

Retrospective assessment of corruption risks and perspective assessment of future activities of SOCAR

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Keywords: SOCAR, Azerbaijan, corruption, payment, state budget, borrowings, quasi-fiscal expenditures

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ACG- Azeri–Chirag–Gunashli

AIH - Azerbaijan Investment Holding

AZN - Azerbaijani Manat

Bbl - barrel

CBAR - Central Bank of the Republic of Azerbaijan

OCCRP - Organized Crime and Corruption Reporting Project

QFEs- Quasi-fiscal Expenditures

NOC – National Oil Companies

PSA - Production Sharing Agreement

RGI - Resource Governance Index Mln- Million

SB- Supervisory Board

SOC – State Owned Companies

SOCAR - State Oil Company of the Republic of Azerbaijan

SOFAZ - State Fund of Azerbaijan Republic

In this report currency rate is 1 USD = 1.7 AZN

1. Introduction

The authoritarian governance of Azerbaijan is characteristic of rentier states. The vast majority of such states are very similar in their lobbying policies for systematization and expansion of corruption, election fraud and loss of confidence in the electoral system, high state participation in the economy and budget formation, maintaining high employment and low wages in the public sector, persistent suppression of freedoms and initiatives, dismantling of the free press and independent civil society, failure to ensure the independence of the judiciary, increased brain drain, and obtaining foreign support. Cases from post-soviet rich natural resources countries show that such states exchange information and experience to strengthen authoritarianism in their countries and pass on to each other the political technologies they use against democratic institutions.

According to Transparency International¹, in 2020, Azerbaijan was the 129th most corrupt country among 180 countries in the world. Among the Worldwide Governance Indicators developed by the World Bank, Azerbaijan was the 152nd country in the world in terms of the Control of Corruption indicator that year. Both results stem from the lack of anti-corruption efforts in Azerbaijan. Authoritarian regimes are reluctant to fight corruption due to their interest in raising capital from corrupt civil servants. It is the head of state who knows the scale of corruption best in highly corrupt countries. His information can be explained by the system of control over the centralized collection of corrupt money and its delivery to the ruling family. Leaders of authoritarian regimes believe that the more capital they accumulate, the longer their rule will last. Because

¹ [Corruption Perceptions Index 2020 for Azerbaijan - Transparency.org](https://www.transparency.org/en/cpi/2020)

they always have the confidence that they are able to solve all the problems with money, and as capital increases, this confidence increases. The second is that more people are infected with corruption and forced to support the regime. So, officials who feel economically justified in accepting bribes for low wages, especially teachers and doctors, are doomed to support the current regime and do not join those who seek to change it for fear of being arrested and tortured in custody at any time.

Azerbaijani regimes are not interested in the commercialization, shareholding, or privatization of state-owned companies. They are especially interested in keeping state-owned companies in monopolies and thus in their personal control. In authoritarian regimes, state-owned companies receive large subsidies from the budget; furthermore, they finance quasi-fiscal activities in the interests of the authoritarian regime, social and popular programs, maintain sports teams, create television channels, and allocate funds to media portals. One of the shining examples is the State Oil Company of Azerbaijan Republic (SOCAR).

They usually get more from the budget than they pay to the budget. For example, the Opinion of the Chamber of Accounts² on the Execution of the State Budget for 2020 shows that five large state-owned companies in Azerbaijan received support from the state budget 19 times more than they paid to the state budget. So, in 2020, they received more than ₼ 1.5 billion in budget support against tax payments of ₼ 81 million to the state budget.

According to the Ministry of Finance, the share of direct oil revenues in the forecast budget of Azerbaijan for 2022 is 54.78 percent; moreover, the share of personal income tax in the budget will be 5.53 percent and the share of corporate income tax will be 9.95

² Opinion on the Draft Law of the Republic of Azerbaijan on the Execution of the State Budget of the Republic of Azerbaijan for 2020 and the Annual Report on the Execution of the State Budget of the Republic of Azerbaijan for 2020, [https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20\(3\)-188749903.pdf](https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20(3)-188749903.pdf)

percent.³ These figures are enough to present Azerbaijan as a rentier state. In this case, the share of direct taxpayers is limited to 15.5 percent. This creates a political basis for maintaining public participation in the budget process, as well as transparency and accountability. So, authoritarian regimes, which depend more directly on oil revenues than taxpayers, also consider rentier revenues and the budget as their own, are not accountable to taxpayers when allocating and implementing the budget, and distribute government orders through a single source rather than open tenders. So, the Opinion of the Chamber of Accounts on the Annual Report on the Execution of the State Budget for 2020 states that in public procurement worth ₼ 6,567.20 million or \$ 3,863.1 million, the open tender accounted for 32.8 percent of the total amount, the request for proposals - 18.82 percent, the request for quotation - 1.7 percent, the single-source procurement method - 46.7 percent.⁴ As can be seen, during the distribution of budget funds, only 1 out of every 3 manats was distributed through open tenders, and even this should not mean that open tenders were competitive and transparent.

According to the State Statistical Committee⁵ as of November 1, 2021, the number of employees in the country's economy increased by 16.8 thousand people or 1 percent compared to the same period last year and amounted to 1,702.1 thousand people, of which 903.6 thousand people or 53.1% in the public sector of the economy and 798.5 thousand people or 46.9% in the private sector.

The interest of the state in high state participation in employment is also for political purposes in authoritarian regimes with high unemployment. So, those working in the public sphere are included in the total control of the government, they are constantly

³ Azərbaycan Respublikasının 2022-ci il üçün dövlət və icmal büdcələri üzrə layihələrin Təqdimatı, Azərbaycan Respublikasının Maliyyə Nazirliyi Bakı- 2021,

http://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/news_files/618646a49a2ca.pdf

⁴ [https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20\(3\)-188749903.pdf](https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20(3)-188749903.pdf)

⁵ DSK, İqtisadiyyatda işləyənlərin sayı və əməkhaqqı barədə, 10.12.2021, <https://stat.gov.az/news/index.php?id=5080>

involved in political work, and they are involved in the propaganda of the authoritarian government and advocacy activities. Not only government employees but also family members and relatives are monitored by the special services operating in the institution where they work, their activities are monitored on social networks, their posts are inspected, and their connections with individuals and groups they supported are investigated. Through all of this, it is implemented not only at the level of the central executive power but also at the level of local executive power, becoming a form of systemic governance that serves to neutralize the anti-government activities of public sector employees, their family members, and relatives.

Aliyev's regime has at least two goals in keeping the judiciary dependent on the executive. First, they create a legal guarantee for their future by having court decisions not issued on their theft and corruption. Second, they hose seeking justice within the country from the legal field, involve them in the political arena, and expel them from open society by imprisoning them for political reasons. In authoritarian regimes, the judiciary also serves to protect the government's business interests, and rivals are eliminated through tax penalties and sanctions.

The judges have to pass an oral examination that is very biased, and opposition is rejected. The judges only consist of the most loyal members of the government and don't overturn cases against the government bodies concerning all political cases and many non-political cases. It could also be observed in the judgments of 2020 early parliamentary elections. None of the decisions of CEC was overturned by the local courts. In another way, the judiciary is very corrupted, and it is pretty easy to win a case with bribery in any court. In executing the judgments, executive offices are also corrupted, resulting in many cases being sent to ECtHR due to the breach of the right to a fair trial.

Aliyev regime is interested in the two groups leaving the country. The first is young people, many of whom leave the country to study abroad due to the poor quality of the education system. Convinced that they would not return to the country, the government did not even receive any commitment from more than 3,500 young people whose education it has funded in foreign countries within the framework of the state program on education abroad in 2007-2015 to return after graduation.

Secondly, it is the qualified personnel that the government thinks that paying them a low salary encourages them to leave the country and achieves this in many cases. Their risk to power is their independence through higher education and experience. Therefore, in authoritarian regimes, independent, especially highly educated and qualified personnel prefer to leave the country.

Authoritarian governments host prestigious international sports and art competitions to present themselves as part of the modern world, work closely with international communities to demonstrate tolerance on religious and national issues, and establish direct contacts with Western politicians to gain political support. The Azerbaijani government is gaining the sympathy of the international sports community by hosting the annual Formula 1 races, the sympathy of the Catholic community by repairing churches in the Vatican, the sympathy of the Jewish community by taking advantage of the opportunities created by historical ties, the sympathy of Western politicians through caviar and belt diplomacy, the sympathy of the royal family by trading with the real estate department of the United Kingdom, the sympathy of transnational corporations by exploiting promising oil and gas fields with foreign companies, the sympathy of the leaders of foreign countries by investing the stolen capital in their economies, and use their resources to maintain and strengthen their authoritarian rule. In this case, authoritarian and corrupt governments that repeatedly violate human rights and freedoms are kept out of international criticism.

In the Pandora Papers project was an OCCRP investigation which uncovered nearly \$700 million worth of properties in London owned by Azerbaijani President Ilham Aliyev's family and associates. For nearly twenty years, President Ilham Aliyev has ruled oil-rich Azerbaijan with an iron fist. Leaked documents from the Pandora Papers reveal how these properties were held by an interconnected network of 84 offshore companies on behalf of Ilham Aliyev's family and associates⁶.

According to another investigation of OCCRP, leaked documents show two SOCAR-owned companies, Bos Shelf and Star Gulf FZCO were set to siphon off \$1.7 billion from Shah Deniz 2, which feeds the Southern Gas Corridor to Europe. Documents from inside BP, analyzed by OCCRP, show that the company and another SOCAR subsidiary together stood to siphon off more than \$1.7 billion from the Shah Deniz 2 project using padded contracts and artificial charges. Using fake charges and padded contracts, two companies owned by Azerbaijan's state oil company looted the expansion of BP's operations in the Caspian Sea, known as Shah Deniz 2⁷.

According to the report on behalf of the Board of the Office of Congressional Ethics, SOCAR founded AFAZ in the month prior to the Convention and transferred \$750,000 to an AFAZ bank account prior to the Convention. At that time, the finances of both TCAE and AFAZ were controlled by the same individual. Records suggest that this individual used the entities interchangeably, leading some to conflate the two organizations. Further, SOCAR planned and organized significant portions of the Convention that involved congressional travel in several ways: SOCAR received frequent updates on congressional attendees; sponsored visas for entry into Azerbaijan;

⁶ <https://www.occrp.org/en/the-pandora-papers/the-aliyev-familys-london-property-empire>

⁷ <https://www.occrp.org/en/investigations/bp-turned-a-blind-eye-to-corruption-in-prize-azerbaijan-gas-project>

solicited corporate sponsors for the Convention; and hired a consultant to assist in organizing the Convention.⁸

2. Analysis of profit or loss, assets and liabilities, revenues, and assets for each individual country, where SOCAR operates joint ventures, associates, and subsidiaries

The State Oil Company of the Republic of Azerbaijan (SOCAR)⁹ was established by the Decree of the President of the Republic of Azerbaijan dated September 13, 1992, on the basis of Azerineft State Concern and Azernefkimya Production Union. At present, SOCAR is a complex state-owned company with 120 subsidiaries, 14 operating companies, 29 anonymous companies operating only in Turkey, and about 100 foreign companies operating in 10 countries, mainly registered in offshore zones. SOCAR is also the owner of the Azerbaijan Oil Industry Journal, Olympic stadium and the Baku Higher Oil School. Furthermore, SOCAR has 23 legal entities and 4 non-legal entities in its structure, including 3 production unions, 1 oil and gas refinery, Deep Water Jacket Factory, 2 trusts, and 1 institute. Moreover, the Azerbaijani government has instructed SOCAR to act on behalf of the state in the operating companies that later emerged as a result of the production sharing agreement (PSA).

According to the 2021 Resource Governance Index (RGI), Azerbaijan scored 56 points out of 100,¹⁰ which is nine points higher than the 2017 index. However, the country's ability to realize value from the oil and gas sector and its overall "enabling environment" deteriorated since the last assessment, and SOCAR scored in the lower

⁸ [Review No 15-9180 Referral.pdf \(house.gov\)](#)

⁹ <https://socar.az/socar/en/company/about-socar/discover-socar>

¹⁰ <https://resourcegovernanceindex.org/country-profiles/AZE/oil-gas?years=2021>

end of the "satisfactory" performance band, with commodity sales rules and disclosures especially problematic.

According to SOCAR's latest consolidated financial report¹¹ for 2020, the number of employees in the company that year was 50,968, which was a decrease of 124 people compared to 2019 (51,092 people), and 157 people in 2018 (51,125 people). For comparison, 1.99 million barrels of oil per day produced in 2020 BP¹² employs 60,000 people, 2.07 million barrels per day made Equinor¹³ 21,245 employees. SOCAR-produced oil 154,000 barrels per day in 2021.

