

Natural Gas Prices: What Is Going On and Why?

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In the second part of 2021, one of the main developments in the world economy was price hikes. The Azerbaijani economy, due to its integration with and dependence on the world economy, is affected by this development as well. According to the State Statistics Committee in October 2021 prices rose 10% in comparison with the same period of the last year.[\[1\]](#) Inflation in food prices on the other hand reached 13,4%. The world market is not the only factor impacting these changes because some goods and services are produced domestically. In most cases, these goods and services are provided by state enterprises and firms, and price hikes are happening in these particular sectors as well. Prices of services provided by state firms and corporations are regulated by the Tariff (Price) Council of the Republic of Azerbaijan. While many expected that at least these goods and services would avoid price changes due to their relative independence from the world market, the Tariff Council decided otherwise. On 16 October 2021, tariffs on processing, transportation, wholesale and retail prices of natural gas as well as tariffs on electricity, which is dependent on natural gas prices, were raised. These changes will negatively affect the population's income and expenses. According to official data over the first nine months of 2021, the population's real income decreased by 3,2%.[\[2\]](#) Increases in utility prices will impact other sectors and will result in overall price hikes. Therefore, we will witness even more drastic price hikes in November-December.

The question is: what prompted these tariff increases? Is the timing appropriate for these price increases? We will try to answer these particular questions in this piece. We think that there are no objective reasons for these price changes. In general, there are serious deficiencies in government

regulation of utility prices. These deficiencies include transparency, accountability as well as management in this sector, and the gas-delivery system does not function effectively. The lack of efficiency results in financial loss, which negatively impacts the state budget and leads to price increases. The Tariff Council—despite having multiple leverages—engages only in diverting problems to citizens' budgets via price increases.

1. How Did the Recent Tariff Increases Happen?

Before switching to a discussion of price increases (or changes) we will first elaborate on the Tariff Council itself. Most citizens would imagine that the Tariff Council is a separate entity, while it is, in fact, a part of the Cabinet of Ministers. A number of officials responsible for economic and social issues are represented in the Tariff Council. According to official sources, the composition of the Tariff Council is as follows:[\[3\]](#)

Chairman of Council – Minister of Economy (Mikayil Jabbarov)

Members:

Deputy Finance Minister (Azar Bayramov)

Deputy Tax Minister (Sahir Mammadkhanov)

Deputy Justice Minister (Toghrul Musayev)

Deputy Minister of Energetics (Gulmammad Javadov)

First Deputy Minister of Transportation, Communications and Advanced Technology (Ali Abdullayev)

Deputy Minister of Agriculture (Ilham Guliyev)

Deputy Minister of Health (Elsevar Aghayev)

Deputy Minister of Education (Firudin Gurbanov)

Deputy Minister of Labor and Social Protection (Anar Aliyev)

Deputy Head of the State Committee of Customs (Ismail Guseynov)

Deputy Head of the State Committee of Architecture and Urbanization (Dovlatkhan Dovlatkhanov)

The above list is taken from the official website of the Tariff Council. It is interesting that despite the fact that the Tax Ministry's name was changed to the State Tax Service in October 2019, [\[4\]](#) in the official regulatory documentation [\[5\]](#) of the Tariff Council, this change was not indicated on the Tariff Council's website. And Sahir Mammadkhanov, who in May 2020 became advisor to the Minister of Economy, is still cited in the Tariff Council's website as the deputy head of the non-existent Tax Ministry. [\[6\]](#) This outdated information is worthy of note because, due to the changes described above, officially Sahir Mammadkhanov cannot be a member of the Tariff Council. Furthermore, there is no information about the official who replaced him. Currently, the head of the State Tax Service has two deputies, namely Ilkin Valiyev and Samira Musayeva. [\[7\]](#) One of them is supposed to be representative of the State Tax Service at the Tariff Council. Unfortunately, this information is still hidden from the public.

Apart from this it should be noted that the Administrative Office of the Council can employ only 33 personnel (until 2016, the number was 30), and administrative vehicle allowance for the office is limited to two passenger cars. [\[8\]](#) Until the end of 2019, the Tariff Council was financed directly from the state budget. For instance, in 2019 164 000 AZN (approximately 96 thousand USD) was allocated to the administrative office of the Council from the state budget. [\[9\]](#) Yet reforms introduced in 2019 abolished the administrative office. With those reforms, it was decided that the Council should be restructured and that it should continue its functioning on a

pro-bono basis.[\[10\]](#) In 2020 and 2021, the state budget did not allocate funds to the Tariff Council. In other words, the Council continues its operations by default on a pro-bono basis, and there is no information about its funding in open sources.

According to its official regulatory document, the Tariff Council is only responsible for regulation of prices. Its authority includes:

1. To adopt a decision on cancellation of prices which contradict state laws and to propose sanctions and fines on these cases;
2. To extend recommendations envisaging reduction of expenses which impact regulated prices.
3. To propose recommendations of implementation of discounts on prices for selected group consumers, enterprises and organizations as well as investors; to prepare proposals to define limits and norms.

The above means that the responsibilities of the Tariff Council are not limited to responses to proposals originated from state or monopolist enterprises. For instance, in many cases ineffective management is the main reason behind price spikes, and the Tariff Council can take this into account by making proposals as well. However, in reality, we have never observed these kinds of initiatives from the Council. In 2021, the Council held five meetings. In its first meeting of the year, held on January 4th, the Council rejected a proposal to increase natural gas tariffs proposed by the State Oil Company. It deemed them “unnecessary.”[\[11\]](#) Yet five months later the Council supported the price increase.

