newspaper of the agency for privatization of state property in Azerbaijan announced in 2010 that Baku-based Interenerji MMC acquired 97.5 percent of the shares of Azenco.

According to privatization records from March 2010, ADOR MMC, another Baku-based company, controls 70 percent of the ownership of Interenerji. Company registration documents list ADOR's legal address as "7 Samed Vurgun Street." The registered occupants of that address at the time were Mehriban Aliyeva, Leyla Aliyeva, and Arzu Aliyeva, the wife and daughters of the president, respectively.

In 2010, RFE/RL investigated the privatization of the State Aviation Company's infrastructure, including Azalbank (currently Silkwaybank), which also has as a registered shareholder Arzu Aliyeva, residing at the same address. Presidential spokesman Azer Gasimov at the time confirmed that the shareholder was indeed the president's daughter.

Gasimov did not respond to repeated phone calls and a written inquiry about the presidential family's connection to Azenco and the appearance of a conflict of interest if Azenco is profiting from state-funded construction projects.

### **Predating Eurovision?**

Eurovision 2012 event coordinator Sietse Bakker said it was not the proper organization to answer questions about the first lady or the Crystal Hall construction.

Bakker said the city of Baku commissioned the multifunctional indoor venue before Azerbaijan won Eurovision. "We have no involvement with the construction of the hall, so you should ask this question to the responsible authorities," he said.

Official records do not support Bakker's contention. Presidential Order 1620, from July 2011, to build the concert hall, came after the May Eurovision victory.

"I have not seen written records," Bakker said, "but it doesn't take much to realize that there is quite a lot of planning going into the construction of such [a] venue."

### **Very Expensive Flag**

The Crystal Hall is the second project to raise conflict-of-interest questions about Azenco.

It also helped construct the grandiose \$38 million State Flag Square near the Crystal Hall, which briefly held the "Guinness Book of World Records" title for tallest flagpole in the world.

An enormous Azerbaijani flag flies above the construction site of the Crystal Hall on the Caspian shoreline in Baku earlier this year.

A few months after it was put up, Azerbaijan's 162-meter flagpole was surpassed by an even taller flagpole in Dushanbe, Tajikistan.

Two-thirds of the cost of the square in Baku came from the Reserve Fund of the head of state by presidential Decrees 532 (October 26, 2009) and 1052 (August 3, 2010). The other one-third came directly from the 2011 state budget in accordance with a decree by the Cabinet of Ministers 260 S (August 25, 2011).

A spokesman for the cabinet, Akif Ali, refused to respond to questions about how Azenco came to be chosen as a partner in the project.

### **Looting State Coffers**

Azenco has been employed on numerous state-funded projects less showy but possibly no less profitable than the Baku work. State Procurement Agency records show that in 2010 alone the company was awarded contracts worth \$79 million. The company also recently gained control of Sumqayit Technology Park, a former state-funded enterprise started by Azerenerji, the government-owned energy producer.

Azer Mehtiyev, director of the Center for Assistance to Economic Initiatives, a politically independent think tank, says Azenco looks like a clear example of a scheme to "misappropriate" some of the country's oil wealth.

"With the big oil money flowing into the budget, a parallel process of monopolization of spheres of economy, redivision of state property...[made] way for the misappropriation of revenues," Mehtiyev said.

"Big infrastructure projects financed by oil revenues are mainly distributed to companies which belong to high-ranking officials. The government keeps the information about owners of the companies secret. The state contracts are assigned to companies established in offshore zones with unknown owners making public control over the process impossible," he added.

According to Mehtiyev, it is especially difficult to get information about the business interests of the president's family.

### **Anticorruption Talk, No Action**

Azerbaijan adopted an Anticorruption Law in 2004 that obliges officials to declare the income and property holdings of themselves and their relatives.

In August 2005 (order No. 278), the president ordered the Cabinet of Ministers to prepare a special form on which officials would give that information within two months. But the forms were never drafted and officials never provided the information. It is not clear if the president or the first lady, who is also a member of parliament, have submitted declarations in the past decade.

The presidential administration and the Central Election Commission will not respond to questions about their property. A written inquiry sent to the first lady's website was not answered.

In January 2011, President Aliyev declared that the government would take serious measures against corrupt officials.