According to SOCAR's latest consolidated financial report, in the reporting year 2020, the value of SOCAR's total assets was estimated at 64.2 billion manats, current assets at 18.3 billion manats, and long-term assets at 45.9 billion manats. Furthermore, SOCAR's current liabilities amounted to 20.6 billion manats and long-term liabilities to 21.6 billion manats. In the reporting year, SOCAR's total capital amounted to 21.9 billion manats, cash - 6.2 billion manats, and the ratio of total liabilities to total assets - 66 %. SOCAR's total assets decreased by 1.2 billion manats compared to 2019 (65.4 billion manats) and increased by 2.1 billion manats compared to 2018 (62.1 billion manats). As for revenues, SOCAR's revenues in 2020¹⁴ amounted to 49.6 billion manats, which was 34.1 billion manats or 40.8 % less than in 2019¹⁵ (83.7 billion manats) and 61.6 billion manats or 55.4 % less than in 2018¹⁶ (111.2 billion manats).

According to SOCAR,¹⁷ the decline in revenues in the fiscal year 2020 was due to a sharp decline in world oil and natural gas prices, as well as a significant reduction in revenue margins for oil and petrochemical products. SOCAR suffered from the

¹¹ <https://socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

¹² <https://www.bp.com/en/global/corporate/what-we-do/production-and-operations.html>

¹³ <https://www.equinor.com/en/investors/annual-reports.html>

¹⁴ <https://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye%20hesabatlar%202020.pdf>

¹⁵ <https://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye%C9%99%20hesabatlar%C4%B1%202019.pdf>

¹⁶ <https://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2018.pdf>

¹⁷ <https://socar.az/socar/az/news-and-media/news-archives/news-archives/id/11623>

economic effects of the pandemic in other areas of its operations and in some foreign countries, including the Turkish market, where it has a large foreign investment, as well as losses due to exchange rate differences. The amount of these losses exceeded the positive results obtained in other segments, resulting in overall losses. So, SOCAR's net loss in fiscal year 2020 amounted to 1.7 billion manats. This is the second time since 2008, when the company began submitting consolidated financial statements, and 2020. The company ended the reporting year with a net loss due to devaluation in 2015 and all other years between 2008 and 2019 with a profit. Table 1. presents revenue from contracts in 2020.

Table 1. Revenue from contracts with customers for the year ended 31 December 2020

Segments	Oil and gas	Refining	Construction	Sales and distribution	Unallocated	Total
Total Sale of crude oil, net	2,387	-	-	24,032	-	26,419
Sale of oil products, net	499	2,747	-	10,132	-	13,378
Sale of natural gas	349	900	-	2,766	-	4,015
Sale of petrochemicals	-	2,899	-	382		3,281
Rent income	-	16	453			469
Other revenue	102	642	482	754	65	2,045
Total	3,337	7,204	935	38,066	65	49,607

Source: Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020¹⁸

Table 2. presents the distribution of SOCAR's revenues countryies in 2020.

Table 2. Revenue from contracts by countries for the year ended 31 December 2020.

Countries	Oil and gas	Refining	Construction	Sales and distribution	Unallocated	Total
Switzerland	-	-	-	30,478	-	30,478
Turkey	489	7,129	-	-	-	
Azerbaijan	2,848	75	778	2,546	64	6,311
UAE	-	-	157	2,066		2,223
Georgia	-	-	-	1,044	1	1,045
Other	-	-	-	1,932	-	1,932
Total	3,337	7,204	935	38,066	65	49,607

Source: *Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020*

Although most of SOCAR's assets are located in Azerbaijan, its revenues came mainly from its activities in Switzerland¹⁹. Table 3 presents the distribution of SOCAR's assets and revenues by countries in 2018-2020.

¹⁸ <https://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202020.pdf>

¹⁹ Two SOCARs companies are operated in Switzerland.

1) SOCAR Energy Switzerland (Headquartered in Zurich). On 1 July 2012, SOCAR acquired all of ExxonMobil's shares in Esso Schweiz GmbH and thereby the network of Esso petrol stations in Switzerland and established SOCAR Energy Switzerland. It is SOCAR's 100% subsidiary Retail Operating Company that employs around 800 members of staff across Switzerland. SOCAR manages 200 petrol stations in Switzerland.

Table 3. Assets and revenues of SOCAR, in million manats

	2018		2019		2020	
	Assets	Revenues	Assets	Revenues	Assets	Revenues
Switzerland	761	91,067	977	63,735	955	30,478
Azerbaijan	30,668	6,626	32,847	6,145	32,888	6,311
Turkey	8,010	4,972	8,838	9,377	7,933	7,618
United Arab Emirates	522	2,352	555	1,722	439	2,223
Georgia	524	1,124	548	1,172	475	1,045
Others	294	1,621	269	1,601	325	1,932
Total	40,812	107,762	44,001	83,752	43,015	49,607

Source: Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020²⁰

As can be seen from the table, only 6.1 % of total revenues were formed in Azerbaijan in 2018, 7.3 % in 2019, and 12.7 % in 2020. As for assets, Azerbaijan accounted for 75.1 % of total assets in 2018, 74.6 % in 2019, and 76.4 % in 2020. As can be seen, the gap between SOCAR's assets and revenues in Azerbaijan is very large.

<https://www.socarenergy.ch/en/socar-energy-switzerland.html#who-we-are>

2. SOCAR Trading S.A. (Headquartered in Geneva), SOCAR Trading was incorporated in December 2007 as the marketing arm of the State Oil Company of Azerbaijan Republic (SOCAR) with a mandate to market Azeri barrels produced from the Azeri-Chirag-Guneshli field and other surrounding fields in Azerbaijan. As of October 2018, SOCAR Trading counts 230 employees worldwide, concentrated in its 5 main trading offices in Geneva, London, Singapore, Dubai and Houston as well as several other representative offices.

<https://www.socartrading.com/about-us/key-statistics>

²⁰ <https://socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

3. Assessment of long-term borrowings, short-term borrowings, and current portion of long-term borrowings

SOCAR is liable for its obligations with its property. The Company is not liable for the obligations of the state, and the state is not responsible for the obligations of the Company, except as provided by law. Despite the fact that SOCAR's charter contains such a provision, the state supports the repayment of its debts.

Table 4 presents SOCAR's short-term borrowings with a maturity date of 2021 and the current portion of SOCAR's long-term borrowings as of December 31, 2020.²¹

Table 4. SOCAR's short-term borrowings with a maturity date of 2021 and the current portion of SOCAR's long-term borrowings as of December 31, 2020

Facilities	Interest rate	Maturity	Total borrowed in original currency	Balance as of December 31, 2020
Short-term facilities in US dollars	0.44%- 18.58%	January 2021 – December 2021	3,073	3,819
Short-term facilities in Turkish liras	7.44%- 21.10%	January 2021 – December 2021	2,470	480
Short-term facilities in	11%-14%	January 2021 –	662	109

²¹ <https://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye%20hesabatlari%202020.pdf>

Georgian laris		December 2021		
Short-term facilities in euros	2.5%-4.5%	January 2021 – December 2021	74	66
Short-term facilities in other currencies	2%-13%	January 2021 – December 2021	2,221	62
Current portion of long-term borrowings				1,374
Total short-term borrowings and current portion of long-term borrowings				5,910

Source: *Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020*

As can be seen from the table, SOCAR's current borrowings for the last year were quite high. So, 2020's total short-term borrowings and the current portion of long-term borrowings of SOCAR together amounted to 5.910 billion manats, of which 64.6 % were short-term funds in US dollars and 8.1 % in Turkish liras. As for all (short-term and long-term) borrowings of SOCAR, we present it in Table 5.

Table 5. SOCAR's long-term borrowings as of December 31, 2020

Facilities	Interest rate	Maturity	Balance as of December 31, 2020	
			Non-current portion	Current portion
USD 1,000 million	4.75%	March 2023	1,087	25
USD 500 million	5.88%	January 2023	713	21
USD 427 million	LIBOR + 2.70%	February 2024	598	129
USD 489 million	LIBOR + 6.95%	June 2025	514	–

USD 300 million	LIBOR + 2.50%	November 2024	504	4
USD 238 million	LIBOR + 4.00%	December 2029	458	-
USD 242 million	4.60%	December 2029	435	-
USD 193 million	LIBOR + 4.00%	December 2029	363	-
USD 200 million	3.80%	November 2029	340	1
USD 200 million	5.00%	June 2025	340	-
USD 212 million	4.92%	March 2028	302	14
USD 150 million	4.60%	December 2024	255	6
USD 200 million	LIBOR + 1.335%	December 2027	245	14
USD 150 million	LIBOR + 2.70%	June 2024	212	42
USD 190 million	LIBOR + 2.20%	November 2023	196	101
USD 485 million	LIBOR + 1.00%	December 2024	177	64
USD 90 million	4.80%	August 2026	153	3
USD 110 million	4.80%	December 2023	125	63
USD 82 million	0.10%	December 2029	109	-
USD 260 million	LIBOR + 3.95%	December 2024	101	38
USD 78 million	4.00%	December 2027	98	77
USD 52 million	4.40%	May 2024	89	1
USD 77 million	4.80%	December 2023	87	44
USD 68 million	LIBOR + 3.00%	January 2026	87	10
USD 300 million	LIBOR + 3.25%	March 2022	54	115
USD 65 million	LIBOR + 4.95%	December 2024	40	17
USD 29 million	4.00%	December 2027	36	29
USD 55 million	LIBOR + 5.25%	September 2024	32	15
USD 100 million	LIBOR + 3.25%	April 2022	27	57
USD 38 million	4.01%	December 2023	23	11

USD 10 million	4.50%	June 2023	17	-
USD 8 million	4.26%	December 2022	14	15
USD 100 million	LIBOR + 3.25%	February 2022	13	29
USD 20 million	LIBOR + 2.00%	April 2023	11	-
USD 5 million	1.68%	April 2022	8	-
USD 5 million	1.68%	April 2022	8	-
USD 5 million	1.66%	April 2022	8	-
USD 5 million	1.61%	April 2022	8	-
USD 5 million	1.59%	April 2022	8	-
USD 5 million	1.55%	April 2022	8	-
USD 5 million	1.43%	April 2022	8	-
USD 5 million	1.52%	April 2022	8	-
USD 5 million	1.51%	April 2022	8	-
USD 5 million	1.37%	April 2022	8	-
USD 5 million	1.38%	April 2022	8	-
USD 5 million	4.50%	June 2023	7	-
USD 3 million	7.00%	August 2022	5	-
EUR 251 million	EURIBOR + 3.03%	January 2027	348	59
EUR 249 million	EURIBOR + 0.95%	January 2027	321	58
EUR 35 million	0.23%	November 2023	16	9
EUR 20 million	1.64%	September 2023	13	6
EUR 2 million	EURIBOR + 2.375%	March 2031	3	-
AZN 144 million	0.16% (0.15% + 0.01%)	January 2041	67	6
AZN 460 million	4.00%	July 2022	58	69
AZN 350 million	3.00%	January 2024	57	28
AZN 4 million	7.00%	August 2022	4	-

GEL 79 million	13.50%	October 2022	13	13
GEL 30 million	12.98%	June 2023	9	5
GEL 18 million	13.50%	November 2024	6	2
GEL 11 million	13.34%	September 2023	3	2
GEL 10 million	12.93%	November 2022	3	2
CHF 22 million	LIBOR + 0.0714%	July 2022	43	–
CHF 10 million	3.00%	October 2027	19	–
JPY 15,398 million	1.50%	April 2039	151	8
TRY 600 million	LIBOR + 5.20%	June 2027	126	8
Other long-term borrowings			25	8
Total long-term borrowings			11,219	1,374

Source: *Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020*

As can be seen from Table 5, SOCAR's debt is mainly in US dollars and its total debt in this currency is \$ 6.791 billion. At the same time, SOCAR has debts of 557 million euros, 138 million Georgian laris, 32 million Swiss francs, 15,398 million Japanese yens, 600 million Turkish liras, and 958 million Azerbaijani manats. Thus, SOCAR's total long-term borrowings are 11.219 billion manats, with the current portion of 1.374 billion manats. Thus, as of December 31, 2020, the total debt of SOCAR amounted to 12.593 billion manats.

Based on Table 5, let's compile Table 6 by grouping the parameters by maturity date and converting all facilities into US dollars at the exchange rate as of January 20, 2022, and look at the maturity of SOCAR's borrowings.

Table 6. SOCAR's borrowings for the years 2022-2041

	2022	2023	2024	2025	2026	2027	2028	2029	2031	2039	2041	Total
Facilities (USD, mln.)	892	2,025	2,156	689	158	930	212	955	2.3	0.135	85	8,104
Facilities (%)	11.01	24.99	26.60	8.50	1.95	11.48	2.62	11.78	0.03	0.00	1.05	100
Non- current portion (USD, mln.)	322	2,307	2,071	854	240	1,193	302	1,705	3	151	67	9,215
Non- current portion (%)	3.49	25.04	22.47	9.27	2.60	12.95	3.28	18.50	0.03	1.64	0.73	100.00
Current portion (USD, mln.)	300	287	346	0	13	245	14	1	0	8	6	1,220
Current portion (%)	24.59	23.52	28.36	0.00	1.07	20.08	1.15	0.08	0.00	0.66	0.49	100.0

Source: Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020

As can be seen from the data in the table, although the maturity of SOCAR's borrowings is by 2041, in fact, a significant portion of SOCAR's borrowings covers the period up to

2030. So, 99% of all debts must be repaid by 2030, the bulk of which is by 2026. As for the individual years, although the maturity of 11% of total debt is in 2022, the maturity of 25 % is in 2023, the maturity of 26.6 % is in 2024, and the maturity of 8.5 % is in 2025. As can be seen, SOCAR must fulfill up to 70% of its total borrowings in the current year and in the next 3 years. Although SOCAR's debt this year is lower than last year, in the next two years (2023 and 2024) SOCAR will have to repay about \$ 4.17 billion in debt to foreign banks.

