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A large offshore oil rig, identified by the label "DWG-DUO", is shown at sea during twilight. The rig is a complex of steel structures, including a tall derrick and various platforms, all illuminated with warm yellow lights. It is supported by several thick legs extending into the dark, choppy water. The sky is a mix of blue and orange from the setting or rising sun.

European Energy Security and the South Caucasus



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Managing Risk: Georgia's



Irakli Kovzanadze, the CEO of the Partnership Fund, speaks with George Kvirikashvili, the economy minister. The Partnership Fund is Georgia's state-run investment fund. There have now been proposals to also create a development bank

Development banks have historically served as mediators to balance investments against political and economic risk in up-and-coming economies. On April 25, 2014, the Georgian government submitted a proposal for the creation of a Development Bank of Georgia, JSC. Taking a peek at established development banks and a revealing World Bank report can shed some insight on the motive and promise of such a proposal.

CORDELIA PONCZEK

On June 13, Georgia will host, in conjunction with the European External Action Services, an investment conference. Georgia's investment outlook is rosy. According to figures cited in a bulletin that the Georgian government provided to potential investors, Georgia predicts 5 percent GDP growth in 2014; foreign direct investment in 2013 was \$914.4 million; and trade turnover was listed at \$10.784 billion for 2013 (a 5.5 percent growth from 2012). The numbers show Georgia's commitment to growth, and the bulletin shows the government's commitment to enticing internal and foreign investors to have faith in Georgia.

There is a certain pedantic marching order to establishing an economically

stable country. Georgia, in its transition to economic independence, has recently taken another step toward long-term economic growth and stability. On April 25, 2014, the Georgian government introduced draft legislation proposing a Georgian Development Bank. According to the drafters of the proposal, the bank will be authorized to issue loans through commercial banks, provide guarantees, issue bonds, and carry out other activities as envisaged under the new law. The proposed bank would be a joint-stock company: a business owned through its shareholders based on the Partnership Fund (PF), a Georgian state-owned company.

The World Bank defines national development banks as "financial institutions with a public mandate and more than 30 percent of their shares owned by the state." Differing national development bank characteristics include their respective policy mandates, financial services offered, targeted clients, regulation and supervision, business models, governance frameworks, and challenges faced. The purpose of such banks is straightforward: a development bank exists to provide financing, bolster long-term development, and protect potential importers and exporters against political and economic risks. It is the ultimate risk mediator. By servicing security and enablement — development banks are the quintessential skeleton key to readily open doors of opportunity to knocking benefactors and to lock them from threats. Such institutions guarantee stability, efficiency, and access to the market.

Georgia is one from a representative spectrum of developing and developed

economies—spanning from Uganda to Germany—to create a development bank. A development bank is a brilliant concept for Georgia and promises a bright future of cooperation between the government and national and foreign business. Georgia, like other countries, seeks the ability to establish a secure holding of its assets and finances. Looking to a complementary westward example, Croatia established its current development bank, Hrvatska Banka za Obnovu Razvitak (HBOR), in 2006 (the original institution was established in 1992) to diversify its economy and provide financing for up-and-coming businesses and private corporations. These enterprises were curious to invest in Croatia, but were wary of political and economic shock risks. Through HBOR, Croatia was able to guarantee its offers against risk and grow its investment pool: by 2009 HBOR's total assets were equivalent to 5.5 percent of the Croatian banking system.

Bulgaria, a fellow member with Georgia in the Organization of the Black Sea Economic Cooperation (BSEC), established the Bulgarian Development Bank (BDB) in 1999, though the mandate was reworked in 2008 to receive funding from other investment organizations, the Black Sea Trade and Development Bank being one such funder. Bulgaria's total assets in 2009 were \$664 million, or 1.24 percent of the total banking system. Notably, both Croatia and Bulgaria are members of the European Union: Croatia joined in 2013, seven years after the establishment of HBOR; Bulgaria in 2007, eight years after the initial establishment of the BRB and one year after its mandate transition.

HBOR and BDB are two sides of the same coin of development bank potential. While Croatia's bank is almost exclusively reliant on government funding and subsidy, Bulgaria's BDB is self-sufficient. But both can borrow from other financial institutions. Yet, HBOR's debt comes with a government guarantee and BDB's does not. Across the board, the differences presented by Croatia and Bulgaria are not uncommon. A recent World Bank survey showed that 84.4 percent of national development banks could borrow from financial markets, 56.6 percent had their debt guaranteed by the government, and, uncomfortably, only 25.5 percent could operate self-sufficiently if government transfers were cancelled. This puts

Development Bank Proposal

the vast majority of development banks in the somewhat precarious position of not being privately guaranteed, something that Georgia may want to consider as it creates a vision for its future bank.

Another diversifying aspect of development banks is their targeting of subsectors and markets for funding opportunities. The highest proportion of lending opportunities is typically awarded to services—followed closely by agribusiness. Georgia will probably mimic this trend, as its services sector and agricultural potential are both common rallying points. Unsurprisingly, the highest target market of development banks is micro, small, and medium enterprises. This grouping is contrasted against the runner up—large private corporations. The win of small business is predictable for two reasons: First, smaller businesses are more likely to be local businesses with a more relevant non-monetary investment in the community; and, second, such small businesses are more likely to be swayed or feel the effects of risk potential. Large private corporations are less likely to feel the heat from political and economic risks and more likely to have the resources to

look before they leap. But countries like Georgia still want to provide plenty of bait for the corporations: they present the second-largest target market for development banks. The loans to such businesses are most likely to be syndicated loans, loans for working capital, or loans for start-up activities. It is in Georgia's favor to simultaneously cultivate the smaller, less lucrative (but more numerous) market of local businesses to anchor local economies while also keeping open prospects for larger corporations to fuel further interest and development on a national level.

Perhaps the unsung hero of development banks is not found in conspicuous loans and lofty investment goals, but in the smaller financial services offered to businesses and citizens. Many development banks offer loan guarantees, money transfers, and business consulting, matching, and training—good tools for Georgia to offer to both its larger clients, to instruct them on the Georgian market, and its smaller clients, for them to learn the ropes of an ever-evolving free market. Consultation and training, in particular, are opportunities for the Georgian government

to educate its partners and reverse some of the more pervasive (and damaging) misconceptions reminiscent of pre-reform decades.

Just as free elections with a strong turnout imply a healthy democracy, so can a vibrant, varied, and efficient market display the colors of a stalwart economy. The Development Bank of Georgia is an opportunity for good governance to meld with good market policy to further enhance the liberalization reforms that have made Georgia so tempting to investors. Hitching the success of national goals with private opportunities is a way to ensure productive futures for both parties and to keep Georgia in the running as a global destination for business and investment. As the investment bulletin points out, Georgia was ranked number 8 in the World Bank's Ease of Doing Business rankings in 2014—and a development bank may be the means to bring that accolade to fruition.

Cordelia Ponczek is a graduate student and analyst based in Warsaw, Poland.

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INVESTMENTS IN REAL ESTATE: THE ANTICIPATED IMPACT OF THE EU ASSOCIATION AGREEMENT

Georgia is slated to sign its EU Association Agreement on June 27. Martijn Kanters looks at what the possible impact of the agreement – and closer relations with the EU – could have on the Georgian real estate sector, based on the experience of other Eastern European countries.

MARTIJN KANTERS

The signing of the Georgia-EU Association Agreement this month is expected to have a significant positive impact on the Georgian economy. Past experience in Central and Eastern Europe (CEE) has shown that the integration process with the European Union indeed leads to increased foreign direct investment (FDI) and accelerated economic growth. This will also have an effect on FDI in real estate. This article will examine the anticipated impact of the EU integration process on real estate investment in Georgia.

At this moment, a modern, liquid real estate investment market does not exist in Georgia. Commercial real estate assets are not yet actively traded and the absence of (institutional) investment funds is a big barrier to further development. The fact that commercial real estate developers are not certain about a possible exit prevents a lot of international developers from entering the market. Hence the large share of residential developments, which do offer an exit

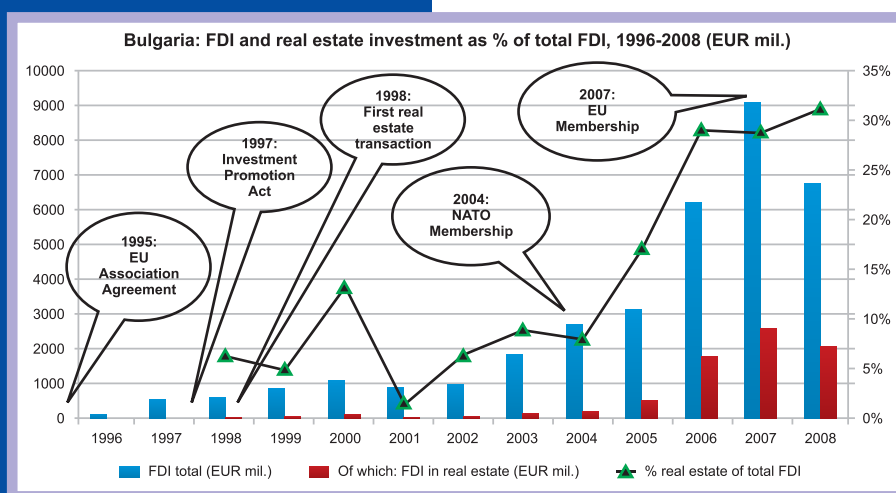
90's. If one looks at Georgia's European "cousin" on the other side of the Black Sea – Bulgaria – one can discover striking similarities in the pattern of the development of FDI and real estate investment in the context of the EU integration process. In the period 1995-2002, Bulgaria entered the first phase of FDI attraction, with levels similar to Georgia now, between 0.5-1 billion euros annually. The signing of Bulgaria's EU Association Agreement in 1995, coupled with the new Investment Promotion Act in 1997, caused a strong increase in FDI inflow, which in the scope of a few years increased to levels around 1 billion euros annually. The first FDI in Bulgarian real estate was recorded in 1998 and the real estate sector's percentage of total FDI in Bulgaria started to increase substantially after 2001.

The prospects of NATO and EU membership started to have a visible impact from 2003, when annual FDI in Bulgaria reached almost 2 billion euros. A five-year FDI boom-period commenced, topping out in 2007 (the year of EU membership), when Bulgaria recorded more than 9 billion euro in FDI. By this time, FDI in real estate had increased from average levels of between 5-10% of total FDI to 30%.

The Bulgarian experience is representative of CEE and can – in many ways – be used as an example for Georgia. What can be seen throughout CEE is that the following factors play a key role in the attraction of FDI and stimulation of real estate investments:

1. An EU Association Agreement marks, in almost all cases, the start of a boom in investments, albeit often at an initially slow pace;

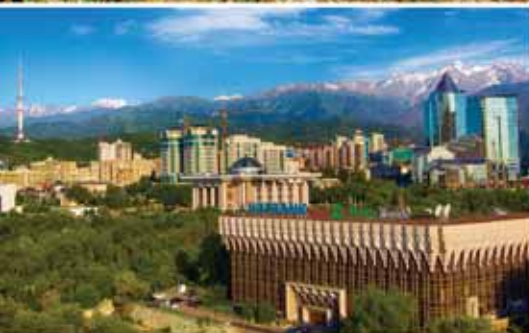
2. The adoption of an effective investment incentives law following an EU Association Agreement is a second important factor. In the Czech Republic,



through direct apartment sales.

This current situation in the Georgian real estate market is very similar to that in most CEE countries in the mid-to-late

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for instance, the Law on Investment Incentives (1998) has had a clear effect on the start of a boom in FDI;

3. Clarity on the prospects of NATO and EU membership has invariably been the major driver of a boom in FDI.

In Georgia today, clear progress is being made in most of the above areas and it can therefore be expected that its path of development will be very similar to what most CEE countries experienced before. The year 2014 could prove to be historic in this respect, and only Russia or another natural disaster

properties are not “disposable.” Much can be done however, by appropriate stimulation locally. The leading banks, investors and developers can work together (supported by the Investment Agency and the Ministry of Economy) to prepare the best properties for disposal and to create an environment that would attract international funds.