The 2012 Eurovision event will have one other tie to the first family besides the new showcase auditorium: The president's son-in-law, singer Emin Agalarov, was chosen to entertain the crowd between acts.

# TeliaSonera's Behind-The-Scenes Connection To Azerbaijani President's Daughters

By Khadija Ismayilova  
July 15, 2014

Through a trail of owners and offshore registrations, the two daughters of President Ilham Aliyev appear to be connected to Azerbaijan's largest mobile phone business, Azercell.

Records indicate they are linked to two of the three largest providers, which means the government is potentially controlling nearly three-quarters of the mobile market.

This raises serious questions about Internet surveillance and communications security within Azerbaijan and may help to explain complaints about costly service.

It also indicates more unusual ties between Swedish telecom giant TeliaSonera and Eurasian political figures than the company has publicly acknowledged, according to documents reviewed by the Organized Crime and Corruption Reporting Project (OCCRP) and (RFE/RL).

It has been a difficult 18 months for TeliaSonera.

In late 2012, Swedish TV and OCCRP revealed that TeliaSonera was being investigated for bribery in connection with \$320 million paid to a company run by a close friend and business partner of Uzbekistan's ruling family in order to obtain a 3G license in that country.

In Azerbaijan, the surreptitious links between the ruling family and the country's mobile phone companies raise questions about how real the competition can be among the top companies.

The answers lie in a complex web of offshore and business records that connect Azercell, the company's largest mobile provider, to the Aliyev daughters. TeliaSonera owns nearly 40 percent of Azercell.

After the affair in Uzbekistan, TeliaSonera changed its management roster and vowed to overhaul business practices and ethical standards. Company officials, however, refuse to discuss any specific actions they have taken or are taking in Azerbaijan.

Today Azerbaijan's telecom market is split between Azercell, Bakcell, and Azerfon. And while the Aliyev daughters' ownership of Azerfon has been widely reported, newly examined documents reveal a close connection between the Aliyevs and Azercell as well.

Azercell, with nearly half of the market, was established in 1996 by the government of Azerbaijan and its parent company Azertel, which at that time was a subsidiary of Turkcell in Turkey.

Since then, TeliaSonera has bought shares in Azercell through an offshore subsidiary called Fintur Holdings. The Swedish firm also owns shares of Turkcell.

The second-largest provider is Bakcell, with about one-third of the market. It was established in 1994 by the government and GTIB 1996 LTD, registered in the British Virgin Islands, a well-known offshore tax haven. It is unclear who ultimately controls Bakcell.

The third-biggest provider is Azerfon, with about one-fourth of the market. As reported previously, 72 percent of Azerfon shares is owned by Leyla and Arzu Aliyev, daughters of the Azerbaijani president.

To understand the connections between the companies, follow the paper trail of a Swiss national named Olivier Mestelan, who has frequently served as secretary in companies owned by the Aliyev daughters and whose name keeps popping up in telecom records.

For example, Azertel is the parent company of Azercell. TeliaSonera's partner in Azertel -- a company called Cenay Iletishim -- is represented by Mestelan. Mestelan also shows up in records of Azerfon.

This means figures linked to the Aliyev family control nearly three-quarters of all mobile communication providers, including mobile Internet, and are capable of monitoring phone calls and website visits on a massive scale.

Media watchdogs say these hidden connections behind the ownership of mobile-phone operators raise serious questions about Internet freedom and the extent to which government officials may be listening to citizens.

Rashid Hajili is the director of the Media Rights Institute in Baku, which monitors media and protects journalists' rights. He says the Internet is heavily monitored by the Azerbaijani government, which has a history of blocking websites that criticize it.

Hajili says the Ministry of Communication requires all communication companies to provide equipment and special facilities to the Ministry of National Security for surveillance. But while the companies have cooperated with Azerbaijani law enforcement in cases involving journalists and bloggers, Hajili says media rights advocates haven't received information needed to defend those journalists.

Defense lawyer Elchin Sadigov says Azerbaijan's mobile companies don't even seek court approval to listen in, as required by law. "The court-order requirement was neglected in the case against journalist Avaz Zeynalli, when his colleagues -- all of them journalists working for the 'Khural' newspaper -- had been illegally monitored," he says.

