

A cost-benefit analysis of Azerbaijan's hosting of Formula 1 races

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In 2022, 207.2 million manats were allocated from the state budget to finance international, country-level, and other similar events by the official Baku, and 207 million manats were forecasted for this purpose in the 2023 budget.¹ The practice of financing international events at the expense of the budget has intensified since 2010. Azerbaijan, which hosted the Eurovision Song Contest in 2012, the first European Olympic Games in 2015, the 4th Islamic Solidarity Games in 2017, the European Youth Olympic Festival in 2019, and 4 games within the European Football Championship in 2020, has also started hosting Formula 1 Grand Prix since 2016. The Formula 1 race was not organized in 2020 due to COVID-19 and was held without spectators in 2021. The duration of the competition, which was supposed to end in 2020 with the first contract, was extended for another three years. In 2023, Azerbaijan managed to extend the hosting of this competition until at least 2026.²

Although Baku's hosting of the Formula 1 race raises more questions than other international sports competitions, the government of Azerbaijan continues the race without answering them. In this article, we raise those questions and try to answer them via cost-benefit analysis.

Thus even though the Formula 1 race, which is quite popular worldwide, was held in Azerbaijan for the 6th time, this race caused dissatisfaction among the local population, especially most Baku residents. Difficulties caused by the infrastructure installed in the area where the competition is held (iron bars in the city's central streets, concrete barriers separating pedestrians from the traffic area) rightfully cause serious complaints among the residents and visitors of Baku. Thus, although the restrictions³ on traffic on the main streets in the center of Baku where the competitions are held, the suspension of work in educational, health, and other state institutions, as well as in business institutions, create profound dissatisfaction among the public regarding the holding of the competitions, official Baku declares that Formula 1 is essential for the state and fulfills the international obligations related to the race on time and in full.⁴ The holding of Formula 1 in Baku is connected with the fact that the 1st-degree

¹ <https://maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6363ced6b1e38.pdf>

² <https://racingnews365.com/azerbaijan-gp-secures-f1-future-with-new-deal>

³ <https://www.bakucitycircuit.com/az/news/statement-by-bcc-on%20road%20restrictions%20throughout%20the%20race%20week>

⁴ <https://racingnews365.com/how-much-formula-1-circuits-are-paying-to-host-2023-grands-prix>

license for the organization and management of Formula 1 races in Azerbaijan belongs to the operating company Baku City Circuit⁵ (BCC). Thus, holding a Formula 1 street race requires significant reconstruction of existing venues (main roads, underground stations, etc.) and other supporting infrastructure. Thus, in 2016, within the framework of preparations for holding the first Formula 1 Grand Prix in Baku, a major road repair project covering an area of 4.5 thousand square meters was implemented around Baku. According to the former Minister of Youth and Sports, Azad Rahimov, including all fees and infrastructure costs, the cost of the Baku Grand Prix in 2016 was about 100 million dollars.

Having a 1st-degree license, the BCC can hold competitions in Azerbaijan only in Baku. BCC executive director Arif Rahimov⁶, who once won the tender from the Ministry of Youth and Sports headed by his father based on nepotism, was dismissed after seven years of work. However, during his activity, he was not accountable for the income obtained from the Formula 1 race and the expenses incurred for its organization. He never disclosed how much money was allocated from the state budget to these competitions yearly.

The budget analyses of the past years show that Formula 1 competitions are subsidized within the "financing of international, country-level, and other similar events" budget item. However, the budget documents must separately indicate the funds allocated for Formula 1. Only the state budget of Azerbaijan for 2021 shows that 80 million manats were spent to hold the Formula 1 Grand Prix and the group games of the European Football Championship in Baku. Furthermore, the expenses related to acquiring the broadcasting rights license of the Formula 1 Grand Prix by Azerbaijan Television and Radio Broadcasting Closed Joint Stock Company are also paid from the budget, but their amount is not disclosed.

The costs of Formula 1 racing do not end there. Thus, the host countries of this race must build infrastructure and circuits that meet the safety standards set by the Federation Internationale de l'Automobile (FIA). The total construction cost of a typical permanent track⁷ tested in international practice is about 270 million dollars. This includes constructing a medical center and a media center, asphalt paving, a pit, team, and VIP living rooms, particular electrical supply, installation of stands, and other infrastructure.

⁵ <https://www.bakucitycircuit.com/en/information>

⁶ <https://www.rferl.org/a/family-connections-fuel-controversy-over-azerbaijan-grand-prix/28575756.html>

⁷ <https://www.forbes.com/sites/csylt/2017/03/13/the-1-billion-cost-of-hosting-an-f1-race/?sh=607849454f79>

But holding the Grand Prix on a street track (as in Baku) is cheaper and quicker to build than a permanent track. However, this requires changing streets, building barriers, installing grandstands, and other aids. The annual cost of building such a circuit is about 60 million dollars. Therefore, building a permanent track for more than six years is more profitable than running a race on city streets, taking into account maintenance costs of up to 20 million dollars per year. Additional benefits of a regular circuit are the ability to host other racing and sporting events and even music festivals. However, since Azerbaijan prefers to install a street track rather than a permanent track, it allocates additional funds for repair and reconstruction every year.

