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The Political and Economic Impact of Formula 1 Races in Azerbaijan: Myths and Realities

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Abstract

Since 2016, Azerbaijan has been hosting the Formula 1 Grand Prix. Due to COVID-19, the race was not held in 2020 and was conducted without spectators in 2021. The initial contract for the event was supposed to end in 2020, but it was extended for another three years. In 2023, Azerbaijan secured the continuation of its hosting rights until at least 2026¹.

Apart from Formula 1, the country has hosted several other prestigious international events, including the Eurovision Song Contest in 2012, the first European Olympic Games in 2015, the 4th Islamic Solidarity Games in 2017, and the European Youth Olympic Festival in 2019. In 2024, Azerbaijan will host COP29, the most significant event in its history since independence, further adding to its diverse event portfolio.

Despite some questions surrounding Baku's role as a host for Formula 1 compared to other international sports events, the Azerbaijani government has regularly organized the race for the past seven years and has yet to address these questions. The 2024 Formula 1 Azerbaijan Grand Prix is scheduled to take place again in Baku from September 13 to 15. In this paper, we examine the myths and realities regarding the economic impact of Formula 1 races.

Keywords: Azerbaijan, Formula 1, economic impact, political impact, economic and social benefits, corruption, tourism, service sector, travel agents, tour operators

¹ <https://racingnews365.com/azerbaijan-gp-secures-f1-future-with-new-deal>

Myth 1: Hosting Formula 1 races increases Azerbaijan's international prestige.

The reality is that in today's world, prestigious sports events are also used as a tool for soft power in international relations. Azerbaijan's hosting of such high-profile international sporting events primarily serves this purpose, with the political dividends mainly benefiting the ruling government. Although Azerbaijan subsidizes these events from the state budget, the political gains from them are reaped by the authorities. Authoritarian regimes often use such events to present themselves as part of the modern world, seeking political support for their governments. Additionally, these events can also serve the interests of authoritarian regimes in terms of money laundering and corruption.

International rating assessments indicate that since Azerbaijan began hosting Formula 1 races in 2016, its rankings on issues like corruption, human rights, and freedoms have worsened. According to the 2023 results released by Transparency International², Azerbaijan ranked 154th out of 180 countries in the Corruption Perceptions Index, scoring 23 out of a possible 100 points, making it one of the most corrupt countries in the world.

Myth 2: Hosting Formula 1 races provides significant economic opportunities for Azerbaijan.

The reality is that developed countries that host these races or participate with their teams and drivers use Formula 1 both for business purposes and to advance their sports industries. Their main revenues come from direct earnings such as ticket sales and marketing activities, along with team victories and car advertisements. Additionally, they benefit from spending in other sectors, including services. Moreover, the global audience of Formula 1 races grew from 82.3 million in 2018 to 90.2 million³ in 2019, indicating an expanding media reach and influence. Globally, sponsorship revenue for the 2023 season is projected to reach \$445 million, while broadcasting revenue for the 2022 season reached \$936 million⁴.

² <https://www.transparency.org/en/countries/azerbaijan>

³ <https://www.bakucitycircuit.com/en/press-release/PricewaterhouseCoopers-Study-Reveals-%24506.3million-Benefit-to-Baku-since-arrival-of-F1-in-Azerbaijan>

⁴ <https://sites.lsa.umich.edu/mje/2024/04/29/is-hosting-an-f1-race-financially-feasible/>

As for Azerbaijan, according to an independent study conducted by the international auditing firm PricewaterhouseCoopers (PwC)⁵, the first four races held in Baku brought \$506.3 million to the country's economy. This total amount includes direct and indirect revenues generated by spending related to Formula 1 visitors, covering accommodation, food services, transportation, social and cultural services, postal and telecommunications services, trade, and utilities. This figure is the result of direct and indirect effects calculated across various sectors, including professional services, hotels, and others.

Additionally, the recurring Formula 1 event boosts both annual and seasonal employment, creating new jobs in various industries. In 2023, 207 people were employed by the Baku City Circuit Operations Company⁶, and 1,500 volunteers were recruited for the F1 championship last year. In this way, Formula 1 directly contributes to the development of the local labor market by creating short- and medium-term job opportunities. The race has a long-term impact on infrastructure development and intangible areas such as enhancing the national brand's reputation and raising global awareness. By hosting this event, Azerbaijan demonstrates its ability to organize world-class sports and entertainment events as a modern, dynamic country⁷.