"All of the phone operators, including Azercell, provided access to recorded phone conversations without due legalities. The same happened in the case of the journalist Parviz Hashimli. In this case the investigation was conducted by the Ministry of National Security and, according to the indictment, they had full access to phone conversations."

Amnesty International has declared Hashimli and Zeynalli "prisoners of conscience."

Recent cases show how dangerous it can be for a government to have this much power.

Agil Khalil, a reporter for the Azadliq newspaper, has sued Azerbaijani mobile operator Azercell in the European Court of Human Rights and is awaiting a verdict.

Khalil, who fled the country in 2008 after a series of attacks on him, has accused the Azerbaijani government and the mobile phone operator of plotting against him.

In 2008, Khalil was stabbed in the chest after publishing an article alleging that employees of the Ministry of National Security were involved in corrupt land deals in Baku. According to the Media Rights Institute, Azerbaijani law enforcement tried to present the attack as irrelevant to his work and to start a smear campaign against him, alleging that the journalist was stabbed by a jealous homosexual lover, Sergey Strekalin. The rights institute has led Khalil's defense.

Khalil, who says he is not homosexual and has never met Strekalin, demanded that law enforcement investigate and punish the real attackers. Law enforcement ignored that and Strekalin, who testified on behalf of the prosecution, served less than half of a 1 1/2-year prison term.

The prosecutors' office alleged that they had SMS exchanges between Khalil and Strekalin, provided by Azercell. Azercell, however, refused to provide those messages to Khalil or his lawyers. Khalil maintains that the messages are fraudulent and that he never sent them.

Activists say it is not only journalists who are victims of illegal activities involving the telecommunications companies.

When Nigar Yagublu, a youth activist and daughter of opposition party member Tofiq Yagublu, was facing trial for a car accident, she learned that both her phone and that of her father were being tapped.

Investigators claimed that they obtained a court order permitting the wiretapping on the same day the investigation into the accident began. However, the indictment quoted conversations that took place immediately after the accident, proving that the listening had been underway before a court order could have been in place.

### **Competing Companies, Same Signature**

When TeliaSonera's subsidiary Azercell entered the Azerbaijani market in 1996, it was a joint venture between the government and Azertel, a Turkish company whose owners were Fintur Holdings (79.8 percent) and two Turkish companies: Cenay Iletisim and Cenay Insaat (10.1 percent apiece). TeliaSonera is the majority owner of Fintur Holdings.

In November 2005, two Panamanian companies -- Dilsan Investment SA and Colville Group SA -- bought Cenay Iletisim for 8.85 million Turkish liras (US\$ 6.6 million). In Panama, it is easy to hide true ownership of a company behind proxy names; the incorporation documents were signed by Olivier Mestelan, while his name didn't appear as an officer.

That same year, a new communications company -- Azerfon -- entered the country's mobile phone market. The government bypassed tender procedure laws to grant Azerfon its license. Six years later -- in 2011 -- journalists discovered that the Aliyev daughters owned 72 percent of Azerfon through three Panamanian companies.

Leyla and Arzu Aliyeva alternate in the role of either president or treasurer of all three Panamanian companies, while Mestelan is listed as secretary of all three. Mestelan is a well-known figure in Baku who owns a high-end art gallery. His perceived relationship with the Aliyev family earned him a spot on a short list of people "of particular interest" compiled by the US State Department.

Mestelan has been profiled by "Baku" magazine, published by Leyla Aliyeva in Moscow. She is also an editor in chief.

Mestelan also sits on the advisory board of Ata Holding, owned largely by a Panamanian company, Hughson Management, where Arzu Aliyeva is president, sister Leyla is treasurer, and Mestelan is secretary.

Mestelan is also connected to one of the companies that owns Azercell. His signature appears on the Panamanian incorporation for Dilsan Investment, but documents do not list any position he holds. A search in the Turkish Official Business Gazette finds Mestelan listed as a signatory for both Dilsan Investments and Colville Group, the two Panamanian companies that bought a 10.1 percent share of Azercell in 2005.

In 2008, the government of Azerbaijan sold its 35.7 percent share of Azercell to its Turkish-Swedish-Panamanian partner Azertel for \$180 million. After the Azertel partners each raised their investment stakes by varying amounts, Fintur Holding owned 51.3 percent, Cenay Iletisim owned 42.2 percent, and Cenay Insaat owned 6.5 percent.

