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AMCHAM A MAGAZINE OF THE AMERICAN CHAMBER OF COMMERCE IN GEORGIA

ISSUE 32 APRIL-MAY 2013

Is Agriculture Ripe For Business?

"A Non-Aggressive, Fair Approach Towards Taxpayers"

Sataphliasaurus, Georgia's Dinosaur

Investment 2013

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Special thanks to the AmCham Editorial Board and the AmCham staff, as well as to JumpStart, World Bank, the Sheraton hotels, Rustavi Steel, and everyone else who made this issue possible.

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Investor.ge is printed by CEZANNE

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Amendments in Georgian Tax Code – A Positive Step

In December 2012 the Parliament of Georgia adopted changes to the Georgian Tax Code, mostly focused on developing small and medium businesses.

LEVAN KOKAIA

A series of changes to the tax law will make it easier for businesses to handle fines and penalties.

One of the most positive decisions was giving the government of Georgia, instead of the prime minister, the power to make a tax agreement with businesses. This change helps to institutionalize the process, making decisions regarding tax agreements more straightforward and logical.

Another important change was made to Chapter 25 of the Tax Code, concerning payment of tax debt: if the debt is disputed, no payment is necessary until a final decision is made.

In addition, the new amendments included a regulation to postpone the payment of the tax debt by three years (instead of one year), based on a decision by the Head of the Tax Department, if there is a guarantee, such as a warrant letter or bank guarantee. This change gives small and medium businesses more motivation to improve and increase their position in their market.

Reduced tax fines including reducing the minimal penalty to 50 lari, down from 200 lari, and reducing the penalty for not using a cash machine from 500 lari to 200 lari with a warning at a first offense. Other changes include a 500 lari fine for operating without invoices, instead of 1000 lari, for the first offense.

Investment in Brief

AVTANDIL CHEDIA

New Malls for Tbilisi

Radio "Kommersant" reported that Grato Center City is set to open in Tbilisi. The $1.5 million complex was funded by local investments. In addition, East Point, the city's first outdoor mall, is slated to open in 2014 on the Kakheti Highway, according to a report in Georgia Today. East Point, a $50 million project, is being developed by London-based Quadrum Property Group's Georgian subsidiary CBD Development.

Georgian Wine Company Receives $2 million Loan from OPIC

Wine producer Teliani Valley has received $2 million from the US Overseas Private Investment Corporation (OPIC) as a second tranche of an $8 million loan. The financing will be used to develop processing equipment, purchase new vineyards and increase export, hvino.com reported.

French Master of Wine Creates Georgian Wine Label

Isabelle Legeron, the Travel Channel journalist who hosted a series on Georgian wine last year, is introducing her own version of Georgia's traditional kvevri wine, Lagvini, in London this year..Legeron is the first French female Master of Wine, as well as Travel Channel journalist and host.

WPP Enters Georgia

The world's largest marketing communications company WPP is coming to Georgia. Its local partners will be "Pro Media" and "Spot Media" which were created in 2011. WPP operates in 110 countries, and employs more than 165 000 people. In 2012, and for the second time, WPP was recognized as Best Company of the Year at Cannes Lion international Creative Festival.

2012 Enterprise Turnover 11 Billion Lari

According to the National Statistics Office of Georgia, in the IV quarter of 2012, the total turnover of enterprises was 11 billion GEL, and the total production release was 5.8 billion GEL.

"Tata Group" to Invest in Georgia

India's Tata Group may invest in a hydroelectric power project in Georgia after meetings with the Georgian Prime Minister Bidzina Ivanishvili, in Davos, Switzerland. Businessweek.com reported the project is estimated to cost more than $600 million and the proposed plant will have up to a 400 megawatt capacity.

Azerbaijan Allocates Over $430 million

Azerbaijan has assigned a loan of $775 million for the construction of the Georgian section of the Baku-Tbilisi- Kars railway project. To date, the State Oil Fund of Azerbaijan (SOFAZ) has allocated $431.3 million towards construction of the railway, according to a statement posted on the official website of the Fund.