SOCAR's borrowing does not end with foreign debts; the company also went into domestic debt. Table 7 presents SOCAR's domestic borrowings as of December 31, 2020.

Table 7. Borrowings balances with related parties

Bank name	Interest rate	Maturity date	2020	2019
International Bank of Azerbaijan	4%-4.8%	21 July 2022 – 23 August 2026	559	627
Ministry of Finance of the Republic of Azerbaijan	0.1%-3.8%	12 January 2024 – 1 April 2039	354	271
Total borrowings			913	898

Source: *Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020*

As can be seen from the table, SOCAR's borrowing from domestic banks and financial institutions for 2020 amounted to 913 million manats, an increase of 15 million manats compared to 2019. 61.2 % of this debt was taken from the International Bank of

Azerbaijan and 38.8 % from the Ministry of Finance of the Republic of Azerbaijan. The loan taken from the International Bank of Azerbaijan will be repaid within 4 years (July 21, 2022 - August 23, 2026), and the loan taken from the Ministry of Finance of the Republic of Azerbaijan will be repaid within 15 years (January 12, 2024 - April 1, 2039). Furthermore, SOCAR has creditor debts on existing bonds from Azerbaijan Investment Company and State Fund of Azerbaijan Republic (SOFAZ). Table 8 presents this data as of December 31, 2020.

Table 8. SOCAR's outstanding bonds payable balances with related parties

Bond holder	Coupon rate	Maturity date	2020	2019
Azerbaijan Investment Company	4%	30 December 2027	175	169
SOFAZ	LIBOR + 1%	1 December 2024	240	301
SOFAZ	LIBOR + 1.335%	30 December 2027	258	272
SOFAZ	LIBOR + 4%	31 December 2029	821	786
SOFAZ	3.80%	1 September 2028	865	989
SOFAZ	3.80%	1 November 2029	341	-
SOFAZ	4.60%	31 December 2029	435	414
Total bonds payable			3,135	2,911

Source: Consolidated financial statements prepared under International Financial Reporting Standards 31 December 2020.

As can be seen from the table, the total amount of SOCAR's bonds to be repaid as of December 31, 2020, amounted to 3.135 billion manats. 5.58% of these funds will be paid to the Azerbaijan Investment Company by December 30, 2027, and 94.42% to SOFAZ

for the next 5 years, starting from December 1, 2024, and the last payment date will be December 31, 2029.

We would like to note that SOCAR has a foreign debt of 12.593 billion manats, domestic debt of 913 million manats, and bonds of 3,135 billion manats to be repaid. Thus, as of December 31, 2020, total payments on borrowing and liabilities amounted to 16.641 billion manats. This gives grounds to say that SOCAR has a great responsibility to repay debts. Fulfillment of these obligations depends on the price of oil on the world market, the efficiency of SOCAR's investments, the profitability of its activities, and its transparent and accountable work for debt management.

On February 9, 2021, the staff of the Natural Resource Governance Institute published a research report²² entitled "Risky Bet: National Oil Companies in the Energy Transition." According to the report, in the next generation of investments for national oil companies (NOCs), on a range of break-even prices after taxes, among the worst five NOCs of which future investment decisions will be more difficult, SOCAR is fifth after Suriname's Staatsolie, Colombia's Ecopetrol, Venezuela's PDVSA, and Indonesia's Pertamina. This means that the average price of crude oil below \$ 40 per barrel in 2021-2030 will put SOCAR in a difficult position. For comparison, it should be noted that according to the report, the break-even price for future investments for Norway's Equinor, the United Arab Emirates' ENOC, and Kazakhstan's KazMunayzaya is \$25 per barrel. This indicator is weighted by the proportion of capital expenditure of each project as a proportion of the total capital expenditure for the NOC. As can be seen, SOCAR is among the top five companies most affected by future oil price declines. According to the report, along with Sonangol (Angola), Staatsolie (Suriname), and Pemex (Mexico), SOCAR (Azerbaijan) is a NOC that poses significant risks to its

²² <https://resourcegovernance.org/sites/default/files/documents/risky-bet-national-oil-companies-in-the-energy-transition.pdf>

government. The report draws this conclusion based on a comparison of SOCAR's debts with its assets, and the list includes NOCs, of which debts are more than 20 % of their governments' annual revenues. So, in 2020, the consolidated budget revenues²³ amounted to 24.465 billion manats, and SOCAR's long-term borrowings amounted to 12.593 billion manats, which means that SOCAR's debts exceeded 51.47 % of state revenues. It should be noted that SOCAR's long-term borrowings amounted to 11.369 billion manats in 2019, 9.7 billion manats in 2018, and 9.5 billion manats in 2017.²⁴ The company's borrowing will continue in 2021. For comparison, as of July 1, 2021, the total external public debt of the Republic of Azerbaijan amounted to \$8.603 billion (14.625 billion manats) or 18.2 % of GDP.²⁵ As can be seen, there is no significant difference between SOCAR's debt and the state's foreign debt, as for 2020 SOCAR's foreign debt amounted to 86.1 % of the country's total foreign debt. As for the share of SOCAR's long-term debt in its total assets for 2020, this figure reached 19.63 %. These comparisons also show that SOCAR will face serious difficulties in debt management in the future.

²³ <http://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/60daca9478ccb.pdf>

²⁴ <https://socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

²⁵ <http://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/611660d37ee38.pdf>

4. Comparative analysis of SOCAR's payments to the state budget and receipts from the budget

The state participates in the oil and gas industry through SOCAR, which is not only a state-owned company but also Azerbaijan's largest company and taxpayer. A general tax regime established by the Tax Code²⁶ of the Republic of Azerbaijan applies to the enterprises operating in the extractive industry of the Republic of Azerbaijan; furthermore, a special tax regime applies to oil, gas, and mining companies operating under Production Sharing Agreements (PSAs), as well as to enterprises operating in the Main Export Pipeline and the South Caucasus Pipeline. Therefore, although SOCAR's budget and tax activities are mainly regulated by the general tax regime established by the Tax Code, there are also special rules in the national legislation that apply to it. At the same time, the budget and tax functions of SOCAR are regulated by the Resolution of the Cabinet of Ministers No. 102 of June 9, 2005, on Estimates of Revenues and Expenditures of Large State Taxpayers. This resolution was adopted in order to further strengthen control over the financial and economic activities of SOCAR and other major state taxpayers, forecasting and execution of their revenues and expenditures, as well as to increase transparency in this area. To ensure this, large state taxpayers must submit a draft of the next year's quarterly revenue and expenditure estimates to the Commission established by the relevant order of the Cabinet of Ministers by July 1 of each year for

²⁶ Approved by Law No. 905-IQ of July 11, 2000, <https://www.taxes.gov.az/az/page/ar-vergi-mecellesi>

the preparation of draft state budget and consolidated budget, as well as to the relevant ministry, including the Ministry of Finance and the Ministry of Economy by December 1 of each year to agree on next year's revenue and expenditure estimates and relevant investment programs. According to the resolution, large state taxpayers must approve their revenue and expenditure estimates by February 25 of each year in coordination with the relevant ministry, including the Ministry of Finance and the Ministry of Economy.²⁷

As one of the largest taxpayers in the country, SOCAR not only plays an important role in the formation of the state budget but is also one of the few companies receiving support from the state budget. Before analyzing SOCAR's economic relations with the state, as well as its obligations to and receipts from the budget, as well as social and quasi-fiscal expenditures for employees and society, let's look at its production indicators and tax payments for 2021. According to the State Statistical Committee²⁸ and the State Oil Company,²⁹ the country's crude oil production in 2021 amounted to 34.5 million tons, and commercial natural gas production - 32.6 billion cubic meters. Commodity oil production increased by 0.1 % compared to the previous year, and commercial gas production by 23.0 %. In 2021, 7.9 million tons of oil and 7.9 billion cubic meters of gas were produced in the fields operated by the State Oil Company independently or as a major shareholder. Oil production was 6.5 % higher than the same period of the previous year, and gas production was 7 % higher.

Now let's look at the main economic indicators of SOCAR for 2018-2020 in Table 9.

Table 9. Economic indicators of SOCAR for 2018-2020, thousand manats

²⁷ Resolution of the Cabinet of Ministers No. 102 of June 9, 2005, on Estimates of Revenues and Expenditures of Large State Taxpayers, <http://e-qanun.gov.az/framework/10044>

²⁸ Macroeconomic indicators of economic and social development of the country in January-December 2021, <https://www.stat.gov.az/news/macroeconomy.php?page=1>

²⁹ SOCAR's main production indicators for 2021, <https://www.socar.az/socar/az/news-and-media/news-archives/news-archives/id/11679>

	2018	2019	2020
SOCAR Azerbaijan			
Revenues	5 898 383	6 416 530	4 859 522
Operating costs	(1 102 105)	(1 111 402)	(1 045 750)
Payments to the state	(550 197)	(553 632)	(446 634)
Investments in society	(787 590)	(800 395)	(600 489)
Net economic value	2 397 756	2 769 151	1 470 511
SOCAR Energy Turkey			
Revenues	5 127 458	9 541 087	7 901 397
Operating costs	(3 983 314)	(8 346 648)	(6 510 814)
Payments to the state	(55 369)	(29 570)	(51 669)
Investments in society	0	0	0
Net economic value	372 351	489 491	643 423
SOCAR Energy Georgia			
Revenues	1 007 693	1 050 871	933 036
Operating costs	(877 481)	(920 922)	(792 428)
Payments to the state	(258)	(227)	(8)
Investments in society	0	0	0
Net economic value	56 382	50 545	67 477
SOCAR Energy Ukraine			
Revenues	832 058	729 512	684 581
Operating costs	(769 050)	(658 395)	(574 848)
Payments to the state	(3 360)	(3 936)	(1 955)
Investments in society			
Net economic value	35 593	33 343	75 979
SOCAR Energy Switzerland			

Revenues	2 603 281	2 670 599	2 130 500
Operating costs	(2 363 227)	(2 363 227)	(1 860 100)
Payments to the state	(8 794)	(7 421)	(20 326)
Investments in society	(72)	(76)	(26)
Net economic value	118 408	119 015	119 295

Source: SOCAR's annual reports for 2018³⁰, 2019³¹, və 2020³²

As can be seen from Table 9, SOCAR operates under the same name in 4 countries, and its payments to the state and investments in society are high in Azerbaijan, as the company has the highest net economic value here. It is clear from the dynamics of SOCAR's key economic indicators that 2019 was the most successful reporting year. SOCAR's annual reports³³ on sustainable development state that SOCAR paid 1.486 billion manats to the budget in 2018, 1.62 billion manats in 2019, 1.388 billion manats in 2020, and tax payments in 2020 were 14% lower than the previous year. This situation can be seen in Table 10.

Table 10. SOCAR's budget payments and authorized capital for 2018-2020, million manats

	2018	2019	2020
Budget payments	1 608	1 622	1 388
Revenues	5 898	6 416	4 859

Source: SOCAR reports³⁴

Table 10 shows that in 2018, SOCAR's tax payments amounted to 27.2 % of its revenues, in 2019 - 25.2 %, and in 2020 - 28.5 %. In 2018, 75.6 % of taxes and other mandatory payments (1.885 billion manats) received from state-owned taxpayers fell to SOCAR.

³⁰ <https://socar.az/socar/assets/documents/az/socar-annual-reports/illik-hesabat-2018.pdf>

³¹ <https://socar.az/socar/assets/documents/az/socar-annual-reports/illik-hesabat-2019.pdf>

³² <https://socar.az/socar/assets/documents/az/socar-annual-reports/illik-hesabat-2020.pdf>

³³ <https://socar.az/socar/assets/documents/az/socar-annual-reports/davamli-inkisaf-2020.pdf>

³⁴ <https://socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

The state set SOCAR's tax payments at a high rate; SOCAR's obligations to the state do not end with tax payments. The company also makes mandatory state social insurance contributions to the State Social Protection Fund and unemployment insurance payments to the Unemployment Insurance Fund.

According to the Opinion of the Chamber of Accounts of the Republic of Azerbaijan on the Draft Law of the Republic of Azerbaijan on Execution of the State Budget of the Republic of Azerbaijan for 2020 and the Annual Report on Execution of the State Budget of the Republic of Azerbaijan for 2020, in revenues from the oil sector through the State Tax Service, SOCAR's budget payments amounted to 1,198.4 million manats, and the amount of profit tax paid by contractor companies operating under Production Sharing Agreements in the oil and gas sector amounted to 603.7 million manats. Although SOCAR forecast that it would pay total taxes of 1,240.0 million manats to the state budget in 2020, the actual execution was 1,198.4 million manats or 41.6 million manats (3.4 %) less.³⁵ As can be seen, there is a difference between this amount and the same indicator presented in the table. Therefore, one of the highlights of SOCAR's tax payments is the difference between the amount of tax payments disclosed in its annual report and the tax payments disclosed by the Ministry of Finance and the Chamber of Accounts within the budget, and these differences arise from the disclosure of higher amounts in SOCAR's report.