It was a lucrative deal for the Cenay Iletisim owners. According to Azertel financial reports listed in the Turkish Official Business Gazette, from 2006 to 2012 Cenay Iletisim received dividends worth at least \$249 million while investing only \$95 million, for a profit of \$154 million.

Despite its indirect links with the ruling family, Azercell spent six years trying to get a license to provide 3G service to its mobile phone customers. Azerfon -- the competing company controlled by the Aliyeva sisters -- held the 3G monopoly until the end of 2011.

At about the same time that Azercell finally received a 3G license, a newly-formed company, FA Invest Malta Limited, took over the 6.5 percent shares from Cenay Inshaat. FA Invest was incorporated in Malta and its ownership structure is hidden.

But according to the Turkish Official Business Gazette, Azerbaijani citizen Hamzayev Rashad Firidunoglu was appointed to represent FA Invest Malta Limited at Azertel board meetings. A person by the same name is a major in the Special State Guard Service, responsible for the President's personal security. His name appears on a list of Guard Service employees who received special awards "For the service to motherland" from Aliyev in 2010.

Hamzayev did not respond to a request for comment.

In its 2013 annual report, TeliaSonera noted the formation of a new Sustainability and Ethics Committee and listed "anti-corruption" as a focus area.

When asked about the ownership of Azercell and whether the company had begun to take promised measures, including renegotiating or even terminating agreements with business partners, Salomon Berkele, head of external communication for TeliaSonera, said the company would go into no further detail beyond the goals stated in the annual report.

### **The Appearance Of Competition**

The near-monopoly on mobile phone service may also be driving up prices.

Baku resident Jahangir Alibeyzade juggles daily with three phones. He says the only way to afford phone communication in Azerbaijan is to have simcards from three different operators. Calls between carriers are too expensive. Even with this trick, mobile communication tariffs are still too high, Alibeyzade says.

Azerbaijan charges one of the most expensive mobile call tariffs in the area:

Kamal Mahammadli, who also uses three SIM cards, says operators charge nearly the same rates because there is no real competition. Alibeyzade also thinks there is no free market. Ahmed Mahmudov, who lives in the town of Agdash and works in a shop selling construction materials, has his own explanation for why he couldn't choose among the three operators.

“They claim they have different campaigns and cheaper prices, but at the end of the month you see that you didn't pay less for using their services,” he says.

Asked why the existence of three competitors doesn't reduce prices, Mahmudov says, “Your logic doesn't work here. We have our own logic in this country.”

The Azerbaijani government and the three companies claim there is competition. A deeper look into incorporation documents tells a different story.

# Azerbaijani Government Awarded Gold-Field Rights To President's Family

By Nushabe Fatullayeva and Khadija Ismayilova

May 03, 2012

BAKU -- Novruz Allahverdiyev, 40, lives in a mud house in the village of Chovdar, a small mining town in the mountainous region near the border with Armenia. He is one of 800,000 internally displaced persons from the war with Armenia that battered his native Nagorno-Karabakh region in the early 1990s.

Allahverdiyev and members of 60 other displaced families found shelter and a place to farm in the mountains around Chovdar. Like many in his predicament, Allahverdiyev is patriotic, and the walls of his poor home are plastered with pages from an aging calendar featuring portraits of President Ilham Aliyev and his late father, former President Heydar Aliyev.

Allahverdiyev's family now faces yet another problem. A British mining company has taken over some of his land and has blocked one of the two streams his village relies on for water. Allahverdiyev is sure President Aliyev will help him and his community.

But his faith may be misplaced. What Allahverdiyev doesn't know is that the president and his family own a stake in the new mine. The U.K. company is actually a front for the first family.

In two 2007 decrees, the state assigned the right to develop the Chovdar gold field and five other sites to a company called Azerbaijan International Mineral Resources Operating Company, Ltd. (AIMROC). AIMROC -- which controls a 70 percent stake in the mines, while the Azerbaijan government controls 30 percent -- has been building the infrastructure for the Chovdar mine and is expected to begin production this year.

