

Legal 500

Country Comparative Guides 2025

Azerbaijan

Renewable Energy

Contributor

Caspian Legal Center



Orkhan Beydiyev

Partner | o.beydiyev@caspianlegalcenter.az

Pari Gasimli

Legal Manager | p.gasimli@caspianlegalcenter.az

This country-specific Q&A provides an overview of renewable energy laws and regulations applicable in Azerbaijan.

For a full list of jurisdictional Q&As visit legal500.com/guides

Azerbaijan: Renewable Energy

1. Does your jurisdiction have an established renewable energy industry? What are the main types and sizes of current and planned renewable energy projects? What are the current production levels? What is the generation mix (conventional vs renewables) in your country?

Yes, Azerbaijan has an emerging yet increasingly established renewable energy industry. Although the country has long relied on fossil fuels, recent years have seen a strategic shift toward diversifying its energy mix by tapping into its considerable renewable energy potential.

The main types of renewable energy resources in Azerbaijan include wind, solar, hydropower, biomass, and geothermal energy. Among these, solar and wind power have received the most attention in terms of both investment and development.

The technical potential of renewable resources in Azerbaijan is significant. Onshore and offshore resources are estimated to have a capacity of 135 GW and 157 GW respectively. In particular, the Caspian Sea region offers an immense wind energy potential of 157 GW, which remains largely untapped and presents a major opportunity for future development.

Despite such technical potential, the country's total electricity production in 2023 stood at 29.3 billion kWh, with renewable energy accounting for only 7% of that output. While this percentage remains relatively low, the trajectory of renewable energy development suggests a shift toward greater reliance on clean energy in the near future.

In terms of existing projects, Masdar's landmark 240 MW Garadagh Solar Power Plant is currently the largest solar power facility in the Caspian and CIS region, operating since 2023. Masdar's 315 MW Neftchala Solar Power Plant, 240 MW Absheron-Garadagh wind farm (both due for completion in 2025), and 445 MW Bilasuvar Solar Power Plant (due for completion in 2026), all jointly developed with SOCAR Green, will contribute to Azerbaijan's growing renewable energy portfolio. The 240 MW Sunrise Solar Project is launched by bp in Bilasuvar in 2021.

240 MW Khizi-Absheron Wind Power Plant launched by

Saudi Arabia's ACWA Power and the green hydrogen project initiated by Australia's Fortescue Future Industries, which has a planned capacity of 12 GW, have been in progress since 2022. Projects of a 1.5 GW offshore wind power and a 1 GW onshore solar plant are planned with ACWA Power in 2023. There are also cooperative initiatives in the Nakhchivan region, led by Nobel Energy and A-Z Czech Engineering. In April 2025, Azerbaijan signed 6 documents on cooperation in the field of renewable energy with China. These documents cover the construction of solar power plants with a total capacity of 260 MW, 100 MW floating solar power plant, 30 MW battery energy storage system, 2 GW offshore wind energy project, development of another 2 MW wind power project.

Hosting COP29 in 2024 Azerbaijan further showcased its green credentials and signed a slew of deals. 3.5 gigawatts of offshore wind projects will be developed in the Caspian Sea on the basis of A Memorandum of Understanding signed with Masdar and ACWA. A 240-megawatt solar power station will be built in the district of Jabrayil according to an Agreement with bp from the UK.

2. What are the key developments in renewable energy in your country over the last 12 months?

Over the past year, Azerbaijan has made notable strides in renewable energy, positioning itself as a key player in green energy export and regional cooperation. Through strategic international alliances, high-impact infrastructure projects, and a sharp rise in domestic renewable output, the country is actively transitioning toward a more sustainable energy model.

One of the most prominent developments has been Azerbaijan's leadership in the Caspian-Black Sea Green Corridor. In August 2024, Azerbaijan, Kazakhstan, and Uzbekistan established a joint venture headquartered in Baku, aimed at exporting green energy to Europe. This was further formalized during COP29 in November, where the countries signed a strategic agreement to construct a clean energy cable beneath the Caspian Sea. This infrastructure will ultimately connect with another cable traversing the Black Sea seabed, enabling transmission of renewable electricity into European markets.

Further cooperation was cemented on April 4, 2025, with two major Memorandums of Understanding. One, involving the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), supports a feasibility study for the Caspian Green Energy Corridor. The other, signed with Georgia, Turkey, and Bulgaria, outlines joint efforts for transmission and trade of green electricity. Additionally, in September 2024, a separate initiative involving Azerbaijan, Georgia, Hungary, and Romania took a significant step forward to lay a power transmission cable under the Black Sea. Originally conceptualized in 2022, this project gained momentum due to the EU's urgency to reduce dependence on Russian energy, particularly in light of the war in Ukraine.