In my opinion, the differences in the tax payments announced by SOCAR and the Ministry of Finance occur for two reasons. First, SOCAR discloses the figures calculated for the fiscal year but the Ministry of Finance discloses indicators actually included in the budget. Second, SOCAR discloses all taxes and other payments together with Azerigas and Azerkimya state enterprises but the Ministry of Finance discloses SOCAR's tax payments, excluding personal income tax and road tax.

³⁵ [https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20\(3\)-188749903.pdf](https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20(3)-188749903.pdf)

Another important issue is the non-disclosure of information on SOCAR's tax payments for all types of taxes. The Ministry of Finance usually discloses this figure for profit tax. So, the report³⁶ on the execution of the state budget for 2020 shows that 24.3 % or 193.4 million manats of profit tax revenues in the oil sector fell to SOCAR, 75.7% or 603.7 million manats to contractor companies operating under Production Sharing Agreements in the oil and gas sector. Thus, compared to 2019, the state budget received 227.3 million manats less on the profit tax of contractor companies operating under Production Sharing Agreements in the oil and gas sector, and 72.4 million manats less on SOCAR.

The report³⁷ on the execution of the state budget for 2019 states that 5,432.0 million manats or 70.8% of the funds received by the state budget through the State Tax Service under the Ministry of Economy of the Republic of Azerbaijan fell to the share of the non-oil sector, 2,240.3 million manats or 29.2% to the oil sector. 62.9% or 1,409.3 million manats of revenues in the oil sector fell to SOCAR, and 37.1% or 831.0 million manats to the profit tax of contractor companies operating under Production Sharing Agreements in the oil and gas sector. 265.7 million manats of profit tax revenues in the oil sector fell to SOCAR, 831.0 million manats to contractor companies operating under Production Sharing Agreements in the oil and gas sector.

Table 11 presents consolidated taxes and other payments through SOCAR (including Azerigaz and Azerkimya state enterprises, excluding personal income tax and road tax).

Table 11. Consolidated taxes and other payments through SOCAR, million manats

	2016	2017	2018	2019	2020	2021	2022
Tax payments of SOCAR, in million	1252,0	1317,5	1425,1	1409.3	1198.4	1136,0	1350,0

³⁶ <http://maliyye.gov.az/scripts/pdfs/web/viewer.html?file=/uploads/static-pages/files/60daca9478ccb.pdf>

³⁷ <http://maliyye.gov.az/scripts/pdfs/web/viewer.html?file=/uploads/static-pages/files/5f080b43e68ae.pdf>

manats								
Compared to the previous year, in %	88,8	105,2	108,2	98,9	85,0	91,6	118,8	

Source: Chamber of Accounts of the Republic of Azerbaijan³⁸

Note: The indicators are actual execution for 2016-2020, expected execution for 2021, and forecast for 2022.

In 2022, 86.5% or 12,710.0 million manats of the state budget revenues from the oil sector will be transfers from the State Oil Fund of the Republic of Azerbaijan, 13.5% or 1,980.0 million manats - revenues from the oil sector through the tax authorities. Budget payments of SOCAR in the oil sector through the tax authorities are forecast to be 1,350.0 million manats, and profit tax from Production Sharing Agreements operating in the oil and gas sector - 630.0 million manats, which is 68.2% and 31.8% of the oil sector revenues by the tax authorities, respectively.

As can be seen from the table, tax payments to the state budget by SOCAR and its subsidiaries in the amount of 1,350.0 million manats are 214.0 million manats or 18.8% more than the approved and expected execution indicators for 2021 and 151.6 million manats or 12.7% more than the execution indicators for 2020.³⁹ The reason for the increase was the increase in the price of AI-92 gasoline and diesel fuel from January 2021, as well as the liberalization of domestic prices for other oil products.

This part of the study so far suggests that SOCAR plays an important role in the formation of the state budget. However, budget analysis shows that SOCAR is a company that not only makes payments to the state budget but also receives funds from the state budget. The allocation of funds from the budget to SOCAR is carried out mainly through the allocation of authorized capital, investment, or credit. SOCAR transfers money to the state mainly in the form of investments. It is no coincidence that

³⁸ [https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20\(3\)-188749903.pdf](https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20(3)-188749903.pdf)

³⁹ <http://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/61cdd757e0a42.pdf>

despite being the largest company and taxpayer, the oil company paid 1.43 billion manats to the budget in 2018 but received more from the budget in the same year - 1.49 billion manats.⁴⁰ An analysis of the reports of both the government, including the Chamber of Accounts, and SOCAR shows that large amounts of money are transferred between the company and the state for various purposes throughout the year.⁴¹ In 2018, the state allocated 63.9 million manats to the SOCAR to provide subsidies for imported gas, and 389 million manats to increase SOCAR's authorized capital for gasification of regions and implementation of other measures. In 2019, 51.5 million manats were allocated for the same purpose (to increase SOCAR's authorized capital for gasification of regions and implementation of other measures). Thus, SOCAR's authorized capital is increased through transfers from the state budget. This situation can be observed from the data in Table 12.

Table 12. SOCAR's authorized capital, million manats

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Authorized capital	1059	1085	1315	1496	1614	1802	3036	4147	4323	4696
Funds allocated by the state	150	230	178	581	172	243	1190	389	453	52

Source: SOCAR's financial reports⁴²

As can be seen from the table, SOCAR's authorized capital grew faster in 2017. It should be noted that the Charter of SOCAR, approved by Presidential Decree No. 844 of

⁴⁰ Opinion of the Chamber of Accounts of the Republic of Azerbaijan on the Execution of the State Budget for 2018 (Summary), page 12, <http://sai.gov.az/upload/files/xulese.pdf>

⁴¹ The Eurasia Extractive Industries Knowledge Hub, Regulation of SOCAR's financial relations with the state and its institutions, http://eurasiahub.khazar.org/uploads/SOCAR_FinTrans.pdf

⁴² SOCAR, "Authorized capital, additional paid-in capital and retained earnings" section of financial reports, <https://socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

January 24, 2003, states that the company's authorized capital is 1.628 billion manats and belongs to the state.

Finally, as seen in the report of the Chamber of Accounts on the execution of the budget for 2018, SOCAR's payments to the budget were less than the funds it received from the budget. Unfortunately, the Chamber of Accounts did not disclose such a figure for the period after 2018. Because, the Law on Budget System, which regulates budget relations in the Republic of Azerbaijan, does not contain provisions regulating financial relations between state companies and the state budget, in fact, what is happening in this direction does not fit into the legal norm. The Tax Code does not provide for a separate tax regime for state-owned companies in general. In short, the fiscal framework for SOCAR's budget payments and budget allocations to SOCAR has not been determined.

5. Analysis of content and quantitative dimensions of SOCAR's quasi-fiscal expenditures and expose corruption

According to a report released by the Natural Resource Governance Institute (NRGI) in 2021,⁴³ SOCAR's performance fell by 10 points compared to the 2017 Resource Governance Index (RGI) and scored in the lower end of the "satisfactory" performance band. At the same time, the report notes that there have been significant changes in SOCAR's management practices. SOCAR's financial reports are audited by an external auditor and the consolidated financial reports and sustainable development report, including SOCAR's annual report, balance sheet, cash flow statements, income statement, and information on revenues transferred to the state, are published on its website on an annual basis, albeit with delays. SOCAR also discloses information about its joint ventures, including its ownership, expenditures, and revenues. The NRGI report shows that there are areas to be developed in SOCAR, especially in terms of product sales. At present, there are no rules determining how SOCAR selects buyers for oil and gas products or at what price they sell their products, and the existing rules do not require disclosure of this information to the public. Although SOCAR disclosed the total volume and value of oil and gas sales in its annual report for 2020, the report did not mention the dates of purchase or sale. In line with good practice, SOCAR is required to publish information on sales volume, sales value, buyer identity, and sales date separately for each sale. Disclosure of this classified information is important for key

⁴³ 2021 Resource Governance Index – Azerbaijan, <https://resourcegovernanceindex.org/country-profiles/AZE/oil-gas?years=2021>

stakeholders to investigate SOCAR's activities, to ensure that sales are not conducted for political or unacceptable reasons, and to avoid tax or revenue deviations. SOCAR also does not disclose quasi-fiscal expenditures⁴⁴ and social impact assessment reports. In this section of the article, we provide an analysis of SOCAR's quasi-fiscal and social expenditures.

NRGI bases its analysis of the quasi-fiscal activities of state-owned companies like SOCAR on the IMF's Guide on Resource Revenue Transparency. The NRGI documents state⁴⁵ that some state-owned enterprises assume the functions of ministries responsible for public expenditures (such as the ministries of finance or transport). Instead of paying revenues to the state treasury, state-owned enterprises directly finance projects such as public debt repayment, infrastructure creation and maintenance, strengthening of education and health, fuel subsidies to consumers, and arms purchases. This practice allows the national budget process to be bypassed and could damage the commercial viability of companies. Therefore, the non-profit activities of state-owned companies are also assessed during the preparation of the RGI. The main question here is the involvement of the state company in non-profit activities (payments for social services, public infrastructure, fuel subsidies, public debt service) and the disclosure to the public of the amount spent by the state company on non-profit activities.

Section 1 of Summary of Good Fiscal Transparency Practices for Resource Revenue Management in the IMF's Guide on Resource Revenue Transparency (2007)⁴⁶, entitled "Quasi-Fiscal Activities of Resource Companies".

State-owned enterprises and government institutions as well as the central bank can undertake quasi-fiscal activities.⁴⁷ The existence of QFAs means that the budget gives a

⁴⁴ Quasi-fiscal expenditures include arrangements whereby SOEs undertake public social expenditure such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, etc. outside of the national budgetary process.

⁴⁵ http://www.resourcegovernance.org/sites/default/files/nrgi_State-Participation-and-SOEs.pdf

⁴⁶ Guide on Resource Revenue Transparency, Washington, International Monetary Fund (2007), <https://www.imf.org/external/np/pp/2007/eng/101907g.pdf>

misleading picture of the actual extent of fiscal activity and, as discussed above, leads to a blurring of responsibility between the government and state-owned enterprises. These issues are discussed extensively in the Manual but they are particularly relevant for resource-rich countries in which government responsibilities are transferred to sector agencies where both financial and managerial resources are concentrated.⁴⁸ With respect to resource sectors, the main types of QFAs include the following: lists the following as the main types of quasi-fiscal activities (QFAs):

1. **Energy QFAs:** requirements for NRCs to provide products (particularly energy) at less than cost recovery or market price for domestic consumption;
2. **Public expenditure QFAs:** requirements for NRCs or international companies to provide social services or other public goods normally provided by general government;
3. **Employment QFAs:** provision of employment in NRCs or related activities that go beyond what would be done if companies were run on a purely commercial basis; and
4. **Borrowing QFAs:** use of company leverage to borrow on behalf of government.

SOCAR's Energy QFAs. Energy QFAs cause market distortions and understate the size of government activity and the size of the budget deficit. In particular, providing energy at low prices represents an implicit, untargeted subsidy that invites overconsumption and waste by households, enterprises, and other users, with a

⁴⁷ A broad definition would include all operations that could in principle be duplicated by specific budgetary measures in the form of an explicit subsidy or direct expenditure. Typical QFAs with critical macroeconomic significance include multiple exchange rate regimes, the provision of exchange rate guarantees, nontariff trade barriers, credit rationing and directed lending at below-market interest rates, and the provision of goods and services by state-owned enterprises at below-market or cost recovery prices.

⁴⁸ Statements on quasi-fiscal activities are essential for fiscal transparency. These statements should, at a minimum, indicate the purpose of each quasi-fiscal activity, its duration, and the intended beneficiaries. In addition, there should be at least some assessment of the potential fiscal significance and, where possible, quantification. See Chapters I and III of the Manual for further details of IMF's Guide on Resource Revenue Transparency (2007), <https://www.imf.org/external/np/pp/2007/eng/101907g.pdf>

potentially large adverse environmental impact. Maintaining such subsidies leads to a misallocation of resources and risks the creation of an unsustainable dependence on continuing low energy prices. Such QFAs are prevalent in many energy-rich countries. The previous section noted additional consequences in terms of reducing managerial accountability for both commercial and noncommercial activities.