It is clear that hosting the Grand Prix is an expensive endeavor. Azerbaijan announced that the Azerbaijan Grand Prix is insured for \$100 million⁸. Therefore, hundreds of millions of manats are allocated annually from Azerbaijan for the Formula 1 Grand Prix. For instance, the 2021 state budget of Azerbaijan reveals that 80 million manats were spent on hosting the Formula 1 Grand Prix and the group stage matches of the UEFA European Football Championship in Baku. Additionally, the expenses for purchasing the broadcasting rights for the Formula 1 Grand Prix by the Azerbaijan Television and Radio

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https://azertag.az/xeber/Nigar_Arpadarai_2016_2019_cu_illerde_kechirilen_Formula_1_yarislari_Azerbaycan_iqtisadiyyatina_boyuk_fayda_verib-1387378

⁶ <https://www.bakucitycircuit.com>

⁷ Ibadoghlu, Gubad, A Cost-Benefit Analysis of Azerbaijan's Hosting of Formula 1 Races (May 4, 2023). Available at SSRN: <https://ssrn.com/abstract=4438341> or <http://dx.doi.org/10.2139/ssrn.4438341>

⁸ <https://en.vestikavkaza.ru/news/Economic-and-social-benefits-of-Formula-1-Azerbaijan-Grand-Prix-outlined-in-Baku.html>

Broadcasting Closed Joint-Stock Company are also covered by the state budget, although the exact amount is not disclosed.

In total, 170.2 million manats⁹ were spent from the state budget on the financing of international, national, and other similar events in 2022, while 208.9 million manats¹⁰ were allocated in 2023. The preliminary 2024 budget forecasts 234.7 million manats¹¹ for the same purpose. It is worth noting that the projected funds are not solely for the Formula 1 Grand Prix, but for all international and national events hosted by Azerbaijan during the budget year. As seen, the amount of these allocations has increased over the last two years and the current year, which can be explained by the rising number of events hosted by Azerbaijan and inflation.

The costs of Formula 1 races are not limited to these figures. Countries hosting this race must build infrastructure and circuits that meet the safety standards set by the International Automobile Federation (FIA). In international practice, the cost of building a typical permanent track¹² is around \$270 million. This includes the construction of a medical center, media center, asphalt laying, pits, team and VIP rooms, specialized electricity supplies, grandstand installations, and other infrastructure.

However, holding the Grand Prix on a street circuit (as in Baku) is cheaper and can be set up faster than a permanent track. Nevertheless, it requires modifications to streets, the construction of barriers, and the installation of grandstands and other auxiliary facilities. The annual cost of setting up such a circuit is approximately \$60 million. Therefore, building a permanent track for more than six years, including annual maintenance costs of up to \$20 million, is more cost-effective than holding the race on city streets. A permanent circuit also offers additional benefits, such as the potential to host other races, sports events, and even music festivals. However, since Azerbaijan prefers a street circuit, additional funds are allocated each year for maintenance and renovation.

⁹ <https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/64b149d771786.pdf>

¹⁰ <https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6682702853f54.pdf>

¹¹ <https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/65426bc58efc7.pdf>

¹² <https://www.forbes.com/sites/csylt/2017/03/13/the-1-billion-cost-of-hosting-an-f1-race/?sh=607849454f79>

Furthermore, apart from Miami and Las Vegas, all other countries hosting Formula 1 races pay an annual hosting fee of around \$30-40 million. The reason Miami and Las Vegas do not pay this fee is that the Formula 1 event in those cities is organized by an international company, not local ones. In such cases, the organizers keep all the revenue from ticket sales and sponsorship deals.

The hosting fee increases annually depending on the contracts of different countries. In 2023, Baku made the highest hosting payment among all cities and countries hosting the race, paying \$57 million last year¹³. According to Statista, countries like Bahrain, Saudi Arabia, Azerbaijan, and Qatar are expected to pay over \$50 million in hosting fees for the 2024 season¹⁴.

