



By Taco Tuinstra

Azerbaijan has been on a tear recently. Whereas in the past, the country was known primarily for fossil fuels, its economy is rapidly diversifying, with investors taking advantage of Azerbaijan's strategic location along the ancient Silk Road and at the intersection of modern commerce between Europe and Asia. In addition to hosting major international events, including the Formula One Grand Prix this month and the Conference of the Parties to the United Nations Framework Convention on Climate Change in November, Azerbaijan has also been enjoying a boom in manufacturing and services, with companies investing in areas as varied as information technology, logistics and agriculture.

Among the new factories that have sprung up in recent years is also a cigarette-making facility. Eager to localize imports and create the conditions for exports, Tabaterra in 2018 built a factory in Sumgayit, just north of Azerbaijan's capital, Baku, with eight production lines and an annual capacity of 18 billion cigarettes.

Confident in their partner's abilities, BAT and Japan

Tobacco International immediately assigned their entire Azerbaijani portfolios to Tabaterra. In the fourth year of contract manufacturing, BAT and JTI also awarded Tabaterra their volumes for neighboring Georgia. The multinationals have not regretted their decisions judging by the number of customer accolades displayed at the Sumgayit facility. When JTI evaluated its worldwide contract manufacturers in 2023, for example, Tabaterra finished first.

Building Brands

Buoyed by the success of its contract manufacturing operations, Tabaterra started developing its own brands. The first private label cigarettes, including Argo, Kingston and Senate, rolled off the Sumgayit production lines in 2019. More recently, Tabaterra debuted the Lincoln and X7 brands for export. Additional launches were scheduled for this fall.

Of course, introducing new brands is notoriously challenging in the cigarette business. Not only must newcomers compete against long-established international trademarks,

GLOBAL AMBITIONS

Having firmly established itself as a regional player, Tabaterra of Azerbaijan is preparing to take its operations to the next level.

but they must also do so in increasingly “dark” markets. Like many other countries, Azerbaijan restricts tobacco promotions to the point of sale, severely limiting opportunities for developing brand awareness.

“Brand building is not easy,” acknowledges Tabaterra Director Elman Javanshir. “It takes time and money.” In addition to competing with the name recognition of foreign cigarettes, he explains, local brands must overcome the prejudices of consumers, who in Azerbaijan and other markets tend to perceive global brands as “better,” even if the quality is comparable to that of their locally produced counterparts. “So you have to make sure that your brand is *much* better than its international equivalent,” says Javanshir. “That also means you must spend more than your competitors—even though you are smaller than them.”

One way to compensate for limited resources is by being creative. For example, Tabaterra developed a smartphone app for its retail partners with information about the company’s portfolio. In addition to detailing product features such as

low-odor technology, sweetened filters or cherry flavors, the app allows sellers to earn points that can be exchanged for products, mobile phone credits or cash. The goal, according to Business Development Manager Elchin Murtuzov, is to spread awareness of Tabaterra’s products among vendors. “So when the buyers come, retailers will know these brands and can educate the customers about Tabaterra’s value proposition,” he says.

Relocation

While Tabaterra’s Sumgayit factory is barely six years old, the company has already outgrown the facility. To accommodate its growing volumes and elevate production quality and efficiency to the next level, the company has built a new plant in Aghdam, nearly 400 km west of Sumgayit. The relocation process will start in October, and the company plans to move two production lines every month. In addition, it will install two new lines at the Aghdam factory, bringing the total to 10. The process is scheduled to be completed by the end of February.

According to Javanshir, Tabaterra is going out of its

Tabaterra aims to achieve unprecedented levels of efficiency in cigarette production.



way to make the relocation attractive for its workforce. In addition to increasing salaries by between 30 percent and 50 percent, the company has purchased six buildings with 210 apartments in Aghdam. The residences will be fully furnished and offered free of charge, including utilities and residential fees. "All inventories are supplied by the company," he says. "Employees just need to bring their clothes and personal possessions." In addition, Tabaterra will change the work schedule from three eight-hour shifts to two 12-hour shifts and provide regular transportation to Baku. This means that staff will be off one week every three weeks—time that they can spend in Aghdam, Baku or elsewhere. "The choice is to the employee," says Javanshir.