Until 2007, given that domestic prices were lower than regional and world market prices, the government allocated subsidies from the state budget to the energy sector, including SOCAR. In the 2007 budget, the amount of indirect subsidies to be paid to the energy sector for the amount not paid for fuel in the energy sector was 330 million manats. Beginning in 2007, the government began a policy of bringing domestic energy prices to world market prices to eliminate such indirect subsidies.⁴⁹ On January 6, 2007, the Tariff (Price) Council of the Republic of Azerbaijan adopted a Decision on Regulation of Prices of Oil Products within the Republic. The prices set by this decision were valid until December 3, 2013. On December 2, 2013, the Tariff (Price) Council of the Republic of Azerbaijan adopted a Decision on Regulation of Tariffs for Oil Products within the Country⁵⁰, and the new tariffs for oil products came into force on December 3. Decisions of the Tariff (Price) Council of the Republic of Azerbaijan dated January 12, 2015,⁵¹ and January 14, 2015, on Regulation of Tariffs for Oil Products within the Country approved intra-company, supply, wholesale, and retail tariffs for domestically produced and sold oil products.⁵² Furthermore, by the Decision of the Tariff Council dated January 4, 2021,⁵³ on Regulation of Tariffs for Oil Products within the Country, prices were raised again, and this decision annulled Decisions No. 16 of November 28,

⁴⁹ Azərbaycan Respublikasının 2007-ci il dövlət büdcəsi haqqında Azərbaycan Respublikasının Qanunu (28 noyabr 2006-cı il), maddə 22, <http://www.e-qanun.az/framework/12515>

⁵⁰ <http://www.tariffcouncil.gov.az/?/az/resolution/view/104/>

⁵¹ <http://www.tariffcouncil.gov.az/?/az/resolution/view/126/>

⁵² <http://www.tariffcouncil.gov.az/?/az/resolution/view/127/>

⁵³ <http://www.tariffcouncil.gov.az/?/az/resolution/view/203/>

2016, and No. 8 of July 14, 2017, on Amendments to Decision No. 2 of January 14, 2015, on the Regulation of Tariffs for Oil Products within the Country.

At present, the domestic energy prices in Azerbaijan, including for oil products, are higher than regional prices and lower than the world market level, which allows SOCAR to operate profitably. At the same time, the Tariff Council continues its policy of raising prices. However, this has created a conflict of interest since 2021, after the appointment of both the Minister of Economy and the Chairman of the Tariff Council, Mikayil Jabbarov, as Chairman of the Supervisory Board of SOCAR. Because, Chairman of the Supervisory Board of SOCAR, who is interested in the rise in prices for oil and oil products, also leads the decision-making process on behalf of the company as Chairman of the Tariff Council.

According to the Resolution of the Cabinet of Ministers of April 10, 1999, on Determining the Budgeted Part of the Difference Between the Contract Price (Excluding Export Expenditures) and the Wholesale Price of Domestic Enterprises in the Export of Products Produced and Regulated in the Republic of Azerbaijan, 25% of the difference was budgeted.⁵⁴ After this difference increased to 30% in 2013, 70% of the difference between the contract (selling) price of products (excluding export expenditures) and the domestic wholesale price, i.e. net income, remains at SOCAR's disposal when exporting domestically produced and regulated products. This provides the Company with a fairly high income.

SOCAR's Public Expenditure QFAs. Public expenditure QFAs involve national resource companies or international companies taking responsibility for services or public goods that are normally provided by general government. This may have been justified by government on the grounds that these activities represent a desirable

⁵⁴Azərbaycan Respublikasında istehsal edilən və qiymətləri tənzimlənən məhsulların ixracı zamanı kontrakt qiyməti ilə (ixrac xərcləri çıxılmaqla) respublikadaxili müəssisə topdönsatış qiyməti arasındakı fərqin büdcəyə alınan hissəsinin müəyyən edilməsi haqqında Azərbaycan Respublikası Nazirlər Kabinetinin Qərarı, <http://www.e-qanun.az/framework/4726>

partnership between companies and government to serve the needs of society. In some cases, it is argued that a company is better placed to provide services to, say, remote communities than is the government.⁵⁵ Moreover, companies themselves may feel that they enjoy benefits through better reception by the communities affected by the resource development.⁵⁶ Such activities, however, are rarely reported clearly or comprehensively. The extent of government fiscal activity is thereby understated, which may also generate inefficiencies. These activities include measures financed by the provision of services (education, health, and other social services) related to the functions of the state and the provision of public goods (infrastructure, etc.). The IMF recommends that the financing and provision of social services by companies should be reflected in contracts between government bodies and companies.⁵⁷ Although such activities of SOCAR are included in the activities carried out by the Company for the implementation of its tasks in Paragraph 2.3 of its Charter,⁵⁸ in many cases, such relations between SOCAR and government bodies are not regulated by the contract. Although SOCAR's annual reports cover a wide range of social activities outlined in the Company's Charter, these reports do not provide detailed information on the company's sports, media, and other quasi-fiscal activities and generally address SOCAR's participation in government programs.

According to SOCAR's annual report,⁵⁹ one of the company's socially important directions is the promotion of football in Azerbaijan and the sponsorship of Neftchi Sports Club, a participant in football competitions in the country. At the same time, SOCAR sponsors prestigious and popular sports competitions in Azerbaijan and other

⁵⁵ See Gupta and others (2003); Petri, Taube, and Tsyvinski (2003); and Taube (2001).

⁵⁶ This was, for instance, one reason why Angola's Sonangol took over the responsibility for various economic, social, and financial activities from the central government during Angola's protracted civil war.

⁵⁷ Guide on Resource Revenue Transparency, Washington, International Monetary Fund (2007)

⁵⁸ Charter of SOCAR, <https://socar.az/socar/az/company/regulations/socar-charter>

⁵⁹ <https://socar.az/socar/assets/documents/az/socar-annual-reports/illik-hesabat-2020.pdf>

countries. By sponsoring these prestigious games, it helps to increase the material well-being of some people of different age groups and to improve the cultural and aesthetic tastes of others.

However, it does not disclose in its reports how much it spends on these activities. For example, information on financial relationships with Neftchi Sports Club, the Association of Football Federations of Azerbaijan, as well as other sports competitions sponsored by SOCAR, as well as the maintenance of Haber Global TV channel in Turkey, the maintenance of the Khazar TV and CBC TV in Azerbaijan, the maintenance of the Report media portal, and other media outlets is not available in the company's reports. These are quasi-fiscal expenditures that SOCAR should clarify. As can be seen, information on SOCAR's activities in the field of sports and the media and its expenditures in this area are kept secret and not transparent. General information on these activities in SOCAR's reports does not allow an accurate estimate of its quasi-fiscal expenditures. Table 12 presents SOCAR's non-profit expenditures in 2020.

Table 12. SOCAR's aid expenditures for 2020, AZN

Type of aid	2020, AZN
Sports	14 000 000,00
Financial associations and trade unions	493 873,53
Education	4 900,00
Culture and art	750 031,00
Financial aid to individuals	10 167 554,00
Health	28 450 252,64
Total:	53 866 611,17

Source: SOCAR's annual report⁶⁰

⁶⁰ <https://socar.az/socar/assets/documents/az/socar-annual-reports/illik-hesabat-2020.pdf>

Table 12 does not show SOCAR's expenditures on the press, nor does it provide details on the funds allocated for sports. Among the disclosed expenditures, the largest share fell to health (52.8%), sports (25.9%), and financial aid to individuals (18.8%). Expenditures on these three items account for 97.5% of SOCAR's total aid expenditures. Table 2 presents SOCAR's total social expenditures for 2018-2020.

Table 13. SOCAR's total social expenditures, million AZN

Years	SOCAR's total social expenditures, million AZN
2018	105
2019	118
2020	171

Source: *SOCAR's sustainable development report*⁶¹

Table 13 shows that in 2020 there was a significant increase in social expenditures. Although SOCAR's sustainable development report explained this increase in sports aid by increased sponsorship aid to cover the expenses of the Association of Football Federations of Azerbaijan and other expenditures in 2020, details of how much it was were not disclosed.

SOCAR's Employment QFAs. **Employment QFAs** are similar in principle but involve less easily defined costs and social aims. A fairly common example is the provision of employment opportunities in NRCs over and above what would seem required for commercially run enterprises. The requirement for national or international companies to provide training to local counterparts, hiring quotas, and local content requirements can also be considered quasi-fiscal activities because they result in higher costs and hidden taxes for companies than under a pure market environment.⁶²

⁶¹ <https://socar.az/socar/assets/documents/az/socar-annual-reports/davamli-inkisaf-2020.pdf>

⁶² For example, as part of the development of the Indonesian oil sector, a Utilization of Expertise and Skill Development Fund was established with the objective of encouraging local hiring. The fund is financed with obligatory payments of \$100/ month per expatriate employee.

SOCAR is the largest employer in the Republic of Azerbaijan. As of January 1, 2021, the actual number of employees of SOCAR in Azerbaijan, including its enterprises and organizations, is 50,861. Table 14 presents the number of employees of SOCAR and its representative companies abroad in 2018-2020 in terms of dynamics and gender.

Table 14. Dynamics of the number of employees of SOCAR in 2018-2020, person

	2018	2019	2020
SOCAR Azerbaijan, total	51 125	51 695	50 861
Women	8 505	8 459	8 252
Man	42 620	43 236	42 609
SOCAR Energy Turkey, total	4 112	4 492	5 258
Women	436	490	631
Man	3 676	4 002	4627
SOCAR Energy Georgia, total	4 505	4 515	4 513
Women	888	893	884
Man	3 617	3 622	3 629
SOCAR Energy Ukraine, total	1 861	2 035	1 987
Women	921	1025	1 013
Man	940	1010	974
SOCAR Energy Switzerland, total	789	819	828
Women	510	539	556
Man	279	280	272
Total for all countries	62 392	63 556	63 447

Source: SOCAR's sustainable development reports for 2018, 2019, and 2020⁶³

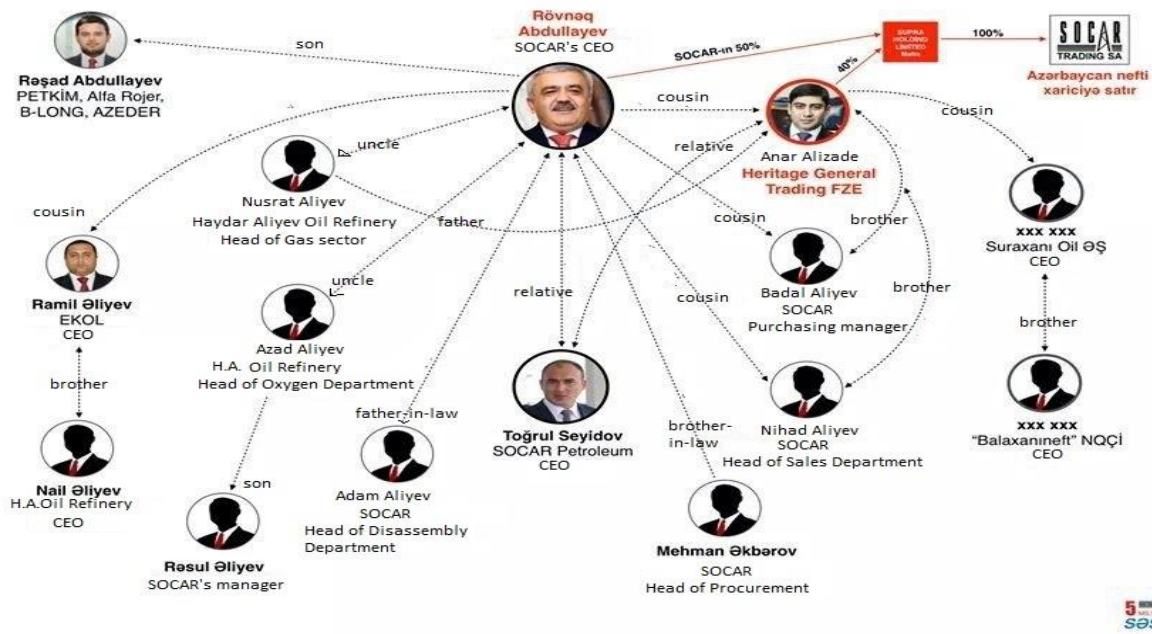
As can be seen from the table, the majority of SOCAR employees are men, and 16% of SOCAR employees are women. 69% of SOCAR's employees are laborers, 17% are

⁶³ <https://socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

specialists, 12% are managers, and 2% are technical executors. As can be seen, managers make up 12 % of the total number of employees, which means that 6,100 people work in management. SOCAR has 1 president and 10 vice-presidents. Each vice president has 1 deputy, 1 adviser, and 1 referent. In addition, SOCAR President Rovnag Abdullayev has 7 separate advisers, whose monthly salaries range from 4,500 to 5,000 manats. Rovnag Abdullayev's monthly salary is 7,890 manats, which is 11.5 times more than the average monthly salary, 23 times more than the median salary, 32 times more than the minimum wage, and 40 times more than the minimum for subsistence. There is a slight difference between the monthly salary of SOCAR's vice-presidents and the monthly salary of SOCAR's president. According to the State Statistical Committee⁶⁴, the average monthly nominal wage of employees in the country in 2020 amounted to 707.3 manats. During this period, the average monthly nominal wage in the mining industry amounted to 3,262 manats.

Nepotism and regionalism are widespread in SOCAR's employment policy. This is especially evident in the fact that 12% of SOCAR's employees who are in the management are mainly relatives and representatives of the same region.