Furthermore, all countries except Miami and Las Vegas, which host this race, pay an annual hosting fee of 30-40 million dollars to Formula 1. The reason why Miami and Las Vegas do not pay is that the organization of the Formula 1 event is organized by an international company, not by companies existing in that city. They take all their money from ticket sales and sponsorship deals.

The hosting fee for the competition is increased every year depending on the agreements of individual countries. You can get acquainted with the hosting fee for 2023 from Table 1.

Table 1. Hosting payment of countries hosting Formula 1 races for 2023⁸

Countries and cities hosting the Formula 1	Race hosting fee, in millions of dollars
1. Azerbaijan Grand Prix	57
2. Qatar Grand Prix	55
3. Saudi Arabian Grand Prix	55
4. Bahrain Grand Prix	52
5. Abu Dhabi Grand Prix	42
6. Hungarian Grand Prix	40
7. Australian Grand Prix	37
8. Singapore Grand Prix	35
9. Dutch Grand Prix	32
10. Canadian Grand Prix	32
11. US Grand Prix	30
12. Mexico City Grand Prix	30

⁸ https://www.speedcafe.com/2023/02/10/formula-1-hosting-fees-2023/?fbclid=IwAR3X48Fv3Dfu0_ALq-hwNLSobJx-3A-VAPVcm1O617rxs2RXi5iNDV4T2WM#:~:text=A%20list%20of%20fees%20payable,hosting%20fee%20worth%20%2457%20million

13. British Grand Prix	26
14. Sao Paulo Grand Prix	25
15. Japanese Grand Prix	25
16. Spanish Grand Prix	25
17. Italian Grand Prix	25
18. Austrian Grand Prix	25
19. Belgian Grand Prix	22
20. Emilia Romagna Grand Prix	21
21. Monaco Grand Prix	20
22. Las Vegas Grand Prix	-
23. Miami Grand Prix	-
Average:	37

As the table shows, Azerbaijan paid the most hosting fees among the countries hosting the Formula 1 competition. This can be explained by Azerbaijan's marketing and advertising market limitations. Thus, the owners of Formula 1 are interested not only in infrastructure investment and payment of costs but also in the long-term development of their regional businesses and brands. Although there are no guarantees to building a long-term brand and the business's health in Azerbaijan, the Formula 1 race is continued here, and the registration fee for owning the race is increased yearly. Thus, the hosting fee for Azerbaijan has been increased by 2 million dollars compared to last year.

Considering all the costs of Azerbaijan's hosting of the Formula 1 race, a 10-year contract as the new host country results in costs of at least \$1 billion. Even if the related expenses are paid from the state budget of Azerbaijan, more money is needed to host the Grand Prix in the long term.

To evaluate the benefits of Formula 1 races, let's first classify the 23 countries that will host these races in 2023 according to political and economic criteria. In the political context, these countries are divided into not free (1), partially free (2), and free countries (3) according to Freedom House's democracy index, and at the economic level, these countries can be divided into countries with higher than average income (1) and high income (2) according to the per capita income category⁹ of the World Bank.

The list of non-free countries includes Azerbaijan, Saudi Arabia, the United Arab Emirates, Bahrain, and Qatar, partially free countries include Hungary and Singapore,

⁹ <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

and the remaining countries are included in the list of free countries.¹⁰ Azerbaijan is in the group of countries with a higher than average income, according to the GDP indicator of 5,388 dollars per capita, and Brazil, according to the GDP indicator of 7,507 dollars. According to this indicator, Russia is the closest to Azerbaijan and Brazil. Thus, Russia, which hosted the Formula 1 races before its military intervention in Ukraine, is included in the countries with higher than average income, along with Azerbaijan and Brazil, with \$12,195 per capita¹¹.

In 2023, 17 of the 23 countries where the Formula 1 championship will be held are in the top 30 in the world in terms of GDP, while others (Saudi Arabia, the United Arab Emirates, Bahrain, Qatar, and Azerbaijan) are the world's leading oil and gas exporters. The only exception here is Hungary, which is not a net oil exporter and ranks 56th globally by GDP.¹² Hosting a Grand Prix is an expensive business. It was stated that Azerbaijan Grand Prix was insured for 100 million dollars.¹³

As can be seen, Azerbaijan is incompatible with the host countries of the Formula 1 race regarding its political or economic indicators. However, since Azerbaijan joined this competition in 2016, it has made the most hosting payments compared to other countries. In the last race, Azerbaijan and other non-free countries (Saudi Arabia, United Arab Emirates, Bahrain, and Qatar) made the most significant hosting payment among the countries hosting Formula 1 races. Thus, in 2023, the hosting amount paid by Azerbaijan for hosting the competition was 57 million dollars, which is a record indicator. The following places were occupied by Saudi Arabia and Qatar, with a hosting payment of 55 million dollars. This means that the organizers of the Formula 1 race earn most of their hosting fees from non-free and oil-rich countries such as Azerbaijan, Saudi Arabia, and Qatar. However, the profits of Formula 1 in other categories are small compared to others due to the limited advertising and marketing market in these countries.