Many employees have already indicated their interest in relocating, and Javanshir is confident that a significant share of the workforce will follow their employer to Aghdam. Recently, Best Places to Work, an international ranking organization, recognized Tabaterra as one of the top employers in Azerbaijan for 2024–2025, with 90 percent of employees indicating they were happy with their working conditions.

Working Smarter

Of course, building a factory from scratch presents not only challenges but also opportunities. Starting from a blank slate permitted Tabaterra to design the factory exactly as it wanted without the constraints of its existing facility. According to Javanshir, the new factory will not only be 30 percent bigger than its Sumgait plant but also significantly "smarter," with state-of-the art technology and a high degree of digitalization.

"We will have a visual representation of the plant at our Baku head office," he says. "Management will be able to see in real time which line is working, what brand is being produced and what are the efficiency and waste rates." In addition, the smart factory will enable Tabaterra to keep track of individual employees' performances, enabling it to improve both its employee recognition system and efficiency.

Down the road, Tabaterra also wants to integrate artificial intelligence into its operations, allowing it to further boost efficiency and carry out preventative maintenance, for example. Such applications already exist at some multinationals, but Javanshir insists Tabaterra, as a regional player, must create a good basis first. "We will build everything in a rational way," he says. "The first task is to get all the data visualized and online."

If done correctly, this should allow Tabaterra to achieve unprecedented levels of efficiency in its operations, which in today's competitive environment is essential, according to Javanshir. "When you have efficiency, you make the machine work; when you do not have efficiency, the machine makes *you* work," he observes.

Tabaterra's commitment to quality and efficiency have served it well. Not only has it won the trust of leading cigarette manufacturers, but it also has managed to establish a respectable private-label business in a relatively short time. The company's brands currently account for 11 percent of Azerbaijan's 14.5 billion-stick market, and they are making inroads in Georgia and Iraq.

But Tabaterra is not content to rest on its laurels. "Eleven percent is not our target," says Javanshir. "Our aim is to get



20 percent of the market in Azerbaijan." Meanwhile, the company is already looking further afield, analyzing opportunities in additional overseas markets. To further raise awareness internationally, the company regularly participates in international tobacco expositions. This month, for example, it is scheduled to exhibit at InterTabac in Dortmund, and in November, it will participate in the Word Tobacco Middle East show in Dubai.

Asked to explain the company's success, Javanshir cites good relationships with industry leaders and an eagerness to learn. For example, in preparation for its Sumgayit factory, Tabaterra sent many of its staff members to its partner companies' facilities. In return, experts from the multinationals came to Azerbaijan to provide hands-on training. The company has also benefited from the recent trend toward localization, with businesses rediscovering the value of physical proximity to end markets.

A healthy combination of ambition and realism has helped as well. Even though cigarette volumes in Azerbaijan have been stable, Tabaterra is well aware of the dimming outlook for traditional tobacco products worldwide. That's why the company has also started exploring new platforms, such as heat-not-burn devices. "If you want to be sustainable, you must keep up with technology," says Javanshir, noting that many companies that failed to do so don't exist anymore. "We will not have the same fate," he says. TR



Rebuilding the Leaf Value Chain

Tabaterra wants to lift Azerbaijani tobacco to global quality standards.



In addition to investing in cigarette production, Tabaterra has been working to revive Azerbaijani tobacco cultivation. During Soviet times, the republic was a prominent leaf producer, but that activity fell by the wayside as the USSR disintegrated and its value chains perished. To diversify its economy beyond oil and gas, Azerbaijan has been reviving tobacco production, boosting rural employment and developing new sources of export revenue.

Instead of growing the local semi-oriental varieties previously cultivated for the Soviet market, the new efforts focus on flue-cured Virginia (FCV), which enjoys demand worldwide. In 2021, Tabaterra Leaf started operations with four receiving and curing stations, 10 greenhouses and a green-leaf threshing (GLT) factory along with a laboratory for physical tests.