For the most part though, we do not have enough information about meetings of the Council. We know that the Councils holds its meetings when it receives proposals. We do not have information whether they make their decisions immediately or not. We do not know how and where they hold their meetings

either. The public is not informed in advance, and in many cases, decisions are dated on the next day after meetings are held. Despite those postdates, the public is typically informed about any decisions on the same evening during which the Council's related meeting is held. However, across the last three occasions (June, September, October) information was published in the afternoon on the following day. The most discussed matter in the meetings held this year was changes in natural gas prices. In three out of five meetings this year (the first, third and fifth), natural gas tariffs were discussed.

Table 1. Processing, transportation, wholesale and retail prices of natural gas in 2016-2021

(VAT included, AZN/thousand cubic meters)

Service	28 November 2016	30 June 2021	16 October 2021
Natural Gas Processing	5,50	5,50	5,50
Natural Gas Transportation	2,00	5,30	5,30
Injection and Withdrawal of Natural Gas (into and from underground storage)			
Injection of Natural Gas into Underground Storage	did not exist	8,25	8,25
Withdrawal of Natural Gas from Underground Storage	did not exist	8,25	8,25
Purchase of Natural Gas from Producers	did not exist	75,00	90,00
Wholesale of Natural Gas to Distributors	75,00	110,00	118,00
Retail Sale of Natural Gas			
Households			

For yearly consumption of 1500/1700/2200 cubic meters	100,00	cancelled	cancelled
For yearly consumption of 1200 cubic meters	did not exist	100,00	120,00
For consumption part after 1500/1700/2200 cubic meters during a year	200,00	cancelled	cancelled
For consumption part ranging between 1200 – 2500 cubic meters during a year	did not exist	200,00	200,00
For consumption part over 2500 cubic meters during a year	did not exist	250,00	250,00
Businesses			
Suppliers of Apartment Blocks with Heating and Hot Water, “Azəristiliktəchizat” Open Joint Stock Company and stations selling CNG	did not exist	130,00	165,00
For the usage as a raw material in production of methanol and carbamide products	did not exist	did not exist	200,00
Industry and Agriculture	did not exist	200,00	220,00
Other sectors	did not exist	250,00	250,00
Non-household group	200,00	cancelled	cancelled

For the production of electric energy sold domestically			
a. for producers who connected directly to central gas pipelines			
b. with the exception of consumers indicated in this decree	120,00	130,00	165,00
c. with the condition that consumption will not be less than 10 million cubic meters per month			

This table is based on data published on the official website of the Tariff Council.[\[12\]](#)

As we can see from Table 1, natural gas prices were re-evaluated in 2016 (in 2019 prices were slightly changed). Between 2016 and 2021, there were no changes in processing prices. Yet in 2021, considerable changes were applied to transportation prices. In the regulation applied in 2016, the prices were established as *transportation of 1000 cubic meters of gas per 100 km of main gas pipeline*. However, under the current regulation this method of calculation changed, and uniform prices were established for each 1000 cubic meters of gas. Apart from this, a new line of tariffs has also been established, such as *Injection and Withdrawal of Natural Gas (into and from underground storage)*. Another example of a new tariff in 2021 is found in the division of the tariff category *retail sale of natural gas*. After the changes applied in 2021, this category was split into two parts which include *purchase of natural gas from producers* (90 AZN) and *wholesale of natural gas to distributors* (118 AZN). The natural gas producer in Azerbaijan is the state oil company (SOCAR), and the distributor is one of its subsidiary companies called *Azəriqaz*. However, as of this year there is an intermediary between them. The State Contract Corporation *Azərkontrakt* Open Stock Shareholder Company buys natural gas from the producer

and sells it to the distributor. According to a decision of the Cabinet of Ministers made on 28 December 2020, [\[13\]](#) starting from 1 January 2021, *Azərkontrakt* has become the regulator of purchase, transportation and distribution of natural gas in the domestic market. The latest changes in tariffs are outcomes of this decision. As a result of these changes, the country's main wholesale gas purchasers, i.e. *Azərenerji* Open Stock Shareholder Company, *Azəriqaz* and the Natural Gas Exploitation Service of the Nakhchivan Autonomous Republic buy natural gas from *Azərkontrakt*, instead of the producer SOCAR, and this change impacts price.

The main problem which concerns individual households is the retail price of natural gas. Until 28 November 2016, there was a single fixed price of 0,10 AZN per cubic meter for all households. [\[14\]](#) However, after the currency devaluation in 2015, the government decided to introduce a new price policy that would apply different prices depending on volume of consumption i.e., if consumption exceeds certain thresholds, prices will increase accordingly. Along with natural gas, this policy was applied to electricity tariffs as well. According to new rules introduced in November 2016, two prices were established: prices for less than 1500 cubic meters of consumption, and prices for household gas consumption exceeding 1500 cubic meters. [\[15\]](#) However, this new regulation caused indignation among the population who forced the Tariff Council to make amendments. On 22 December 2020, the limit for lower prices was increased from 1500 cubic meters to 1700 cubic meters. Another change was introduced on 30 April 2019, and the threshold was increased from 1700 cubic meters to 2200 cubic meters. [\[16\]](#)

In 2021, limits were reconsidered again, and this time three different limits—1200 cubic meters, between 1200 and 2500 cubic meters and above 2500 cubic meters—were introduced alongside corresponding prices. These new rules meant new price hikes for the general population. Moreover, in October of 2021, prices for the lowest consumption limit of 1200 cubic

meters were raised by 20% as well.

Between 2016 and 2021 a single fixed price for natural gas consumption was applied for businesses. In 2021 this was changed as well. One of these changes was the introduction of a special price for a group of businesses, which included Suppliers of Apartment Blocks with Heating and Hot Water, *Azəristiliktəchizat* Open Joint Stock Company and stations selling compressed natural gas (CNG). Until 30 June 2021, buyers of natural gas for centralized heating systems paid 200 AZN for each 1000 cubic meters. On June 30th, a new price of 130 AZN for these buyers was established. Officially Azerbaijan's winter season for heating purposes starts on November 15th. And the government has reconsidered this new price even before the season started and price was increased to 165 AZN per one thousand cubic meters. Apart from this, as shown in Table 1, higher prices were established for natural gas-consuming businesses in industry and agriculture as well as for natural gas used in the production of electric energy.