In a global context, the time is also right. According recent research by Jones Lang LaSalle, global capital flows in real estate have returned to levels last seen in 2007. Total global direct investment in Georgia reached \$130 billion in Q1 2014,

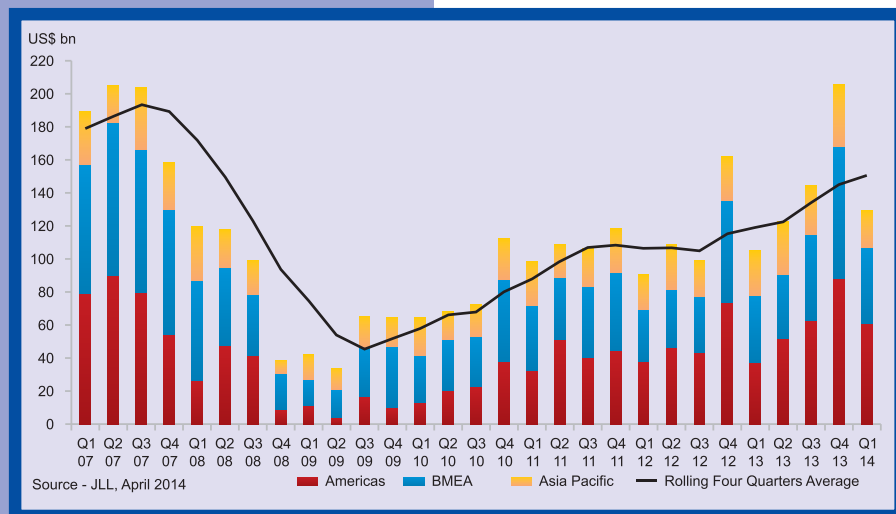
1. Identification of suitable assets. The amount of commercial real estate assets in Georgia that could (in principle) be attractive to institutional investors is limited to handful of properties. In a concerted effort with the owners of those properties, leading local banks and local equity providers (such as the Co-Investment Fund) a disposal strategy should be developed;

2. Formulation of disposal strategies. This will involve technical and legal due diligence, with particular attention to possible liabilities related to the property, an asset management strategy and determination of a realistic sales price (valuation). Also, financing options should be formulated, which include commercial lending and possible equity joint-ventures with local partners;

3. Investor promotion. In cooperation with an international real estate brokerage firm, the property should be marketed to a select group of international funds with the appropriate risk appetite. Current high investment yields (capitalization rates) with good prospects for compression, coupled with ample scope to increase rental income by applying modern asset management approaches, should raise sufficient interest.

With proactive local stimulation, the EU integration process will certainly have a strong positive impact on FDI in Georgia and contribute to economic growth and job creation. Now is the time to start preparing appealing investment packages that will attract a growing number of international investors to this small, but beautiful, “niche” country.

Martijn Kanteris is a real estate strategy consultant and an Associate at TBSC Consulting, Tbilisi. For the past 15 years, he has been working in the real estate industry across Central and Eastern Europe.



might spoil the party. The EU Association Agreement will most likely mark the start of a substantial increase in FDI, particularly from Europe.

The trickling-down effect on the real estate market will be positive, but might still take a while longer to materialize. At this moment, the availability of suitable (institutional) commercial real estate investment product in Georgia is limited to a handful of properties; investors don't have that much to choose from and many

up 23% from the same period last year.

The combination of favorable political-economic developments in Georgia and the expansion of real estate capital markets globally provides all the ingredients for the start of a modern real estate investment market in Georgia. But given the fact that Georgia is still an unknown quantity in the global real estate market, active promotion and marketing will be needed – from the bottom up. The main local stakeholders will need to work together to prepare an appealing package that will attract international real estate investors. The key steps in this process are as follows:

The Future of Europe

Grant Thornton International Business Report explores the mood of businesses as economic recovery takes root in Europe – including the decreasing interest in expanding the European Union.

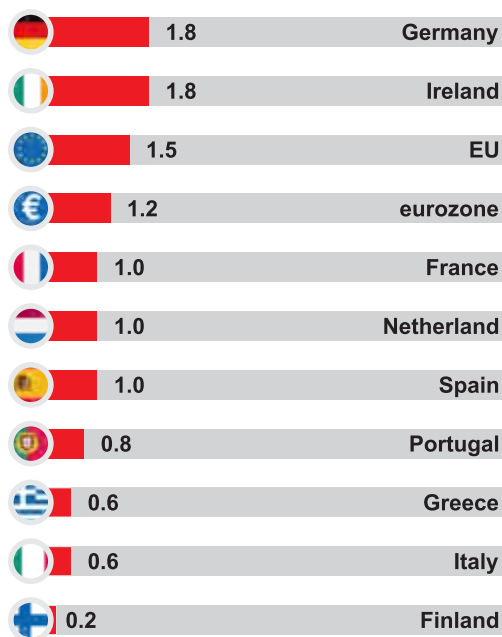
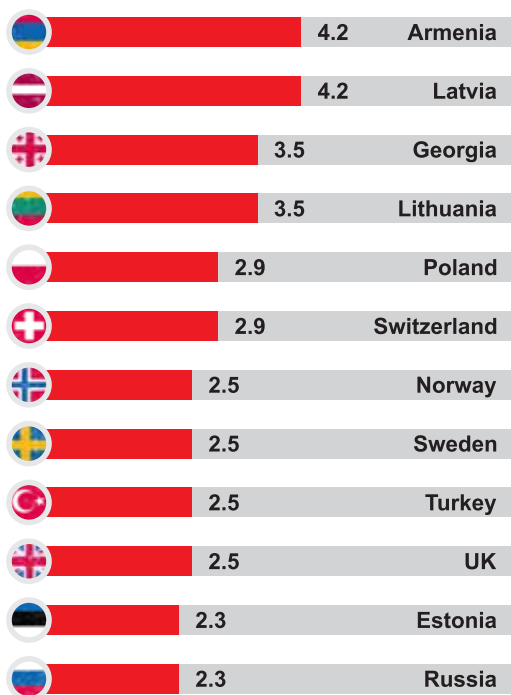
PIKRIA SALIASHVILI

The picture across Europe is much brighter than it was twelve months ago. Business leaders expect increasing returns, decreasing debt level, and increasing recovery. Business optimism across the EU climbed to 39%, up from just 2% this time last year. However, while the support for integration efforts remains solid, support for further EU expansion is waning. Results of last week's EU parliamentary elections further threaten the business growth model.

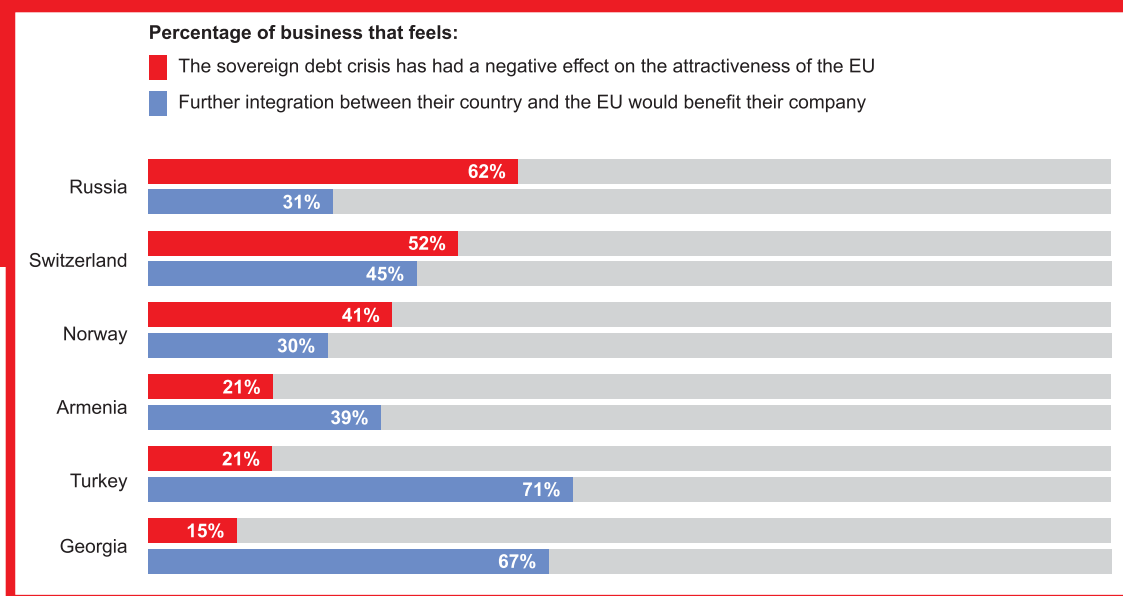
According to the Future of Europe report, published by Grant Thornton International Business Report (IBR), economic recovery has taken root in the European Union. While businesses across the EU remain divided in their support for further integration, they remain cautiously optimistic about the future.

Business optimism is reflected in the growth numbers. While the unemployment numbers remain far from ideal, EU unemployment is expected to move in the right direction, from 10.9% in 2013 to 10.4% by 2015. Additionally, EU is expected

Real GDP growth (%) 2014



Source: European Commission, Economist Intelligence Unit 2014



to grow by 1.5% in 2014 and by 2.0% in 2015. For some countries, even modest gains represent an important achievement. For instance, Greece is expected to grow for the first time since the recession (by 0.6%). This shift is symbolic for the EU, as the 28-member state climbs out of a recession.

The EU is poised to emerge relatively united, but skeptical of expansion. The vast majority of businesses in the Eurozone remain committed to the euro. However, while more than 90% of businesses support the single currency, a strong majority oppose expansion. Interestingly, business leaders in non-EU countries see decreasing benefits for joining the EU. Only 41% say integration would help their business, down from 62% in 2012. Multiple reasons can be responsible for this decrease. For one, the sovereign debt crisis could have dampened the attractiveness of the EU model. While reticent to expand, the EU is willing to consolidate. Inside the Eurozone, a vast majority of business leaders continue to support further economic integration of member states; 62% are in favor. However, figures differ across Europe. Except Estonia, most of

the Baltic and Nordic states voice strong approval. On the other hand, France and Germany, the driving forces behind the EU project, have become increasingly skeptical of further European integration.

Post-World War II, in an effort to integrate the European economy, France and Germany established the European Coal and Steel Community. More than sixty years later, the two countries have shifted from being the biggest supporters of integration to being two of the principal skeptics. Only 55% of business leaders in Germany are in favor of economic integration, down from 76% this time last year. In France, support decreased by 12 percentage points to 57%. The loss of faith in two of the largest EU economies could have significant implications for future economic perspectives of the EU.

French and German businesses have divergent experiences of euro membership. In recent years, different levels of economic performances have led to a marked split in support for the single currency. In 2012, as high as 71% of French businesses agreed that euro membership had been positive. This year, only 58% held positive views of the euro. Views of their German counterparts have remained

consistent at 86% for the past two years. Differing economic performance levels have shaped how France and Germany expect to grow.

Political considerations pose an obstacle to European integration efforts. Geopolitical and energy insecurity as well as nationalist sentiment raise concerns for European stability and unity. More recently, anti-European parties made significant gains in European Parliamentary elections. How the anti-establishment parties affect concrete policy outcomes is unclear. In any case, the surge in populist support across the EU has the potential to influence business expectations. The first-place finish of far-right National Front (FN) party in France is indicative of a growing trend of decreasing business support. Several anti-EU parties have championed

Despite recent developments that indicate a level of uncertainty in Europe, growth potential remains solid. As both business confidence and growth indicators remain on the rise, markets are likely to remain optimistic. As Europe's economic recovery is still fragile, it is important that optimistic business expectations are translated into meaningful growth.

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EATING FROM A CAN:

THE FACTS ABOUT PROCESSED FOOD IN GEORGIA

MARTA FERRER LUBECK

Food is an integral part of our lives, yet in many countries the food we eat is becoming increasingly unhealthy. The fast pace of modern life often means we work more and have less time to cook homemade, healthy meals. In the United States, as much as 70% of the food people eat is processed. These are food products that contain additives and chemicals to make them last longer and enhance their flavor. A large percentage of products in the supermarket are processed, just as fast food is highly processed. While processed food can be very palatable, numerous reports point to higher rates of illnesses, such as heart disease, diabetes and other health problems, linked to the consumption of processed food.

WHAT IS HAPPENING IN GEORGIA—IS OUR FOOD HEALTHY?

Food industry experts point to a lack of statistics on processed food in Georgia, but acknowledge the increasing trend of consumption of processed food. Lia Todua, Consumer Rights Protection Coordinator at the Center for Strategic Research and Development in Tbilisi, explains that “20-30 years ago meals were prepared by mothers. Now habits have changed. Many women work and there is less time spent cooking.” The increasing consumption of processed food should be examined, but, according to Todua, there are two problems that must be addressed in the immediate term:

lack of food safety and counterfeiting of products.

“Food produced in Georgia is not safe from a microbiological perspective. Meat preparation is far from European standards, and up to 90% of meat preparation in Georgia does not meet microbiological criteria for proper standards of production,” says Todua. “There are about 40,000 food operators in the country, but many have no proper education about basic hygienic rules, starting with something as elementary as washing hands.” She adds that sanitary inspections were suspended in 2006, and the National Food Agency did not have a mandate to conduct inspections for years. Todua adds that once safety improves, nutritional awareness will follow.

WHAT'S IN A LABEL?