## Panamanian Trail

But sorting out AIMROC's structure is a daunting task. While Chovdar locals blame the "ingilis" (English) for their woes, the truth is quite different. AIMROC is a joint venture of four companies: Londex Resources, S.A, Willy and Meyris S.A., Fargate Mining Corporation, and Globex International LLP. All four are shell companies that, according to Azerbaijani officials, were set up specifically for this deal. It is unclear if any of them have any mining experience or other mining projects.

A fifth company -- Mitsui Mineral Development Engineering Co Ltd (MINDECO), a mining-engineering company owned by Japan's Mitsui Mining and Smelting Company -- is listed as the official project supervisor, but has no ownership.

Of the four AIMROC owners, the only U.K.-based company is Globex International, which has an 11 percent stake, worth about \$200 million. But Globex is actually owned by three companies registered in Panama: Hising Management SA, Lynden Management Group, Inc., and Arblos Management Corporation. According to Panamanian registration records, all three firms list President Aliyev's two daughters -- Leyla and Arzu Aliyeva -- and Swiss businessman Olivier Mestelan as senior managers.

Mestelan has long had close ties to the Aliyev family. He has organized artistic events with them and, together with Leyla and Arzu, appears in the records of other Panamanian companies being

used as fronts for businesses in Azerbaijan, including the Azerfon cellular-services provider. Mestelan declined to be interviewed for this story.

Aliyev's office refused to answer questions about his family's business interests in the gold fields. Presidential spokesman Azer Gasimov did not return phone calls and did not respond to questions submitted in writing.

### **Opaque Decisions**

AIMROC has been controversial from its beginning. The consortium was formed by a 2006 presidential decree that identified Globex as part of the consortium. In 2007, AIMROC was awarded 30-year leases on the mineral fields.

Chovdar alone is a lucrative parcel. According to the Azerbaijani Environment Ministry, it contains reserves of 44 tons of gold and 164 tons of silver, worth about \$2.5 billion at current prices.

The contracts were awarded to AIMROC hastily and over the objections expressed by many members of parliament during hearings held in June 2007. Lawmakers complained that the consortium's ownership was opaque; that the contract was awarded in violation of bidding procedures; that none of the companies had any history of mining; and that the deal was contrary to Azerbaijan's national interests. During the hearings, deputy Valeh Aleskerov, chairman of the parliamentary Natural Resources Committee, defended the deal. He said the creation of offshore companies was "a common practice around the world" and that no tender was issued because of the uncertainty about how much mineral wealth there was. Instead, he said, the government held talks directly with potential investors.

The Environment Ministry's chief geologist, Agamahmud Samedov, told RFE/RL that the estimates of the other five fields are classified. He also declined to comment on AIMROC's ownership or its lack of mining experience.

When asked last month about AIMROC's ownership, Aleskerov said, "Do you think the Azerbaijani government would contract with someone unknown, with just anyone from the street?" When asked if the Aliyev family has any financial interest in the project, Aleskerov said only "Shame on you!" and hung up.

### **Professional Proxies**

Parsing the rest of AIMROC's structure is more difficult. Londex Resources and Fargate Mining are registered in Panama, according to documents obtained from the Panama Registry of Companies.

The documents indicate that the companies are interrelated through a complicated chain of company directorships. All three are or were at one time owned by two companies registered at the same address on the tiny Caribbean island of Nevis: Casal Management and Tagiva Management.

Casal and Tagiva act or acted as the director for at least 20 companies in the United Kingdom, the United States, and Panama. It is likely that the companies are professional proxies used to hide actual ownership.

According to a document of the Tax Registry of Azerbaijan, Willy and Meyris S.A. (listed in some documents as Will & Meyris S.A.) is represented by a Czech geologist, Mirko Vanecek, the executive editor of "The Journal of Geosciences" in Prague.

### **'The President Is A Good Person'**

Meanwhile, back in Chovdar, locals are looking forward to a rumored visit by President Aliyev to mark the opening of an ore refinery the consortium has built.

"We have heard that president will come to the opening ceremony of this factory," villager Paneh Huseynov says. "Please tell our president to come and visit us. Tell him we support his policies. We will not be allowed to approach him. Please, we ask him to come and ask about our living conditions. Then he'll see how we live and how we suffer."

Villagers had no idea that the president's family owns part of the mine operator. "How can the president be benefiting from this production? ... All of the companies here are foreign. Englishmen are running the business here," says one local who refuses to give his name.