EU to allocate 40 million Euros to Georgia

The European Union plans to allocate 40 million Euros towards the financial support of Georgia. The financial agreement was signed on March 13 at the State Chancellery between the Minister of State in European and Euro-Atlantic Integration Alex Petriashvili and Head of the EU Delegation to Georgia Philip Dimitrov.

GRAVITY DEFYING TECHNOLOGY BY CASTROL MAGNATEC

Scientific experiments proved that Castrol Magnatec provides up to 15 times smoother engine surfaces compared to other motor oils. Intelligent molecules of the Castrol Magnatec are attracted to critical parts of the engine from the moment you turn the key, providing five times more protection for the engine and a 1.7 decibels quieter operation.

A pioneer of lubricant technology in the world Castrol has unveiled the results of research, which shows that Castrol Magnatec reduces the engine wear significantly. Scientific experiments have proved that the use of Castrol Magnatec provided up to 15 times smoother surfaces, compared to surfaces lubricated with other brands.

HIGH PROTECTION FROM THE MOMENT YOU TURN THE KEY

Emphasizing 20 years of development that involved many scientists from technology centers of Castrol around the worldto create the smart molecule technology of Castrol Magnatec, the **Marketing Manager of Castrol Aslı Yetkin Karagül** explained the difference of the unique formula of Castrol Magnatec:

"According to the research the amount of abrasion that occurs in a period of 12 hours in the engines of the cars in Europe only, is equal to the weight of an automobile. 75 percent of this abrasion occurs during the period from the starting the engine to its warm up. Working on this problem of abrasion for long years, Castrol managed to stand out by developing the smart molecules in Castrol Magnatec. The smart molecules cling to the engine parts like a magnet from the moment it starts and protect it up to 5 times more and provide up to 15 times smoother engine surfaces. The standard engine oils cannot resist gravity and are forced into the oil pan, while the Smart Molecules of Castrol Magnatec cling to the critical parts and continue to defy gravity even after 100 years."

The Smart Molecules of Castrol Magnatec protect the engines of the cars that have been using other oil brands from the first day the oil is changed. The smart molecules prevent the further abrasion of the engine and the parts that were worn out previously.

THE AIM IS TO RAISE CONSUMER AWARENESS

The Castrol Magnatec has taken its place in stores with a new container and design. Thanks to the icon placed on the container, the smoothness exhibited by the engine tests can be seen with the naked eye and felt by touching, without the need for complex equipments. The abrasion that takes place in an engine that uses and does not use Magnatec can be compared through sensation.

Indicating that they support raising consumer awareness about the engine wear with the new embossed tag used on container of Castrol Magnatec, "With the innovations we introduce, we aim at both strengthening the position of our brand in the market and helping our customers to become aware of the serious problems that the engine wear may cause by allowing them to touch and feel," said **Karagül**. "The leadership of Castrol in the sector does not solely arise from its ability to offer high technology products, but at the same time from the innovative solutions and suggestions that we bring regarding the products and services in our sector."

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ISET

Financial Literacy in Georgia

"Everybody wants it. Nobody understands it. Money is the great taboo. People just won't talk about it. And that is what leads you to subprime. Take the greed and the financial misrepresentation out of it, and the root of this crisis is massive levels of financial illiteracy."