One general rule of thumb in determining the nutritional value of a product is that the more ingredients it contains, the more processed it is. As such, consumers should read the label before buying a product. However, says Todua, counterfeiting of products – and mislabeling – is a problem in Georgia. For example,



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is too costly.**



**Instinct says:
not as costly as
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producers use powdered milk instead of fresh milk. Asked why many producers use powdered milk, Todua explains that “there is not enough natural milk to supply market demand,” and powdered milk is cheaper. There are other products which are also not yet subject to strict labeling rules under Georgian legislation, including sausages which, by the standards used today, could include soy.

The Georgian government is considering legislation that will address problems in the food industry. Kakha Sokhadze, Head of the Food Safety Department at the National Food Agency (NFA), says that new legislation will be introduced in Parliament this year to revise the Food and Safety Code adopted in 2012 in the areas of Food Safety, Veterinary, and Plant Protection. Sokhadze adds that the NFA’s priority is that “both primary and secondary [processed] foods should be safe for consumption.” He emphasizes that the NFA has been very proactive in food control. “If a food product has been shown to have detrimental effects, the food is removed from the market and destroyed.” Sokhadze also points to recent successes in the food market. “HIPPO [an internationally known producer of organic baby food] is now producing raw products using Georgian apples. The final product is sold in Georgia and is also being exported for sale in EU countries.”

Another organization active in the Georgian food industry is Elkana, a Georgian NGO founded in 1994 that fosters the

development of sustainable organic farming and self-reliance of the farming population. Elkana consults with farmers on how a farm can become certified organic. Organic products are particularly healthy because a farm must follow a strict set of standards in order to be certified. Tamaz Dundua is Program Manager at Elkana. When asked about the prevalence of processed food in Georgia, he says that as long as there is demand, producers will continue to make it available. Dundua points to sausage as an example of a popular processed food and says that “it is difficult to find good-quality sausage produced in Georgia.” Milk, sour cream and yogurt, as well as some types of breads, are other processed products sold widely throughout Georgia.

Nevertheless, Dundua is optimistic about Georgian food products.

He says that while there are some exceptions, Georgian products are high quality products. In particular, “people should buy local fruits and vegetables,” says Dundua.

“They have traveled less distance than imported products and are less likely to have been treated with fertilizers and pesticides, chemicals that are expensive for many Georgian farmers.” In addition, there is now at least one Georgian milk producer that is using raw milk for all dairy products it manufactures. Dundua also believes that as the public becomes more educated about the many healthy food alternatives available in Georgia, people will make better choices.

One general rule of thumb in determining the nutritional value of a product is that the more ingredients it contains, the more processed it is.

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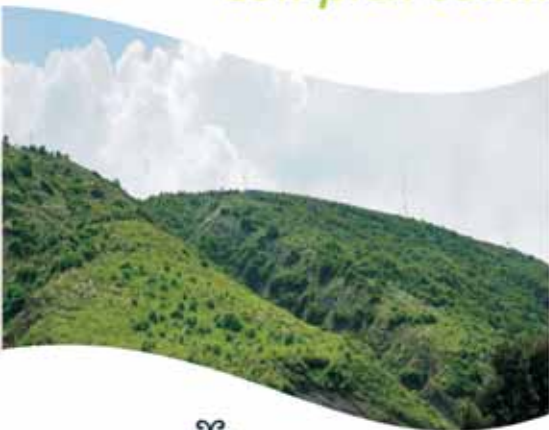
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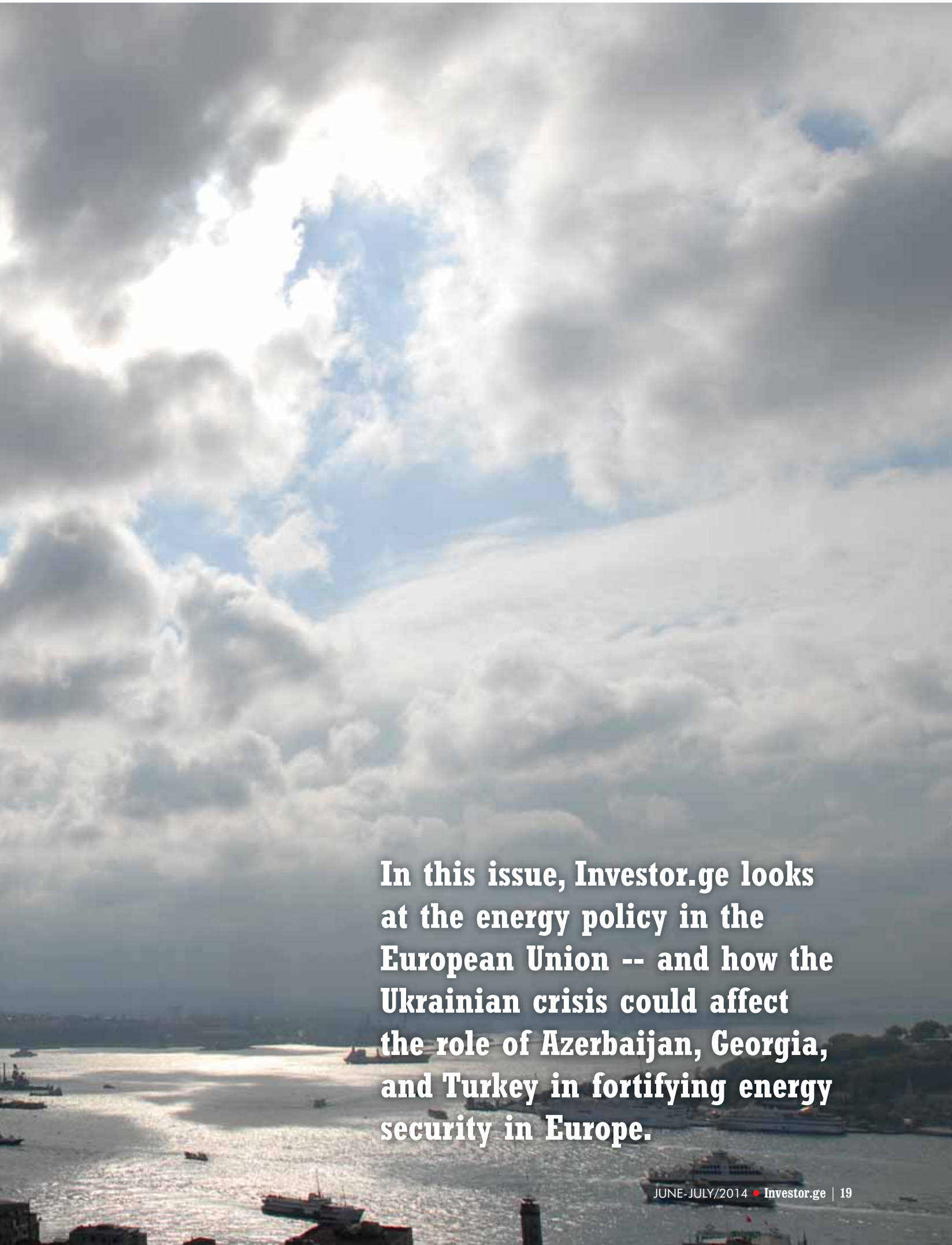
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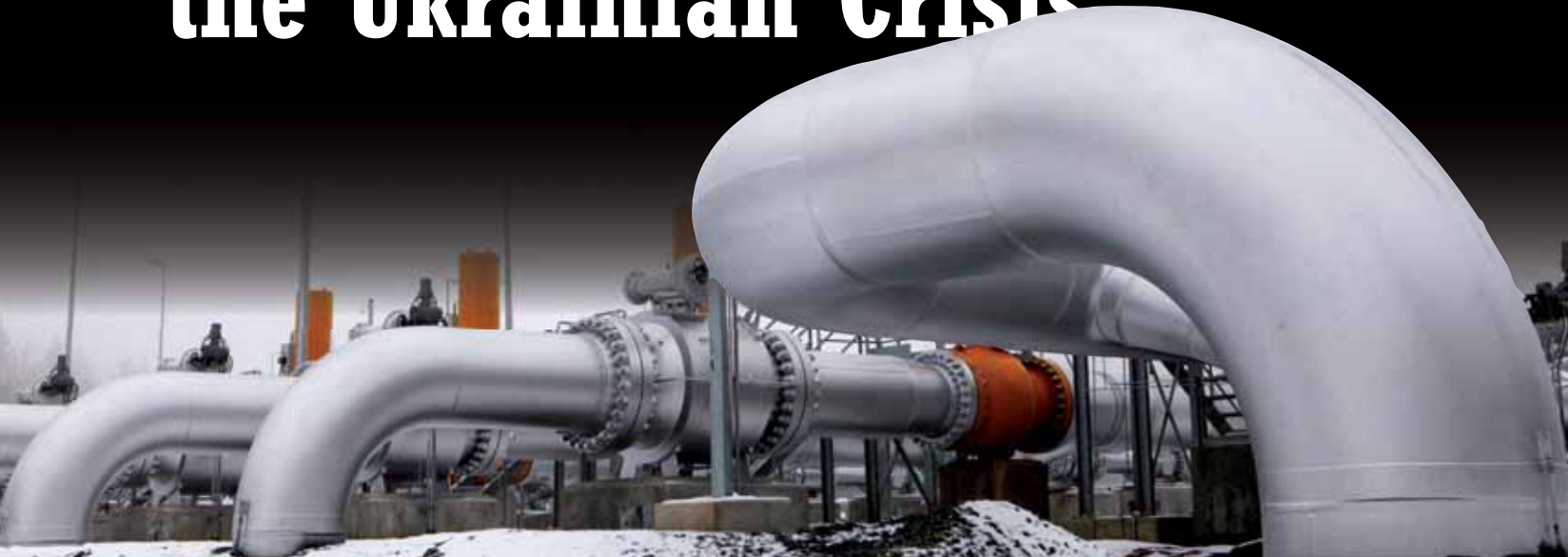
ENERGY SECURITY & THE CAUCASUS

The crisis in Ukraine has underscored one of Europe's biggest vulnerabilities: its gas supply.



In this issue, Investor.ge looks at the energy policy in the European Union -- and how the Ukrainian crisis could affect the role of Azerbaijan, Georgia, and Turkey in fortifying energy security in Europe.

Europe's **Energy Security** after the Ukrainian Crisis



EUROPE'S CURRENT RESPONSE TO THE UKRAINIAN CRISIS CAN BE ATTRIBUTED TO PAST MISTAKES IN ENERGY POLICIES. THE EXPENSIVE DIVERSIFICATION OF ENERGY SOURCES MIGHT TURN OUT TO BE A BARGAIN WHEN ONE CONSIDERS THE COSTS A COUNTRY HAS TO INCUR DUE TO ITS INABILITY TO ACT IN A CRISIS SITUATION.

ENERGY SECURITY

A country can lose a lot more than just money if it does not ensure its energy independence and the stability of its energy sources. The painful case of Ukraine shows how dangerous the lack of control over energy policy can be. Unfortunately, Europe's energy strategy in recent years may have been guided too much by the belief that there is no conflict of interest between Russia and the European Union. Now Europe finds itself with its hands tied in the Ukrainian conflict and will find it difficult to solve the problem of overdependence on Russian gas, because there are no cheap alternatives to the current situation. A slow but sure move toward energy security, however, appears to have begun – if the EU can just maintain the political will required for long-term energy strategies.

JUST HOW MUCH GAS?

The bulk of Europe's energy comes from gas – in 2013, 22 percent of Europe's consumed energy was gas. 30 percent of Europe's gas is provided by Russia. There are some analysts who believe that since Russian gas accounts for just 7 percent of Europe's overall energy consumption, no dependency exists. Ten European countries, however, consume 50 percent of Europe's total Russian gas imports. Plus, gas consumption peaks every winter during the heating season – which makes those particular countries vulnerable to any sudden change in supply from Russia. Europe has already experienced, firsthand, the high cost of its dependency on Russian gas: in 2006 and 2009, Russia temporarily stopped the gas flow in the Ukrainian "Brotherhood" pipeline, effectively undermining Poland's energy supply.

WILL THE EUROPEAN UNION DECREASE THE AMOUNT OF GAS IT IMPORTS FROM RUSSIA?

Some signs certainly point to yes. Since the crisis in Ukraine has begun, Europe has questioned the South Stream pipeline project, which would increase the capacity of Russian gas to reach the European market. On April 17, the European Parliament adopted a non-binding resolution claiming that it "takes the view that the South Stream pipeline should not be built, and that other sources of [gas] supply should be made available." Similar sentiments were also voiced by the UK's Energy and Climate Change Secretary Ed Davey, who commented at the G7 summit: "My discussions with my G7 colleagues have made it clear that we stand together in our resolve to strengthen our energy security and ensure no single power can use control of

energy supplies as a weapon in the future.” However, not everyone is happy to change course. For example, the South Stream pipeline still has some staunch supporters, for example, countries that do not want to pay more for gas from sources other than Russia, like Bulgaria (which will also receive transit fees from the South Stream pipeline).