2. Whom Have the Price Hikes Hit and How Hard?

Before we discuss the impact of prices on the Azerbaijani population, we should first provide a description of the natural gas infrastructure in the country. Our priority is to analyze impact on households. According to information provided by *Azəriqaz* on 1 May 2021, there are 2 358 910 registered individual household natural gas consumers in the country.[\[17\]](#) 918 440 of them are in the capital Baku, and the remaining 1 440 470 are in the regions. According to *Azəriqaz*, 96,2% of households in the country have access to natural gas.[\[18\]](#) In 2009 only 62,2% had an access. That means that in the last 12 years there has been an expansion of access equal to 34%. According to this data, in 15 cities (including Ganja, Sumgait, Mingachevir, Naftalan and Shirvan) and in some regions 100% of households have access to natural gas. Yet infrastructure expansion is still ongoing in 22 communities of the greater Baku area, in 13 towns and 23 villages of 33

regions as well as in 26 newly built communities.[\[19\]](#)

According to official data, natural gas consumption of households is not very high, and many do not exceed the annual limit for lower prices during the year. For instance, by April 1st 2021, the limit of 2200 cubic meters was exceeded by 122 500 households, i.e. by only 5,19% of registered consumers.[\[20\]](#) In 2020, 485 268 out of 2,3 million registered consumers, i.e. 20,9% exceeded the same limit of consumption. We can assume that if established limits were not changed the data would not be much different in 2021 (Table 2). Yet the changes to limits will certainly result in a higher number of household consumers exceeding the consumption limit for the lowest price.

Table 2. Number of households which exceeded the limit of 2200 m³ consumption in 2020

DATA	01.08.2020	01.11.2020	01.12.2020	01.01.2021
The total number of households buying natural gas as registered by <i>Azəriqaz</i>	2 290 987	2 310 414	2 317 683	2 325 043
Number of registered households buying natural gas who exceeded annual consumption limit for lowest price (2200m ³)	161 574	223 599	361 926	485 268
Number of registered households buying natural gas who exceeded annual consumption limit for lowest price (2200m ³), by percentage	7,05	9,68	15,62	20,9%

Source: Azəriqaz

Firstly, tariff changes hit the households consuming the greatest amount of natural gas. As can be seen from Table 2, while by August 2020, 161,5 thousand households exceeded the limit, with the approach of winter season, this number rose and by the end of the year three times more households exceeded the limit. In June 2021, a higher price point for this group of consumers was introduced. Now households who exceed a 2500-m³ limit will pay an additional 0.25 AZN for each 1 m³ natural gas usage above the limit.

These June changes in tariffs hit the pockets of most consumers. As explained above, until 2021 existing limits affected only 20% of consumers. However, from now on, due to the latest tariff changes, the thresholds will concern a much larger group of households. According to official data, consumption of natural gas per household increased by 13% between 2017-2020 (Table 3). In the same period the number of consumers increased by 11%.

Table 3. Natural Gas Consumption by households

Data	2017	2018	2019	2020
Consumption by households, m ³	2826500000	3055400000	3316900000	3560555000
Number of registered consumers, persons, Azəriqaz	2092641	2185460	2247618	2327481
Average consumption per registered consumer, m ³	1350	1398	1475	1529

Source: State Statistics Committee and Azəriqaz.

According to the State Statistics Committee, households consumed 3,56 billion cubic meters of natural gas in 2020.[\[21\]](#) This means that the annual average consumption per household was 1529 m³. This figure notably exceeds the recently

introduced limit of 1200 m³ for the lowest price by 329 cubic meters. In other words, since June, large chunks of consumers have already started paying the new higher prices for natural gas consumption in excess of the limit, which is confirmed by the data provided by the State Statistics Committee. According to that data, the average sales price for natural gas in the first half of the year was 0,12 AZN. Because only 20% exceeded the limit and the remaining 80% paid 0,10 AZN per cubic meter. However, according to the same data of the State Statistics Committee in the period between July-September 2021, the average sales price per cubic meter rose to 0,16 AZN.[\[22\]](#) We can assume that already in June, 60% of consumers exceeded the established limits and started paying higher prices. The remaining 40% followed suit in October because the price for the lowest consumption limit was increased by 20% as well. It means that 100% of consumers are now paying the higher prices for some portion of the year.

Another important matter which concerns ordinary citizens is prices for electricity. According to official statistics in 2020, 87% of electricity in the country was produced by thermal power stations. The majority of thermal power stations are owned by *Azərenerji* Open Stock Company. *Azərenerji* produces 96% of its electric energy by burning natural gas.[\[23\]](#) Fuel expenses are the majority share of total expenditures of thermal power stations in Azerbaijan. For instance, in 2020 fuel expenses of the largest thermal power station—Azerbaijan TPW—totaled 63% of all its expenditures.[\[24\]](#) Price increases in raw material drove price increases in the end product as well, and *Azərenerji* raised wholesale tariffs from 0,057 AZN to 0,066 AZN per kWh (Table 4). Transportation and retail of electric energy to households is conducted by *Azərişiq* Open Stock Company. *Azərişiq* proposed to raise prices as well, and the Tariff Council approved this proposal. If, until the last introduced changes, electricity consumers were divided into two groups, based on the size of their consumption, from now on they will be divided into three

groups. Again, if until the recent changes, a majority of consumers did not exceed the limit of 300 kWh usage per month, under which they were permitted to pay the lowest price (in 2016 *Azərişiq* reported that 72% of consumers did not exceed 250 kWh of usage per month), [\[25\]](#) now, if average consumption does not change, the majority of consumers will have to pay the medium price at some point in the year instead of the lowest one. Moreover, the lowest price for 1 Kwh of usage was also increased from 0,07 AZN to 0,08 AZN.