⁶⁴ <https://www.stat.gov.az/news/macroeconomy.php?page=12&arxiv=1>



SOCAR's Borrowing QFAs. Borrowing QFAs⁶⁵ are equally an extension of NRC fiscal authority outside normal channels. The costs, however, are in terms of diffusion of financial management authority and hard to quantify. Such arrangements signify a need to clarify the relative roles of the national resource company and the finance ministry.

There is no information in the company's reports related to the financial transaction on SOCAR's Borrowing QFAs.

⁶⁵ McPherson (2003) cites Angola's Sonangol as an example. The Global Witness report "Time for Transparency" also provides examples from other countries (Global Witness, 2004)

7. Assessment of SOCAR's corruption risks: concrete cases

Most reports on the oil sector in Azerbaijan highlight the industry's extreme lack of transparency, but those reports usually fail to present solid evidence. It is hard to find concrete references to the cases or characters involved, or even an explanation of how corruption works.

Concrete cases:

In the 'Anonymous Azerbaijan' report⁶⁶ published by the UK-based Global Witness organization in December 2013, it was stated that Anar Nusrat oğlu Aliyev (Anar Alizade) had a stake in "at least 48 highly profitable deals" with SOCAR. In 2020, Singapore-based Union Grand Energy PTE Ltd., owned by Anar Alizade had assets of \$799.7 million and total capital of \$677 million. In 2020 Singapore-based RSR Holding

⁶⁶

https://cdn.globalwitness.org/archive/files/library/azerbaijan%20anonymous%20companies%20annex%202_2.pdf

PTE Ltd., owned by Anar Alizade, held assets worth \$194.4 million\$, and a total capital of 77.7 million.

Anar Aliyev, SOCAR Trading's shareholder, is also the hidden owner of several companies legally based in Arabic countries and involved in exploiting onshore oil fields similar to Binagadi.

The Binagadi case involves another controversial company, Global Energy, which is registered in the Virgin Islands. Global Energy is connected to Russian citizen and ethnic Chechen Mikhail Gutseriyev who, enjoys a "special relationship with Azerbaijan."

On December 11, 2007, Supra Holding Limited (renamed SOCAR Trading Holding Limited) was established with the partnership of 50% SOCAR, 25% Heritage General Trading FZE (renamed, Eventus General Trading FZE) owned by Anar Alizade (Aliyev) and 25% Renfrel Holding Limited, owned by Lukoil's former deputy general manager Valery Golovushkin. On December 17, 2007, Supra Holding Limited established SOCAR Trading SA in Geneva. Later, Anar Alizade increased his stake in Supra Holding Limited to 40% on account of the shares he bought from Valery Golovushkin. In November 2012, SOCAR became the sole shareholder of Supra Holding Limited and its subsidiary SOCAR Trading SA, by paying \$103 million to Anar Alizade and \$30 million to Valery Golovushkin.

On June 28, 2011, Anar Alizade established SOCAR International DMCC in Dubai in partnership with SOCAR. At SOCAR International DMCC, Anar Alizade held a 50% share through Petroline DMCC. SOCAR was selling oil to SOCAR International DMCC, and SOCAR International DMCC was selling oil to Supra Holding Limited. SOCAR International DMCC sold oil worth \$1.68 billion in 2011 and \$5.77 billion in 2012 to Supra Holding Limited. In 2011-2012 SOCAR International DMCC earned a net profit of

\$66 million from this brokerage. In August 2013, Anar Alizade left the partnership by selling his shares in SOCAR International DMCC to SOCAR for \$23 million. SOCAR could not explain why it did not sell the oil directly to Supra Holding and use SOCAR International DMCC as an intermediary.

On September 15, 2008, SOCAR Petroleum QSC was incorporated in Azerbaijan in partnership with SOCAR and A.P. International LLC. Orkhan Huseynov was appointed as the first general director at SOCAR Petroleum QSC. A.P. International LLC, established in Rhode Island state of the USA was a subsidiary of Union Grand Energy PTE Ltd, owned by Anar Alizade. Until 2013, Anar Alizade had 49% and SOCAR 51% shares in SOCAR Petroleum QSC, which operates filling stations in Azerbaijan. The first filling station was opened in May 2010. On December 10, 2013, Anar Alizade left the partnership by selling his shares in SOCAR Petroleum QSC to SOCAR for \$47 million. Anar Alizade said that since SOCAR could not provide financing on its own, SOCAR decided to partner with A.P. International which offered strong financial and infrastructure assistance. During the partnership period with Anar Alizade, 17 filling stations were built for SOCAR Petroleum QSC.

In 2014 the production of AI-95 (Premium) and AI-98 (Super) branded fuels was stopped with the start of modernization works at the "Heydar Aliyev" Oil Refinery. As of that date, this type of fuels was imported by SOCAR Petroleum QSC from Romania and Russia to Azerbaijan. AI-95 (Premium) and AI-98 (Super) branded fuels are exported from Romania to Azerbaijan by SOCAR Petroleum S.A.

SOCAR stated⁶⁷ in its 2013 report that on December 10, 2013, it acquired 100% control over SOCAR Petroleum CJSC. For this, SOCAR bought the remaining 49% of the shares in SOCAR Petroleum CJSC from another shareholder. According to the official website

⁶⁷ <https://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2013.pdf>

of SOCAR, 49% of the shares of SOCAR Petroleum CJSC were owned by A.P. International LLC, established in the US state of Rhode Island. The remaining 51% owned by SOCAR.⁶⁸ According to the October 22, 2008 issue of the "Vergiler" newspaper, SOCAR Petroleum CJSC (TIN: 1600943181) was established on September 15, 2008. The first legal representative of the company was Huseynov Orkhan Abbas oglu.⁶⁹ Orkhan Huseynov is the owner of Arrow Star Holding LTD, registered in Malta. He bought this company on October 6, 2020 from Ilham Gadimzade.⁷⁰ Orkhan Huseynov is also the director of the Azerbaijani branch (TIN: 1002992081) of Berhar Oil FZE, registered in Dubai. Berhar Oil FZE is a subsidiary of Union Grand Energy PTE Ltd, owned by Anar Alizade who is SOCAR's CEO Rovnag Abdullayev's cousin.⁷¹ In SOCAR Petroleum CJSC, Orkhan Huseynov was replaced by Seyidov Togrul Javad oglu, a relative of Rovnag Abdullayev. In December 2021, Hasanov Rovshan Imran oglu was appointed General Director of SOCAR Petroleum CJSC. Rovshan Hasanov previously served as director of the Azerneftiyag Oil Refinery.⁷² The first filling station of SOCAR Petroleum CJSC was opened on May 7, 2010. The company has 39 filling stations and 11 oil product storage terminals, 1 compressed natural gas terminal and 9 CNG stations. SOCAR Petroleum employs more than 2,000 people.⁷³ According to the Rhode Island business registry, A.P. International LLC was established on September 6, 2005 and was liquidated on November 29, 2011.^{74,75} According to a 2010 report by

⁶⁸ <https://socar.az/socar/az/company/joint-ventures/SOCAR-Petroleum-CSJC>

⁶⁹ <https://bit.ly/3xVyN74>

⁷⁰ https://oilmar.com/misc/Oilmar-DMCC-Profile.pdf?fbclid=IwAR2gBASKIzBqv1qzzfXDIkmaMGATjYG_qaPOAigXEo6BMLIReW5Jz_xP-Fw

⁷¹ <https://www.azerbaycansaati.tv/7832.html>

⁷² <https://banker.az/socar-petroleumun-r%C9%99hb%C9%99ri-d%C9%99yisdi/>

⁷³ <https://hokm.az/rovneq-abdullayev-rovsen-hesenovu-yukse-vezifeye-teyin-etdi/>

⁷⁴ <https://bit.ly/31IRG7D>

⁷⁵ <https://bit.ly/3pvSPRN>

Singapore-based Union Grand Energy PTE Ltd, owned by Anar Alizade, A.P. International LLC was a subsidiary of Union Grand Energy PTE Ltd.⁷⁶

In response to the "Anonymous Azerbaijan" report published by Global Witness, Anar Alizade said that SOCAR sold its stake in Petroleum CJSC to SOCAR in 2013 for \$47 million. Anar Alizade justified his leave from the partnership as follows: Anar Alizade and A.P. International LLC were vital to the establishment of SOCAR Petroleum CJSC. A.P. International LLC supplied substantial financing and infrastructure at a time when SOCAR would not have been able to supply the financing by itself. SOCAR is now the sole owner of SOCAR Petroleum CJSC and is able to manage the sale and purchase of petroleum products in 17 petrol stations across the country.⁷⁷ SOCAR Petroleum CJSC has been importing AI-95 (Premium) and Ai-98 (Super) gasoline to Azerbaijan since the suspension of production at the Heydar Aliyev Oil Refinery in 2014.⁷⁸ Ai-98 ("Super") gasoline is exported from Romania to Azerbaijan by SOCAR Petroleum S.A., a joint venture between SOCAR and Anar Alizade.⁷⁹

Question 1: Why did SOCAR establish a joint venture with Anar Alizade's A.P. International LLC for the construction of filling stations in Azerbaijan?

Question 2: How much did SOCAR pay to which shareholder (s) to buy the remaining 49% of the shares of SOCAR Petroleum CJSC?

In 2010 Anar Alizade's Eventus-UGE Coöperatief U.A. and SOCAR's Coöperatief Menkent U.A. established Becrux Investment and Finance BV in the Netherlands.

⁷⁶

https://cdn.globalwitness.org/archive/files/library/azerbaijan%20anonymous%20companies%20annex%202_2.pdf

⁷⁷ <http://www.azerbaijananonymousexplained.com/eng/azerbaijan-anonymous-explained/socar-petroleum-cjsc/>

⁷⁸ <https://sherg.az/arxiv/39418>

⁷⁹ <https://www.a3haber.com/2021/09/21/benzin-zamminin-ardindan-yine-o-isim-cikti-anar-alizade/>

Coöperatief Menkent U.A. owns 51% and Eventus-UGE Coöperatief U.A. 49% shares in Becrux Investment and Finance BV. SOCAR Enegy SRL and SOCAR Petroleum S.A. established in Romania are the subsidiaries of Becrux Investment and Finance BV. SOCAR Petroleum SA, established in 2011, operates 64 gas stations in Romania.

Why does Anar Alizade deny kinship with Rovnag Abdullayev?

After the publication of the "Anonymous Azerbaijan" report by Global Witness in December 2013, Anar Alizade changed his surname from "Aliyev" to "Alizade." He explained that the resemblance between his surname and the surname of the ruling family of Azerbaijan created confusion in the business world. Anar Alizade said in an interview with *Business Time* magazine that while carrying the surname "Aliyev," he was asked many questions about his relationship with certain people.⁸⁰

In response to allegations in the Global Witness's report, Anar Alizade denied kinship with Azerbaijani President Ilham Aliyev and SOCAR's CEO Rovnag Abdullayev in a statement posted on the website of his Singapore-registered Union Grand Energy PTE Ltd on 19 December 2013. "I have family relationship neither with His Excellency the President of the Republic of Azerbaijan nor with SOCAR's President Mr. Rovnag Abdullayev."⁸¹

In an interview with *Business Time* magazine in May 2014, Anar Alizade again denied kinship with Rovnag Abdullayev: "As I have already mentioned in my Personal Statement, I have no family relations with any powerful representatives of the Nakhchivani clan referred to by Global Witness. Taking this opportunity, I would like

⁸⁰ <https://web.archive.org/web/20210304012322/https://www.azadliq.org/a/25228420.html>

⁸¹

<https://web.archive.org/web/20200926220255/http://www.ugepte.com/index.php?page=page&MasterPageID=1&ID=54>

to stress again that I have no close family relations with any of the referred persons or anyone else who holds high Government position in Azerbaijan.”⁸²

In November 2014, Azerbaijani journalist Eynulla Fetullayev asked this question of Anar Alizade: “There is some controversial information about you in the local Azerbaijani information resources. Some claim that you are a relative of SOCAR President Rovnag Abdullayev and all your achievements were possible due to his great support, others contend that you are a talented and successful young businessman supported by SOCAR. As far as we understood, Global Witness emphasizes on the first issue of family relations. Could you please clarify this?”

In response to Fetullayev's question, Anar Alizade once again denied his relationship with Rovnag Abdullayev:

"I have no intention to return to this issue again. I have addressed this issue in my personal statement and the follow up interview to *Business Time*. This organization (Global Witness) simply was not able to demonstrate my family relations with any powerful officials, and for these reasons, they now raise questions on ‘any other forms of family relations. In addition, I have no kinship with any former or current senior SOCAR's officials. As to the discussion of my family members, I believe that it is beyond the ethics and it should be treated as serious interference in my private life. As to your question, I can confirm that it is true that I am a young and successful businessman and a reliable partner for SOCAR.”⁸³

Anar Alizade presented a document dated November 3, 2014 issued by the Nakhchivan Ministry of Justice to Eynulla Fatullayev, which stated that Anar Alizade was not related

⁸² <https://web.archive.org/web/20170604182907/http://anaralizade.com/?p=142>

⁸³ <https://www.anaralizade.com/anar-aliyev-has-shown-all-the-aces-to-eynulla-fatullayev/>

to any high-ranking officials of the Republic of Azerbaijan, who were born in Nakhchivan and have family roots there.⁸⁴

On May 28, 2017, the Ministry of Internal Affairs of Azerbaijan issued another document to Anar Alizade stating that he has no kinship with the President of Azerbaijan and other high-ranking officials.⁸⁵

Anar Alizade used the document to refute allegations made in an article published in the Italian newspaper L'Espresso.⁸⁶ In a statement to an Italian newspaper, he once again denied kinship with Rovnag Abdullayev: "1. I have no parental link with the family of HE the President of the Republic of Azerbaijan and/or with any other high official and/or politically exposed persons in Azerbaijan; 2. My family roots come from a different region of Azerbaijan and not from the same of those top officials referred to in the Article."