Since 2020, no statements have been made regarding the economic and social benefits of the Formula 1 Azerbaijan Grand Prix, and due to the lack of transparency in reporting costs and benefits, corruption scandals related to the Formula 1 race in Azerbaijan have surfaced in the media. For example, Çingiz Mehdiyev, who served as the head of the Sports Operations Department of the Baku City Circuit Operations Company from 2015 to 2020, was accused of embezzlement and criminally charged. An investigation by the Anti-Corruption Department under the Prosecutor General's Office revealed that Mehdiyev artificially inflated the prices of goods ordered for marshals during the Formula 1 races, including uniforms, equipment, and towels. He also transferred state funds to companies owned by his close associates. Moreover, he established a company in an offshore zone—the Seychelles—under his mother's name and presented it as a specialized organization for organizing Formula 1 events, transferring a substantial amount of state funds there. The investigation revealed that Mehdiyev embezzled a total of 397,852 manats of state funds. Additionally, he transferred large sums of money to foreign banks to conceal the true source of the funds and laundered them¹⁵.

¹³ <https://speedcafe.com/formula-1-hosting-fees-2023/>

¹⁴ <https://www.blackbookmotorsport.com/news/f1-monaco-grand-prix-liberty-media-hosting-fee/#:~:text=Currently%2C%20the%20circuit%20pays%20US,US%2450%20million%20a%20year.>

¹⁵ <https://lent.az/xeber/hadise/formula-1e-ayrilan-pullari-menimsedi-baki-seher-halqasinda-korrupsiya-40601438>

During his trial, Mehdiyev, who was accused¹⁶ of embezzling funds allocated for Formula 1, admitted that all orders were given by Arif Rahimov, the son of the late youth and sports minister, Azad Rahimov, and the executive director of the Baku City Circuit Operations Company. Arif Rahimov, who was appointed head of the Baku City Circuit Operations Company while his father was Azerbaijan's youth and sports minister, held this position for seven years and was dismissed in 2022¹⁷.

The reality is that the costs of Formula 1 races in Azerbaijan are increasing every year, while no information is provided about its earnings, indicating that the Baku City Circuit Operations Company is not managed transparently or accountably, and corruption and nepotism are prevalent.

Pro-government media and experts claim that by hosting Formula 1, Azerbaijan demonstrates its economic strength, development, hospitality, and multicultural values to the world. They believe that holding this race in Azerbaijan is directly linked to the country's power, international reputation, and high economic potential, and that Formula 1 plays an exceptional role in promoting the country's tourism potential globally. In his speech at the 2019 Sports Year-End Ceremony on December 25, President Ilham Aliyev stated¹⁸, "As for the Formula 1 race, I can say that it brings great benefits to our country. First, the cities hosting Formula 1 races are either capital cities of developed countries or major cities. The fact that Baku is among them is a significant event for us."

Myth 3: Hosting Formula 1 races in Baku lifts the spirits of our citizens.

Official Baku emphasizes the importance of Formula 1 for the state and ensures that international obligations related to the race are fulfilled on time and in full¹⁹. The organization of Formula 1 in Baku is tied to the fact that the Baku City Circuit Operations Company²⁰ holds a Category 1 license for the organization and management of the race.

¹⁶ <https://azpolitika.info/?p=757736>

¹⁷ <https://apa.az/diger-novler/arif-rehimov-baki-seher-halqasinin-icraci-direktoru-vezifesinden-azad-edilib-727998>

¹⁸ <https://president.az/az/articles/view/35483>

¹⁹ <https://racingnews365.com/how-much-formula-1-circuits-are-paying-to-host-2023-grands-prix>

²⁰ <https://www.bakucitycircuit.com/en/information>

With this license, Baku City Circuit can only hold the races in Baku. Hosting a Formula 1 street race requires significant reconstruction of existing spaces (main roads, underground stations, etc.) and other supporting infrastructure. According to disclosed information, in preparation for the first Formula 1 Grand Prix in Baku in 2016, a major road renovation project covering an area of 4,500 square meters was implemented in the city. According to the former Minister of Youth and Sports, Azad Rahimov, the cost of the Baku Grand Prix in 2016, including all fees and infrastructure expenses, was approximately \$100 million.