On the bilateral front, Azerbaijan and Türkiye are collaborating to develop the Azerbaijan-Türkiye Interconnection project through Nakhchivan. In September 2024, the two countries signed an MoU to facilitate the transmission of renewable electricity from Nakhchivan to Türkiye. The project will be implemented by TEİAŞ and Azerenerji, with supporting agreements signed with Nobel Energy, Baltech, and Total Energies to enable green electricity export across the border.

Domestically, large-scale projects are beginning to take shape. In June 2024, Azerbaijan broke ground on three major renewable energy facilities totaling 1,000 MW, developed jointly by Masdar (UAE) and SOCAR. These include the 445 MW Bilasuvar Solar PV Plant, the 315 MW Neftchala Solar PV Plant, and the 240 MW Absheron-Garadagh Onshore Wind Farm. These projects are expected to be commissioned within two years.

In another milestone, the Shafaq Solar Project in Jabrayil was launched in October 2024 by BP, SOCAR, and the Azerbaijan Investment Company (AIC). This 240 MW plant will pilot a new commercial model known as the Virtual Energy Transmission Mechanism, aiming to decarbonize hydrocarbon operations by supplying green energy indirectly to key industrial sites like the Sangachal terminal.

Looking ahead, the country's renewable energy pipeline is expanding rapidly. The 2022 agreement with Masdar foresees an initial 4 GW of renewable capacity, with the potential to scale up to 10 GW. This includes onshore and offshore wind, as well as integrated hydrogen projects. Similarly, Saudi Arabia's ACWA Power is pursuing 2.5 GW in wind energy—both onshore and offshore—alongside a battery storage project and a green hydrogen initiative in partnership with SOCAR.

These initiatives are reinforced by a surge in domestic renewable energy production. Between January and

November 2024, Azerbaijan's green energy output jumped by over 80% year-on-year, reaching 3.58 billion kWh. Renewables now constitute 13.8% of the country's total electricity production. The output includes 540.1 million kWh from solar, 48.6 million kWh from wind, and 211 million kWh from waste-to-energy sources.

3. What are your country's net zero/carbon reduction targets? Are they law or an aspiration?

Azerbaijan has set forth a series of carbon reduction and net-zero targets that reflect both international commitments and national strategic priorities. These targets began with its accession to the Paris Climate Agreement in 2016, where Azerbaijan committed, through its first Nationally Determined Contribution (NDC), to reduce greenhouse gas (GHG) emissions by 35% by 2030, using 1990 as the base year. As per the latest version of Azerbaijan's NDCs renewed in 2023, Azerbaijan will seek to reduce greenhouse gas emissions by 40% by 2050 if international support is provided through financing, technology transfer and capacity building. Furthermore, the country declared the newly liberated territories—comprising approximately 20% of its land—as a "Net Zero Emission Zone."

Azerbaijan's carbon reduction targets are not codified in law. However, the country has been on track to meet its commitment of reducing carbon emissions. Domestically, Azerbaijan voluntarily committed in 2017 to actions under the "Batumi initiative on green economy (BIG-E) actions by Azerbaijan until 2030", which aims to contribute to the SDGs and implement actions such as shifting consumer behaviour towards sustainable consumption patterns, encouraging green and fair trade. The National Forest Programme (2015-2030) aims to first, identify and monitor carbon storage volumes of the forests; and second, to increase carbon storage through rehabilitation and improvement of the existing forests and by expanding forest areas and tree planting on suitable land.

Further, climate change mitigation and green energy transition are emphasized in paragraph 5 ("Clean Environment and Green Growth Country") of the "Azerbaijan 2030: National Priorities for Socio-economic Development," a presidential order dated 2 February 2021. This document frames environmental sustainability as one of the nation's key development priorities and aligns with the broader goals of the UN 2030 Agenda for Sustainable Development. Through this initiative, Azerbaijan has placed increasing emphasis on the use of renewable energy sources and the integration of green technologies across various sectors of the economy. Notably, the Government has set a goal to increase the

share of renewables to 30% of the installed energy capacity by 2030, which serves as a major operational step toward fulfilling its climate targets.

To support the implementation of these goals, Azerbaijan has also entered into international partnerships and initiated concrete institutional mechanisms. One such example is the Memorandum of Understanding signed between the Ministry of Energy and BP in February 2021, which aims to explore large-scale decarbonized energy and transport systems. The plan includes the development of a Master Plan on decarbonization for various regions, focusing on clean energy, low-carbon transport, green buildings, and waste management. Although this signals serious intent, the Memorandum and associated actions are more programmatic and strategic in nature, rather than codified legal instruments.