Countries that host Formula 1 races also differ from each other in terms of the benefits they receive from this race. Developed countries that host this race and participate with their cars or sports teams use Formula 1 for business purposes and to develop the sports industry. Their primary earnings come from the participation fees paid by the spectators, direct income from marketing activities, the victories of the participating teams, and the advertising of the cars. Furthermore, they also receive indirect profits from spending in other sectors, including the service sector.

¹⁰ <https://freedomhouse.org/countries/freedom-world/scores>

¹¹ <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

¹² <https://ceoworld.biz/2022/03/31/economy-rankings-largest-countries-by-gdp-2022/>

¹³ <https://en.vestikavkaza.ru/news/Economic-and-social-benefits-of-Formula-1-Azerbaijan-Grand-Prix-outlined-in-Baku.html>

Azerbaijan's earnings from Formula 1 can be classified into two groups. 1. Political dividends; 2. Economic benefits.

1. As for political dividends, let's note that in the modern world, prestigious sports competitions in international relations are also used for soft power in politics. Through such competitions, authoritarian regimes present themselves as members of the modern world and try to gain political support for their government. Azerbaijan's hosting of prestigious international sports competitions mainly serves this purpose, and the government primarily benefits from its political dividends. If Azerbaijan subsidizes the costs of such matches from the state budget, the government benefits from its political dividends. At the same time, such competitions also serve severe authorities' interests in money laundering and corruption.
2. The economic benefits can be divided into direct and indirect. The biggest beneficiaries of direct benefits in Formula 1 racing are the sectors that provide goods and services to F1 guests and participants, such as hotels, restaurants, and transport services. The tourism, hospitality, and transportation industries directly related to these services reportedly made \$73.8 million in profits during the first four Grand Prix held in Baku. According to reports, Azerbaijan's direct benefits in all sectors during this period reached 300.6 million US dollars in the first four Grand Prix.

Direct earnings also include revenue from ticket sales and advertising. According to official information, the price of tickets for Formula 1 in Azerbaijan in 2023 varies from 40 to 870 manats. Most tickets are already sold, and this year's ticket sales are at a record high. Most tickets were bought from Great Britain and the Netherlands. Official information also states that when the competition was held in 2022, about 10,000 tourists from 70 countries came to the country. Let me note that the income from selling 25,000 tickets in the previous season amounted to only 2.6 million dollars.

Indirect earnings are any additional revenue generated by companies and businesses that sell goods and services to other organizations that are direct suppliers of the Formula 1 Grand Prix. According to estimates, the indirect revenues related to the holding of Formula 1 in the capital of Azerbaijan in 2016-2019, including the profits of the construction, manufacturing, business, and social services sectors, amounted to 205.7 million US dollars.

Furthermore, due to holding the annual competition in Baku, the global media also contributes significantly to increasing positive awareness of Azerbaijan as the world's leading sports and entertainment destination. An international audience of 82.3

million people in 2018 and a 10% increase in viewers to 90.2 million in 2019 confirm the expansion of the media's reach and influence.

Moreover, the return of Formula 1 year after year increases annual and seasonal employment, creating new jobs in several industries. Currently, 207 people work in the Baku Circuit Operating Company, and 1,500 volunteers for the 2023 F1 championship. Furthermore, Formula 1 directly contributes to the development of the local labor market by creating short-term and medium-term jobs. Formula 1 has a substantial long-term impact in tangible areas such as infrastructure development and the intangible spaces of national brand reputation and raising global awareness. By hosting this competition, Azerbaijan demonstrates its ability to host world-class sports and entertainment events as a modern and dynamic country.

Thus, according to an independent study conducted by the international audit company PricewaterhouseCoopers (PwC), the first four competitions held in Baku brought 506.3 million US dollars to the country's economy. This final amount includes direct and indirect incomes generated based on the expenses of those who came to Baku in connection with Formula 1 on the eve of the competitions, payments for public accommodation, catering, transport, social and cultural services, post and telecommunications, trade, and utilities. This amount is the sum of the direct and indirect results, calculated by considering the expenditure on various sectors, including professional services, hotels, etc.

However, there is no disclosure of the economic and social benefits of the Formula 1 Azerbaijan Grand Prix in Baku after 2020; moreover, since accountability and transparency about costs and benefits are not ensured, the Formula 1 race held in Azerbaijan smells of corruption.