The reality is that the equipment installed and infrastructure created in the city center for the race causes significant disruptions (iron fences on the central streets and concrete barriers separating pedestrians from the roadway), understandably causing serious concerns among Baku's residents and visitors. Traffic is restricted on streets in the city center²¹, and operations at educational, healthcare, and other public institutions, as well as businesses in the area, come to a halt. All of this leads to dissatisfaction among the city's population and its visitors, particularly among the majority of Baku's residents. For eight years, the residents of Baku have endured the inconveniences caused by the restrictions associated with this race.

Myth 4: Formula 1 races boost tourism and increase foreign interest for Baku.

In his speech at the 2019 Sports Year-End Ceremony on December 25, President Ilham Aliyev also stated²², "The Formula 1 race brings significant economic dividends to our country, just as it does to all other cities. If someone says that it harms us, they either don't know or intentionally want to distort the facts. If it harms us, then it also harms the 20 or so other cities hosting the race, and are they all operating at a loss? Of course not. The multiplier effect of Formula 1 is very large. Thousands of guests from abroad spend money here, bringing great economic benefits. After the first Formula 1 race, there was a massive influx of tourists to Azerbaijan. I remember these dates clearly because I was

²¹<https://www.bakucitycircuit.com/az/news/statement-by-bcc-on%20road%20restrictions%20throughout%20the%20race%20week>

²² <https://president.az/az/articles/view/35483>

receiving regular reports on the arrival of tourists, whether monthly or quarterly. After the first race, the number of tourists increased by 24%. The following year, it grew by another 22%, and the year after that by 5%. Finally, this year, in the first eleven months, it has increased by 11%. For the first time in history, more than 3 million tourists visited Azerbaijan."

Indeed, 2019 was a record year in Azerbaijan's history, with over 3 million foreign visitors and stateless individuals entering the country. However, in the four years since, this record has not been surpassed. In 2023, at least 1 million fewer foreign visitors and stateless persons came to Azerbaijan compared to 2019. Naturally, the COVID-19 pandemic significantly impacted tourist numbers. Although the World Health Organization declared the end of COVID-19's pandemic status²³ on May 6, 2023, Azerbaijan's government continues to keep land borders with neighboring countries closed due to quarantine measures imposed in March 2020. This undoubtedly limits the entry of tourists who would otherwise travel by rail or road, reducing the number of foreign visitors and stateless individuals entering Azerbaijan.

The reality is that official statistical data do not indicate that Formula 1 and other international races have increased tourist attraction to Azerbaijan or foreign interest in Baku. Let's look at Table 1, which characterizes the situation over the last six years in this area.

Table 1. Foreigners and stateless persons arriving in Azerbaijan and their composition (2018-2023)

Year	2018	2019	2020	2021	2022	2023
Number of foreigners and stateless persons arriving in Azerbaijan (thousands)	2,849.6	3,170.4	795.7	791.8	1,602.3	2,085.8
Including those for tourism purposes	2,605.3	2,863.5	519.4	461.7	1,058.1	1,402.6
Of which: for recreation and entertainment	1,042.4	1,164.0	164.9	132.4	398.5	938.3
For business purposes	787.4	850.5	177.5	196.7	400.5	156.6

²³ <https://news.un.org/en/story/2023/05/1136367>

Year	2018	2019	2020	2021	2022	2023
Number of foreigners and stateless persons accommodated in hotels or similar establishments (thousands)	1,234.4	1,316.7	267.4	271.6	907.9	1,081.4

Source: State Statistical Committee, Tourism in Azerbaijan 2024 Report²⁴

As seen from the table data, the number of foreigners and stateless persons arriving in Azerbaijan in 2023 decreased by 26.81% compared to the pre-pandemic year of 2018, and by 34.22% compared to 2019. It is worth noting that in the peak tourism year of 2019, the top five countries of origin for foreigners visiting Azerbaijan—Turkey, Russia, Georgia, Iran, and Ukraine—accounted for 92% of the total²⁵. These countries are where many Azerbaijanis have migrated and settled abroad, meaning that the majority of visitors from these neighboring countries were coming to visit family and relatives.

