

Georgia

▶▶▶ LESS THAN A YEAR AFTER THE PREVIOUS ADMINISTRATION WAS REPLACED IN THE SO-CALLED ROSE REVOLUTION, THE FORMER SOVIET REPUBLIC OF GEORGIA IS MOVING TOWARDS MODERNIZATION AND CLOSER RELATIONS WITH NATO AND THE EU

A fresh approach offers brighter hopes for the future for key Caucasian state

Positioned at the crossroads of Europe and Asia, where Caspian oil and western goods flow increasingly between east and west, the Caucasian state of Georgia is itself in transition. A new generation of leaders—young, dynamic, and western oriented—is steering the former Soviet republic towards a more prosperous future after a bloodless revolution that swept the old guard out of office towards the end of last year.

Georgia once enjoyed one of the highest standards of living in the former Soviet Union, but suffered a dramatic decline into poverty under the former administration led by Eduard Shevardnadze, the former Soviet Foreign Minister. Things became so bad there was a mass exodus, with one in five Georgians leaving the country.

"Basic institutions were failing, and corruption was institutionalized," says the new President, Mikhail Saakashvili. "That was how the country was run."

Mr. Saakashvili has an indisputable electoral mandate for the reforms with which he and the government are seeking to transform governance and the economy—in January, he won 97 percent of the vote in the presidential election.

The government knows that it has much to do and that the expectations of the Georgian people are high, but it has got off to a confident start. "We are very dif-

ferent from the previous administration," says the President. "We are the first CIS country to have had a genuinely post-communist government. We have a much fresher look. Almost the whole political class comes from western educational institutions, and this is making a huge difference; we have experience in the modern management mentality."

"The new approach is, in any case, the only way forward," he adds. "We need to succeed because there is no other option for this country at the moment."

Priority is being given to fighting poverty, overhauling the legal system, boosting development outside the capital, Tbilisi, and attracting much needed foreign investment. Sweeping reforms are being introduced at every level of governance, and clear progress has already been made. The crime rate has been cut dramatically, and state revenues from tax collection have increased notably.

An aggressive privatization policy is being initiated, with no sector of the economy excluded. Major assets expected to go up for sale include the important sea-

ports of Batumi and Poti (see article below), and all the country's airports.

Mr. Saakashvili says, "We want to set the standards for reforms. We are dramatically reforming government structures, downsizing bureaucracy, reducing government functions, increasing salaries for government officials and putting an end to corruption."

Under the former regime, corruption—official and unofficial—was a major deterrent to investment. Foreign capital is required to help Georgia develop the economy and make urgently needed improvements to its infrastructure, and the government is working hard to restore investor confidence.

Mr. Saakashvili enumerates Georgia's advantages. "We are becoming part of the European environment and we have competitive labor costs. We have access to the neighboring markets of Russia, Ukraine, the Middle East, Iran, and Turkey, and serious investments in terms of energy projects and pipeline construction."

Georgia's economy has proved resilient. According to the State Department of Statistics, gross domestic product rose by 11.1 percent last year, led by activity in the construction and agricultural sectors, and



MIKHAIL SAKASHVILI
President of Georgia



NINO BURJANADZE
Speaker of Parliament



Georgia's population has high expectations, which the government is striving to meet

the economy looks well set to comfortably exceed the 6 percent target for this year.

The country enjoys some of the highest standards in the CIS in terms of media freedom. It has a vibrant civil society, and its government institutions have become more transparent. Mr. Saakashvili promises that following the introduction of the new tax code the country will have the lowest tax tariffs in the region.

In the former Soviet Union, Georgia's

ski resorts and spa areas made it the main tourist destination for eastern Europeans and for other Soviet states, attracting up to 5 million tourists a year. "There are fantastic possibilities for developing a very targeted and high quality tourism," says Mr. Saakashvili.

Irakli Managadze, President of the National Bank of Georgia, praises the new government's approach to fiscal and monetary policy. "If you compare the state of fis-

cal affairs immediately after the revolution with what it is now, you get a very impressive picture of adjustment and improvement. Pensions and salaries are paid on time, and the government has started to pay the arrears accumulated previously."

Discussions are under way with the international creditors of the Paris Club about Georgia's significant external debt burden, which needs to be restructured. "If we succeed in restructuring the foreign debt this will facilitate a steady economic growth and build investor confidence," says Mr. Managadze.

He adds that, despite the difficulties of recent years, Georgia has a firm foundation for solid economic growth. "We have maintained a stable currency and a low level of inflation, and we have transformed the banking sector."

Six years ago Georgia had 57 banks. Since then the number has more than halved, resulting in a leaner, more stable sector that has enjoyed impressive growth, with assets rising by 20 percent in recent years. Minimal capital requirements have been increased in line with EU standards.

In terms of foreign policy, Prime Minister Zurab Zhvania says Georgia regards the United States as a vital strategic partner, and that integration into NATO and European Union is the country's goal. "We are strengthening relations with NATO. We believe that the most stable arrangement for the security of our country is to be found within the Euro-Atlantic alliance."

