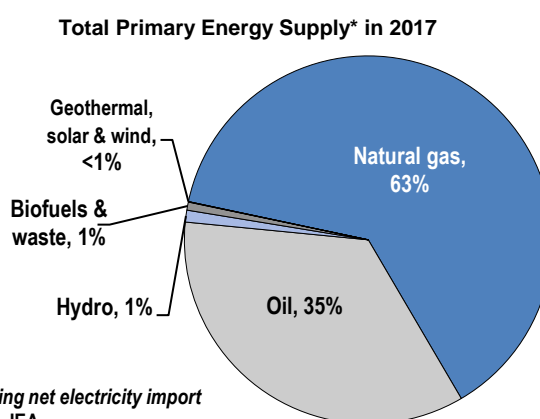


Azerbaijan

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Azerbaijan is a country with rich deposits of oil and natural gas and has, over the last decade, become a major energy producer. As of 2019, the total proven oil reserves of oil and natural gas amount to 7 000 million barrels and 2.1 trillion m³ respectively. Oil production stood at 39.2 million tonnes in 2018, roughly 24 % less than the peak of 51.3 million tonnes in 2010.



Azerbaijan's energy sector is dominated by state-owned energy companies and international oil and gas companies. British Petroleum (BP), Chevron, ExxonMobil, Equinor, Petronas, Total, Lukoil and Mór all have stakes in upstream oil and gas production through production sharing agreements (PSAs), with the State-Owned Company of the Azerbaijan Republic (SOCAR) representing the Government. Similarly, the same international companies also holds shares in export infrastructure, such as the Baku-Tbilisi-Ceyhan oil pipeline (BTC), which runs through Georgia to Turkey towards the Mediterranean Sea, and the Southern Gas Corridor under the Host Government Agreements (HGAs). An older and relatively low capacity Baku-Supsa oil pipeline cuts through Georgia and the Baku-Novorossiysk oil pipeline through the Russian Federation, both of which terminate at the Black Sea coast.

In the mid- and downstream sector, SOCAR operates the two oil refineries in Baku inherited from the Soviet era (Heydar Aliyev Baku Refinery and Azerteftayagh Oil Refinery), and occupies a government-instituted monopoly. In addition, SOCAR is a majority owner of PETKIM, a major petrochemical company based in Turkey, which has begun construction on a new refinery around Izmir. SOCAR owns petrol stations under the SOCAR brand in Azerbaijan, Georgia, Romania, Switzerland and Ukraine.

Gas transmission, distribution and sales are organised through SOCAR's subsidiary AzeriGas, which is financially unbundled from SOCAR as part of a 2002 reform to isolate the cost of suppressed prices.

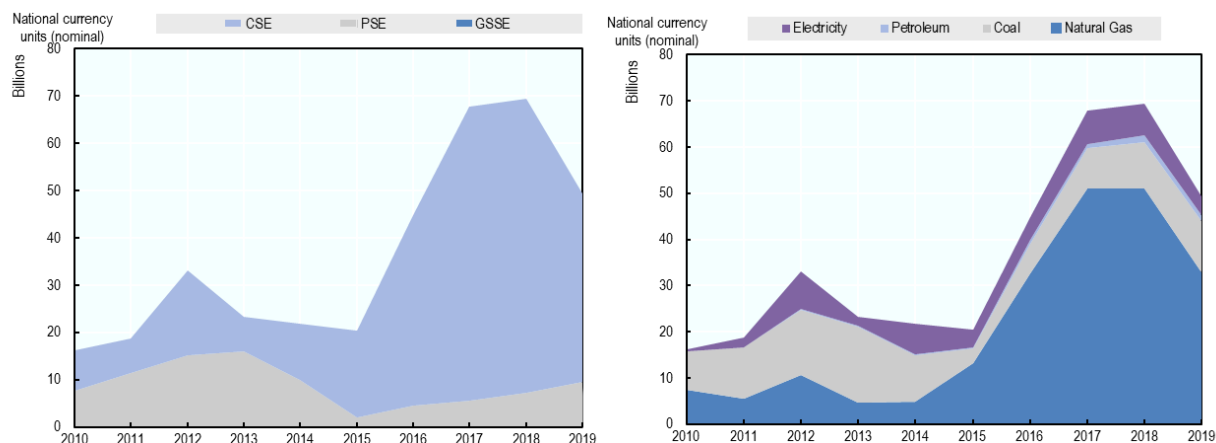
The electricity market is a closed market, operated mainly by the state-owned company, AzerEnerji JSC. AzerEnerji operates the country's thermal and hydropower plants, with the exception of several small hydropower plants that have been privatised. Until February 2015, AzerEnerji operated as a bundled monopoly, managing electricity production, transmission, distribution and sales. However, on 10 February 2015, Bakielektrikshabaka Open Joint Stock Company, the regional distribution company established to supply electricity to the capital city of Baku, was renamed Azerlshig OJSC and made the nationwide electricity distribution company.

District heating is limited, provided mainly to Baku and the surrounding areas, where heat is supplied by the state-owned monopoly, Azeristiliktechizat.

Prices and taxes

Energy tariffs are regulated by a national Tariff (Price) Council with the aim of ‘taking social consideration of the population into account’. The definitive criteria on how tariffs are set are currently unclear, with several proposals for tariff increases in recent years cancelled following interventions from the Azerbaijani Presidency.

Total support for fossil fuels in Azerbaijan by support indicator (left) and fuel type (right)



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries. Data for 2019 are provisional.

Recent development and trends in support

The PSE and CSE subsidy estimates for Azerbaijan show stable transfers to the country's energy utility companies and commensurate amounts of support to refugees and internally displaced persons. PSA and HGAs are enshrouded in uncertainty as terms are largely out of the public domain, complicating an objective assessment of possible upstream subsidisation in Azerbaijan.

Examples of measures	
State budget transfers to cover internally displaced persons utility expenditures	Currently, Azerbaijan hosts 1,2 million refugees and internally displaced persons (IDPs). Azerbaijan supports this group's electricity consumption through subsidies provided directly via the State Refugee Committee and indirectly via IDP Towns utility expenditures.
State budget transfer to Azerenerji to cover accumulated losses and debts	AzerEnerji is state-owned and the largest electric power producer in the country. As a result of nonpayment for its services and non-cost reflective pricing, AzerEnerji accumulates debts and cannot always respect its tax payment obligations to the state budget. AzerEnerji's financial losses are covered (subsidised) by the state budget. The company received subsidies both to cover running deficits and as capital injections to cover accumulated losses and debt. Subsidies to AzerEnerji are confirmed by the company's consolidated financial reports for the years 2015, 2016, 2017, 2018. For preceding years, estimates rely on public domain media reports.