Azerbaijan has established Green Energy Zone in the liberated territories, which has seen a series of governmental actions and institutional frameworks. Following a Presidential Order on 3 May 2021, Azerbaijan signed an agreement with the Japanese consultancy TEPSCO to design a master plan for the zone. This initiative was further formalized through “Plan for the creation of a green energy zone in the liberated territories of the Republic of Azerbaijan for 2022-2026”, approved by the order of the Cabinet of Ministers of the Republic of Azerbaijan No 357s dated 21 June 2022, which outlines the roadmap for green energy deployment in these regions. The establishment of dedicated Working Groups and monitoring mechanisms, including regular evaluations initiated since June 2023, adds an operational and semi-regulatory layer to Azerbaijan's climate strategy.

4. Is there a legal definition of 'renewable energy' in your jurisdiction?

Yes, there is a legal definition of “renewable energy” in Azerbaijan's jurisdiction, formally provided under the **Law on the Use of Renewable Energy Sources for the Electricity Generation**, adopted in May 2021.

According to Article 1.0.7 of the law, “renewable energy sources” (RES) are defined as energy sources that are constantly present in the environment or are regularly generated (hydropower, wind power, solar power, geothermal energy, biomass energy, wave energy in the seas and oceans, tidal energy, energy of water currents, etc.).

5. Who are the key political and regulatory influencers for renewables industry in your jurisdiction? Is there any national regulatory authority and what is its role in the renewable energy market? Who are the key private sector players that are driving the green renewable energy transition in your jurisdiction?

In Azerbaijan, the development of the renewable energy industry is guided by a mix of key governmental institutions, regulatory authorities, and a growing number of private sector actors. These entities together shape policy, oversee implementation, and drive investment in green energy projects.

The Ministry of Energy of the Republic of Azerbaijan is the central political authority responsible for energy policy, including renewable energy development. It leads the formulation of strategic directions, drafts regulatory reforms, and signs key international cooperation agreements (such as the MoU with bp for decarbonization efforts). The Ministry also oversees the implementation of national targets related to greenhouse gas (GHG) emissions reduction and green transition commitments made under international agreements like the Paris Climate Accord.

From a regulatory standpoint, the State Agency on Renewable Energy Sources (AREA)—operating under the Ministry of Energy—is the dedicated regulatory authority for renewable energy. Its role includes promoting investments in renewable energy, conducting feasibility studies, supporting the development of infrastructure (especially for solar and wind projects), coordinating with international partners, and overseeing the permitting and auctioning of RES projects. AREA is instrumental in streamlining procedures for foreign investors and ensuring technical compliance with national and international standards.

On the legal side, the Tariff (Price) Council of the Republic of Azerbaijan also plays a role in setting electricity tariffs, including those relevant to energy produced from renewable sources. This affects the profitability and viability of RES projects and is thus a lever in either encouraging or discouraging private sector investment.

In terms of private sector involvement, one of the most influential players is bp, which has partnered with the Azerbaijani government to assess and develop integrated low-carbon energy and transport systems. This includes the preparation of a Master Plan on decarbonization for regions and cities across the country. Additionally, Masdar (a UAE-based renewable energy company) and

ACWA Power (from Saudi Arabia) have entered into agreements to develop large-scale solar and wind projects, marking significant foreign investment in Azerbaijan's renewable sector.

Another key actor is TEPCO (Tokyo Electric Power Services Company), which was contracted to prepare a Green Energy Zone concept and master plan for the newly liberated territories. This area, covering roughly 20% of Azerbaijan's land, has been declared a "Net Zero Emission Zone" and serves as a testbed for the country's broader green ambitions.

6. What are the approaches businesses are taking to access renewable energy? Are some solutions easier to implement than others? If there was one emerging example of how businesses are engaging in renewable energy, what would that be? For example, purchasing green power from a supplier, direct corporate PPAs or use of assets like roofs to generate solar or wind?

In Azerbaijan, businesses have several approaches to accessing renewable energy sources, including, inter alia:

- **On-site Generation:** Businesses invest in on-site renewable energy generation systems, such as solar photovoltaic (PV) installations.
- **Power Purchase Agreements (PPAs):** Through these agreements with renewable energy developers, companies purchase a predetermined amount of energy generated from renewable sources over a specified period.
- **Government Incentives:** Azerbaijan offers various government incentives to encourage businesses to transition to renewable energy. These include tax and customs incentives provided by the Tax Code and Customs Code. For example, profit of renewable energy producers based on Public-Private Partnership or PPAs up to 30 years is exempted from income tax.