Changes in electricity prices

Data	Before 16 October 2021	After 16 October 2021
	Tariffs (AZN/kWh, WAT included)	
<i>Azərenerji's</i> wholesale tariff	0.057	0,06
Prices for aluminum industry	0,028-0,058	0,031-0,064
Chemical Industry	0,0455	Transferred into another consumer group
Household		
Less than 300 kWh	0,07	—
More than 300h	0,11	—
Less than 200 kWh	—	0,08
Between 200 kWh and 300 kWh	—	0,09
More than 300 kWh	—	0,13
Businesses		
Trade and Services	0,09	0,11
Other	0,09	0,10

Source: Tariff Council

Thus, we can conclude that the rise in natural gas prices drove electricity prices for households upward as well. Plus, as we see in Table 4, electricity prices will rise by 22% for businesses, particularly for trade and services. In its turn, this will raise expenses of stores, shops, restaurants, and in the trade business and service sector, which will drive prices upward. In other words, expenses of households will be hit both directly by price rise in natural gas and electricity, and indirectly due to the price hike in goods and services. These increased prices will certainly manifest themselves in higher inflation.

3. Were There Reasons for Tariff Increases?

When the Tariff Council receives a request to change prices, this request must be supported by comprehensive arguments. While these kind of documents and information are not shared with the general public, representatives of state enterprises and other entities have provided the public with some of the justifications for tariff increases via media. In this regard, the latest decisions of the Tariff Council were not the exception, for the body usually relies on other agencies to publicize the arguments for its decisions. Representatives of *Azəriqaz* issued multiple statements justifying price increases with several reasons.

In the beginning, the Tariff Council released information which suggested several reasons for the tariff increase. In its statement, the Council reported: "factors such as the government's strategy to increase the competitiveness of our economy, the needs of energy security, the goal of creating suitable conditions for dynamic and intense development of economy, the demand for efficient and purposeful use of resources, intentions to adjust interests of consumers with interests of producers and the step-by-step transition to a market economy as well as elimination of state subsidies in this field were taken into account to evaluate various tariff increase proposals. Analyses reveal that combined production

and transportation prices of natural gas exceed its sale prices. This leads to dependence of the field on state financing and the state budget.”[\[26\]](#) On the same day in which the Council released this statement, the head of the Public Relations Department of Azəriqaz, Eldaniz Valiyev stated to local media that “we are discussing a very small increase of a couple Azeri kopecks. It is not a big increase; still it will contribute to the efficiency of Azəriqaz. One of the main concerns of the state is to achieve efficiency of state institutions and enterprises and minimize their dependency on the budget. I think this increase will contribute to a rise in the quality and efficiency of our work.”[\[27\]](#)

The head of *Azəriqaz* Ruslan Aliyev also made several statements regarding the issue. According to his account, there were several objective and subjective reasons, including an increase in the number of consumers, higher prices of gas and gas machinery,[\[28\]](#) infrastructure costs,[\[29\]](#) waste of natural gas by consumers[\[30\]](#) and the unprofitability of *Azerigaz*,[\[31\]](#) all of which suggested that the government increase prices.

If we collate all of the voiced justifications for price increase, we can see several major common threads among them:

1. Officials do not deem price increase considerable;
2. Unprofitability of *Azəriqaz* while working with older prices;
3. Lack of market-economy relations in the field;
4. Dependence on the state budget;
5. Increase in the number of consumers (customers);
6. The fact that combined prices of production and transportation of natural gas is higher than its retail price;
7. Increase in the price of natural gas and related machinery in the international market.

As we can see, the above parties’ common threads are not always interrelated. Let us first discuss the officials’

argument insisting that a *two-kopeck increase is not a significant one*. We showed above that on 16 October 2021, tariffs were raised for all layers of population. If in June, price increases impacted only those consumers who consumed more than 1200 cubic meters of natural gas, in the current situation it is applied to every consumer in the country at some point during the year. According to the State Statistics Committee, already in June, the average price for natural gas sold increased from 0,12 AZN to 0,16 AZN. We can assume that in November this increase will be even higher. Plus, in the consumer basket defined by the government, average consumption of natural gas in a month per person is 21 cubic meters.[\[32\]](#) The average Azerbaijani household consists of 4,12 persons.[\[33\]](#) That means 1038,24 cubic meters natural gas consumption per year per household. Therefore, each month an average household's consumer basket will face an additional 1,73 AZN increase.

Is this a small amount?

If we examine the natural gas expenses of a household, it is not small at all. It is a direct 20% increase of the household's natural gas expenses. Plus, an increase in natural gas prices drives electricity upwards as well which eventually hits households' electricity bill with a 14,7% hike. In the end combined monthly natural gas and electricity expenses of a household will increase by 16,7% and will reach 27 AZN. This sum is tantamount to 14 percent of the minimum standard of living established by the government for the year 2021.[\[34\]](#) So two kopecks is not a small increase; to the contrary, it is a serious burden for households. Plus, we should take into account the fact that in January 2021, households were hit by a two-fold increase in water and sewage prices.