Teacher Nureddin Ramazanov lost some land to AIMROC. With a salary of just \$130 per month, Ramazanov says his family is starving.

"The company destroyed our road," he says. "Geologists took our land. They paid us only 2,000 manats [\$2,500] per hectare.... Now I don't know how we'll survive."

Meanwhile, Karabakh exile Allahverdiyev says he is hoping to get a job at the mine. Locals say mining jobs pay the equivalent of \$12 a day. So far, the mining site has hired very few locals.

Despite grinding poverty and the problems with the mine, most locals remain firm in their faith in Aliyev, whose omnipresent portrait gazes out over the people of Chovdar from the walls of shops and schools.

"The president knows nothing about this," says teacher Ramazanov. "Local officials say the president ordered that our land be taken, but I don't believe it. He is a good person."

# Aliyev's Azerbaijani Empire Grows, As Daughter Joins The Game

By Ulviyye Asadzade and Khadija Ismayilova

August 13, 2010

BAKU -- On the drive between Baku's international airport and the capital center, travelers are met by a brigade of sleek roadside signs advertising a company called SW Holding.

But as innocuous as the posters may appear, they represent a company that enjoys a near-complete monopoly over every aspect of airline service.

Mid-flight meals? Served by Sky Catering, which is owned by SW Holding.

Taxi service? Run by Airport Gate, also owned by SW Holding.

Technical upkeep of the national carrier's planes and helicopters? Silkway Technics. It -- and multiple other companies controlling everything from traveler assistance to ticket sales to duty-free stores -- are all owned by SW Holding.

The holding company is so expansive it even includes its own Silk Way Bank. According to an investigation by RFE/RL's Azerbaijani Service using documents obtained by the State Committee on Financial Securities, the bank's owners include two women with close ties to the country's leadership. One is Zarifa Hamzayeva, the wife of the president of Azerbaijan's AZAL state airline company. And the other is Arzu Aliyeva, the 21-year-old daughter of the country's president, Ilham Aliyev. (The remaining owner and current majority stakeholder is Silkway Airlines LLC, which is registered abroad.)

The rise of SW Holding, which has seamlessly absorbed many of AZAL's former businesses, has raised questions about dubious privatization practices in Aliyev's Azerbaijan. It also serves to underscore how the political elite continues to use close friends and family members to preserve its hold on the country's most valuable assets -- despite Azerbaijani laws that list nepotism by state officials as an offense punishable by up to 12 years in jail.

## The Kids Are Alright

Ilham Aliyev likes to keep things in the family. It's a trend started by his father, Heydar, who ruled the country for 30 years before effectively handing the reins to his son before dying of a heart condition in 2003. Aliyev's wife, Mehriban Aliyeva, is a parliament deputy and a prominent political figure in her own right.

According to a report in "The Washington Post," the couple's preteen son, Heydar, last year became the legal owner of nine luxury mansions in Dubai purchased for some \$44 million. Their daughters, Arzu and Leyla, also have Dubai property registered under the names. In total, the children's property holdings are estimated at \$75 million.

As president, Aliyev earns an official salary of close to \$230,000 a year. But Aliyev, who prior to office served as vice president of SOCAR, Azerbaijan's state oil company, has kept a tight grip on the resources of his oil-rich country, and his holdings are believed to be in the tens of millions of dollars. Neither he nor his wife have declared their net worth, in defiance of Azerbaijani law.

The law also prohibits public officials from owning businesses. Family members, however, face no such restriction. It is unclear where Arzu Aliyeva -- who until now was best known for her role in an Azerbaijani tourism ad aired on CNN -- may have acquired the estimated 6.4 million manats (\$7.8 million) she used to acquire her initial stake of 29.08 percent -- or how she would pull together the additional 4.5 million manats that she and Hamzayeva would both need to achieve matching blocking stakes.

Hamzayeva is the owner of Gazelly, a successful cosmetics business, but experts say it is unlikely her profits are large enough to allow multimillion-dollar bank investments.

In an interview with RFE/RL, presidential press secretary Azer Gasimov confirmed that Arzu Aliyeva was one of the owners of the Silk Way Bank. As an Azerbaijani citizen who had reached the age of majority, Aliyeva was fully within her rights to establish her own business, he said.