Nino Burjanadze, Speaker of the Georgian Parliament, accepts that it will take time. She says, "The main priority for Georgia is to build good relations with neighboring countries, and to become a member of NATO and the EU. This is not in prospect in the short term, but we are taking steps in this direction."

Georgia has a partnership and cooperation agreement with the EU, and participates in NATO's Partnership for Peace program. The EU, which sees Georgia as a key route for transporting Caspian Sea oil to the west, has been steadily strengthening relations. Meanwhile, steps are being taken in Georgia to ensure that all sectors of government are harmonizing their practices, standards and regulation with the EU.

Georgian ports are crucial to development of east-west transcaucasian transportation corridor for oil and trade

Georgia's Black Sea ports make it a key player in the Eurasian Corridor and the republic is busy upgrading its transportation infrastructure to cope with a rapid increase in business, as trade along the New Silk Road exceeds expectations.

Five years ago Batumi Oil terminal was transshipping 3 million tons of crude oil and refined products from the Caspian Sea region annually. Today, the figure has risen to 9.5 million and the port authorities believe there is the potential to reach 18 million tons by 2015.

The rail-to-sea oil route from Baku in Azerbaijan to Georgia's Port of Batumi contributes more than \$100 million a year to the republic's economy. "We are more competitive for handling oil and oil products than most other Black Sea ports," says Roin Nakashidze, the port's Financial and Commercial Director. "We have a well developed infrastructure and sophisticated logistics for delivering crude oil and oil products to European customers."

Batumi's oil terminal, a 15-year concession leased from the port, has been undergoing a \$60 million upgrade and expansion by its consortium of Danish, Swiss and American owners.

A strategic development plan for the modernization of Batumi Sea Port has been drawn up by MIGA (Multilateral Investment Guarantee Agency), a division of the World Bank, and the ACEM (the European Maritime Cooperation Agency) with the aim of attracting international investment. It is planned to build a new port, capable of serving vessels of up to 400,000 deadweight tons, to the north and northeast of the existing harbor and to create a free economic zone.

Dr. Nakashidze says the port equipment has suffered from a lack of investment to make up for wear and tear and details a number of areas in which there is an immediate need for upgrading. "We require investment



One of the deepest harbors in the Black Sea, Batumi Sea Port specializes in the transshipment of oil



Port of Poti caters to almost all types of cargo and has added a brand new oil terminal

for the technical rehabilitation of cranes and other handling equipment. We have to change the existing manual handling of the bagged cargoes for the automatic conveyor system in order to increase cargo handling rates, and we need to repair or buy tugboats for the port fleet."

Located in the southwest of Georgia, Batumi Sea Port is one of the deepest ports in the Black Sea, able to accommodate tankers with deadweight capacity of up to 110,000 tons, and is also the first Black Sea port to have been awarded a certificate of conformity to the international quality standard ISO 9001:2000.

"We had to change the system completely to meet the requirements," says Dr. Nakashidze. "Our customers can see the difference between our organization before we received the certificate and our present activities."

Dr. Nakashidze dismisses the idea that Georgia's leading ports are competing with each other. "Port of Poti and Batumi Sea Port used to be considered as being competitors but that makes no sense," he says. "We need to cooperate rather than compete. There is only one way to utilize competition: in order to provide better services to the customers. In all other activities we must be partners to attract more cargoes through Georgian ports."

Modernization of both ports is seen as crucial to the development of the Eurasian Corridor. While Batumi Sea Port specializes in oil transshipment, Port of Poti, located further north, caters to almost all types of cargoes, including some oil products, and regularly handles liner vessels, ferries, Ro-Ro and container traffic.

Unlocking Caspian energy

n energy

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline project, operated by BP on behalf of a group of international partners is a \$2.9 billion investment aimed at unlocking the Caspian Sea's vast energy potential. The pipeline travels 1760 km between three countries – from Azerbaijan, through Georgia to the Mediterranean, where a new marine terminal is being built at Ceyhan in Turkey.

The BTC project represents the largest foreign direct investment in the region and in creating the first direct pipeline link between the landlocked Caspian Sea and the Mediterranean will, through taxes, revenue and a host of other economic benefits, make a major contribution to the prosperity of the three countries through which it passes.

www.bp.com
www.caspiandevelopmentandexport.com

This Sponsored Section is produced by InterCom Ltd and did not involve the reporting or editorial staff of the International Herald Tribune.

Intercom UK Ltd
12, St James Square,
London SW1Y 4RB,
United Kingdom
Tel: +44 20 7629 5870
Fax: +44 20 7629 5337
www.intercom-uk.co

Commercial Management and Editorial
Content: Gilberto Gribaudo
Commercial Coordinator:
Annick Jaégy

Continued on Page 18

Georgia

Invisible pipeline will transport a million tons of Caspian oil across the country every day

Construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline project is on schedule, and by next year it should be transporting a million barrels of oil a day from the Caspian Sea to western markets. The 1,096-mile pipeline will extend from Baku in Azerbaijan, pass through Georgia, and end at the new marine terminal at the Turkish port of Ceyhan, thereby allowing the oil to bypass the Bosphorus Strait.