Table 5. Utility expenses according to consumer basket (AZN)

Utilities	Monthly consumption per person	December, 2020	December, 2021	Difference, %
Hot and cold water, cubic meters	5	7,21	14,42	100,0%
Sewage, cubic meters	5	3,09	6,18	100,0%
Natural Gas, cubic meters	21	8,65	10,38	20,0%
Electricity, kWh	50	14,42	16,54	14,7%
Total		33,37	47,52	42,4%

In 2021 and 2021 the government defined household as a unit with 4,12 persons. Source: Tariff Council and Government Regulations on Consumer Basket

As can be seen, in 2021 almost all utility prices increased. In total, in December 2021, for households living according to the consumer basket, expenses related to water, sewage, electricity, and gas usage will amount to 47,52 AZN. This is a 42,4% rise in comparison with December 2020 (33,37 AZN). One third of this rise happened due to the increase in natural gas tariffs. This is not small increase at all.

Apart from this, the changes in tariffs will push upwards expenses of businesses which will certainly result in a rise in the price of their goods. Officially, in the 9 months of 2021, nominal per capita income rose 1,5%.[\[35\]](#) Yet, in 2020 per capita income declined by 2,5%.[\[36\]](#) The consumer price index rose by 5,2 and 2,8% in those two years, respectively.

As a result, the nominal per capita income is still less than it was 2019. If we also take into account the two-fold inflation during the same period, we will see that real income of the population declined at least by 5% in comparison with 2019. This is the result we calculated based on the data provided by the State Statistical Committee. In reality the situation for the population might be even worse. Thus, a 5%

rise in utility expenses in a situation when real incomes declined by 5% creates serious problems for the population. And here the rise in one year was 42%. It seems the Tariff Council did not take into account the economic plight of the population when considering its price increases.

As a second reason for the increase, officials often voice unprofitability. Is *Azəriqaz* a profitable enterprise or not? Unfortunately, it is very difficult to find a direct answer to this question. *Azəriqaz* prepares financial reports, but it does not share these reports with public. In general, there is no transparency in activities of this enterprise. We have nearly no information about the company's infrastructure, expenses, etc. We have only a special bulletin called "Main Data of Water, Gas and Heat Enterprises" prepared annually by the State Statistical Committee. According to the State Statistical Committee, in 2020, while the income from natural gas sales was 779,7 million AZN (356 AZN from sales to households), the "exploitation expenses of the natural gas industry" amounted to 687,8 million AZN.[\[37\]](#) In other words, the enterprise gained 91,8 million AZN in operational income. (Table 6). In general, in 2017, after the tariff changes had been applied for a year, the operational profit of the natural gas industry rose three times and reached 151,4 million AZN. However, subsequently this was followed by a steady decline, and in 2020 the operational profit was only 91,8 million AZN.

Table 6. Financial Data of Natural Gas Industry

Data	2015	2016	2017	2018	2019	2020
Income from consumption of natural gas	414 085,80	470 356,20	716 194,40	746 760,70	819 373,80	779 710,00
In comparison with 2021	3,10%	13,59%	52,27%	4,27%	9,72%	-4,84%
From population	243 639,60	270 080,40	293 739,80	320 089,50	319 349,00	356 055,50

In comparison with previous year	10,60%	10,85%	8,76%	8,97%	-0,23%	11,49%
Exploitation expenses	391 681,20	419 264,90	564 748,40	627 805,20	683 456,00	687 876,00
In comparison with previous year	0,20%	7,04%	34,70%	11,17%	8,86%	0,65%
Operational profit	22 404,60	51 091,30	151 446,00	118 955,5	135 917,80	91 834,00

Source: State Statistics Committee.[\[38\]](#)

In addition to maintenance costs, *Azəriqaz* also has expenses related to the expansion of natural gas pipelines. At the same time, it has subsidiaries, namely *Azəriqaztikinti* and *Azəriqaz layihə inşaat*, which receive their income from planning and construction of pipelines for and servicing of the private sector. It means *Azəriqaz*'s income and expenses might actually be higher than reported. It is very difficult to calculate its profitability. As we said earlier, it does not share its reports. We know that in 2017, the republic's Chamber of Accounts audited *Azəriqaz* in 2017, and the audit concluded that: "Despite the fact that *Azəriqaz* is not accountable for the responsibilities of SOCAR and vice-versa, *Azəriqaz* provided its main funds and enterprises to legal entities of SOCAR without compensation. This, apart from leading to a decline in *Azəriqaz*'s profits and a reduction in solvency, resulted in the emergence of additional responsibilities."[\[39\]](#) According to *Azəriqaz*, SOCAR and its other subsidiaries have caused the decline of *Azəriqaz*'s profits. Have these problems been solved since 2017? We do not know. *Azəriqaz* has not released this kind of information. We also do not have information on whether other audits were conducted or not. State Statistical Committee data on *Azəriqaz*'s balance, on the other hand, indicates that *Azəriqaz* actually profited from its operations (Our figures do not include the liquid gas sector, yet firms engaged in this field cooperate with *Azəriqaz* as well).

Officials periodically refer to the need to build market-economy relations when they try to justify price increases. In this regard one important detail should be noted. Market-economy relations entail competition and corporative management, which urge the existence of more than one enterprise in the related field. Yet the situation in Azerbaijan is different. Both natural gas production and its distribution in the country are monopolized by *Azəriqaz*. The only other firm in the field is *Azərkontrakt* which operates as an intermediary between producer and distributor.[\[40\]](#) Under normal circumstances, it is possible to apply market rules in the distribution system to some extent. For example, markets might exist in the purchase of natural gas from different sources, in gas-selling stock markets, etc.[\[41\]](#) However, because the startup costs of creating a business in the gas industry are so prohibitive, the creation of free markets in the sector will result in the emergence of local monopolies. Probably, a series of local monopolies are better than one mega monopoly for the whole country, but still, it will make population dependent on one distributor and increase related costs. This will not bring any relief to the population. In this sector the most suitable field for market relations is sales and various services related to liquid gas. Market relations actually were introduced to this field in the last decade. For instance, *Azəriqaz*'s subsidiary called *Məişət Maye Qaz*, which specialized in liquid gas, was privatized in 2007. Its official owners are the company *Femida* and the individual Rasim Salmanov.[\[42\]](#) In addition, SOCAR itself directly sells compressed natural gas (CNG), while other services are provided by different companies (for instance, according to the state purchases registry, two private companies assemble gas pipelines for the Ministry of Ecology and Natural Resources; also, Baku State University buys liquid gas from the company Real-Qaz).[\[43\]](#) Thus, market relations more or less work in this field.