There are no regulatory limitations for generating solar power using rooftop installations with a capacity of up to 200 kW—installations below this threshold can operate without a permit, if the electricity is for personal use and the system is off-grid. However, if the business intends to sell the electricity, the system must be connected to the grid. In such cases, the producer is required to enter into agreements with state power company Azerenerji JSC, or Azerisliq OJSC, electrical grid operator.

7. Has the business approach noticeably changed in the last year in its engagement with renewable energy? If it has why is this (e.g. because of ESG, Paris Agreement, price spikes, political or regulatory change)?

There has been no noticeable shift in the business approach toward renewable energy in the past year. Although the Tariff Council increased both wholesale and retail electricity prices in December 2024, this change has not had any significant impact on how businesses engage with the renewables sector.

Although the Tariff Council increased both wholesale and retail electricity prices in December 2024, this change has not had any significant impact on how businesses engage with the renewables sector. However, Azerbaijan hosting the COP 29 has surely incited businesses to play a more active role in renewable energy goals. It is noteworthy that several contracts and memorandums of understanding were signed at COP 29. These include a deal with BP from the UK to construct a 240-megawatt solar power station in the Jabrayil area to decarbonize the Sangachal port, one of the largest oil and gas terminals in the world, and a Memorandum of Understanding with Masdar and ACWA on 3.5 gigawatts of offshore wind in the Caspian Sea.

8. How visible and mature are discussions in business around reducing carbon emissions; and how much support is being given from a political and regulatory perspective to this area (including energy efficiency)?

Reducing carbon emissions isn't just a buzzword in Azerbaijan right now — it's a headline national priority. Backed directly by the President, Azerbaijan's long-term development strategy — Azerbaijan 2030: National Priorities for Socio-Economic Development — puts climate action front and center under Priority 5: Clean Environment and Green Growth Country. The push is clear: decarbonization, renewable energy, and green economic transition. To translate this into real-world momentum, the government has launched a range of powerful incentives targeting the renewables sector. These include long-term exemptions — up to 30 years — from corporate and personal income tax, VAT, customs duties, property tax, and land tax for projects operating under Public-Private Partnerships or Power Purchase Agreements. These fiscal perks are specifically designed to pull in both local and international capital and position Azerbaijan as a competitive player in the global clean

energy space. Furthermore, SOCAR Green, founded in 2024, is actively involved in the exploration and development of carbon capture, utilization, and storage (CCUS) technologies as part of its broader efforts to drive Azerbaijan's energy transition. While specific CCUS projects are still in the early stages of development, SOCAR Green is focused on advancing innovative solutions to reduce carbon emissions across the country's energy sector.

In terms of energy efficiency, Azerbaijan made a legislative leap with the adoption of the Law on Rational Use of Energy Resources and Energy Efficiency in 2021, which entered into force in mid-2022. This law sets the legal foundation for energy-saving measures across supply and consumption chains. It covers everything from mandatory energy audits in large non-residential and public buildings to building energy passports, eco-design and labeling requirements for energy-related products, smart metering, and consumer awareness campaigns. It also envisions tailored financing tools like concessional loans, grants, and the establishment of a dedicated Energy Efficiency Fund – which is now operational.

The Ministry of Energy leads on energy efficiency policy and regulatory development. It collaborates with other ministries to set technical standards, including those for eco-design and energy labeling. To reinforce this effort institutionally, an Energy Efficiency Department was established within the Ministry in early 2023.

Further reinforcing this legal and policy framework, Azerbaijan adopted a new set of state standards on April 10, 2025, specifically aimed at improving energy efficiency in critical sectors. These standards set specific requirements for the effectiveness, safety, and energy efficiency of air conditioners, liquid cooling systems, and electrically powered compressor dryers used for heating and cooling premises. Their implementation is expected to improve the operational performance of such equipment, lower energy consumption costs, and support more competitive pricing in the market. Beyond the immediate energy savings, the standards also lay the groundwork for broader innovation and development across the economy by encouraging the use of higher-efficiency technologies and setting a clear regulatory framework for manufacturers and suppliers.

9. How are rights to explore/set up or transfer renewable energy projects, such as solar or wind farms, granted? How do these differ based on the

source of energy, i.e. solar, wind (on and offshore), nuclear, carbon capture, hydrogen, CHP, hydropower, geothermal; biomass; battery energy storage systems (BESS) and biomethane?

In Azerbaijan, the process of setting up and operating renewable energy projects—whether solar, wind, or other forms—requires navigating a legal and regulatory framework that ensures consistency across different energy sources. Regardless of whether a project involves solar PV, onshore or offshore wind, hydropower, geothermal, hydrogen, biomass, CHP (combined heat and power), battery energy storage systems (BESS), or biomethane, the procedures and requirements for obtaining rights and approvals are essentially uniform.