Ironically, the diversification of European gas imports could also be in Russia’s economic interest since Russia could diversify the importers of its gas – something the country needs, just like Europe needs diverse suppliers. Indeed, Russia signed a deal in May to start exporting gas to China in 2018. The arrangement, rumored to be worth hundreds of billions of dollars, will bring new revenue for Russia from a relatively untapped market.

THE ROAD TO ENERGY INDEPENDENCE

European energy security can come from several sources, but first European politicians have to realize that energy policy is something that requires long-term strategic planning. The energy supply must be immune to political turmoil.

A SLOW BUT SURE MOVE TOWARD ENERGY SECURITY, HOWEVER, APPEARS TO HAVE BEGUN – IF THE EU CAN JUST MAINTAIN THE POLITICAL WILL REQUIRED FOR LONG-TERM ENERGY STRATEGIES.

The only way to achieve that immunity is ensuring diverse sources of diverse types of energy. For instance, Polish Prime Minister Donald Tusk has proposed to increase the use of coal, an energy resource that has been losing popularity in the EU. Also, some European countries, notably the UK and Poland, have actively tried to develop their shale gas assets. Europe’s investment into renewable energy sources and the integration of countries into a flexible international grid are other propositions, albeit very time-consuming and expensive ones.

Using Azerbaijani and Kazakh oil and gas could be of pivotal importance and their incorporation into Europe’s energy market could be achieved in the relatively short term. However, this is only a good idea if those sources would be independent from Russian influence.

Georgia could play a crucial role in that project by becoming an important transit country. In effect, such a plan would also guarantee Georgia’s independence, since it would have a strategic part to play in European energy policy. Finally, there are 22 liquefied natural gas (LNG) terminals in Europe currently, with more under construction in

Poland and Croatia. They are capable of importing LNG from as far away as the United States and Qatar and stand ready to do so, if the issues of the shortage of cheap LNG on the market and the limited number of liquefying facilities can be resolved.

Only by implementing several strategies at once – strategies that would facilitate cooperation on the international level between the EU member states and their allies – can the long-term energy security of Europe be guaranteed in the future.





Shah Deniz platform, Caspian Sea. Image courtesy BP AGT Region Photo library



TURKEY: A REGIONAL WILDCARD FOR ENERGY SECURITY

WITH THE UKRAINE CRISIS THREATENING THE SUPPLY OF ENERGY TO EUROPE, ANALYSTS SAY THAT THERE HAS BEEN RENEWED FOCUS ON THE SO-CALLED SOUTHERN ENERGY CORRIDOR — AN ALTERNATIVE ROUTE WITH GEORGIA AT ITS CENTER THAT CARRIES AS MUCH PROMISE AS IT DOES POLITICAL COMPLICATIONS.

NICHOLAS CLAYTON

Turkey has long been a wildcard in the negotiations to bring European consumers an alternative to Russian gas because the most bankable pipeline projects would run through its territory, but its own regional ambitions have slowed the process. That may be beginning to change.

Michael Cecire, an associate scholar at the Foreign Policy Research Institute, said that earlier negotiations over the past 10 years stalled as a result of a Turkish policy of "convergence" with Russia. Earlier, Ankara and Moscow held foreign policies that were "strongly complementary" and fit with both countries' ambitions to be regional powers outside of the European fold, he said.

Today, he said, there is "a much stronger realization that Russia is less of a partner and more of a geopolitical competitor to Turkey."

In June 2012, Turkey and Azerbaijan signed an agreement to build the TANAP pipeline, which will connect to the South Caucasus Pipeline at the Turkish-Georgian border and will run the length of the Anatolian peninsula. Although it will primarily serve Azeri gas to Turkish customers in the beginning, its capacity can be increased to up to 23 billion cubic meters (bcm) per year by 2023, providing a large supply at the doorsteps of Europe.

Vugar Bayramov, chairman of the Center for Economic and Social Development in Baku, said that in light of the Ukraine crisis, work is already being done to accelerate the development of the Trans Adriatic Pipeline (TAP), which would connect to TANAP and transit gas further to Italy via Greece and Albania.

Nonetheless, recent events haven't removed all stumbling blocks in future negotiations with Ankara, said Emre Iseri, an associate professor of international relations at Yasar University in Izmir, Turkey.

"Turkey would like to dictate the terms of the energy trade and receive a better share out of its critical energy geopolitical position," he said.

Getting the best deal from Turkey's perspective means getting to keep as much of the gas that it will be transiting as possible.

Although the Southern Energy Corridor is widely seen as a project to reduce Western Europe's dependency on Russian gas, it is often forgotten that Turkey also relies on Russian natural gas imports for more than 50 percent of its own domestic consumption, Iseri said. And, unlike Europe, where overall energy consumption is dropping, Turkey has a fast-developing economy with energy demands that are skyrocketing 7-8 percent annually.

Turkey is particularly dependent on natural gas because it produces very little of its own and uses about 48 percent of its overall supply to power electrical grids in the country. Globally, the average usage of natural gas for electricity is about 21 percent, Iseri said.

With demand outpacing new supplies for Turkey, the cost of energy has become a growing threat to its economy. In the first quarter of 2014, Turkey had the highest consumer energy prices among the 34 countries of the Organization for Economic Co-operation and Development (OECD), with an index of prices 16% higher than the OECD average.

Despite the seriousness of its energy situation, Iseri said that the country has continued to bargain hard in the ongoing pipeline negotiations as it "aims to upgrade its status from a sole transit route to a regional energy center," he said.

Bayramov said that the main players in the Southern Energy Corridor discussion — Baku, Brussels and Ankara — are now nearing an agreement

Turkey would like to dictate the terms of the energy trade and receive a better share out of its critical energy geopolitical position.

that would give Turkey the right to keep about one-third of all gas that would pass through its territory en route to Europe.

However, the Southern Energy Corridor's hurdles don't stop at Turkey.

The second stage of development of Azerbaijan's Shah Deniz energy field is expected to provide about 16 bcm of natural gas for export, most of which is expected to be sent westward through the TANAP pipeline. But, this supply alone will not be enough to make a significant impact in the European energy market. In order for the Southern Energy Corridor to become "active," its backers will need to find significant additional supplies upstream from the Middle East or Caspian regions, Bayramov said.

Beyond Turkey, most of the available untapped natural gas supply lies in Turkmenistan, Iran and Iraq, all of which present their own unique challenges.

According to the U.S. Energy Information Administration, Turkmenistan has the 6th largest natural gas reserves in the world with about 7.5 trillion cubic meters

of proven reserves — most of it untapped. However, because it is very sensitive to Russian influence, analysts say it would only risk its relationship with Moscow if it could sign a very large and logistically difficult export deal with Western partners. Such a deal has never been close at hand.

Meanwhile, Iraq's internal politics and Iran's external politics each make a significant energy deal difficult for Europe.

Where that dynamic may be beginning to change is in Iraq, where Turkey again has been key. In November, Turkey inked a \$60 billion-dollar oil and gas deal with officials from the Kurdistan Regional Government in northern Iraq. The deal will resume the import of Kurdish oil into Turkey with a target of 1 million barrels per day in 2015 and as much as 20 bcm of gas may be imported annually, with transit starting as soon as 2017 through a yet-to-be-built pipeline. Much of these resources will be destined for re-export to European markets.

Baghdad, however, has challenged the constitutionality of these arrangements

and disputes over revenue-sharing and political control continue.

Although many questions still surround the Southern Energy Corridor, the developments to date have nonetheless strengthened Georgia's position as a key transit country and a partner in an emerging regional bloc. Last month, the presidents of Turkey, Georgia and Azerbaijan held a summit in Tbilisi to deepen strategic cooperation in energy, defense and politics.

Cecire said that although energy pipelines have formed the "spine" of the three countries' cooperation to date, the completion of the Baku-Tbilisi-Kars railway in 2015 will take their relations to the next level.

"[I]nitiatives are already underway to match the opening of the BTK with a trilateral economic space to match it — to better facilitate the movement of goods and people throughout the region. Of course, economic trilateralism reinforces, and is reinforced by, political trilateralism, which continues to make gains at the highest levels of the three governments," he said.

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Energy Transportation: The Future of Georgian Ports

Georgia has been developing its ports, including Poti Port and Supsa Port along the Black Sea coastline.

RÉGIS GENTÉ, TBILISI

When I met the Kazakh ambassador in Georgia, Yermukhamet Yertisbayev, he started our conversation by quoting Napoleon: “The policies of all powers are inherent in their geography.” Then, this former very close adviser to President Nursultan-Nazarbayev started to describe the routes through which his huge country should rely to export its hydrocarbon production: “Russia is our partner number one, and then it is China, then the Persian Gulf, through Turkmenistan, then the Caucasus. Caucasus is the fourth direction for us, which is very important as Kazakhstan needs to

GEORGIA IS WORKING HARD TO BUILD ITS BRAND AS AN ENERGY TRANSPORTATION HUB THROUGH THE CAUCASUS. THE COUNTRY OFFERS REGIONAL PRODUCERS AN INTERESTING POSSIBILITY TO DIVERSIFY EXPORTATION ROUTES, BUT COMPETITION IN THE REGION IS HIGH.

diversify its exportation routes and get access to the sea.”

Being the “fourth direction” for such a big oil country as Kazakhstan,

which aims to join the world’s top 10 crude producers within the decade, is no small feat. The Caspian area reserves are significant and the region is considered by top experts, for example the U.S. Geological Survey (USGS), as a one of the “priority basins around the world.” The U.S. Energy Information Administration (EIA) “estimates 48 billion barrels of oil and 292 trillion cubic feet of natural gas in proved and probable reserves in the Caspian basins.”

What does this mean for Georgia? It means that Georgia indeed has huge potential as an energy transit country. It means also that it has to fight because other alternative routes already exist.

Despite government changes in Tbil-

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si, the energy transportation policy remains the same—inherently tied to Georgian geography. “Georgia is a very tiny market. It can be only a transit country,” noted Mariam Valishvili, a deputy minister of energy of Georgia appointed under the previous administration. That means, over the past several years, Tbilisi has worked a lot to build energy transport infrastructure that allows the country move quickly on projects with regional producers as quickly as possible. “We’re out of commercial deals, but what we can do is create favorable conditions for those projects and be a reliable and stable country,” Valishvili added.

Georgia’s top priority, since the mid-1990s, is to be a perfect partner in the South Caucasus transportation corridor. That corridor includes two oil pipelines (the Baku-Tbilisi-Ceyhan (BTC) pipeline, with a current throughput capacity of 1.2 million barrels per day, and the Baku-Supsa pipeline, also known as the Western Route Export Pipeline or WREP, with a capacity of 100,000 barrels per day) and a natural gas pipeline, the Baku-Tbilisi-Erzurum (25 billion cubic meters per year of potential capacity after the expansion). For crude oil, the Georgian transport capacity through pipelines is around 57 million tons per year. In 2013, only 38 million tons were actually transported through Georgia, however. From this, 8-9 million tons were carried by the Georgian railway system and delivered to the Batumi and the Kulevi ports: half of that volume was crude oil, while the other half was oil products. Another 8-9

million tons of Georgian ports’ shipments are dry cargoes.

The ports’ capacities are currently underutilized. The Batumi port, which is completely owned by KazTransOil (an affiliated company of the National Company of Kazakhstan), currently has a yearly capacity of 12 megatons (Mt). The Kulevi port, owned and operated by the Black Sea Terminal Ltd. – a subsidiary of the Socar (State Oil Company of Azerbaijan Republic) – can handle 10 Mt per year.

And one shouldn’t forget the Poti port and its 2 Mt yearly capacity. Mamuka Bakhtadze, the General Director of the Georgian Railway company, says that the capacity of the Batumi and Kulevi ports, which are transshipping crude oil and oil products, “could be easily and quickly doubled.”