John Bryant

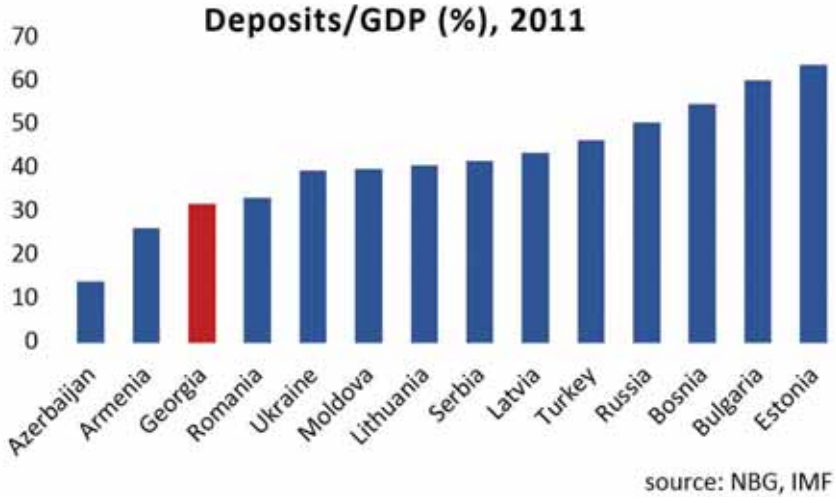
MAYA GRIGOLIA

Does Georgia have a well-developed financial sector? Certainly, the proliferation of bank branches and automated teller machines in the capital city of Tbilisi might suggest that it does. And yet the data indicates that for a country of its size, Georgia has a relatively small financial sector. One of the measures used to approximate financial development or the financial depth of the economy is deposits to GDP ratio. According to the IMF data, this ratio in Georgia is equal to 30,8 percent (in 2011)- one of the lowest indicators among the economies at similar stages of development. What might be the reasons behind the low levels of financial development? Here, I will focus on just one aspect and a possible determinant of the financial depth – financial literacy.

Financial literacy means financial awareness and knowledge. Not only the knowledge of financial products, institutions and concepts, but also financial skills, such as the ability to calculate compound interest payments; and, more generally, financial capability in terms of money management and financial planning. This type of knowledge can create faith in financial institutions and thus increase financial activity, lending support to economic growth and development.

In addition, low levels of literacy in the use of computer technology affect financial awareness, and imply high costs to commercial banks, as they affect the use of various banking services, in particular internet banking. A heavy reliance on traditional ways of conducting transactions with banks contributes to high costs of financing, which can also drive the interest rate up.

Financial literacy programs are fast becoming a key ingredient in financial policy reform worldwide. How is financial literacy measured? Usually via surveys which ask questions about compound interest, real interest rates and risk diversification. The ISET Policy Institute conducted a financial literacy survey using internationally established methodology (March, 2013). The table below presents the proportion of correct answers to the survey questions in Georgia, including a comparison set of benchmark countries.



The comparable surveys find that financial literacy is low everywhere, though still lower in the low-income countries. ISET-PI found that 71 percent of respondents in Georgia correctly answered the question about the interest rate and money accumulation. Less than half (46 percent) understand how inflation affects the return on deposits with fixed nominal interest rate.

In response to the third question, Georgia exhibits the lowest correct answer response rate among the lower-middle income countries. The question asked the respondents whether they knew about the risk differences between bonds and non-bond financial assets (such as stocks). Yet the low correct response rate is to be expected in a country where the stock exchange market is undeveloped.

The cross-country surveys found that the quality of responses varies demographically. Women have lower levels of financial literacy almost everywhere. In Georgia, the share of correct answers for women is less than that for men. Moreover, women are more likely to say that they don't know the answer. The gender gap in financial literacy is of particular concern, as women are also more likely than men to become economically vulnerable due to longer life spans, shorter work experiences, and other economic and social factors.

The Georgian survey finds that financial literacy is higher for adults in the middle of their life cycle and tends to be lower among younger and older people. Thus, financial literacy follows an inverted-U shape with respect to age. This illustrates the effect of knowledge accumulation over time, which tends to decay as people age.