It may seem strange that *Azəriqaz* adapted to market relations.

Although on 4 June 2019, the Azerbaijani Cabinet of Ministers decided to approve some legislative normative acts envisaging improvement in the efficiency of firms, the majority of shares of which are owned by the state,^[44] this decision primarily concerns open stock companies. For adaptation to market relations, a business should act as a separate legal enterprise. But *Azəriqaz* is just a unit within larger entity. In this case it is only possible to operate as an open stock company or limited liability company. In both cases state enterprise should adapt to corporate regulations and standards. According to the abovementioned decision, the following steps should be taken to improve efficiency:

1. The state should efficiently exercise its duties as a shareholder;
2. A Supervisory Board (Board of Directors), which will effectively operate should be established;
3. Transparency in the activities of stock companies should be maintained;
4. Effective and quick executive procedures should be outlined;
5. A system of effective management of risks should be established;
6. Adherence to principles of corporate management should be maintained;
7. Corporate social responsibility should be exercised.

It is difficult to judge whether any real steps have been taken to follow these regulations. If we analyze the activities of *Azəriqaz* from the view point of these regulations, we will come to the conclusion that none of them could be applied to *Azəriqaz*. There are serious problems in the management of the company. It is impossible to find information on the company's management on its official website. On the websites of *Azəriqaz* and SOCAR, we could only find information about the former's director, not its current one.^[45] Information about deputy directors we can obtain only

from leaks to the media.[\[46\]](#) The abovementioned decision also states that the work of *Azəriqaz* is regulated by the *Legislature of the Republic of Azerbaijan, international standards, other normative acts, SOCAR's internal normative documents and Azəriqaz's Charter*. However, there is no information about the Charter on the enterprise's website. On the government's electronic portal (E-qanun), the latest Charter of the *Azəriqaz* State Company is dated from 1992.[\[47\]](#) According to information from this portal, that charter is not yet officially cancelled. *Azəriqaz* relies on SOCAR's Charter. Although recently adapted to the requirements of corporative management, there is no legislative basis for its legal status.[\[48\]](#)

At the same time one of the requirements for effective performance is transparency. However, as we already mentioned above, *Azəriqaz's* official website is not reliable in terms of transparency. Also, it is almost impossible to find any information on whether any system of effective risk management is in place or whether the company's adherence to corporative social responsibility is maintained. Thus, it is unknown to what extent the company is effective in terms of transparency. It is very difficult to believe that the company might be transparent when it provides no information on its workings or even its own transparency policies. At the same time, *Azəriqaz's* internal management rules and existing legislative basis have not been renewed for years, and we can assume that there have been no serious improvements in this regard.

Another feature of the rhetoric in the above-mentioned reasonings for price increases is the need to adapt to a market economy. However, adaptation to a market economy never seems to entail either transparency or effective management.

Azəriqaz has also underlined that dependence on the state obstructs the formation of market principles. Officials from the company periodically state that expenses of the state budget are high, and *Azəriqaz* is heavily dependent on the

state budget. Again, we do not have detailed information about this particular problem. We have only general information that the company received 1032,1 million AZN from the budget in the years 2018-2020:

In 2018, 518,3 million AZN[\[49\]](#) (this figure is our guess[\[50\]](#));

In 2019 462,3 million AZN;[\[51\]](#)

In 2020 51,5 million AZN;[\[52\]](#)

We have information that the company receives these funds; however, we do not have detailed information as to how it spends this money. It is interesting that expenses declined nine-fold from 2018 to 2020. Usually, each year 100 million AZN was directly allocated to the expansion of natural gas delivery in the country. For instance, in 2018 according to a decree signed by the Azerbaijani President Aliyev, the company received 100 million AZN for this purpose.[\[53\]](#) In 2020 four decrees allocated total 40,08 million AZN. These decrees were also signed in the first three months of 2020. However, on 6 August 2020, President Aliyev held a video meeting with the government to assess the measures taken to tackle the pandemic and to discuss the socio-economic situation in the country and in this conference, he said that “even expansion of gas deliveries is financed by the state budget, despite the fact that it is the direct responsibility of SOCAR. We allocated 100 million AZN for extending natural gas pipelines to villages and towns. If this is done through state budget funds, then what is SOCAR doing? It is SOCAR’s duty and responsibility.”[\[54\]](#) As we have seen, the state planned to spend 100 million; however, by the end of the year, total expenses were just 51,5 million AZN. We can assume that for the remainder, SOCAR relied on its own funds.

Table 7. Natural gas infrastructure

	2016	2017	2018	2019	2020
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Production of gas, distribution of gaseous fuel, thousands of AZN	3 521,3	1 494,9	1 740,9	3 998,5	2 588,8
Natural gas pipelines readied for exploitation, km	5,2	9,4	18,1	1702,8	1 394,1
Expansion of street gas network (single direction) per year, km	10083	3209	3178	2382	1334
Total number of apartments which began receiving natural gas deliveries during the year, thousand units	161,3	99,2	75,9	92,7	80,9

Source: State Statistical Committee.

However, the official statistics do not prove that. According to the State Statistics Committee in the last five years, only the minimum amount was spent for direct natural gas distribution. (Table 7). For instance, in 2012-2013 internal investments for natural gas distribution amounted to 23-25 million AZN each year. However, we can assume that these expenses were recorded in other categories as well.