Moreover, the number of foreigners and stateless persons arriving in Azerbaijan for tourism purposes in 2023 decreased by 46.17% and 51.02% compared to 2018 and 2019, respectively. During this period, the decline in the number of foreigners and stateless persons visiting Azerbaijan for business purposes was even more pronounced, dropping by more than fivefold compared to 2018, and by 5.5 times compared to 2019. As shown, there has been a sharp decline in the number of tourists visiting Azerbaijan compared to 2018 and 2019, which indicates a decrease in foreign interest in Baku rather than an increase. Number of foreigners and stateless persons accommodated in hotels or similar establishments compared to 2018 and 2019 in 2023 decreased.

Myth 5: Formula 1 races increase the revenue of the service sector and stimulate the development of local businesses.

The primary businesses serving the Formula 1 races belong to the service sector. Most of the foreign visitors coming for the races use service packages from travel agents and tour operators, staying mainly in hotels. The State Statistical Committee's indicators characterizing the activity of these sectors from 2018 to 2023 provide grounds to say that

²⁴<https://www.stat.gov.az/source/tourism/>

²⁵ https://tourism.gov.az/uploads/documents/statistic/+annual_tourism_statistics_2020_final.pdf

expectations have not been met. The dynamics of the past six years are reflected in Table 2.

Table 2. Service sector indicators in Azerbaijan (2018-2023)

Year	2018	2019	2020	2021	2022	2023
Number of travel agents and tour operators	374	432	300	150	240	300
Total number of tourism packages sold	49,992	63,885	5,342	9,811	16,803	27,007
Number of tourism packages sold to foreigners and stateless persons for travel within Azerbaijan	6,139	11,469	771	195	3,779	4,741
Number of tourists received (persons)	12,777	30,950	2,304	1,848	9,493	11,232
Number of employees	2,074	2,205	1,464	962	1,268	1,698
Revenue of travel agents and tour operators (in thousand manats)	56,439.4	63,363.8	16,147.3	22,614.8	53,350.3	78,772.7
Costs of product (service) production (in thousand manats)	46,085.1	50,400.0	21,899.7	19,641.0	42,585.5	57,019.1

Source: State Statistical Committee, Tourism in Azerbaijan 2024 Report²⁶

As seen from the data, except for the revenues and costs of travel agents and tour operators, all indicators characterizing the service sector showed a decline in 2023 compared to the pre-pandemic years of 2018 and 2019. In 2023, the number of travel agents and tour operators decreased by 74 and 134 units, respectively, compared to 2018 and 2019. The number of tourism packages sold to foreigners and stateless persons for travel within Azerbaijan decreased by 22.88% compared to 2018, and by 2.42 times compared to 2019. The number of tourists received by travel agents and tour operators in 2023 was 2.75 times lower than in 2019. These declines also led to a reduction in the

²⁶<https://www.stat.gov.az/source/tourism/>

number of employees in this sector during the comparison period. Due to high inflation rates in the country, rising costs of services and expenses have led to an increase in both the revenues and costs of travel agents and tour operators.

The reality is that statistical indicators do not show that Formula 1 races have stimulated the development of local businesses operating in the service sector.

In conclusion, the peak number of tourists in Azerbaijan was recorded in 2019, before the pandemic and before quarantine measures were implemented and the land borders with neighboring states were closed. There is insufficient statistical data to evaluate the economic impact of the Formula 1 race on the tourism and service sectors in that year. However, we can say that Formula 1 races provide an opportunity to attract title sponsors, which is a standard practice to increase revenues. However, the race held in Baku has not always had a title sponsor: SOCAR was the sponsor in 2019, and Qatar Airways in 2024. While the participation of such sponsors can generate additional income and enhance the event's prestige, the stability of partner engagement remains a question. The economic impact of Formula 1 races also extends to companies involved in media and advertising. Although companies such as Azercell, Bakcell, and AzTV are involved, no information has been disclosed regarding their revenues or expenses from these sources. Naturally, the lack of a free advertising market and independent press in the country leads to monopolization in this field.