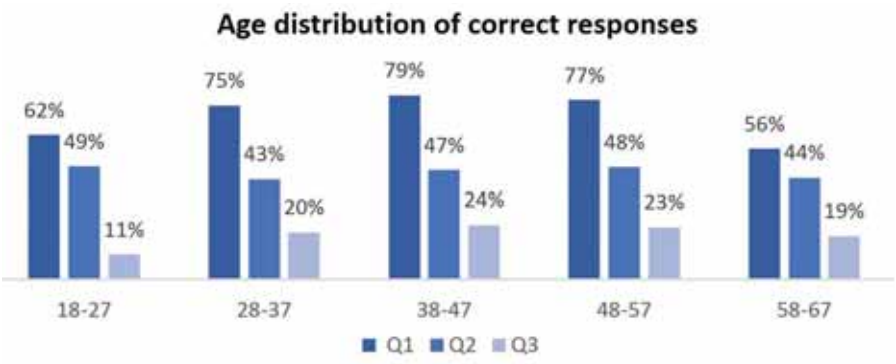
Generally, people with lower education attainment are less likely to answer questions correctly. The difference is very pronounced in Georgia. Also, respondents with secondary education are more likely to report the "do not know" option.

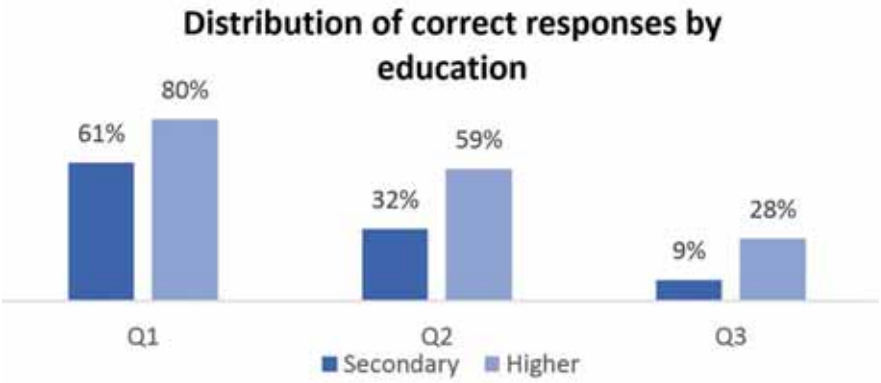
The final demographic characteristic of the survey is the regional distribution of correct answers. The country surveys indicate strong regional disparities in financial literacy, particularly between the capital city and other areas of the country. This likely mirrors the differences in access to finance, and the differences are especially prominent in developing countries. However, in Georgia regional disparities seem to be less pronounced. This is likely due to the fact that the education levels of the overall population are still comparable across different regions in Georgia

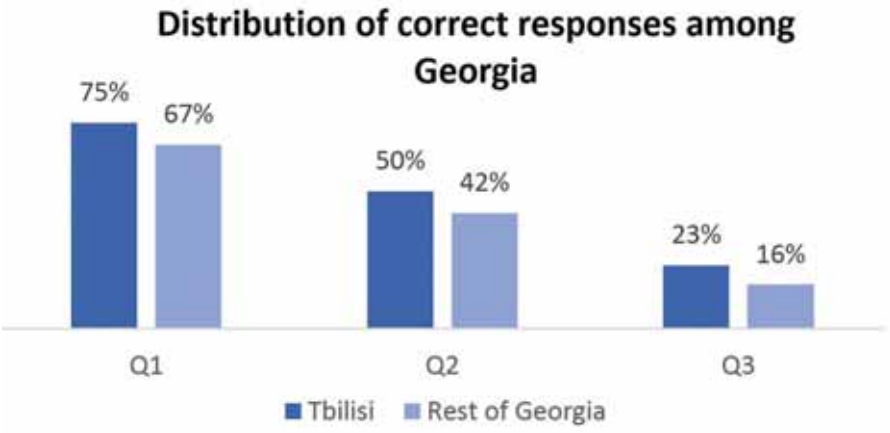
The Georgia survey found that out ▸▸

Country (Year of Survey)	Q1. Compound Interest	Q2. Inflation	Q3. Risk Diversification
High Income			
United States (2009)	65%	64%	52%
Italy (2006)	40%	60%	45%
Germany (2009)	82%	78%	62%
Sweden (2010)	35%	60%	68%
Japan (2010	71%	59%	40%
New Zealand (2009)	86%	81%	27%
Netherlands (2010)	85%	77%	52%
Upper-middle-income			
Russia (2009)	36%	51%	13%
Romania (2010)	24%	43%	--
Azerbaijan (2009)	46%	46%	--
Chile (2006)	2%	26%	46%
Lower-middle-income			
Georgia (2013)	**71%**	**46%**	**19%**
Indonesia (2007)	78%	61%	28%
India (2006)	59%	25%	31%
West Bank & Gaza (2011)	51%	64%	--