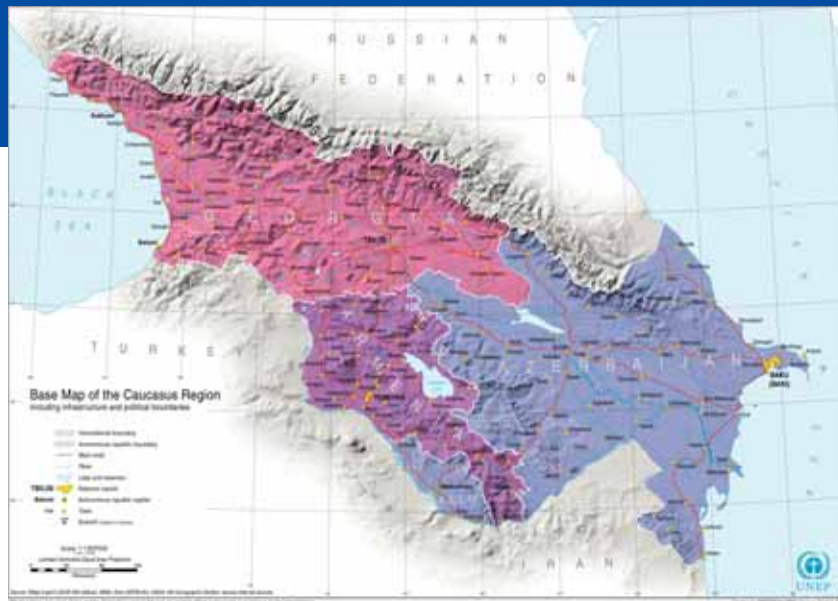
How does one explain this untapped capacity at Georgian ports? Partly, it is due to the recent decrease of the volumes going through Georgia. For example, there are roughly two times fewer shipments of oil, oil products and liquefied gas going through Batumi Oil Ter-

minal now than in 2006, an effect of Kazakhstan becoming a member of the Russia-Kazakhstan-Belarus Customs Union 2010. But another reason for this untapped capacity is the Georgian authorities’ chosen strategy: “We needed to get infrastructures

ready. We do believe that in the future there will be an increase in oil products production in Azerbaijan and in Central Asian Republics. We need to be ready to transport them if we want to get the contracts,” says Bakhtadze.

Tbilisi is certainly betting on the future, both for geopolitical and commercial reasons. But it raises questions. For oil, for example, “the BTC is underutilized, and will be the greatest export route of Azerbaijani oil and condensate in the future. Baku-Supsa is also underutilized; its throughput has been closer to only 80,000 b/d in recent years.

The partners are expected to continue using this route for the foreseeable future. This is likely to continue through the term of the ACG (Azeri-Chirag-Guneshli) contract, though volumes will decline as production falls,” remarks Nick Gellatly, Head of Caspian upstream research at Wood Mackenzie. Does that



Georgia's ports play an important role in transit but the country also has the potential to produce energy.

**It means that Georgia indeed has huge potential as an energy transit country.
It means also that it has to fight because other alternative routes already exist.**

mean Georgia has built too much energy transportation infrastructure?

THE ROLE OF GEOPOLITICS

Geopolitics plays a big role. If Georgia becomes an important chain link in world energy markets, the rest of the world, especially the West, will presumably work to protect Georgia from its unfriendly Russian neighbor. That's also why the current government is continuing former president Mikheil Saakashvili's project to build a new port in Anaklia. Feasibility and business studies are underway. This new deep water port, which could require \$6 billion in investments, could be dedicated mostly to top dry cargo "but also potentially to LNG [liquefied natural gas]. I think that within three to five years, there will be LNG projects in the region," says Valishvili.

Tbilisi's bet depends on several industrial projects in the region, whose republics are invested in doing more than just producing raw materials. "We think that within five years, up to nine million tons of petrochemical and oil products will be manufactured and will have to be transported through Georgia and its ports," says Bakhtadze. Azerbaijan, through Socar, is building a urea plant in Kulevi, while Azmeco last year commissioned the Karadagh Methanol Plant in Baku with a capacity of more than 65 metric tons per year. Turkmenistan has several ongoing projects, including a

second refinery plant near Turkmenbashi port to manufacture plastic or methanol. Kazakhstan also has such industrial ambitions, aiming to produce Vacuum Gas Oil (VGO) and fuel oil. Kazakhstan could rely more and more on Georgia and the Caucasus to export its hydrocarbons, especially when Kashagan starts to deliver part of its huge oil reserves, once Kazakhstan overcomes the current technical problems associated with that oilfield.

Georgia seems to be on the right track to offer to the Central Asian Republics and Azerbaijan a really attractive alternative route. "The recent consolidation of the rail market through the acquisition of the Georgia Transit company by Georgia Railways has provided further clarity to oil shippers," Wood Mackenzie's Gellatly underscored. Some obstacles have also been removed on the Azerbaijani side, asserts Bakhtadze: "The railway corridor was not fully open, being unfairly used by private companies. But, at the beginning of 2013, there were negotiations at a very high level between Georgians, Kazakhs and Azerbaijanis. A coordination committee was established. Azerbaijan understood that it was in its interest to strengthen our corridor." In recent years, indeed, many in the energy transportation sector were complaining that "the railway shipment, and maritime transport for Kazakh oil, were operated by Azerbaijani companies like Azersun Holding, with links to state officials

and the ruling elite. These operators have murky ownership structures and help President Aliyev gain support from powerful business interests.

One could say that this railway route serves the purpose of pleasing the interests of domestic Azeri oligarchs who get to benefit from these kinds of projects," says Farid Guliyev, a doctoral candidate in political science at Jacobs University Bremen, Germany.

If indeed those obstacles are at least partially left as stumbling blocks, Georgia has more leverage to be a genuine competitor in the great region around the Caspian basin. "Much depends now on the developments on the other side of the Caspian Sea. Because, for the Western side, given the dwindling oil reserves in the Azerbaijani sector, most efforts are now concentrated on natural gas projects, the second phase of Shah Deniz deposit and the gas pipe going to European markets. If a trans-Caspian pipeline is ever going to be constructed, then it will make financial sense to increase the role of the Georgian ports. Recent developments show that it does not seem to be a key priority for any of the relevant players. Kazakhstan today is China's eighth-largest crude supplier," observes Guliyev.

REGIONAL COMPETITION

Russia is also a competitor in terms of energy transit. "For example, TCO (Tengizchevroil), the operator of the Tengiz field, has exported volumes via Batumi and more recently via Kulevi. These volumes are likely to be reduced, or potentially cease in the future, as the Caspian Pipeline Consortium (CPC) pipeline is expanded. This route (from Tengiz to Novorossiysk, on Russia's Black Sea coast) offers the most favorable netback value for Kazakh exporters," asserts Gellatly. The Caucasus is too far away to be, geographically, the first option for most of the oil and gas producers around the Caspian Sea – a reality no one should forget.





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AZERBAIJAN COULD BENEFIT FROM RUSSIA-UKRAINE CRISIS BUT RISKS ARE HIGH

SHAHIN ABBASOV

As the crisis over Russia's actions in Ukraine and Crimea continues, the implications of Moscow's new, bold policy for its near abroad are resonating across the West. For countries in the South Caucasus, that could mean more attention from the US, the European Union and NATO as they seek alternatives to Russian gas – and Russian



THE CONFRONTATION BETWEEN RUSSIA AND UKRAINE OVER CRIMEA HAS CAST A SHADOW OVER STABILITY IN THE FORMER SOVIET UNION, BUT SOME COUNTRIES IN THE REGION – LIKE ENERGY-RICH AZERBAIJAN – COULD EVENTUALLY BENEFIT FROM THE NEW REALITY.

transit links to Afghanistan.

In particular, a shift in the West's strategy in the region could benefit Azerbaijan and its role in US policy in the South Caucasus, political analysts like Vafa Guluzade believe: suspended US-Russia military cooperation could increase Azerbaijan's role in the US's vision for the region since Baku offers the only reliable transit route for NATO troops, personnel, and weaponry leaving Afghanistan.

NEW CRISIS, NEW ROLE FOR AZERBAIJAN

Guluzade, a Baku-based analyst and one-time top foreign policy aide to former president Heydar Aliyev, said that "generally the Ukrainian crisis will have a positive effect on US policy in the post-Soviet region, including the South Caucasus." He

noted that Moscow's aggressive behavior will push Washington to support Georgian and Azerbaijani independence more vigorously.

Jasur Sumarinli, a Baku-based military expert and the head of Doctrine, a military think-tank, also believes that due to the souring relations between Russia and the US, the volume of cargo shipped from Afghanistan via Azerbaijan will increase, as will Azerbaijan's importance in this issue. "Actually, transit through Russian territory was always problematic for NATO. Moscow has been creating problems and this route was considered to be an auxiliary [route] aimed more to attract Russia to ensuring stability in Afghanistan, than actual transit," Sumarinli said.

AN ALTERNATIVE TO RUSSIAN GAS SUPPLIES

It is still uncertain how committed the EU is to shifting its gas consumption away from Russian supplies. But if the political will to wean the EU off Gazprom exists, Azerbaijan offers a viable option.

There are already signs of increased attention to Azerbaijan. In early April, the US Secretary of State John Kerry, whose visit

to Baku and Tbilisi is expected this year, said that "getting more gas from Azerbaijan to Europe is on today's agenda." Kerry added that the US and the EU have a lot of work to do in order to diversify their energy supplies, and supplies from Azerbaijan are the major point of this process.

Based on current plans, Azerbaijan is expected to supply about 10 billion cubic meters of gas from Shah Deniz-2 project to Southern European countries of Greece, Albania and Italy in 2019 when the Trans-Anadolu Pipeline (TANAP) and Trans Adriatic Pipeline (TAP) pipelines are scheduled to go online.

"Actually transit through Russian territory was always problematic for NATO. Moscow has been creating problems and this route was considered to be an auxiliary aimed more to attract Russia to ensuring stability in Afghanistan, than actual transit."

Baku-based energy expert Ilham Shaban said there is no need to wait until 2019 to begin major shipments of gas to Europe from Azerbaijan, however.

"If the EU will finance the construction of a short, 180 km interconnector between the gas distribution networks of Turkey and Bulgaria, which could take few months and would not require a large investment; Azerbaijan could ►►



The Caspian Sea

Russian Levers on Azerbaijan

Unlike its Armenian neighbor, Baku is considerably more secure in its relations with Moscow. There are, however, issues that Russia could exploit if it wants to exert more pressure on Azerbaijan.

1 The Nagorno-Karabakh conflict. Russia enjoys huge influence in areas concerning the conflict – as well as on Armenia – and could provoke new war in Karabakh. Despite Baku's military strength, Azerbaijan could lose a new war due to Moscow's support for Yerevan. However it is unlikely that Moscow will use this lever in the short term because such scenario could pose risks for Moscow itself and its position in the South Caucasus. If the military conflict in Nagorno-Karabakh heats up, Turkey could also interfere, bolstering Azerbaijan's chances. The West is also engaged in conflict settlement over Nagorno-Karabakh so Russia would face a strong backlash if it overplays its hand.

2 The unresolved legal status of the Caspian Sea. Russia could use this factor to justify its military actions in the Caspian Sea against Azerbaijani or Turkmen assets (oil and gas rigs) if Baku and Ashgabat finally agree on a Trans-Caspian pipeline to deliver Turkmen gas to European markets via Azerbaijan. It is a very strong lever, creating concern in both Baku and Ashgabat, so it is unlikely that a decision to build the proposed pipeline will be made anytime soon.

3 Inciting separatism among ethnic minorities (mainly Lezgis) in northern Azerbaijan along the border with Russian Dagestan. Allegedly, Russian security services have a strong influence on these minorities and potentially could provoke a serious conflict in this area. However, Russia will likely avoid this scenario because such a separatist movement could provoke further security troubles for Russia in its own volatile Northern Caucasus region, mainly in Dagestan.

start supplies of up to 2 billion cubic meters of gas to Bulgaria even this year,” he said.

Shaban noted this move would damage Russian Gazprom's interests: Bulgaria is one of four European countries that are 100 percent dependent on Russian gas.

The Shah Deniz-2 deal is not the only possible option for Baku to help the EU ease its dependence on Gazprom. Azerbaijan has also been increasing gas production recently so it could send more gas to Bulgaria and neighboring Romania and Slovakia – and even Ukraine – by reversing the Slovakia-Ukraine gas pipeline.

In addition, pumping Turkmen gas to Europe is only possible via Azerbaijan. Large volumes of Iraqi and, in the future, Iranian gas could potentially be delivered to European markets through a pipeline in Turkey controlled by Azerbaijan as well.

There is also an AGRI (Azerbaijan-Georgia-Romania-Interconnector) project to pump liquefied natural gas (LNG) to Romania and Ukraine. This idea has been largely ignored due to high cost and lack of investors but if priorities shift away from Russian gas, it could play a role in diversifying Europe's energy supplies.

CAUTION IN BAKU

The uptick in relations with the West, however, could come at a cost to Azerbaijan. Like most post-Soviet countries, Azerbaijan is still grappling with a legacy of problems brought about by the breakup of the USSR.

Experts in Baku believe that the government will be careful as it increases cooperation with the West in an effort to avoid confrontation with the Kremlin.

Azerbaijan is less vulnerable to Russian pressure and influence than many other CIS countries, i.e. Armenia (which depends on Russia economically and security-wise – Russian troops are based in Armenia and protect its borders); Ukraine and Kazakhstan (which has a large and organized Russian minority); Kyrgyzstan (which depends on Russian investments and has a Russian military base); Moldova (where Russian troops are based in breakaway Transnistria) and Tajikistan (which also depends on Russia in many areas).