### **Dodgy Privatization**

The rise of SW Holding and Silk Way Bank have raised questions about the privatization of AZAL, the state airline company, including its holdings, like AZAL Bank. The privatization process was launched in 2003 under a plan drafted by Azerbaijan's Ministry of Economic Development.

According to state law, the entire process was meant to be conducted by the State Committee on Privatization of State Property. But Gulu Khalilov, the committee's spokesman, told RFE/RL he had no information on who privatized AZAL Bank.

Anar Khanbeyli, a financial expert with Azerbaijan's Turan news agency, says the process was dodgy from the start.

"Normally, the state's share should be privatized through the State Committee on Privatizing State Property. And the privatization of the state's share in the bank was supposed to be conducted by the same committee," Khanbeyli says. "They're supposed to make an announcement, accept bids, announce conditions for participating in the tender, and then announce a winner. None of these procedures was followed. They bypassed them completely when they privatized the state's share."

### **Million-Dollar Contracts**

In the meantime, SW Holding has slowly but steadily acquired nearly all of AZAL's former companies, including the insurance firm AZAL Sigorta, which is now co-owned by SW Holding and the two daughters of Jahangir Asgarov, the president of AZAL and the husband of Zarifa Hamzayeva, the current co-owner of Silk Way Bank.

SW Holdings has also been the sole contractor on a number of high-profile AZAL projects, including airport-construction deals in Lankaran, Ganja, and Zagatala worth a total of \$150 million.

Neither side is eager to clarify the connection between the two entities. SW Holding referred an RFE/RL request for information to the AZAL press services, which responded that SW Holding was a private company and should be able to answer questions on its own.

Khanbeyli says all the parties supervising the AZAL privatization were negligent, from the privatization committee to the Central Bank, the Tax Ministry, and AZAL itself.

"AZAL was supposed to cry foul when it was deprived of its bank," he says. "I guess they didn't because the shareholders are the AZAL president's wife and the daughter of the president of the country."

This is not the first case where the head of state-run agencies have used close relatives to privatize the most profitable parts of their businesses. RFE/RL has previously reported on ZGAN Holding -- a private company run by Anar Mammadov, the son of Transport Minister Ziya Mammadov -- which was awarded several multimillion-dollar construction contracts with the ministry after a murky bidding process.

Questions have also been raised about Tale and Nijat Heydarov, the sons of Kemaladdin Heydarov, the current minister for emergency situations and the former head of the state customs committee. The Heydarov brothers are the owners of United Enterprises International, a group of companies engaging in everything from caviar sales to the ownership of the Gabala soccer club, which is peppered with foreign players recruited from abroad.

But their father, like Ilham Aliyev, has repeatedly refused to report his net worth, and the source of the Heydarovs' wealth has never been clarified.

# Azerbaijani President's Daughters Tied To Fast-Rising Telecoms Firm

By Khadija Ismayilova

June 27, 2011

BAKU -- Azerfon, a Baku-based telecoms company that operates under the brand Nar, is one of the success stories of the new Azerbaijani economy. Founded in March 2007, the company already boasts nearly 1.7 million subscribers and covers 80 percent of the country's territory. Azerfon is Azerbaijan's only provider of 3G services.

In April, the Caspian-European Integration Business Club (whose honorary chairman is Azerbaijani President Ilham Aliyev) named Azerfon "mobile operator of the year." The honor was presented to Azerfon board chairman Cuneyt Turktan by Azerbaijani Minister of Communications and Information Technologies Ali Abbasov.

But the company's ownership structure has been clouded in mystery since its creation. Now, RFE/RL's Azerbaijani Service has conducted an investigation linking Azerfon's main shareholders to the daughters of President Aliyev.

Aliyev's family has been tied to numerous suspicious business dealings in the past. His family controls a company called SW Holding that has privatized many lucrative elements of the state-owned AZAL airline. The "Washington Post" reported in March 2010 that Aliyev's three children are the registered owners of some \$75 million worth of real estate in Dubai. First lady Mehriban Aliyeva and her two daughters are believed to control several of the country's largest banks.

When the Communications Ministry announced the formation of Azerfon late in 2006, it said the company was owned by the German firm Siemens AG and a couple of British firms. The ministry has repeated the same information several times in the ensuing years.