Source: country level data







of 161 respondents, only 18 percent had made a savings deposit in a bank during the last 12 months. Among the "bank savers", 76 percent have higher education, while the rest only completed secondary education. The result is hardly surprising, considering a positive correlation between incomes and the level of education. Among the respondents who did deposit money in a bank in the last 12 months, 83 percent, 69 percent and 31 percent correctly answered Q1, Q2, and Q3 respectively. This can be interpreted as initial evidence for the relationship between financial literacy and the likelihood of saving in financial institutions, although more research needs to be done to control for other factors that may influence both the financial literacy and the likelihood of bank savings.

In addition, 54 percent of Georgian respondents reported taking out loans during the last 12 months. Among the borrowers, the correct response rates were 69 percent, 44 percent, and 13 percent for Q1, Q2, and Q3 respectively (the correct response rates being lower than for deposit makers). This can again reflect the fact that people in need of loans have lower incomes and possibly lower levels of education.

The result however, gives reason for concern, as low levels of financial literacy are generally associated with higher credit risk. This is further evidenced by the US experience, where the financial crisis of 2008 has been blamed in part on low levels of financial literacy, especially among households who defaulted on their mortgages.

In light of this evidence, it may not be too early to start a discussion on the need to promote financial awareness among the general population in Georgia. Especially since a possible side benefit of such education could be a stronger, healthier, more efficient financial system.

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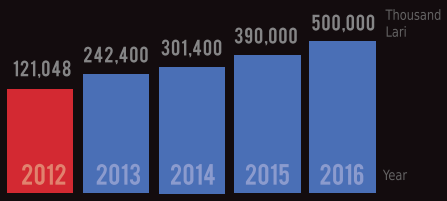
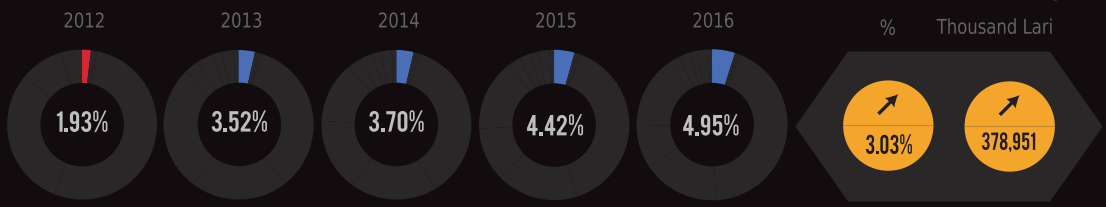
2012-2016 GEORGIAN BUDGET FOR AGRICULTURE

From 2012 to 2016 the Agriculture budget will increase by 379 million Lari.