BTC Co, the consortium behind the project, is led by BP, which has invested more than \$21 million in Georgia and paid more than \$21 million to local companies since the scheme was ratified by the Georgian government in 2000.

More than \$12 million has been paid in compensation to landowners, and BP expects the total to rise to \$15 million. Of almost 4,000 people employed on construction of the pipeline, more than 3,000 are Georgian nationals.

"The project will pump big returns into the state coffers, resulting in real benefit to the population," says Ed Johnson, General Manager of BTC and of BP Georgia, who mounts a robust defense against criticism of the scheme from environmental, cultural or human rights points of view.

An \$8 million Community Investment Program (CIP) will benefit local communities in the form of infrastructure improvement, school rehabilitation, agribusiness and micro-credit loans. The communities themselves are closely involved in the selection of projects and the CIP is implemented by two consortia of non-governmental organizations in Georgia, Mercy Corps and Care International.

A \$3 million Environmental Investment Program is also under way, together with a cultural Heritage Program to protect Georgia's archaeological treasures, costing more than \$2 million.

According to Mr. Johnson, commitment to safety and the environment is second to none. The pipeline will run underground



When completed, the Baku-Tbilisi-Ceyhan pipeline will transport 1 million tons of oil a day

for the entire route. Advanced design and construction techniques have been employed to protect it in areas where geological hazards could not be completely avoided.

These include wider trenches, deeper burial and extensive stabilization work on the surrounding terrain. Locally based response teams will ensure immediate reaction to any damage, and the company is also counting on the watchful eyes of the local communities themselves.

"They wish the pipeline to be invisible and successful, and therefore work in partnership with the government, charged with protecting the pipeline, and the company,"

says Mr. Johnson.

He adds that the trust of the local communities is the company's most valuable tool. "Everywhere we go we first try to establish a relationship with the local population by building understanding

and trust. This is a full-time job and we never forget that."

Georgia already hosts the South Caucasus Pipeline (SCP), which was opened in 1999 to transport Caspian crude to the Black Sea terminal at Supsa.

Like its predecessor, the BTC pipeline crosses new territories, and the route required careful study before it was selected. "Groups of specialists were traveling across the country to areas that had not seen any central government representative or business people in years, if ever," Mr. Johnson explains.

Ultimately, the route was dictated by the necessity of avoiding near impassible terrain, potential areas of civil unrest and internationally recognized protection zones.

Running parallel for most of the BTC route will be a natural gas pipeline running from Baku, through Georgia to Erzurum in Turkey. The Baku-Tbilisi-Erzurum (BTE) pipeline is designed to carry natural gas from Azerbaijan's Shah Deniz field, and is scheduled to be operational by 2005.



ED JOHNSON
General Manager of
BTC Co and of BP Georgia

Ports vital to development of east-west corridor

Continued from Page 17

Management of the port has been undergoing restructuring and there are plans to build new jetties and terminals and to update the technology. While, at present, the port remains state-owned, its terminals are gradually being leased out under long-term contracts through international tender.

Central to the upgrading of the port is the port's new \$30 million oil terminal, a joint venture between the Port of Poti Authority and Delta Consortium, partly funded by the European Bank for Reconstruction and Development (EBRD).

Realization of the project will make Poti one of the major ports for the export of Caspian oil products to the world market. Phase 1, officially opened

in 2002, handles white oil products such as kerosene, gas oil, gasoline, naphtha, and jet aviation fuel.

Phase 2 is designed for both black and white petroleum products such as fuel oil, crude oil, and gas oil. On completion, the terminal will handle 4 million tons a year, moving up to 5 million tons a year.

Port of Poti has 400 hectares of land available for future development. There are plans to build a grain terminal to enable the port to handle grain from Kazakhstan, the main exporter of this product in the region.

A new container terminal is also planned to take advantage of the growth in container traffic. Poti expects to handle more than 80,000 container units (TUS) this year.



ROIN NAKASHIDZE
Financial and Commercial
Director of Batumi Sea Port



CHARTING NEW WATERS IN GEORGIA

The ports of Poti and Batumi are Georgia's two most important gateways to the Black Sea, uniting Europe and the rest of the world with Asia in an economic trade corridor with vast potential. Equipped with specialized terminals for the proficient handling of all types of cargo and high-quality transport links offering international standards of efficiency in the onward shipment of goods, these ports are leading the way in the development of the new Georgia.

PORT OF POTI

PORT OF POTI
52, D. AGMASHNEBELI STREET
4401 POTI, GEORGIA
TEL: +995 393 20660
FAX: +995 393 20668
WWW.POTIIMPORT.COM



Since 1858



BATUMI SEA PORT
1, KUTAISSI STREET
6003 BATUMI, GEORGIA
TEL: +995 222 76269
FAX: +995 222 76780
WWW.BATUMIIMPORT.COM