To begin with, developers must secure the necessary permissions for electricity transmission, distribution, and cross-border trade in accordance with the country's energy legislation. Any entity wishing to design, construct, or install a power plant must comply with the Urban Planning and Construction Code of the Republic of Azerbaijan as well as associated regulatory acts. Projects involving electrical installations exceeding 200 kW must obtain a commissioning certificate from the Energy Regulatory Agency under the Ministry of Energy.

Securing rights to land or water bodies for the construction of renewable energy facilities is a key step. If the area has not been officially designated as a “territory of renewable energy sources”—a special status granted to areas with recognized renewable energy potential—then land or water use rights must be acquired under the terms of the Land Code, Water Code, and Urban Planning and Construction Code. However, if an area has been designated as such a territory, the government initiates a producer selection process under the relevant legislation. This process is managed by an executive body, which either conducts an auction or uses direct recruitment to select a developer.

Following selection, the chosen producer enters into three main agreements: an investment contract with the authorized body, a power purchase agreement with the guaranteed buyer, and a grid connection agreement with either the transmission or distribution system operator (with distribution-side provisions coming into force from July 1, 2025).

In terms of permitting, the thresholds differ slightly based on the type of technology. For hydroelectric plants and facilities that generate both electricity and thermal energy using biomass-derived fuels or natural gas, a permit is required for capacities above 500 kW. For other

renewable energy projects, a production permit is necessary for capacities exceeding 150 kW.

Once operational, the generated electricity must be connected to the national grid. This is done under non-discriminatory terms, with tariffs regulated by energy law. Notably, renewable energy producers are given priority access to the grid for both transmission and distribution purposes. A grid connection agreement must be concluded between the producer and the relevant system operator, with new rules for distribution system operators also becoming effective from July 2025.

In summary, Azerbaijan applies a source-neutral framework for granting rights and permissions to renewable energy projects. While certain technical thresholds may vary slightly—particularly for hybrid or biomass projects—the general procedure for acquiring land, obtaining permits, signing operational agreements, and accessing the grid remains consistent across all forms of renewable and low-carbon energy sources.

10. Is the government directly involved with the renewables industry (auctions etc)? Are there government-owned renewables companies or are there plans for one?

Yes, the government of Azerbaijan is directly involved in the renewables industry, particularly through regulatory and procedural mechanisms aimed at structuring the market and attracting private and foreign investment. While the country's broader energy sector remains heavily state-owned and vertically integrated, the state's role in renewables is more about enabling than executing.

While there are no state-owned renewable energy companies at present, some of grand state-owned companies have already started to take action on transitioning towards renewable energy sources. AzerEnerji JSC – the largest electrical power producer in Azerbaijan – has embarked on a strategic initiative to promote the integration of renewable energy into the existing energy infrastructure through the Azerbaijan Scaling-Up Renewable Energy Project (AZURE), approved in March 2025. A subsidiary of the State Oil Company of Azerbaijan (SOCAR), SOCAR Green, owns a renewable energy project portfolio with a capacity of 1.4 gigawatts. It closely monitors larger-scale projects in the region, such as the approximately five-gigawatt green energy corridors intended for export to the European market, the Black Sea submarine cable, and the Caspian-Black Sea-Europe energy corridor projects. In 2025, SOCAR's "Green Bonds" has already commenced to trade on the Baku Stock Exchange (BSE).

The government mostly focuses on ensuring that Azerbaijan's market and regulatory settings encourage private sector investment in the industry. These private entities operate under a licensing and permitting framework set out by national legislation.

That said, government involvement becomes more hands-on when it comes to specific designated areas. The government identifies "territories of renewable energy sources"—land or water bodies with proven potential for generating renewable electricity. These areas are formally designated by the Cabinet of Ministers. Once an area is designated, the government initiates a selection process to find a suitable electricity producer.

Importantly, the law also establishes specific support mechanisms to make these projects financially viable and attractive for investors, such as guaranteed tariffs and other support measures for electricity production within designated renewable energy territories, guaranteed connection to the grid for producers selected to operate in these zones, within the approved capacity limits, guaranteed purchase of electricity by the guaranteed buyer, for the duration specified in the power purchase agreement, as well as a number of tax and other legal incentives.

11. What are the government's plans and strategies in terms of the renewables industry? Please also provide a brief overview of key legislation and regulation in the renewable energy sector, including any anticipated legislative proposals?

The Government of Azerbaijan has taken a strategic and structured approach to developing the renewable energy sector. Central to this effort is the Azerbaijan Renewable Energy Agency, established under the Ministry of Energy by Presidential Decree No. 1159 dated 22 September 2020, with the mandate to oversee and coordinate the sector's growth. One of the key pillars of Azerbaijan's renewable energy framework is the Law on the Use of Renewable Energy Sources for Electricity Generation, adopted on 31 May 2021, which laid the groundwork for more robust regulatory mechanisms and support for investors in this space.