We should take into account another important matter: not all funds allocated to *Azəriqaz* are spent on infrastructure serving households. For instance, according to the *Distribution Schedule of Investments from the State Budget of the Republic of Azerbaijan in 2021*, funds were allocated “for the establishment of delivery of natural gas supplies to the constructed livestock farm in Sabir town of Shamakhi district.” [\[55\]](#) The total sum allocated for this purpose was 550 thousand AZN. (The state budget also allocates 7,2 million AZN for the construction of infrastructure for the electricity supply of the same farm. In other words, the state has spent a total 7,75 million AZN to build natural gas and electricity

infrastructure for this livestock enterprise). The problem here is not the construction of natural gas infrastructure for the farm. The problem is that this construction is funded from the state budget. Construction of natural gas infrastructure (as well as electricity lines) for a livestock farm that is not owned by the state, is actually financed from the state budget. We do not know how many projects are similarly funded by the state budget. In 2019 the state budget also allocated 625 thousand AZN for the construction of infrastructure to ensure external natural gas supply to the Cannery of Azersun Holding in Bilasuvar region.[\[56\]](#) Nothing is known about regulations allowing funding of private enterprises from the state budget.

Another important matter for market relations is the cost of the gas supply. According to the General Director of *Azəriqaz*, “the currently combined cost of production of 1 000 cubic meters of natural gas and its delivery to the consumer is 174 AZN.”[\[57\]](#) It is very difficult to verify this figure because the majority of related data is not shared with public. However, at the end of each year, SOCAR provides production and supply cost of natural gas production in its reports. According to SOCAR’s report, in 2020, the production cost of 1000 m³ natural gas was 61,27 AZN, which is 0,62 AZN or 1,0 % less than in 2019. Most of the natural gas consumed in Azerbaijan is produced by SOCAR. Total expenses for natural gas sold in 2020 were 140,24 AZN per 1000 m³. These include, along with the expenses of SOCAR and *Azəriqaz*, the cost of natural gas received from the Azerbaijani International Operation Company (AIOC) according to a product sharing agreement, as well as processing, storage and transportation costs.[\[58\]](#)

Table 8. Costs of gas supply and of natural gas produced by SOCAR

(AZN per 1000 cubic meters)

Data	2016	2017	2018	2019	2020
Cost of natural gas produced by SOCAR	46,77	62,19	57,60	61,89	61,27
Factual expenses of <i>Azəriqaz</i>	128,77	163,70	155,75	140,46	140,24
Payment of Households	100,00	100,00	100,00	100,00	100,00

Source: SOCAR.[\[59\]](#)

As we see in the above table, since 2017 there have been significant increases in the cost of natural gas produced and transported by SOCAR. According to the report, this happened due to service or maintenance costs for existing infrastructure: maintenance costs for existing infrastructure have increased three times since 2017. Still, it is important to note that according to the agreement on the exploration of Azeri-Chirag-Deepwater Guneshli (ASG) field, AIOC supplies part of the natural gas extracted from the field to SOCAR free of charge. In this particular case, SOCAR is accountable for only storage and transportation expenses. In 2020, natural gas provided to SOCAR from ASG amounted to 2,2 billion cubic meters,[\[60\]](#) while consumption of households was 3,56 billion cubic meters. From 2017 to 2019 volumes of gas supplied to SOCAR from the field were 2,9, 2,3 and 2,1 billion cubic meters respectively.[\[61\]](#) Consumption of households in those years equaled to 2,82, 3,05 and 3,31 billion cubic meters respectively.[\[62\]](#) Therefore, it was possible to supply households with free natural gas volumes provided by AIOC. It could certainly reduce the cost of natural gas bought by households (the cost would have included only transportation and distribution expenses).

According to SOCAR, even by the end of 2020, the cost of natural gas was less than 174 AZN. However, within 9 months of 2021, the cost of 1000 cubic meters of natural gas increased by 24%. So what happened in 2021? As we mentioned above, in early January 2021 decision of the Cabinet Ministers entitled

On the Organization of natural gas supplies within the Azerbaijani Republic came into force. This decision introduced *Azərkontrakt* as an intermediary between the state producer and seller of gas.[\[63\]](#) There is no information on the reasoning behind the introduction of this intermediary company. *Azərkontrakt*'s website was last updated on 30 December 2020.[\[64\]](#) It was also not explained why *Azərkontrakt* was chosen as an intermediary. In the past, the most valued asset of this company was a building where the notorious pro-government television channel Lider TV, which is owned by relatives of the president, was headquartered. The company includes such firms as *Azərətsüd* (specializes in storage, supply and sales of meat, dairy products and other foods), *Azərlizing* leasing company, *Avtomobil-Nəqliyyat* (specializes in various kinds of services such as road freight transportation, rent of cars, car repairs, etc.). This corporation is the legal heir of the Ministry of Material Reserves, which existed in 1990s. The Ministry of Material Reserves itself was created by uniting various economic institutions from Soviet times. On 11 February 2020, the head of *Azərkontrakt* Miri Ganbarov died. It is not known who became the head of this company after his death. In general, the workings of the company are extremely obscure. However, we know that after this company was introduced as an intermediary, the cost of natural gas rose by 24%. We know that natural gas is bought from the state producer for 90 AZN and is sold to the state distributor for 118 AZN, and the 28 AZN difference goes to *Azərkontrakt*. New tariffs introduced in June 2021 then raised this difference to 35 AZN.