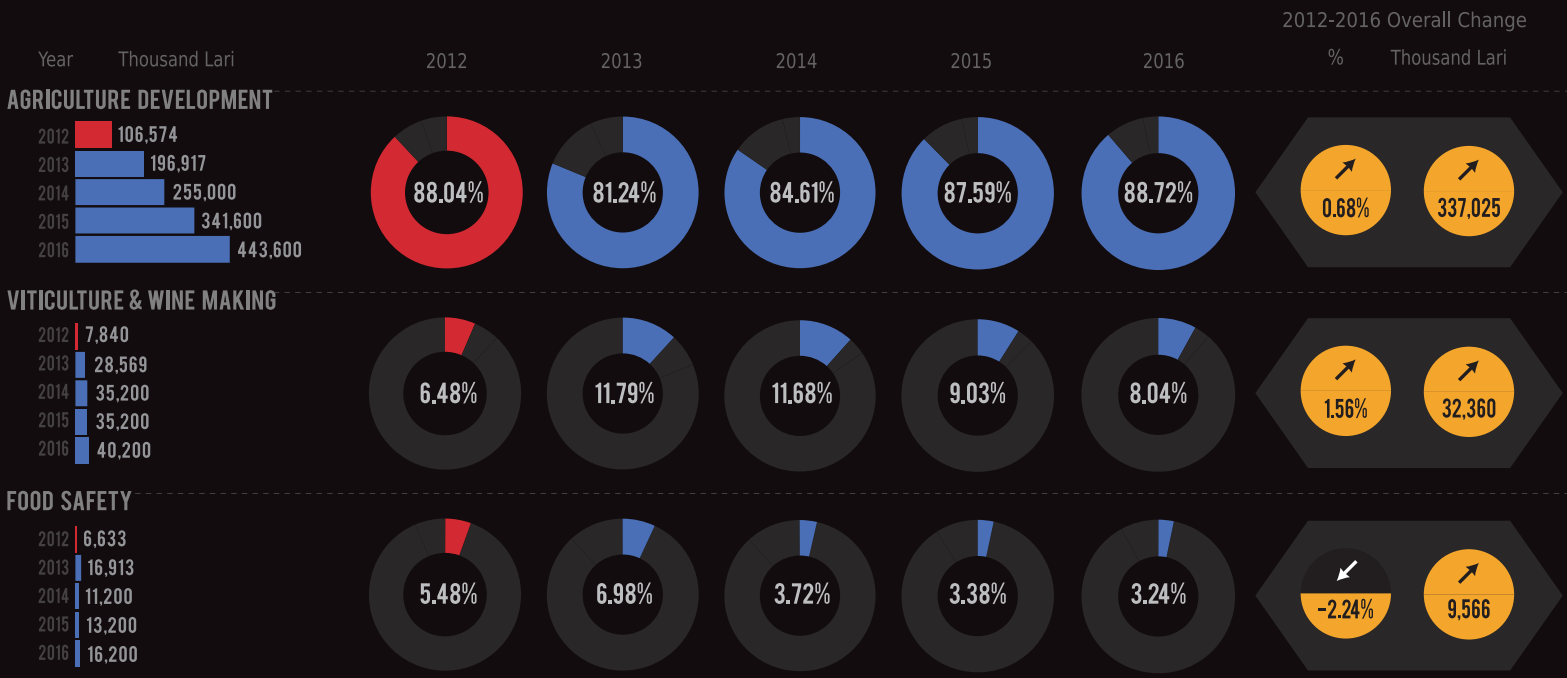
All programs will increase in funds. Two programs will increase in its overall percent of the Agriculture budget.

AGRICULTURE'S PORTION OF GEORGIAN BUDGET





3 PROGRAMS



Source: EXPECTED OUTCOME AND INDICATORS OF PROGRAMS COVERED UNDER THE BUDGET (2012 Budget Annex), 2011
EXPECTED OUTCOME AND INDICATORS OF PROGRAMS COVERED UNDER THE BUDGET (2013-2016), 2012

United National Movement
Georgian Dream Coalition

http://feradi.info/en/visualizations/2012-2016-georgian-budget-for-agriculture

JumpStart Ge

Is Agriculture Ripe For Business?

"No efforts spared" said Bidzina Ivanishvili during a meeting with farmers in Marneuli on March 21st. Reviving Georgia's agriculture was one of the Prime Minister's key pre-election promises, and the new government seems determined to stick to that promise. Highly fragmented land, unproductive farms, run-down infrastructure and an over-dependence on imports will soon be a memory of the past, according to the new minister of agriculture, Davit Kirvalidze.

MONICA ELLENA

Agriculture was not always the country's black sheep. Georgia was a leading agricultural region of the USSR: output grew by 10 percent a year as recently as the 1980s. But the break-up of the Soviet Union sent the sector into freefall. In the early 1990s, agriculture made up 45 percent of Georgia's GDP; in 2011 it was 8.8 percent (FAO data). Between 1997 and 2007, real agriculture GDP registered negative growth, -9 percent between 2003 and 2007.