Azerbaijan's long-term strategy is anchored in the "Azerbaijan 2030: National Priorities for Socio-Economic Development", particularly Priority 5: Clean Environment and Green Growth Country, which commits the country to addressing climate change and expanding the use of renewable energy based on green energy principles. This

aligns with Azerbaijan's international obligations under the UN's 2030 Agenda for Sustainable Development.

To support this ambition, the government has undertaken camera investigations to map areas with high renewable energy potential. Eight zones have been identified, with pilot projects already underway in three of them. Notably, by Cabinet Resolution No. 470 (25 December 2023), a 300.77-hectare area in Pirsaat settlement, Garadagh district was designated as a renewable energy territory for a solar power plant. The aim is to further develop projects on unsuitable agricultural land to harness solar energy, which has greater nationwide potential compared to wind.

In terms of legislative infrastructure, in addition to the Renewable Energy Law, several other laws intersect with or support the sector, including the Law on Electro Energetics (2023), Law on Public-Private Partnership (2022), Law on the Efficient Use of Energy Resources and Effectiveness of Energy (2021), and Law on Environmental Impact Assessment (2018), among others. These laws provide a comprehensive framework covering everything from energy efficiency to the protection of hydro-technical structures and water resources.

There has been several introductory presentations about green bonds and a specific law proposal thereof. It is being promoted by the Central Bank, however, this draft law is not officially seen on the Parliament's declared agenda yet.

Government involvement continues to evolve, particularly through international partnerships. Azerbaijan is collaborating with the European Bank for Reconstruction and Development (EBRD) under the "Support to Renewable Energy Auctions in Azerbaijan" project. This initiative aims to establish clear auction rules, standardized power purchase agreements, and competitive bidding documentation. At the same time, the government is working with the International Finance Corporation (IFC) to develop an offshore wind energy roadmap, reinforcing the country's commitment to attracting both private and foreign investments in the renewables sector.

12. Are there any government incentive schemes promoting renewable energy (direct or indirect)? For example, are there any special tax deductions or subsidies (including Contracts for Difference) offered? Equally, are there any disincentives?

Azerbaijan has implemented a series of tax and customs incentives to stimulate investment in renewable energy,

particularly for projects developed under Public-Private Partnership (PPP) models or Power Purchase Agreements (PPAs) with durations of up to 30 years. These incentives are codified in the Tax Code and Customs Code of the Republic of Azerbaijan and include both direct and indirect support mechanisms:

- **Income Tax Exemption:** Profits earned by renewable energy producers operating under PPP or PPA arrangements are exempt from personal and corporate income tax for up to 30 years.
- **Customs and VAT Exemptions:** Imports of machinery, technological equipment, and devices used for renewable energy production are exempt from value-added tax (VAT) and customs duties, provided they meet a minimum capacity threshold set by the Cabinet of Ministers.
- **Property and Land Tax Exemptions:** Real estate and land utilized for renewable energy production projects are also exempt from property tax and land tax under the same 30-year PPP or PPA framework.
- **Residential Consumer Incentives:** Individuals who produce electricity from renewable sources for personal use—with installations up to 150 kW—are exempt from income tax on that electricity.

The Law on the Use of Renewable Energy Sources for the Electricity Generation provides the issuance of a certificate of origin for electricity produced from renewable energy sources in order for producers to use the support mechanism. The mechanism covers active consumers – a legal entity or individual who, in addition to consuming electricity, produces up to 150 kW (including 150 kW) of electricity from renewable energy sources. It allows electricity consumers to install their own power plants and feed excess electricity into the grid for compensation. At the end of each reporting period, if they contributed more than they used, the electricity supplier pays them for the excess at wholesale rates.

These financial incentives are designed to significantly reduce the upfront and ongoing costs associated with renewable energy development, thereby improving bankability and attracting both domestic and international investment.

At present, Azerbaijan's regulatory environment does not include any explicit disincentives for renewable energy development.

13. How does the structure of the natural gas industry in your country impact the price of electricity? Are there any plans to de-link the

price of renewable electricity from gas prices?

Azerbaijan's energy mix remains heavily concentrated in fossil fuels, with oil and gas making up more than 98% of the total energy supply. Electricity generation is predominantly based on natural gas, which accounts for approximately 90%, while large hydropower contributes around 4%.

Although no formal pricing de-linkage has been announced, the government is actively promoting the development of the renewable energy sector as a strategic step toward diversifying the energy mix and reducing long-term reliance on natural gas for electricity generation. This shift may gradually lessen the influence of gas prices on overall electricity pricing.