In contrast, Azerbaijan does not have any Russian troops stationed in its territory, its Russian minority is small and largely unorganized, and Baku has limited trade with Russia. The country also does not depend on Russian loans, investment or remittances coming from Azeri nationals working in Russia.

This independence gives Baku a lot more freedom in its domestic and foreign policy – freedom which President Ilham Aliyev is using. For example, after Crimea



In contrast, Azerbaijan does not have any Russian troops stationed in its territory, its Russian minority is small and largely unorganized, and Baku has limited trade with Russia. The country also does not depend on Russian loans, investment or remittances coming from Azeri nationals working in Russia.

pressure on former Soviet republics: Turkmen Foreign Minister Rashit Meredov visited Baku for the first time in years and the State Oil Company of Azerbaijan (SOCAR) President Rovnag Abdullayev traveled to Ashgabat. Israeli Foreign Minister Avigdor Lieberman arrived to Baku in late April while the US Secretary of State John Kerry is said to be planning a trip to both Baku and Tbilisi this year.

was annexed by Russia, Azerbaijan was among three CIS countries (together with Georgia and Moldova) which voted in favor of pro-Ukrainian resolution in the UN.

Also, Aliyev has started very active regional diplomacy – Turkish Prime Minister Erdogan visited Baku at the height of the crisis, followed by the visit of Turkish high-ranking military officials. In addition, Aliyev and then Defense Minister Zakir Hasanov recently visited Iran, reportedly to discuss military cooperation.

Other recent diplomatic activity also points to an increased effort by Baku to build up support as Moscow ramps up



The Dark Side of Closer Azerbaijan-West Relations

Azerbaijan's growing importance for the West could be bad news for local civil society and opposition activists who currently face harsh repressions and government pressure. If Washington and Brussels require more support from President Ilham Aliyev and his government on issues concerning energy and security, they will have fewer levers to push for better human rights and stronger democratic reforms in Azerbaijan.

Elhan Shahinoglu, the head of Atlas, a Baku-based think tank, believes that "the Ilham Aliyev administration would expect compromises from Washington and Brussels on the issues of democracy in Azerbaijan in exchange for support in Afghanistan, transit and gas supplies."

Evidence of the dangers for civil society in Azerbaijan is not hard to find: the recent long prison terms for NIDA youth group's activists; the arrest of prominent Azeri journalist Rauf Mirkadirov; and pressure on the well-known human rights defender Leyla Yunus underscore how vulnerable critics to the Azerbaijani government are. "From what we see before, i.e. the pragmatic position of the West in such issues, the Ukrainian crisis could become bad news for civil society and the opposition in Azerbaijan," Shahinoglu said.



Jumeirah Bilgah Beach Hotel in Baku, one of the many five star hotels that have popped up in the capital since the oil and gas projects started.

Georgia and Ukraine:

How Will the Crisis Affect Investment?

Tourism and wine have been staples of the trade relationship between Georgia and Ukraine for the past several years. While the two countries have been strong partners in the past, the ongoing crisis in Ukraine is raising questions about how business relations between the two will fare this year.

Georgia and Ukraine are more than close political allies – they are strong trade partners. Out of all the CIS states, Ukraine was the second-largest investor in Georgia in 2013 (after Azerbaijan), with businesses and projects worth \$25.4 million in the country.

But the fighting in eastern Ukraine

and its ongoing political crisis will be a setback for trade between the countries, according to Zurab Abashidze, Georgia's official representative on Russian relations.

"Unfortunately, the dramatic events taking place in Ukraine reflect on our trading relations in a negative way," Abashidze was quoted as saying on agenda.ge.

The data from the first quarter of the year underscore those concerns: Russia has overtaken Ukraine as Georgia's third-largest trading partner (with trade worth \$190.3 million) while Ukraine's share of trade has fallen to \$167.9 million.

Nick Piazza, founder and CEO of SP Advisors, told Investor.ge, however, that interest in Georgia continues apace.

"Unfortunately, large Ukrainian corporations have generally been skeptical of making large investments in Georgia just because of the small size of the market there. In most cases they have chosen to just directly import their products from Ukraine to Georgia, as this tends to be more cost efficient," he said in an e-mail interview.

"However, we do see a lot of independently wealthy Ukrainian individuals making small private investments in Georgia; this year our company, SP Advisors, helped Ukrainians launch hotel projects in Batumi and a small farming project in Khakheti."

Piazza noted that one of the biggest boosts to business between the two countries could be Russia's annexation

of Crimea.

"Georgia over the last two years had already been "rediscovered" by Ukrainian tourists, and with the situation in Crimea, which generally sees around 3 million tourists in the summer season (65% of which are from Ukraine), I think it is logical to assume that places like Batumi will reap a solid windfall in new Ukrainian tourists; we are already seeing that flights between Ukraine and Georgia over the May holidays were fully booked," he said.

The Kazantip Republic, a large Eastern European rock festival that

BUT, PIAZZA STRESSED, THERE IS ALSO OPTIMISM THAT UKRAINE COULD USE THIS CRISIS– AND THE PROMISED AID PACKAGES – TO TURN THE ECONOMY AROUND AND IMPROVE ITS INVESTMENT CLIMATE.

used to be held in Crimea, is reportedly moving to Georgia this year – an event that is anticipated to bring thousands of tourists, many from Ukraine.

The Georgian-Ukrainian Business Club, a group of 28 businesses that works to foster ties between the two countries, is working hard to make sure investors – and potential investors – on both sides are aware of new opportunities.

Before the conflict in Ukraine arose, the club's executive director, Olga

All Possible Colors



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Verkhola, and members like Victor Kipiani, a partner in the Mgaloblishvili Kipiani Dzidziguri (MKD) law firm, were actively promoting the possibilities in both economies.

That hasn't changed with the beginning of the conflict: the club continues to highlight trends and opportunities for its members and possible investors on its website and through its monthly report.

While the dip in trade made the report for May, plans for more flights between Ukrainian cities and Batumi were also big news – as was the expectation of more fruit exports to Ukraine.

Kipiani noted that one of the club's main goals is to promote Georgian investment in Ukraine, not just Ukrainian investment in Georgia.

The current trend has been for more Ukrainian investment to flow to Georgia, Piazza said. But that does not mean it will stay that way.

"Georgian investment in Ukraine has been tiny, thus I don't see much change here," he said. "I think the only thing that might be reasonable to expect is that some of the large Georgian diaspora that works in Ukraine might now look to return home as the economy in Ukraine has been on the rocks the last six months."

But, Piazza stressed, there is also optimism that Ukraine could use this crisis – and the promised aid packages – to turn the economy around and improve its investment climate. "We have seen droves of investors visiting Kyiv since March, as sentiment generally seems to be that Ukraine is poised for a big financial rebound. The devaluation of the local currency by over 40% will be a big part of that as Ukraine's two largest components of GDP are wheat and steel exports," he said.

"Ukraine is already receiving about USD 7 billion this month and there are aid packages for about another USD 20 billion lined up for this year. I think much like we saw in Georgia in 2008, while the West was unwilling to support Ukraine military against Russian aggression, it will do its best to put the Ukrainian economy back on its feet following these events."

Building Better Copyright: An Interview with Katerina V. Ossenova

Investor.ge spoke with Katerina V. Ossenova, the attorney-advisor international program manager for the Eastern Europe/Eurasia Commercial Law Development Program at the Office of the General Counsel at the U.S. Department of Commerce, about the U.S. government's efforts to improve copyright law in Georgia and why stronger copyright protection could help the economy.

What was the state of intellectual property rights when you started your project with Sakpatenti [The National Intellectual Property Center of Georgia]? What were the major challenges and what were your primary goals?

The U.S. Department of Commerce Commercial Law Development Program (CLDP) started working with Sakpatenti in 2010. Our initial program with Sakpatenti was focused on the development of electronic filing but in the years since, our partnership has grown to include numerous programs each year on a variety of intellectual property protection and enforcement matters. Five years ago, the fundamental challenge was one of implementation and enforcement – IP legislation in Georgia was for the most part in compliance with international norms and Georgia was a party to all of the major IP-related treaties and organizations. The greatest need was how these laws were being implemented and creating a culture that understands the portance of IP protection and



relationship to stimulating economic growth. Our goal at first was capacity-building programs for Sakpatenti in an effort to ensure it became an effective and transparent institution, able to be the champion for IP protection in Georgia. Since then, our goal has been to assist Sakpatenti to administer its programs encouraging and facilitating the protection and utilization of IP in Georgia.

What was accomplished during the program? How has the situation at Sakpatenti changed due to your project?

Since our work began in 2010, our technical assistance program has helped improve the intellectual property regime in Georgia. Our programs focused on public awareness and IP protection targeting media, journalists, musicians, authors, and other creative artists; enforcement programs for prosecutors, judges, investigative police, and customs officials; and innovation and commercialization programs for academia, scientists, and government officials. We helped raise the understanding not only of Georgia's IP rights and obligations but also the role IP plays in stimulating economic growth and increasing foreign direct investment. Our programs were tailored to IP protection and enforcement issues problematic to Georgia and offered solutions and expertise based on international and U.S. best practices.

Sakpatenti continues to be one of CLDP's most committed and responsive partners both inside and outside of Georgia. While IP challenges remain and there is a need for continued and progressive reform, Sakpatenti is a critical catalyst for change and is willing to work with international organizations and donors to continue on the path of reform.

One of the biggest issues facing Georgia appears to be a lack of

consumer awareness of/interest in intellectual property rights – you can buy the real thing but why would you when a bootlegged version is cheaper? How can that mentality be changed? What steps need to be taken? How far has Georgia come in addressing that issue?



Building a culture of awareness and understanding about the importance of intellectual property and its impact on the economy takes a long time. The issue is difficult to understand when presented in the context of counterfeit goods like fake purses or pirated music and movies. However, counterfeit goods also include medicines, toothpaste, and automobile brakes, or unlicensed software that lacks proper protection and exposes one's computer to hacking and cybercrime. The conversation needs to be presented to include not just "luxury" goods but also goods that can have a fundamental impact on people's health and well-being. The other side of the argument is increased enforcement – increased prosecution of intellectual property infringement cases in order to create a deterrent for people considering buying counterfeit products. The consumer awareness aspect of intellectual property

rights in Georgia, like in many countries in the region, is still one of the greatest challenges today. The ease, cost, and accessibility of purchasing counterfeit and pirated goods, coupled with the lack of enforcement or consequences, makes this one of the hardest impediments to overcome. One of the best ways is for the government of Georgia to serve as a role model for its citizens – by ensuring for example that all government computers are utilizing licensed software.

Another important aspect is the role of collective copyright management in protecting Georgia's rich culture. Adequate enforcement of patents, trademarks, and copyrights are what drives entrepreneurs, authors, and inventors. Without adequate protection of IPR [intellectual property rights], new advances in technology, innovation, and creative works would be discouraged.

How important is the issue of intellectual property rights for Georgia's future trade relations with the U.S. and the EU?

Intellectual property rights are a key element in all trade relations between Georgia and its international trading partners. IPR was a key element of the recent Deep and Comprehensive Free Trade Agreement negotiations with the EU and are discussed in every policy-level trade negotiation with the U.S. U.S. companies considering investment and working in Georgia will want to ensure that IPR are adequately protected and enforced. IPR will continue to impact Georgia's global competitiveness and its investment potential. IPR often take a back seat when countries are dealing with unemployment, and political and fiscal instability. However, IPR must be part of any trade and investment strategy and is a precursor to strong foreign direct investment.

Breaking Georgia's Addiction to Pirated Goods

FOR YEARS, GEORGIAN CONSUMERS HAVE BEEN INUNDATED WITH BLACK MARKET GOODS. NOW, HOWEVER, INTELLECTUAL PROPERTY RIGHT ACTIVISTS, PRIVATE COMPANIES, AND THE GOVERNMENT ARE ADVOCATING FOR CHANGE.

Anyone with an internet connection in Georgia knows a host of computer programs, movies and music are all just a click away – even blockbusters that haven't made it to the Tbilisi movie theaters are available, for free.

A CHANGE IN MENTALITY

But a new push to strengthen copyright protection is underway in Georgia, and artists, authors, advocates and government agencies are all working to break the country's addiction to pirated goods.

It is not an easy task.

For years, Georgians have grown accustomed to not paying – or not paying full price – for nearly everything from music to computer virus protection programs.

Giorgi Oniani, the deputy CEO at Asseco Georgia, the local arm of a global software production and development company, noted that changing Georgians' reliance on pirated computer programs and other goods boils down to changing the mentality in society.

"I would say that this necessitates an important change in the mentality of people and the perception on IP rights. It should be clearly understood that intellectual property rights are no different from property rights on a land or a house and, though being intangible, they are indeed a result of a hard work of a large number of individuals over a lengthy period of time. And this should be paid for."