"This drop is a result of the mistakes that were in the policy, not really the fault of the producers and businesses," Agriculture Minister Davit Kirvalidze explains. "We need to get the sector back on track, but we cannot simply wave a magic wand. We need to create a system touching everyone that does business in this field. The resources we need are enormous, both human and financial."

The government is beefing up those financial resources. The 2013 state budget gave the Minister of Agriculture 241 million lari to spend, 61 percent higher than the 2012 funding. The government is also setting up an additional Agriculture and Rural Development Fund.

Everything is a Priority

The whole sector sorely needs reform: "Everything is a priority," Kirvalidze underlined. The goal, he said, is to make agriculture not only productive, but also competitive.

Georgia imports almost 70 percent of the food it needs, a paradox considering that "Georgia has all kinds of necessary ▸▸

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preconditions in terms of soil, weather, and topography," he noted. Still, since 2003 production has fallen dramatically, scoring just 29 points on the FAO (the UN Food and Agriculture agency) index, one of the worst out of the 199 countries surveyed, Kirvalidze said.

The minister thinks that creating efficient value chains from farmers to consumers requires action in three key areas: infrastructure, access to credit, and land registration and consolidation.

Infrastructural needs vary region to region: while Kakheti needs a modern irrigation system, Western Georgia has serious issues with drainage.

"Conditions are desperate. The existing irrigation network across the country is designed to bring water up to 280,000 hectares; last year only 24,000 hectares got it through that system, less than one tenth. In west Georgia more than 150,000 hectares used to be drained; now we are down to 6-8,000. The rest is going back to the swamps," Kirvalidze said.

"We will need three to four years to fix it all, but it is essential because you, as a farmer, may do everything right, but if your plot does not get water, your harvest is gone."

About 64 million lari of the 2013 state budget is being allocated to the rehabilitation of the irrigation and drainage system, with additional funds coming from IFAD and World Bank.

Access to loans is also crucial, as "without money, farms cannot operate. We are finalizing a credit program supported by the fund, and implemented by Georgian banks and international financial institutions," explains the minster.

The project specifically subsidizes interest rates for agricultural loans. The Agriculture and Rural Development Fund foresees three levels of lending: basic farming loans up to 5,000 lari will have zero percent interest rate; working capital loans up to 100,000 lari will be subsidized up to eight percent, and assets loans (mainly for agri assets acquisitions, i.e. dairy plants) for three percent interest rate.

Too many (small) plots

Low yields and a general risk-adverse attitude are two of the reasons that have so far limited credit to farmers. Small farms is another: Georgia's average farm is less than one hectare.

"The first step of the privatization process was that everyone living in rural areas received a maximum of 1.25 hectares, based on availability," recalls the two-time minister, who served in the same position under President Eduard Shevardnadze. "In many districts, due to population or land scarcity, some farmers got significantly less. While that process had positive results, like private ownership and individual entrepreneurship, it also led to high land parcelation."

The best way to tackle that, he says, is by encouraging agricultural cooperatives- something which the Soviet Union made deeply unpopular. But giving farmers incentives to consolidate land plots would make their farming more commercially viable.

The government is looking into a consolidated land code and has started a thorough census of the country's agricultural land. A census is essential also in order to design a strategy for foreign investment. FDI in agriculture has been very low: according to Geostat, in 2007, 2008, and 2009 it approximated 0.8, 0.5, and 1.2 percent, respectively, of the total FDI in Georgia's economy. Investors are slowing coming back, and are, amongst other things, looking at the land potential.

"But you cannot sell anything if you don't know what you are selling," noted Kirvalidze. "To date, only 30 percent of farmers have proof of ownership. We inherited a vague situation; we simply don't know who owns what and how much of it, including the state. Once we have the numbers, we can work on the policy side, but without even knowing how much land per category we have – arable, perennial, mowing or pastures – there is no way for us to proceed."