14. What are the significant barriers that impede both the renewables industry and businesses' access to renewable energy? For example, permitting, grid delays, credit worthiness of counterparties, restrictions on foreign investment, regulatory constraints on acquisitions; disputes/challenges?

Currently, there are no formal legal or regulatory barriers that significantly impede the renewables industry or businesses' access to renewable energy in Azerbaijan. However, a key practical consideration is the capacity and readiness of the national electricity grid. While the grid has not yet reached its technical limits, there is a risk of capacity constraints in the near future as more renewable projects come online.

A major restructuring of Azerenerji JSC, a state-owned entity managing electricity generation and distribution, is planned for 2027–2028 to address these concerns and enhance the grid's ability to accommodate increased renewable energy integration. Until then, developers should remain mindful of potential bottlenecks in transmission and connection capacity.

15. What are the key contracts you typically expect to see in a new-build renewable energy project?

In Azerbaijan, a typical new-build renewable energy project involves three key contracts.

1. An investment contract with the authorized state institution;
2. A power purchase agreement (PPA) with the

- guaranteed buyer (often a state-backed entity);
3. A grid connection agreement with the relevant transmission or distribution system operator (distribution-related agreements will only take effect starting July 1, 2025);
4. Engineering, Procurement and Construction (EPC) and Operation and Maintenance (O&M) contracts;
5. Land Lease and Easement contracts;
6. Project financing agreements, such as by Development/Investment Finance Institutions.

16. Are there any restrictions on the export of renewable energy, local content obligations or domestic supply obligations? What are the impacts (either actual or expected) of the implementation of the Net Zero Industry Act (EU) Regulation 2024/1735?

There are currently no restrictions on the export of renewable energy from Azerbaijan, nor are there any local content or domestic supply obligations imposed on renewable energy projects. As for the EU's Net Zero Industry Act (Regulation 2024/1735), its implementation is not expected to have any direct impact on Azerbaijan at this stage, given the country's non-EU status and the absence of binding trade or energy alignment mechanisms in this area.

A general provision in this regard is about the export of energy. Under the Law on Electro Energetics (2023), electricity producers and suppliers shall have the right to participate in regional electricity markets under bilateral or multilateral international agreements of the Republic of Azerbaijan, subject to obtaining authorization for the import or export of electricity.

17. Has deployment of renewables been impacted in the last year by any non-country specific factors: For example, financing costs, supply chain or taxes or subsidies (e.g. the US's Inflation Reduction Act)?

There is no specific reports or statements about the deployment of renewables in Azerbaijan being impacted by non-country-specific factors such as global financing costs, supply chain disruptions, or foreign tax or subsidy policies.

Local market conditions and national regulatory frameworks continue to be the primary drivers of renewable energy development.

However, several factors need to be mentioned. In the past 3 years, Azerbaijan's role in EU energy supply has increased due to geopolitical events. Moreover, the need to diversify non-oil exports and shifting to clean energy (Baku COP 29 event in this context) have also played an important role in increased attention to this area.

18. Could you provide a brief overview of the major projects that are currently happening in your jurisdiction?

Since 2020, Azerbaijan has been actively cooperating with a range of international energy companies to advance its renewable energy agenda. Key partners include Masdar, ACWA Power, bp, Fortescue Future Industries, China Gezhouba Group Overseas Investment, Total Energies, Nobel Energy, A-Z Czech Engineering, and Baltech. These collaborations mark a significant shift in the country's energy strategy, with a strong focus on diversifying its energy mix and reducing carbon emissions.

Masdar, the UAE-based renewable energy company, has been at the forefront of this cooperation. One of the most prominent initiatives is the Garadagh Solar PV Plant, a 230 MWac facility located near the Alat settlement. This project, which began commercial operations in October 2023, is Azerbaijan's first independent utility-scale solar development based on foreign investment and structured as a public-private partnership. The plant produces approximately 500 million kilowatt-hours of electricity annually, enough to supply more than 110,000 households, and is expected to reduce carbon emissions by around 200,000 tonnes each year. The project has also provided employment opportunities for the local population, contributing to both environmental and socio-economic development.

In addition to the Garadagh plant, Masdar is currently developing the 240 MW Absheron-Garadagh Onshore Wind Project, another major step toward enhancing Azerbaijan's renewable generation capacity. Furthermore, the 315 MW Neftchala Solar Project represents a new chapter in this partnership. Following the signing of investment and operational agreements in October 2023, the project officially broke ground during Baku Energy Week in June 2024, with construction expected to start in 2025. Beyond these specific projects, Masdar has signed agreements to develop a broad portfolio of renewable energy assets in Azerbaijan, including onshore wind, solar, offshore wind, and green hydrogen projects, totalling 4 GW of capacity with the potential to scale up to 10 GW. These initiatives directly support Azerbaijan's national objective of generating 30 percent of its energy

capacity from renewable sources by 2030.