Since then, it has been working to increase yields and quality along with farmer incomes. "Our goal is to bring Azerbaijani leaf up to international standards," says Ibrahim Mammadov, Tabaterra Leaf's head of finance. "We want to build a brand for the country."

While acknowledging that Azerbaijan is not in the same league as flavor tobacco powerhouses like Zimbabwe and Brazil, Mammadov is confident of the nation's long-term potential in the global filler market. By providing inputs tailored to the local soils and by promoting proper agricultural practices, Tabaterra has been gradually increasing nicotine and sugar levels.

It has also improved farmer viability. When the company entered the market, tobacco growers were making AZN500 (\$294.13) per hectare on average, according to Tabaterra Director Elman Javanshir. This year, the per-hectare profits of its contracted farmers, including government subsidies, are expected to reach AZN2,000. "So we have quadrupled their profitability in three years," says Javanshir. The company is also providing its contracted growers with pesticides and personal protective equipment free of charge.

Such improvements will help Tabaterra not only to retain its farmer base, but they also put farmers in a better position to attract and retain labor. Azerbaijan's northwestern region is famous for its hazelnuts, which are harvested at the same time as tobacco, thus creating fierce competition for farmhands in August and September.

Because the GLT was in good condition at the time of its acquisition, Tabaterra only needed to perform a few upgrades. It also constructed a chemical laboratory to help it keep track of its progress in improving Azerbaijani tobacco to the desired quality standards.

This year, Tabaterra is cultivating tobacco on 700 hectares, mainly in northwest Azerbaijan. But the company also plans to revive tobacco production in the Karabakh region. According to Javanshir, there are natural restraints on the growth of tobacco in the northwest of Azerbaijan,



including temperatures and dropping water levels—an important consideration given that tobacco is a thirsty crop.

In the new areas, by contrast, there is plenty of water. "The rivers there don't dry up during the summertime like they do in the northwest," says Javanshir. "Considering the abundance of water resources there, we think we can grow better quality tobacco there—not only Virginia but also burley and some of the other varieties." The company aims to grow up to 800 hectares in the new areas.

Along with Ethiopia and Uzbekistan, Azerbaijan is one of a handful of countries where tobacco growers sell their leaf "wet," i.e., uncured. With average property sizes of between 7 hectares and 8 hectares, Azerbaijani tobacco farms are relatively large, but few growers own curing barns. To boost quality and minimize losses, Tabaterra is encouraging farmers to apply good agricultural practices (GAP). "If they follow GAP, the product will come out of the barn properly, without the brown tobacco that nobody wants," says Mammadov. Getting long-time growers to change their work habits can be challenging, however. Because farmers' responsibility ends with the harvest, they tend to be more interested in volume than quality. For example, they may plant the tobacco too densely or skip steps such as topping or sucker control, which they view as costs rather than investments.

"By reducing the in-row spaces, farmers think they can plant more tobacco and boost their yields, but if you increase

the row space, it will make your leaves bigger, and you will get the same weight—plus higher nicotine levels," says Mammadov. And while skipping topping and sucker control may seem like a labor-saving strategy, it causes the plant to direct its energy toward producing organic material rather than flavor. "You get more leaf but lower quality," says Mammadov.

Aware that showing is often more effective than telling, Tabaterra has established demonstration plots throughout its sourcing areas where the tobacco growers can see for themselves what happens with best practices. In addition, the company is providing financial incentives. If the grower plants with proper spacing, applies the appropriate amounts and formulations of fertilizer, and carries out the required topping and sucker control, he will receive a bonus on top of the agreed price.

Azerbaijan's leaf tobacco business has come a long way in a short time. Already, it has managed to sell some of its leaf on the international market through a leading tobacco merchant. At the same time, Tabaterra knows there's still a ways to go. With each growing season, however, the company's contracted farmers gain skills and experience, and Mammadov is confident that in time, more global customers will find their way to Azerbaijan. "We are now in the third year of our project," he says. "We hope this will be our best year yet." —T.T.