The truth is that Anar Alizade is the cousin of SOCAR's CEO Rovnag Abdullayev. Rovnag Abdullayev's mother Aliyeva Gultaj Badal gizi and Anar Alizade's father Aliyev Nusrat Badal oglu are siblings.⁸⁷⁸⁸

It appears that Anar Alizade hides his kinship with SOCAR's CEO Rovnag Abdullayev to avoid AML (anti-money laundering) procedures in international banking operations.⁸⁹

⁸⁴ <https://www.azerbaycansaati.tv/wp-content/uploads/2021/10/0-3.jpg>

⁸⁵ <https://www.azerbaycansaati.tv/wp-content/uploads/2021/10/c476252f-1392-4cc4-a614-aa095e882931-576x1024.jpg>

⁸⁶ <https://www.anaralizade.com/lespresso-magazine/>

⁸⁷ <https://www.azerbaycansaati.tv/wp-content/uploads/2021/11/siyah%C4%B1-696x294.jpg>

⁸⁸ <https://www.azerbaycansaati.tv/wp-content/uploads/2021/10/Capture-d%E2%80%99e%CC%81cran-2021-10-23-a%CC%80-15.08.00-1024x722.png>

⁸⁹ <https://www.fatf-gafi.org/media/fatf/documents/recommendations/guidance-pep-rec12-22.pdf>

The Financial Action Task Force (FATF) is an international organization specializing in combating money laundering and other financial crimes. According to FATF legislation, executives of state-owned companies are considered Politically Exposed Persons (PEP).

7. Conclusion

- 1) Although most of SOCAR's assets are located in Azerbaijan, its revenues came mainly from its activities in Switzerland. SOCAR conducts various petroleum activities in countries such as Georgia, Turkey, Romania, Switzerland, Germany, and Ukraine, including trading activities, mainly in Switzerland, Singapore, and Nigeria. SOCAR Energy Switzerland was established in Zurich in 2012 and it reaches 200 petrol stations in Switzerland. SOCAR Trading, which was established in 2008 in Geneva and realizes 75% of the sale of Azerbaijan oil (20

million barrels per month), as well as gas and LNG (liquid natural gas), continues expanding the trade of these products.

- 2) Although the establishment of SOCAR's Supervisory Board is an important step in the company's transition to corporate governance, the organization of the Board, which holds a completely high political position, is not a good practice in terms of the effectiveness of the new collegial management. There are no criteria and requirements for the selection of members; they are decided only by the political will of the country's leader.
- 3) So far, the approval of corporate governance standards for the management of SOCAR, as well as the performance appraisal system of SOCAR's governing bodies, as well as information on the results of the diagnosis of the activities of SOCAR in the legal, financial, tax, and commercial spheres, provided that the existing contractual obligations are complied with, with the involvement of an international consulting company, have not yet been available to the public. At the same time, although radical structural changes have been made in SOCAR's management system, no personnel reforms have been carried out, and the company is still managed by previous managers. At the same time, expectations in the field of preparation of the company for commercialization and privatization have not come true.
- 4) SOCAR does not disclose information about many of its quasi-fiscal expenditures, especially its allocations for sports and the media. For example, information on financial relationships with "Neftchi" Sports Club, the Association of Football Federations of Azerbaijan, as well as other sports competitions sponsored by SOCAR, as well as the maintenance of Haber Global TV channel in Turkey, the maintenance of the Khazar TV and CBC TV in Azerbaijan, the maintenance of the Report media portal, and other media outlets is not available in the company's reports. These are quasi-fiscal expenditures that

SOCAR should clarify. At the same time, there is no legislation regulating and normalizing the financial activities between SOCAR and government bodies, as well as normative documents on the agreements governing relations in this area. In short, the government can take as much money from SOCAR as it wants, and at the same time allocate as much money as it wants to SOCAR.

- 5) SOCAR has a surplus workforce, while the number of managers in SOCAR's staff is higher than normal. This is especially evident in the fact that 12% of SOCAR's employees who are in the management are mainly relatives and representatives of the same region.
- 6) Nepotism, kinship and regionalism are widespread in SOCAR's employment policy. Signs of regionalism, kinship and nepotism among SOCAR's managers reduce the company's efficiency.
- 7) SOCAR's growing debts pose significant risks. According to the report entitled "Risky bet: National Oil Companies in the Energy Transition," in the next generation of investments for national oil companies (NOCs), on a range of break-even prices after taxes, among the worst five NOCs of which future investment decisions will be more difficult, SOCAR is fifth after Suriname's Staatsolie, Colombia's Ecopetrol, Venezuela's PDVSA, and Indonesia's Pertamina. This means that the average price of crude oil below \$40 per barrel in 2021-2030 will put SOCAR in a difficult position. For comparison, it should be noted that according to the report, the break-even price for future investments for Norway's Equinor, the United Arab Emirates' ENOC, and Kazakhstan's KazMunayGas is \$25 per barrel. This indicator is weighted by the proportion of capital expenditure of each project as a proportion of the total capital expenditure for the NOC. As can be seen, SOCAR is among the top five companies most affected by future oil price declines. According to the report, along with Sonangol (Angola), Staatsolie (Suriname), and Pemex (Mexico),

SOCAR (Azerbaijan) is a NOC that poses significant risks to its government. The report draws this conclusion based on a comparison of SOCAR's debts with its assets, and the list includes NOCs, of which debts are more than 20% of their governments' annual revenues. So, in 2020, the consolidated budget revenues amounted to 24.465 billion manats, and SOCAR's long-term borrowings amounted to 12.593 billion manats, which means that SOCAR's debts exceeded 51.47% of state revenues. It should be noted that SOCAR's long-term borrowings amounted to 11.369 billion manats in 2019, 9.7 billion manats in 2018, and 9.5 billion manats in 2017.⁹⁰ The company's borrowing will continue in 2021. For comparison, as of July 1, 2021, the total external public debt of the Republic of Azerbaijan amounted to \$ 8.603 billion (14.625 billion manats) or 18.2% of GDP. As can be seen, there is no significant difference between SOCAR's debt and the state's foreign debt, as for 2020 SOCAR's foreign debt amounted to 86.1% of the country's total foreign debt. As for the share of SOCAR's long-term debt in its total assets for 2020, this figure reached 19.63%. These comparisons also show that SOCAR will face serious difficulties in debt management in the future.

- 8) The report of the Chamber of Accounts on the execution of the budget for 2018 shows that SOCAR's payments to the budget were less than the funds it received from the budget. Unfortunately, the Chamber of Accounts did not disclose such a figure for the period after 2018. Because, the Law on Budget System, which regulates budget relations in the Republic of Azerbaijan, does not contain provisions regulating financial relations between state companies and the state budget, in fact, what is happening in this direction does not fit into the legal norm. The Tax Code does not provide for a separate tax regime for state-owned

⁹⁰ <https://socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

companies in general. In short, the fiscal framework for SOCAR's budget payments and budget allocations to SOCAR has not been determined.

- 9) After the appointment of both the Minister of Economy and the Chairman of the Tariff Council, Mikayil Jabbarov, as Chairman of the Supervisory Board of SOCAR, it has created a conflict of interest since 2021. Because, Chairman of the Supervisory Board of SOCAR, who is interested in the rise in prices for oil and oil products, also leads the decision-making process on behalf of the company as Chairman of the Tariff Council.

8. Perspective assessment of SOCAR's future activities

About a year ago, the Supervisory Board (SB) of the SOCAR was established to exercise general management and control over the activities of SOCAR by the Presidential Decree⁹¹ dated January 23, 2021, on Measures to Improve the Management of SOCAR. With this decree, the Presidential Decree⁹² dated November 5, 2020, on Ensuring the Activities of the Azerbaijan Investment Holding (AIH) set a number of tasks for the AIH and the SB, which manage SOCAR. In this article, we will look at the changes that have taken place in SOCAR over the past year and try to assess the effectiveness of its

⁹¹ <https://president.az/az/articles/view/50344>

⁹² <http://e-qanun.az/framework/46254>

effects and initial results on the basis of limited data. First of all, let's pay attention to the main points related to the establishment, activities, and key indicators of SOCAR.

The management structure of SOCAR was approved by the Order of the President of the Republic of Azerbaijan No. 328 of February 26, 1993. According to the Order No. 50 of January 10, 1994, on Improving the Structure of SOCAR, Offshore and Onshore Oil and Gas Production Units were established in the structure of the State Oil Company. The Charter of SOCAR and its structure were approved in accordance with the Decree of the President of the Republic of Azerbaijan No. 844 of January 24, 2003, on Improving the Structure of SOCAR. Decrees No. 127 of September 18, 2004, and No. 340 of December 22, 2005, made addendums and amendments to the Company's Charter and management structure. However, in spite of all this, the changes in SOCAR's activities have occurred for the past 1.5 years. So, the Decree⁹³ of the President of the Republic of Azerbaijan dated November 5, 2020, on Ensuring the Activities of the Azerbaijan Investment Holding approved the list of state-owned companies and enterprises, as well as economic societies with state share, to be managed by the AIH and transferred SOCAR to the management of the AIH.

As for the AIH, this holding was established by the Decree⁹⁴ of the President of the Republic of Azerbaijan No. 1120 of August 7, 2020, on the Establishment of the Azerbaijan Investment Holding, which approved its Charter. The authorized capital of SOCAR, approved by the Decree⁹⁵ of the President of the Republic of Azerbaijan No. 844 of January 24, 2003, is 1.628 billion manats (\$ 957.6 million) and belongs to the state. Therefore, the changes envisaged in connection with the improvement of the management system and structure of SOCAR over the past year.

⁹³ <http://e-qanun.az/framework/46254>

⁹⁴ <http://e-qanun.az/framework/45612>

⁹⁵ <http://www.e-qanun.az/framework/1899>

About a year ago, by the Decree⁹⁶ of the President of the Republic of Azerbaijan dated January 23, 2021, on Measures to Improve the Management of the State Oil Company of the Republic of Azerbaijan, the SB of SOCAR was established in the 28th year of the company's activities to exercise general management and control over SOCAR's activities. By another presidential order⁹⁷, the composition of the SB of SOCAR was approved. Minister of Economy Mikayil Jabbarov, has been appointed chairman of the Supervisory Board. It does not include representatives of other interest groups, including civil society. However, in 1992, a representative of the press was also represented in the first SB. At present, the composition of the SB lags behind the standards of 1992, as well as in comparison with the two oil and gas countries of the Caspian region - Russia and Kazakhstan.

So, 3 out of 7 members of the Board of Directors of the Kazakh state company KazMunayGas were elected as independent directors, and these 3 representatives are foreigners. The company has formed the necessary legal and institutional framework for the effective implementation of corporate governance. For example, an extensive set of legal documents and rules has been developed and approved, such as the Regulations on the Board of Directors, the Regulations for Evaluating the Activities of the Board, separate regulations for each of the various committees of the board (finance, audit, awards, and appointments, etc.), the Corporate Governance Code, the Code of Ethics, dividend policy, and risk management policy.

Another example is the one-tier corporate governance model at Russian state company Rosneft. According to this model, Rosneft is represented on a single Board of Directors by a board of directors and executive director who oversee the overall management of the state-owned company. In total, 7 of the 11 directors represented on the Board, including the Chairman of the Board of Directors, are elected from abroad. The CEO of

⁹⁶ <https://president.az/az/articles/view/50344>

⁹⁷ <https://president.az/az/articles/view/50345>

the company is also a member of the Board. Two of the other directors are high-ranking political officials representing the central government, and one is from the private sector. Four members are elected as independent directors. Rosneft has also developed the necessary legal mechanisms and documents for corporate governance. For example, the Corporate Governance Code, the Code of Corporate Ethics, the policy of internal audit and risk management, the Regulations on the Board of Directors, and other documents can be listed.⁹⁸ As can be seen, there is a lot to be done in this area in Azerbaijan.

As for the structure of SOCAR, it is approved by the AIH in coordination with the President of the Republic of Azerbaijan. It ensures the implementation of exploration, construction, and development of oil and gas fields, transportation, processing, distribution, and sale of oil, gas, condensate, as well as oil, petrochemical, and gas products, the performance of services, and other tasks and activities of the Company. At present, decisions on the establishment, reorganization, and liquidation of the bodies included in the structure of SOCAR, as well as its subsidiaries and affiliates, are made by the SB of the Company.⁹⁹ At the same time, the SB of the Company decides whether to entrust the implementation of certain types of activities by the company in whole or in part to the bodies included in its structure.