British energy giant bp is also engaged in Azerbaijan's renewable energy sector. In October 2024, bp entered into a joint venture with SOCAR Green and the Azerbaijan Investment Company to co-invest in the Shafag Solar Project, a 240 MWac plant to be constructed in the Jabrayil region. The venture, named Shafag (Jabrayil) Solar Limited, marks a significant collaboration in a liberated area and will pilot a unique "Virtual Power Transfer Arrangement." This model involves delivering the solar-generated electricity to AzerEnerji in Jabrayil, which will then transfer an equivalent volume of energy to bp's Sangachal terminal, enabling the terminal to operate partially on renewable electricity.

ACWA Power, a major Saudi energy developer, is undertaking the construction of a 240 MW wind power plant in the Absheron and Khizi districts, specifically near the villages of Chayli and Sitalchay. This greenfield Independent Power Project (IPP) is being developed under a Presidential Order issued in December 2019, which initiated the implementation of pilot renewable energy projects in Azerbaijan. The key contractual agreements—Investment Agreement, Power Purchase Agreement, and Transmission Connection Agreement—were all signed in December 2020, and the project is designed to operate under a 20-year framework.

19. How confident are you that your jurisdiction can become a leader in newer areas like offshore wind or hydrogen?

Azerbaijan has strong potential to become a regional leader in offshore wind and green hydrogen due to both its favorable geographic conditions and its political will to diversify its energy mix. The technical potential for offshore wind in the Azerbaijani sector of the Caspian Sea is estimated at 157 GW, with 35 GW in shallow waters and 122 GW in deeper basins. Recognizing this, Azerbaijan has partnered with the International Finance Corporation (IFC) to develop a national offshore wind roadmap, which includes geospatial mapping, economic and environmental assessments, and transmission planning. Further, in 2025, Azerbaijan and China signed an Executive Agreement for an offshore wind energy project, focusing on the construction and maintenance of a minimum 2 GW offshore wind plant. In 2025, in EU-Azerbaijan Meeting on Offshore Wind Power Development, the government has identified five potential offshore wind areas in Caspian Sea and plans to export 4 GW of offshore wind energy to Europe. These strategic initiatives demonstrate Azerbaijan's commitment not

only to transforming its domestic energy landscape but also to becoming a crucial green energy supplier to European markets.

In parallel, the Government is promoting green hydrogen as a future export commodity. In partnership with Masdar and Fortescue Future Industries (FFI), projects are being developed that integrate offshore wind and green hydrogen production, with total potential capacities reaching up to 12 GW. Moreover, Azerbaijan's strategic location between Europe and Asia offers a unique opportunity to export green hydrogen via emerging transmission corridors. These developments, combined with robust foreign partnerships and political commitment, suggest a high level of confidence in Azerbaijan's ability to become a leader in these newer areas of renewable energy.

20. How are renewables projects commonly financed in your jurisdiction?

Renewable energy projects in Azerbaijan are commonly financed via the following methods:

- Investments by project developers or companies mainly coming from abroad.
- Loans from multilateral development banks such as World Bank, EBRD, ADB, AIIB. The Azerbaijani banking sector is also ready to allocate significant financial resources to support "green transition" projects by

2030.

- Government Incentives which are provided to support renewable energy projects in the form of public-private partnerships (PPPs), power purchase agreements (PPAs), tax and custom incentives.

21. What is your forecast for the coming year(s) for renewable energy in your jurisdiction?

The outlook for Azerbaijan's renewable energy sector in the coming years is increasingly optimistic. With aforementioned large-scale projects underway the country is transitioning from early-stage development into large-scale implementation. The government's aim to achieve 30% of installed energy capacity from renewables by 2030 is driving legislative reforms, investment attraction, and international cooperation.

Azerbaijan's active role in transnational energy corridors, such as the Caspian-Black Sea Green Energy Corridor and the Black Sea cable initiative, indicates that it also seeks to position itself as a regional hub for green electricity exports. Additionally, the planned renewable energy auctions supported by the European Bank for Reconstruction and Development (EBRD) are expected to further streamline project allocation and increase competition. If these initiatives continue on schedule and regulatory frameworks are consistently enforced, Azerbaijan's renewable energy capacity is likely to grow substantially by the end of the decade, reaching the planned thresholds.

Contributors

Orkhan Beydiyev
Partner

o.beydiyev@caspianlegalcenter.az



Pari Gasimli
Legal Manager

p.gasimli@caspianlegalcenter.az