But Siemens AG spokeswoman Monika Bruecklmeier-Langendorf told RFE/RL that her company has never owned any shares in Azerfon or any other mobile operator in Azerbaijan.

Likewise, the Finland-based Nokia Siemens Networks (NSN) denied owning a stake in Azerfon. "NSN has never owned shares of Azerfon. NSN is leading provider of solutions and services to the communications industry, and our policy is not to own shares of our customers," NSN spokeswoman Anna Lehtiranta said.

When RFE/RL informed the Communications Ministry of the information from Siemens, a ministry spokesperson simply repeated that Siemens is an Azerfon shareholder.

## Mum's The Word

Azerfon's press office refused to provide information about its shareholders to RFE/RL. It also declined to provide information about its total revenues or the amount of taxes it pays, except to assert that it pays its taxes in a timely fashion.

However, according to documents obtained by RFE/RL from the Azerbaijani Tax Ministry (registration number 1105-T13-3906), Azerfon is owned by three Panama-registered companies, one company registered in the Caribbean tax haven of Nevis Island, and the state-owned Aztelekom. The latter owns 10 percent of Azerfon, while the Nevis Island firm Cellex

Communications SA owns 18 percent. The three Panama-registered firms, each of which owns 24 percent of Azerfon, are Hughson Management, Inc.; Gladwin Management Inc.; and Grinnell Management Inc.

Vasif Movsumov, chairman of the Baku-based Anticorruption Foundation, says such a lack of transparency raises questions.

"If two government agencies give contradictory information about a company's ownership, and the company itself is not transparent on this issue, there is a high probability of corruption in its practices," Movsumov said.

International anticorruption campaigners have long noted that the use of offshore shell companies in tax havens is a common tactic for hiding the identity of a company's owners and covering illegal activities such as corruption and money laundering.

### **Trans-Atlantic Trail**

The Panama State Registry provides basic information about the three companies registered there that are purportedly among Azerfon's owners. According to their records, Leyla Aliyeva, President Aliyev's 25-year-old eldest daughter, is registered as the president of Gladwin and Grinnell. In both cases, Arzu Aliyeva, Ilham Aliyev's 22-year-old second daughter, is registered as company treasurer.

In the case of Hughson, the roles are reversed, with Arzu listed as president and Leyla as treasurer.

All three companies list start-up capital of \$10,000.

All three Panama-based firms also list Olivier Mestelan, a Swiss businessman who reportedly has close ties to the Aliyev family, as treasurer. "Baku" magazine, which is published in Moscow by Leyla Aliyeva, profiled Mestelan as an art collector and patron. He owns the Kicik QalArt gallery in Baku and is founder of the Art ex East Foundation. According to the "Baku" profile, he is a lawyer by training who owns a home in Azerbaijan that he visits several times a year. RFE/RL was told at the Kicik QalArt gallery that Mestelan would not comment on the businesses he owns.

Likewise, the presidential administration refused to provide information relating to the Aliyev family's business holdings. According to an Azerbaijani law adopted in 2005, senior government officials, including the president, are required to provide asset declarations about themselves and their immediate families. President Aliyev has never made such an asset statement public and the Azerbaijan Central Election Commission rejected RFE/RL's request for copies of his statements.

### **Perceived Irregularities**

There are other unanswered questions about Azerfon. Rovshan Agayev, director of the Center for Assistance to Economic Initiatives, claimed that Azerfon entered the Azerbaijani market in violation of a 2001 law requiring a license tender.

"In order to obtain the legal rights to operate in the country, communications companies need to demonstrate their technical and investment eligibility by participating in tenders," Agayev told RFE/RL. "None of the Azerbaijani mobile-phone operators has ever participated in such a tender. When Bakcell entered the market in 1995 and Azercell in 1997, the state procurement

law had not yet been adopted. However, in 2006, when Azerfon appeared on the market, such procedures were already mandatory."

Agayev says the Communications Ministry violated the law by approving Azerfon without a tender.

In addition, the manner in which Azerfon acquired its current monopoly on 3G services raises questions. Competitor Azercell -- which has more than twice as many subscribers as Azerfon -- has applied for a 3G license repeatedly in recent years and been repeatedly rejected by the Communications Ministry. Azerfon was granted the license without a tender.