The General Director of *Azəriqaz* in his comments on the reasons for the increase in domestic natural gas prices frequently referred to the international market as a driver behind this increase. However, Azerbaijan is a natural gas producer country, which presumably should be able to mitigate the impact of price increases in the international market. As a producer, Azerbaijan earns more internationally when the

price of gas on the world market increases. According to the State Customs Committee, if in December 2020 the price of exported Azerbaijani natural gas was 0,14 AZN per 1 m³, in August 2021 this price increased to 0,48 AZN per cubic meter.[\[65\]](#)

In 2021, due to the launch of international gas projects, exports of natural gas increased. If in 2020, Azerbaijan exported 12,4 billion cubic meters of natural gas, in the first 8 months of 2021, the country exported 13,2 billion cubic meters.[\[66\]](#)

How does this increase in natural gas exports impact internal consumption? Interestingly, there was no impact. As was stated earlier, Azerbaijan receives free natural gas from the AIOC. In addition, SOCAR itself is a gas producer as well. In any case, in this particular field, the domestic economy does not depend significantly on changes in the international market (It should be taken into account that, in the field of gas production, transportation, and sale, no private enterprises participate in any stage of the process. SOCAR produces, transports and sells all of the country's natural gas).

However, Azerbaijan is dependent on the international market for technology and equipment. Azerbaijan does not produce equipment related to the natural gas industry and imports the majority of it. Yet the process of importation is not transparent enough, and we do not know how it happens. *Azəriqaz* does not provide detailed information about its expenses. SOCAR's official website provides various agreements of *Azəriqaz* related to its purchases; however, the information is not sufficient to check and compare data for different years. For instance, according to *Azəriqaz's* needs plan,[\[67\]](#) in 2021, the company was planning to acquire 3 765 various types of manometers, 210 various types of gas regulators and 200 pieces of signalization detectors. We do not know how many of them have already been bought. Yet the State Customs Committee reported that the average price of "devices for

checking and controlling of pressure of liquids and gas" imported during the first eight months of 2021 was 48 USD. The average price for the same period of 2020 was 106,8 USD. There are different prices for pressure-controlling devices. For some types of this device, prices fell by 4-5%; for others there was a 53% increase. For signalization devices, we observed increases in price sometimes as high as four-fold. Yet we do not have detailed information. This type of equipment acquired by *Azəriqaz* is diverse, and sometimes other cheaper devices may have the same CNFEA (Commodity Nomenclature of Foreign Economic Activity) code. The core issue here is that purchase procedures are not transparent. We do not have information about the number of bidders who applied to participate in these tenders and their offers.

We might take as an example to demonstrate the corruption and self-dealing suggested by this lack of information about technology imports a 21 April agreement signed by *Azəriqaz* with Ninox Alliance JSC.[\[68\]](#) According to this agreement, 23 pieces of industrial gas meters and 10 corrector packages should be delivered to Baku. The total price of the purchase was 34,3 thousand Euros. It is interesting that in 2017, the Ninox Alliance was one of the contracting parties in the purchase of gas meters as well. That contract indicated that, at that time, this company was registered in the Marshall Islands.[\[69\]](#) However, the current contract indicates that the company is registered in the Republic of Georgia. We searched and found that the name of this company is Ninox Alliance JSC, and in 2016, the company signed a contract, which amounted to 32,1 thousand USD.[\[70\]](#) A company with the same name delivered cows[\[71\]](#) and combine harvesters[\[72\]](#) for agriculture as well. The company is registered in the Kutaisi Free Economic Zone of neighboring Georgia.[\[73\]](#) The e-mail of the company's representative is in connection with Khazar Trade and Khazar Industrial Group (the latter is an official distributor of some international agriculture equipment producers in Azerbaijan). In other words, this company, which is engaged in

various fields, also imported gas meters. Moreover, Georgia is not a producer of these kinds of products. At least, in the first eight months of 2021, Azerbaijan did not import this type of product from Georgia. So, we see that there are many problems in the purchase contract signed by *Azəriqaz*. The name of the contracting company as well as the country in which it is based remain unknown. This corruption results in overall price increases for the population.

Conclusion

The increase in the price of natural gas negatively impacts the population. Last year a 42% increase in utility prices hit households living in poverty hard. Apart from a direct increase in utility prices, changes in tariffs drove overall prices upwards and caused high inflation. High inflation, in its turn, decreases the real income of the population.

Based on our deliberations in this article, we can conclude that there were two reasons behind government-initiated tariff increase. The first reason was the government's initiative to create, on 1 January 2021, an intermediary between the state seller and the state distributor of natural gas. Both sale and distribution of natural gas are conducted by the branches of the same company, SOCAR, whose branches are *Azneft* and *Azəriqaz*, respectively. Since 1 January 2021, the new company *Azərkontrakt* has been an intermediary between those two. Until 2021, the Azerbaijani public did not have any information about the activities of *Azərkontrakt*. Yet since early 2021, this company formally buys natural gas from *Azneft* at 90 AZN and sells it to *Azəriqaz* as well as to other wholesale buyers like *Azərenerji* at 118 AZN. As a result, 28 AZN has been added to the cost of natural gas production which drove tariffs upward. No reason justifying the introduction of this intermediary has been provided, and no changes to infrastructure have occurred either.

The second reason for the increase in prices has been the

ineffective management of *Azəriqaz* and non-transparent operations of this enterprise. In general, *Azəriqaz*'s management does not comply with current company management requirements, and it is entirely isolated from public scrutiny. There is no open and transparent information on many contracts of this company, nor is there any for prices and volumes of equipment purchased by the company. Its reports are not provided to the general public. Based on available information, we assume that many of its purchase contracts are vague and ineffective.

Thus, price hikes driven by creation of an intermediary and due to the ineffective management will hit entire population. In the end, even an average household will exceed the minimal consumption limit established for lower prices of both natural gas and electricity and will have to pay higher prices. This will hit the population in addition to decreasing real income.

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