The powers of the SB include:

- Approval of the company's long-term development strategy;
- Approval of cost and revenue estimates, control over its implementation;
- Submission of proposals to the general meeting on the conclusion of a transaction in the amount of more than 25% of the value of SOCAR's net assets, as well as a transaction with the relevant person with the opinion of an independent auditor, the value of which is 5% or more of SOCAR's assets;

⁹⁸ <http://nhmt-az.org/frontend/pages/human-rights-inner.php?id=181>

⁹⁹ <https://socar.az/socar/az/company/supervisory-board/chairman-of-socar-supervisory-board>

- Approval of deals to be concluded with related parties, the value of which is up to 5% of SOCAR's assets;
- Approval of transactions related to the transfer of management and privatization of SOCAR's assets;
- Approval of policies, internal regulations, as well as regulations of branches and representative offices in certain areas of activity;
- Approval of the corporate structure and staffing of SOCAR;
- Establishment of SOCAR Audit Committee and other committees, approval of their regulations, appointment and dismissal of the head and members;

By Presidential Decree dated January 23, 2021, within 6 months, Azerbaijan Investment Holding had to approve the corporate governance standards for the management of SOCAR, as well as the performance appraisal system of members of SOCAR's governing bodies; moreover, it had to diagnose the results of SOCAR's activities in the legal, financial, tax, and commercial spheres by involving an international consulting company, provided that it complied with its existing contractual obligations, and to inform the President of the Republic of Azerbaijan about the results. At the same time, after the completion of the diagnostics, the AIH had to prepare and submit to the President of the Republic of Azerbaijan for approval within 2 months a draft of the new Charter and structure of SOCAR, depending on its results.

During the past period, by the Decree¹⁰⁰ of the President of the Republic of Azerbaijan dated May 8, 2021, on Amendments to the Decree of the President of the Republic of Azerbaijan No. 844 of January 24, 2003, on Improving the Structure of the State Oil Company of the Republic of Azerbaijan, The rules of management of SOCAR have been changed, the exclusive powers of the General Assembly, the powers of the SB and its committees, the Board, and the President have been clarified. After that, the Charter of

¹⁰⁰ <https://president.az/az/articles/view/51420>

the Company and the composition of the Management Board were changed by the presidential decree such that 4 vice-presidents of SOCAR were dismissed by the orders¹⁰¹ of the President of the Republic of Azerbaijan, and appointments were made in their positions.

During the past period, the Cabinet of Ministers adopted a Resolution¹⁰² on Some Issues Related to the Formation of the Steering Committees of SOCAR on Production Sharing Agreements to Which the State Oil Company of the Republic of Azerbaijan is a Party and approved the representation of the Ministry of Economy, the Ministry of Finance, the Ministry of Energy, the Ministry of Ecology and Natural Resources, the State Oil Fund, and the Azerbaijan Investment Holding, in the steering committee of operating companies engaged in oil and gas production in Azerbaijan, along with SOCAR; thus, the government's control over SOCAR in production sharing agreements has been strengthened.

The following steps are necessary for the implementation of effective, accountable and transparent corporate governance in SOCAR:

- Corporate governance standards for the company should be approved, the guiding principles of the Organization for Economic Cooperation and Development, the experience of advanced countries should be taken into account when developing these standards;

¹⁰¹ <https://apa.az/az/xeber/senaye-ve-energetika/socar-in-dord-vitse-prezidenti-vezifeden-azad-olunub-yenilenib-video-653331>

¹⁰² <https://apa.az/az/xeber/senaye-ve-energetika/azerbaycan-investisiya-holdingine-yeni-selahiyet-verilib-652610>

- Along with the independence of the members of the Supervisory Board, the independence of the structure itself should be guaranteed, and the hiring and dismissal of the executive director (board of directors) should be established as the exclusive right of the Board of Directors;
- Clear criteria should be set for the selection of members of the Supervisory Board, experience, competence and professionalism should be taken into account in the selection of members, restrictions on the selection of political positions should be applied, and the advantage of independent candidates should be ensured;
- Establishment of committees (audit, risk management) to ensure the effectiveness of the Supervisory Board as soon as possible, legal acts regulating their activities, as well as a separate Regulation on the activities of the Supervisory Board should be approved;
- Instructional documents ensuring SOCAR's accountability, transparency and information openness should be developed and approved as soon as possible.

8.1.Expectations from SOCAR in the post-Abdullayev period

By the Order¹⁰³ of the President of the Republic of Azerbaijan dated February 10, 2022, the President of the State Oil Company of the Republic of Azerbaijan (SOCAR), Rovnag Abdullayev, was removed from his position after 17 years and appointed Deputy Minister of Economy of the Republic of Azerbaijan by another Order¹⁰⁴. By another

¹⁰³ <https://president.az/az/articles/view/55409>

¹⁰⁴ <https://president.az/az/articles/view/55410>

Order¹⁰⁵ of the President of the Republic of Azerbaijan, former First Deputy Minister of Economy, Rovshan Najaf, was appointed First Vice President of the State Oil Company of the Republic of Azerbaijan and was temporarily entrusted to act as the President of the State Oil Company until the appointment of this position.

This change was expected because changes have been made in the management of SOCAR for more than a year by the Decree¹⁰⁶ of the President of the Republic of Azerbaijan No. 1258 dated January 23, 2021, on Measures to Improve the Management of the State Oil Company of the Republic of Azerbaijan. So, immediately after this decree, the Supervisory Board (SB)¹⁰⁷ was established by Presidential Order¹⁰⁸ to exercise general management and control over the activities of SOCAR, and changes were made in the composition¹⁰⁹ of the Board of SOCAR. So, in July 2021, four vice-presidents of SOCAR were dismissed and two new vice-presidents were appointed¹¹⁰. Thus, the SB¹¹¹ of SOCAR began to make decisions on the establishment, reorganization, and liquidation of entities, as well as subsidiaries and affiliates, included in the structure of SOCAR. At the same time, the decision to entrust the implementation of certain activities by the company in whole or in part to the bodies included in its structure is made by the SB of SOCAR.

During the past year, the rules of SOCAR's management were changed by the Decree¹¹² of the President of the Republic of Azerbaijan dated May 8, 2021, on Amendments to the Decree of the President of the Republic of Azerbaijan dated January 24, 2003, No. 844 on Improving the Structure of the State Oil Company of the Republic of Azerbaijan.

¹⁰⁵ <https://president.az/az/articles/view/55413>

¹⁰⁶ <http://www.e-qanun.az/framework/46718>

¹⁰⁷ <https://president.az/az/articles/view/55416>

¹⁰⁸ <https://socar.az/socar/az/company/supervisory-board/chairman-of-socar-supervisory-board>

¹⁰⁹ <https://socar.az/socar/az/company/management/socar-president>

¹¹⁰ <https://marja.az/74775/socar-a-vitse-prezidentler-teyin-edildi-serencamlar>

¹¹¹ <https://socar.az/socar/az/company/supervisory-board/chairman-of-socar-supervisory-board>

¹¹² <https://president.az/az/articles/view/51420>

The exclusive powers of the General Meeting, the powers of the SB and committees operating under it, the Board, and the President were clarified.

At the same time, a number of functions performed by SOCAR, including the powers exercised independently on behalf of the state, were distributed among government bodies. So, by the Resolution¹¹³ of the Cabinet of Ministers on Some Issues Related to the Formation of Steering Committees by the State Oil Company of the Republic of Azerbaijan under Production Sharing Agreements in Which SOCAR is a Party, along with SOCAR, representation of the Ministry of Economy, the Ministry of Finance, the Ministry of Energy, the Ministry of Ecology and Natural Resources, the State Oil Fund, and the Azerbaijan Investment Holding (AIH) has been approved in the steering committee of operating companies engaged in oil and gas production in Azerbaijan.

Taking into account all the changes that have taken place over the past year, let's assess the removal of the President of SOCAR after 17 years, and pay attention to the consequences.

First, it should be noted that after SOCAR was transferred to the AIH and its Supervisory Board was established by the Decree¹¹⁴ of the President of the Republic of Azerbaijan dated November 5, 2020, on Ensuring the Activities of the Azerbaijan Investment Holding, powers of SOCAR's president and vice-presidents (Board) who determined the company's policy until then have been divided between the Supervisory Board, the Azerbaijan Investment Holding, and the General Meeting, the powers of the Board of SOCAR have been significantly reduced, and they have been instructed to carry out their tasks in a timely, effective, and better economic manner. Thus, over the past year, SOCAR's former monopoly management was put to an end.

¹¹³ <https://apa.az/az/xeber/senaye-ve-energetika/azerbaycan-investisiya-holdinqine-yeni-selahiiyyet-verilib-652610>

¹¹⁴ <http://e-qanun.az/framework/46254>

Second, it should be noted that since the initial changes in SOCAR over the past year are based on the improvement of the management structure and the replacement of old staff with new ones, their analysis shows that SOCAR was, first of all, taken out of the control of oligarchs of the Nakhchivan clan and transferred to the control of managers appointed by Pashayevs, and the biggest step in this direction was the removal of the President of SOCAR, one of the main representatives of the Nakhchivan clan, and the transfer of his powers to the staff of the Pashayev clan. However, the changes in this direction will not end only with the replacement of the President of SOCAR. Apparently, most of the remaining eight vice-presidents¹¹⁵, except for the last two vice-presidents appointed to SOCAR, will be removed and replaced with new ones.

Third, former President Rovnag Abdullayev's relatives and townsmen, who hold senior positions in SOCAR, are also expected to be removed from their positions. Most likely, the steps taken in this direction will not be limited to Azerbaijan but will also cover SOCAR's representative offices, joint ventures, unions, operating companies, and subsidiaries in four countries (Turkey, Georgia, Ukraine, and Switzerland).

Fourth, the abolition of parallel structures in the name of improving SOCAR's management system is also expected, in particular, there will be redundancies in the management staff, and in general, changes will be made in the field of dismissal of employees.

Finally, arrests on the basis of misappropriation and embezzlement revealed in SOCAR are not excluded as well.

Although all this plays a positive role in solving SOCAR's current management problems, in the current financial situation, it will not be possible to pull SOCAR out of the debt quagmire, where it has fallen as a result of the poor management for many

¹¹⁵ <https://socar.az/socar/az/company/management/socar-president>

years, at the expense of special resources and increase its competitiveness. This requires more radical changes in the company with the introduction of crisis management. One of the main tasks to be solved is to clean up the corrupt image of SOCAR and increase its independence. This depends on ensuring accountability and transparency in SOCAR, organizing tenders on open and competitive terms, defining its relations with the state and government bodies on a legal basis, the reduction and disclosure of its quasi-fiscal costs, and in general, the involvement of healthy investors through the commercialization, restructuring of the company as a whole, and the sale of shares on international stock exchanges, and the formation of an independent Supervisory Board with the representation of interest groups, and the restructuring of entrepreneur-manager relations. The effectiveness of these will also depend on the price of oil and gas on the world market in the medium and long term, as well as the quality and speed of implementation of SOCAR's policy on the transition to new energy sources.

Glossary

Production-sharing contract (PSC): An agreement between a government and a contractor (generally an oil and gas company) whereby production is shared between the parties in a prearranged manner. The contractor typically incurs all exploration, development, and production costs, which are subsequently recoverable out of an agreed-upon share of any future PSC production, referred to as cost recovery oil and/or

gas. Any remaining production referred to as profit oil and/or gas is shared between the parties on an agreed-upon basis as stipulated in the PSC. The government may also retain a share of PSC production as a royalty payment, and the contractor typically owes income tax on its portion of the profit oil and/or gas. The contractor's share of PSC oil and/or gas production and reserves varies over time, as it is dependent on prices, costs, and specific PSC terms.

Total assets refer to the total amount of assets owned by a person or entity. Total assets are split into Current Assets, Long-Term Assets.

Current assets are more readily turned into cash. Current assets are including Cash & Cash-Equivalents, Accounts Receivable, Inventories, Derivative Fair Value (for companies that hedge), Income Tax Receivables / Deferred Tax Benefits, and Others. Cash and cash equivalents are liquid assets, which may include Treasury bills and certificates of deposit. Stock is the hardest to convert (least liquid) so appears first. Next comes debtors (people who owe you money) then cash itself (the most liquid asset).

Long-Term Assets assets include:

- Fixed assets like property, plant, and equipment, which can include land, machinery, buildings, fixtures, and vehicles
- Long-term investments such as stocks and bonds or real estate, or investments made in other companies.
- Trademarks, client lists, patents
- The goodwill acquired in a merger or acquisition, which is considered an intangible long-term asset

Current Liabilities: Accounts Payable, Current Portion of Debt, Derivative Fair Value (for hedging), Deferred Income Taxes, and Other.

Long-Term Liabilities: Long-Term Debt, Pension Benefits, Deferred Income Taxes, the Asset Retirement Obligation, and Other.

Quasi-fiscal expenditures or off-budget expenditures include arrangements whereby SOEs undertake public social expenditures such as payments for social services, public infrastructure, fuel subsidies, national debt servicing, etc. outside of the national budgetary process.