It is not just foreign artists and producers who are losing income: Georgian ►►

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“It is hard to convince an individual to start paying for using the same software which she is used to use without paying a penny.”

musicians, writers, composers and producers are also losing earnings on their creative property.

The soloist of the band “Vakis Parki,” Zaza Khutsishvili, states that he had been the first musician registered in the Association of the Authors’ Rights of Georgia in 1995 but that didn’t stop the wave of pirated disks from his music.

Copyright advocates like Giga Kobaladze are hoping to change that.

Kobaladze, now the head of the Association of Authors’ Rights of Georgia, has been working to increase the number of members – and the effectiveness of the association. In the beginning of 2012, there were just 536 artists in the association; by the beginning of 2013 there were already 741.

The effectiveness of the association has also increased: over the span of 12 years, from 1999-2011, it collected just 257,000 lari in royalties. In 2012 alone, however, the association collected 239,891 lari.

Part of the association’s work is informing authors and artists about their rights: it publishes a guide outlining authors’ rights, how to protect themselves from violations and how to receive royalties for the use of their intellectual property.

CREATING THE LAWS THAT PROTECT AUTHORS

In addition, the association provides legal assistance for its members when their rights are violated.

Kobaladze noted that the association is working with artists to protect their rights at home and abroad. For instance, a song by Georgian composer and singer Kakha Tsiskaridze – an arrangement of the folk dance “Gandagana” – has been used in trailers without his permission.

While internet sites having a license

on procurement of products pay an honorarium to authors, pirated sites and non-licensed sites create hurdles too high for the association to tackle alone, Kobaladze said, stressing that the government also needs to be involved.

In Georgia, violating intellectual property rights is a crime but stops short on some areas of protection, Kobaladze said – for instance when someone, like a restaurant, profits from the use of unlicensed music.

The government is working on improving the law, however, as Georgia moves toward signing its Association Agreement with the EU, noted Iraki Ghvaladze, the head of the Georgian National Center of Intellectual Property Rights, SakPatenti.

“When we talk about the Agreement on Association with the EU, one of the key requirements after conclusion of the document is to comply with authors’ rights,” he said.

TACKLING PIRACY AND PIRATED SOFTWARE

One of the major pushes is to address the issue of pirated computer software.

“We all know that there is a large black market of software in Georgia. In a daily life you would hardly find a person around you who would not be using unlicensed software in his private or professional life. There are even companies which sell computers with already unlicensed software installed,” Asseco

Georgia’s Oniani said.

“This is a huge problem and something needs to be done with this. And it should be a synergy of private and public sectors. Only through united efforts can we achieve the desired goal,” he said.

Oniani noted that things are improving.

“According to my observation the situation is gradually changing and this, I would say is among other factors conditioned by the fact, that using unlicensed software deprives the user of the support services by the vendor,” he said.

Support services, Oniani added, are becoming more important as users require newer versions of software to improve performance – and also guarantee security from cybercrime.

Ghvaladze noted that there are some sectors – like banking – that only use legal software. In other areas, he said, the government is planning to resolve the problem “centrally” by providing for the legal procurement of software.

“The Georgian government is conducting negotiations with the corporation Microsoft concerning delivery of licensed software,” he said.

Oniani noted that it is a “process” to change consumers’ habits.

“This is a process, a change process – and it always takes time. However, the thing is that once it is started, there is practically no way back,” he said.

“It is hard to convince an individual to start paying for using the same software which she is used to using without paying a penny. I would say it is a matter of culture, ethics, and along with the processes which I mentioned above that are happening around us right now, I believe, this is just a matter of time; and inevitably the culture of paying for software we use will be as habitual for us as we pay for a hamburger we eat.”

HEADLINES OF TAX LEGISLATION

Ministry of Finance of Georgia clarified the transfer pricing rules. According to the current wording of the respective Decree #423 transactions between the related Georgian and foreign companies, as well as transactions between the Georgian and offshore/tax haven registered companies shall be carefully scrutinized. Typical approach is application of the market standards and prices for the similar transactions. The decree is mainly based on the OECD guidelines.

Parliament voted for minimizing the period of possible tax assessments. From 2015 the period of tax assessments conducted by the Revenue Service shall be decreased to 5 years, from 2016 the same period shall be decreased to 4 years and from 2017 to 3 years.

COMPETITION RULES

Competition rules of Georgia have been substantially modified. The law applies to the private parties, public officials and agencies involved in the possible restriction of free trade and competition, deprivation of access to services and commodity markets. The law imposes the criterions and exemptions to be further elaborated in the sub-normative acts. By adopting the massive amendments the legislator intended to align the local regulations with the European standards, considering the specifics of business environment in Georgia.

BLC Law Office shall host the roundtable of interested businesses and professionals within coming weeks to discuss the novelties introduced to the Competition Rules.

NEW MORTGAGE RULES

Civil Code was amended to require mandatory notarization of the mortgage agreements. The notaries shall clarify to the parties the consequences of violating the contracts.

The amendments further limit freedom of parties to impose the interest on loans. Currently the interest rates shall correspond to the annual market average of the financial institutions. The restrictions do not apply to the banks, micro-finance and non-depositary institutions.

NOVELTIES IN ENERGY REGULATIONS

Due to bringing the new 400 KV Borcka-Akhalsikhe transmission line into operation, the Georgian energy laws have been modified to protect investments in this industry and consider the specifics of the Turkish energy regulations. Now the renewable energy plants (including HPPs) built in Georgia since 2010, with the effective long term Transmission and Dispatch Agreements, gain the first priority on access to the capacity in the transmission line. However, the capacity shall be reserved on the "take or pay" basis.

Further amendments relate to the unilateral termination of MoUs by the government of Georgia and claiming the bank guarantees in the events of delays in the construction of the renewable energy plants. The primary drawback of the rule is its unconditional and rigid nature, especially exposing the constructions in the final stages. Delays in commencing the operation of the plant may deprive the investor of the fair recovery of the investment thus hindering the access of the industry players to the project financing.

MOVING ON UP

When City Hall rejected Coop Georgia's request to put 100 collection bins around Tbilisi, Coop Georgia focused on targeting the private sector instead.

HEATHER YUNDT

Wooden swings dangle from tree branches in a small park tucked between buildings in central Tbilisi. Seats made out of tires encircle a tire table topped with a chess board. A wooden bookshelf — now empty — stands nearby. Bottles and plastic bags are strewn on the ground.

The swings, tires, and bookshelf are all new sights in the park, the efforts of local activists to revitalize the space — the trash is not.

“People should take care of this park. You cannot wait for the municipality to clean it every week,” says Nini Pala-

vandishvili of GeoAIR, an artists' organization whose Vacant Tbilisi project aims to map and find new uses for abandoned urban properties.

“Of course you cannot. But if they clean the streets they should be able to,” her colleague Sophia Lapiashvili responds.

“Yes, but this is exactly what I am against,” Palavandishvili says. “People wait for municipalities and governments to do something for them. People should take action.”

Palavandishvili is not alone in her frustration. Members of Georgia's civil society have long struggled to encourage people to become active in their communities. An Asian Development Bank 2011 briefing traces this lack of involvement back to the Soviet period when grassroots citizens' initiatives were seen as a threat to the state's control over society. Though civic engagement increased in the years following the Soviet Union's collapse, the euphoria of the Rose Revolution quickly gave way to widespread disillusionment.

But there are signs of change. In 2013, the CRRC's Caucasus Barometer survey found that 68% of respondents said volunteer work was important to being a good citizen, compared with just 41% in 2011. And despite low levels of formal civic engagement, research funded by IREX has shown that Georgians do

help one another out informally and have respect for community activists.

Nicolas Guibert, an expat from France, decided not to wait for the government to lead change. After moving to Georgia two and a half years ago, Guibert became concerned about the lack of recycling, so he and two other expats formed Coop Georgia, a social enterprise that collects glass, paper, cardboard, and plastic bottles to sell to local factories.



Tamuna Gabisonia's Little Giraffe blog and activities have encouraged parents to become more engaged with their children

When City Hall rejected Coop Georgia's request to put 100 collection bins around Tbilisi, Coop Georgia focused on targeting the private sector instead.

Local support for the project has grown quickly. With the owner's permission, Coop Georgia set up public bins for recyclables in the parking lot of the old

Grassroots efforts to educate and involve Georgian society are having a ripple effect in Tbilisi.

hippodrome, and since the beginning of the year, more than 50 restaurants — mostly managed by Georgians — and even the Sheraton Hotel have agreed to sort their waste. Coop Georgia now has three Georgian staff members and plans to expand its service to schools. Though 25 schools have already signed up, the team is currently looking for a sponsor to cover the cost of the waste containers.

Guibert describes Coop Georgia's

the ground after a picnic."

"If we manage to change the mindset of the city, and they decide to go for waste separation, our business would be dead, but it would be a success."

Georgians do seem to be taking civic activism more seriously.

Tamuna Gabisonia had her first child while studying in the United States six years ago. Without family to go to for information about childrearing, she

turned to the internet. When she returned to Georgia, she realized she knew more about the topic than most of her friends and family.

"I realized that parents don't have any information here, and many of course don't know English and cannot access what is available in English on the internet."

To respond to this need, Gabisonia created a blog called Little Giraffe where she posts articles in Georgian tackling tough subjects from gender stereotypes in fairytales to psychological abuse. She quickly saw the impact of her work. Thank-you letters, questions from parents, and Facebook "likes"

soon turned into media requests. Then, recently, she was invited to help develop Georgia's kindergarten curriculum.

Still, she says the older generation often doesn't understand why she's putting effort into Little Giraffe when she doesn't get anything in return.

"They say, 'Are you going to get

money from this?' I say, 'No, but my child will have a better society to live in.'"

Boris Kiknadze has a theory about how to motivate people to get involved: achieve something.

Just 23 years old, Kiknadze recently started up an organization called We Help, which uses crowdfunding to help Georgians pay for prohibitively expensive medical treatments.

Kiknadze and his fellow volunteers post photos, videos, and the medical documents of those in need to encourage people to donate. Of the 20 people placed on the site so far, four have now fully recovered.

Kiknadze is now using his experience to inspire other youth.

"I think the motivation [to create change] comes from the individuals who have already achieved some results. They see that I and my friends started with nothing, but we achieved results."

As word of We Help spreads, the organization is gaining support. A group of staff members at the Radisson Hotel have even committed to contributing 1% of their paychecks to the cause.

"It's a small donation, but it gives the feeling of contribution, the feeling of involvement, and that's what's most important," Kiknadze says.

He's convinced that attitudes toward volunteerism, charity, and activism in Georgia are changing.

"I see many motivated, very passionate people who want to change things. I truly believe that those who are doing amazing stuff now can change the approach to volunteerism," he says.

"If [We Help] can save one person, that's already a huge achievement. Not only for me, for our team, but for society itself, because the culture will change as society learns that people can save someone's life."



activities as somewhere between business and activism.

"It's not only about separating waste," he says. "It has a much wider impact on respect for our public places. When you learn about separating your paper and glass at home, for sure you will not be the person leaving your waste on



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AMCHAM MEMBERS MEET TWO CANDIDATES FOR Tbilisi Mayor



AMCHAM MEETS DAVIT NARMANIA GD'S MAYORAL CANDIDATE

AmCham hosted its first meeting with the Georgian Dream's mayoral candidate Davit Narmania on May 8 within the frames of AmCham's "Meet the Tbilisi Mayoral Candidates," meeting for members. In his address, Narmania highlighted the main aspects of his campaign program, stressing that one of his main goals will be to ensure sustainable development and an environment where all businesses will have equal access to resources in the city. He also spoke about the importance of public-private partnership, modernization of the public procurement system, comprehensive city development strategy, increasing the effectiveness of the government, simplified administrative processes, budget transparency and many others. According to Narmania, his campaign program is not going to be a static document, but rather a dynamic one where feedback from business associations will be more than welcomed.

The discussion that followed his speech was very engaging during which Narmania answered many questions from AmCham members related to major projects, zoning, waste management and green space regulations.



AMCHAM MEETS NIKOLOZ MELIA, UNM'S MAYORAL CANDIDATE

On May 30, the second meeting of AmCham "Meet the Tbilisi Mayoral Candidates" series took place at Radisson Blu Iveria hotel where AmCham membership met the UNM mayoral candidate Nika Melia.

During his speech, Melia highlighted main aspects of his campaign program, emphasizing infrastructure related issues that the city is facing, including parking, too many cars, public transportation not adapted to people with disabilities and many others. He also emphasized his plans to make transportation affordable and conformable by purchasing 100 buses, reducing the transportation fee, and expanding free fare-card program for socially vulnerable populations.

He expounded on the new project to reduce energy consumption with installation of solar power systems on the rooftops of apartment buildings. This program was piloted in Temka, resulting in 30 percent cut in energy consumption by households in the winter time and zero expense in the summer time.

The meeting was followed by an engaging question-and answer-session during which Melia answered questions from members on diverse issues.



Dr. Alexander Rondeli: Putin looking to “fill the gap” between EU and China

Political scientist Dr. Alexander Rondeli told AmCham members Georgia must be wary of Russian soft power and influence as the crisis in Ukraine unfolds, during the monthly roundtable discussion at the Tbilisi Marriott on May 1.

Rondeli, the president of the Georgian Foundation For Strategic and International Studies, spoke about Russian President Vladimir Putin’s Eurasian Union plans and his strategy for former Soviet countries during the meeting. He stressed the geopolitical significance of Georgia and the complicated relations in the region, noting that Putin still views former Soviet republics like Georgia as an integral part of Russia’s future as a major international power.

In other news, Chateau Mukhrani announced it will host a clean up day in Mukhrani on May 16. For more information, please contact the AmCham office. AmCham’s Vice President Michael Cowgill also announced five new members during the meeting.

SHAH DENIZ 2 TO CREATE 2000 JOBS

AmCham members participated in a very interesting and candid meeting about ongoing developments in Georgia, Ukraine and the region with Deputy Chief of Mission Bridget Brink, US Embassy in Georgia, and William Lahue, the head of the NATO Liaison Office in Georgia, at the AmCham roundtable meeting on April 10 at the Radisson Blu Iveria Hotel. The meeting was attended by more than 70 AmCham member company representatives who engaged in a very lively discussion with the speakers.

The meeting was concluded by a presentation of Chris Schlueter, the head of country at BP Georgia, who spoke about the South Caucasus Pipeline expansion project that was launched in Georgia in February 2014. This project will bring additional gas supply to Georgia, will provide jobs to 2000 people at its peak and create a total of approximately 125 longer-term jobs in the country. Furthermore, the estimated capital expenditures in Georgia will total \$2 billion, making it the largest ever FDI project in the country.

The expansion of the South Caucasus Pipeline is part of the Shah Deniz Full Field Development project.

This project, involving Azerbaijan, Georgia, Turkey, Greece, Albania and Italy is expected to be fully operational by 2017.

IRI: National Perceptions in Georgia

US Ambassador Richard Norland spoke with members in a frank and engaging discussion about political and economic developments during the monthly members’ luncheon on May 14. He was followed by Andrea Keerbs, the country director of the International Republican Institute (IRI), who gave an in depth presentation to members on the latest IRI national survey of national perceptions in Georgia. The survey documents opinions of Georgians on matters such as the economy, issues of personal concern, and perceptions of the direction of the

Government, as well as many other topics.

AmCham President Sarah Williamson also provided members with an important update on the Chamber’s current initiatives and advocacy efforts, including Revenue Service issues, foreign ownership of agricultural land legislation, tourism, postal regulations, a new AmCham youth program, a CSR initiative and other important work. The meeting was followed by an engaging Q&A session and awarding of Hilton Batumi, a newly joined Corporate A member, with a membership certificate.

AMCHAM CLT COMMITTEE AND PRESIDENT MEET THE HEAD OF THE REVENUE SERVICE AND HIS TEAM

On May 28, AmCham hosted a two hour meeting with the Revenue Service as a follow-on to the meeting held a month ago where AmCham and the Revenue Service agreed to cooperate on issues of importance to AmCham members. Thank you to all the member companies that relayed their points to the CLT committee. At this meeting,

members of the CLT committee spoke about several issues: long delays in audit and dispute resolution process, problems with suspended audits, transfer pricing regulatory issues, the new corporate income tax forms, ATA regulations, frozen accounts and liens and other important issues to the attention of the Revenue Service.



AMCHAM TALKS AGRICULTURE LAND ISSUES AND TAXES

The AmCham Commercial Law and Tax (CLT) Committee met on Thursday, May 29 to discuss upcoming important issues. An overview of the most recent working draft on Ag Land usage was reviewed. Committee members consolidated their opinion that a) existing titles, regardless of foreign participation, should be valid and no restrictions on transfer of shares should be imposed; and b) shares transfers of companies that have met any imposed requirements should not be restricted.

WISSOL RECEIVES

\$65 MILLION LOAN FROM EBRD

On June 6, the EBRD and Wissol signed a loan agreement for an investment in an alternative to petrol.

The \$65 million loan is divided into two parts – an “A” loan of up to \$40 million for the EBRD’s own account and a “B” loan of up to \$25 million to be syndicated to the Dutch development bank FMO, the EBRD said in a press release.

“This is the first corporate-sector syndication in Georgia with a local private partner and an international bank,” the EBRD stated.

“The syndicated loan will support the ambitious investment program of Wissol, which aims to open up to 38 new CNG filling stations that will use advanced equipment. The program will also improve the infrastructure of the company’s existing stations, providing CNG along with other fuels and using modern energy efficiency technologies, thus helping the Wissol stations to meet higher environmental standards. Wissol has benefited from an energy audit funded by the European Union Neighbourhood Investment Facility (EU NIF) under the “Energy Efficiency Programme for the Corporate Sector.”

AMCHAM SUPPORTS WINGS FOR LIFE

On May 4, 35,397 people in 32 different countries around the world took part in the first -ever Wings for Life World Run with Lemawork Ketema of Ethiopia winning the global men's race and Elise Selvikvåg Molvik of Norway taking the win in the women's competition.

Local winners in Georgia were Marielle Carmagnolle - 25.34 kilometers and Anatoli Oleinikovi - 52.65 kilometers.

Minister of Sports and Youth of Georgia and other officials; Irakli Machkhaneli (Georgian National Rugby Team Captain) and other famous rugby players; basketball player Vladimir Boisa; footballer Achi Arveladze, the whole national Judoteam and other Wings of Life World Run ambassadors came to Kakheti to participate in the run.

Various Georgian celebrities like TV personalities Samory Balde, Nika Grigolia, Davit Katsarava, Ketikhatishvili and Giorgi Bakradze also came to Kakheti and ran with hundreds of other participants.

Afterwards, the celebration of the run moved to the stage where five of the most popular Georgian music bands performed.





British American Tobacco: A winner at the 9th annual Golden Brand Awards

BAT Georgia received 2 outstanding Golden Brand Awards of Best CSR Company (education) and Best Employer of 2013 at “Golden Brand 2013” 9th award ceremony on April 29, 2014 at Sheraton Metekhi Palace in Tbilisi, Georgia. This is top-notch event, which is driven by the Georgia-based international newspaper, Financial, and the internationally-recognized media and marketing company Global Idea. The ceremony was supported by International Chamber of Commerce and Georgian Chamber of Commerce and Industry.

Competition was tough, as more than 250 local and multinational companies expressed interest for participation. About 100 independent experts and economists were evaluating brands and trademark awareness based on market analysis (collecting and analyzing information); market coverage strategy (positioning on the market); and field research (consumer interviews). Based on the collected information, representatives from Global Idea, Financial, and Georgian Chamber of Commerce and Industry and International Chamber of Commerce named the winner companies.

This was the first time British American Tobacco participated in the award ceremony. BAT competed in two categories: Best SCR Company (education) and Best Employer. BAT Georgia submitted SCR report of basic activities

in 2013 such as clothing, toy and second-hand laptop donations to orphanages, participations in different charity sports activities, hosting lunches for elderly people, tree planting projects, and other small and medium projects. But the basic trigger for getting this award was CCA Area-driven Scholarship Project, which funded thirteen masters-level students were funded. The judges were impressed with the way the project was accomplished through the close partnership of the government and the private sector.

Feedback from the Minister of Finance and Heads of Legal and Finance Committees of the Parliament, as well as presidents of business associations, were taken into account.

BAT Georgia has also provided brief statistics on its work and employment environment, reports on job fair participation, information on trainings and staff development, etc. which convinced a group of experts to make their favorable final judgment.

Participation in and winning the Golden Brand Award ceremony is very important for the BAT because the event has been held now for nine years and awareness of and trust in the nominations is very high in society and public sector, as well as among business and private stakeholders.

The local media's coverage of the event and of the winners was through and positive.





**CORPORATE A
COLLIERS
INTERNATIONAL
GEORGIA LLC**

Colliers offers comprehensive services to investors, property owners, tenants and developers worldwide. Main directions of the company services are: real estate development service, corporate brokerage, real estate market research, consulting and valuation. Company offers global knowledge and local experience to the Georgian real estate corporate market. Colliers is represented throughout 64 countries including Tbilisi, Georgia. Annual transaction value exceeds 71 milliard US dollars. Central headquarters are located in Seattle, WA, USA

www.colliers.com



**CORPORATE A
HILTON BATUMI**

Hilton Batumi, an international 5 stars property in Batumi opens in September 2014. As a part of the Hilton brand the hotel seeks to play a leadership role in hospitality industry, providing outstanding quality of service, offering supreme accommodation and guest experience as well as meeting and conference services.

www.hilton.com



**CORPORATE B
MIRA-GROUP**

Mira-Group is involved in Tourism since 2009. It operates a brand Hotel River Side Tbilisi - an official four star hotel with unique Georgian architecture, located in Old Tbilisi district. Accredited by CESO, awarded by ISAQ (Genève 2013) and Tripadvisor Inc. the hotel aims to become even better, working constantly to provide highest service available. This is one of the few hotels in Georgia who received certificate of excellence of Tripadvisor.com.

In February 2014, the company has opened the first Tiffany Bar in Georgia, with beautiful décor, atmosphere and attitude.

www.riverside.ge



**CORPORATE B
LLC INTERCONTINENTAL**

With the slogan “We provide quality” Intercontinental LLC since its foundation 23 years ago is providing quality to Georgian tourists focusing only on high class products and services. As a result, starting from year 2007, Intercontinental is nominated as Golden Brand in tourism field. In 2013 Intercontinental has gone international with its first branch in Cairo, Egypt and within only one year followed branches in Kazakhstan, Armenia and Iran. Future plans are oriented on further penetration of new markets throughout the world.

www.intercontinental.ge



CORPORATE B NATIONAL CENTER OF DISPUTE RESOLUTIONS

A mission of the National Center for Dispute Resolution is to establish Alternative Dispute Resolution system and provide full range of ADR services in Georgia. Working closely with the Government and the Parliament of Georgia the center will be assisting them in establishing quality ADR system through offering its expertise and assistance in creation of a code of ethics for mediators, code of conduct and procedures of mediation and etc. The center also provides educational and training programs for individuals, organizations and government parties in all fields of ADR, Facilitative and evaluative mediation, transformative mediation, neutral case evaluation, settlement conference, neutral expert fact finding, special master, facilitation, negotiation, discovery referee, project neutral and dispute review board services. National Center for Dispute Resolution (NCDR) offers select seminars, trainings, workshops and external educational programs that aid organizations and individuals in developing, mastering and improving their dispute resolution skills.

www.ncdr.ge



CORPORATE B SAYALI LTD.

Sayali Ltd. is investing in construction of the hospital that will be managed by the American Hospital Management Company (www.americanhospitalmanagement.com) and will be using funds from the Overseas Private Investment Company (www.opic.gov). Both companies are US based, former being private while latter is government body. Sayali Ltd. has signed an investment agreement with the Ministry of Economy and Sustainable Development of Georgia by which it has contractual obligation to construct and develop hospital in Tbilisi.

www.sayali.ge



CORPORATE B TBILISI VIEW LTD.

Tbilisi View Ltd. has been operating on the Georgian market of real estate construction since 2010. Development and construction of residential complexes on a turnkey basis is the main activity of the Company, which covers all complex of construction and fine finishing works as well as post-construction utility services provision for the completed projects. Today the company's projects are located in Tbilisi. The company implements modern technologies in development and construction of real estate as well as in optimization of business processes at all stages of property development. Tbilisi View Ltd. provides Georgians with the modern qualitative dwelling that meets all international norms of construction and provides our clients with the new quality of life.

www.tbilisiview.ge

On June 7, Betsy's Hotel celebrated its 20th anniversary with a hotel full of guests both old and new, as well the local community who have supported us since 1994. Over the past two decades, Betsy's Hotel has become a landmark in Tbilisi – a home away from home for tourists and business travelers; a meeting place for expats and locals alike. Thank you for your patronage and support for these past 20 years – and we look forward to celebrating the next 20 years together!







On 3rd of June, the Honorary Consul of Portugal in Georgia, Kakha Sharabidze, hosted a reception on the occasion of the National Day of The Republic of Portugal and the official inauguration of the Portuguese Honorary Consulate in Tbilisi. The reception was attended by Diplomatic Corps accredited in Georgia, members of the government of Georgia, consular representatives and representatives of the business sector.



On the 24th and 25th of May, foreign ambassadors to Georgia traveled to Georgia's Samtskhe-Javakheti region as part of a special tour for the diplomatic community that was organized by the Georgian Foreign Ministry and the National Tourism Agency with the help of the Ministry of Culture and Monument Protection.





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