The ministry set up an inter-ministerial working group involving the economy, justice and environment ministries, as well, while a new department is being set up to gather information and process statistics. Russia's 2006 trade embargo is a factor that contributed to negative growth in real agriculture GDP, so the ministry is also involved in negotiations with Rospotrebnadzor, Russia's state consumer protection agency.

"We are in the product registration phase. 36 wine and spirits companies and four mineral waters got approval from the first round of inspections, and they are now eligible to go further," Kirvalidze said.

Ultimately, the goal is to make all these measures sustainable. And after years of neglect, Kirvalidze admits he is "in a rush" to fix the agriculture sector.

"Donor assistance has been crucial in years of governmental neglect; help from USAID, the Millennium Challenge Corporation, and the European Union have allowed the sector to keep the pace," he said.

"The European Commission has just allocated EUR40 million ($51 million) to support the sector. Now we need policies and a long term-strategy that will stay no matter which government or minister is in power." ■

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Abrupt Anti-Tobacco Legislation

Georgia Health officials want to implement new tobacco regulation legislation to ban advertising, increase excise tax and expand anti-addition outreach. Opponents, however, caution that abrupt regulatory changes, without proper consultations with the industry, could have unintended economic and budgetary consequences

NICK CLAYTON

The Georgian Cabinet is currently discussing proposed anti-tobacco legislation that would restrict how tobacco products can be sold, advertised and displayed, however, the government remains divided on what role the tobacco industry should play in the process.

Former Health Minister and current Head of Georgia's National Center for Disease Control Amiran Gamkrelidze said the primary goal of the new legislation is to bring Georgia in line with the recommendations of the Framework Convention on Tobacco Control (FCTC) passed by the World Health Organization in 2003.

The FCTC calls for a total ban on advertising tobacco products, an increase in the size of warning labels on packets, a gradual excise tax increase, and the introduction of a gamut of anti-addiction and educational outreach programs.

Nikoloz Mchedlishvili, the director of corporate affairs and communication in the Caucasus for Japan Tobacco International, said that multinational tobacco firms have experience with adapting to FCTC regulations in other markets, but he emphasized the importance of involving the industry in the policymaking process.

"We're not against tobacco regulations necessarily, but we have to be involved and we want to offer our expertise from dealing with this process in other markets," he said.

The tobacco industry is big in Georgia: 59.8 percent of Georgian men smoke, according to statistics collected by the Georgian Ministry of Health. Women (14.9 percent) and children under the age of 16 (12 percent) are also active smokers. Recent studies by the ministry found that the average Georgian smoker smokes 19.5 cigarettes a day and 11,000 Georgians die of smoking-related illnesses every year.

Mchedlishvili said that his company estimates the tobacco industry annually contributes 500-600 million GEL ($300-362 million) in tax revenues to the Georgian budget, and radical legislation changes could have a ripple affect through the economy and state budget.

However, Article 5.3 of the FCTC specifically urges signatories to "protect the formulation and implementation of public health policies for tobacco control from the tobacco industry to the greatest extent possible," and says governments should "interact with the tobacco industry only when and to the extent strictly necessary to enable them to effectively regulate the tobacco industry and tobacco products."

Gamkrelidze, who authored the draft currently being discussed by the Cabinet, said that he had already turned away industry representatives hoping to be involved in the drafting process and he is against their inclusion into policymaking in the health sector whatsoever.

This is not a consensus position within the government, however. A source close to the ongoing discussions told Investor.ge there was "almost literally a fight" between representatives of different ministries over the question of whether the tobacco industry should be excluded or invited to consultations, and in the end Prime Minister Bidzina Ivanishvili expressed the opinion that the final document should be "communicated and

Divides Government, Business

agreed" upon with the industry.

But Levan Agdgomelashvili, general manager of Omega Group Tobacco, whose factory in Georgia produces about 6.5 billion cigarettes per year, said many of the reported details of the bill show cause for concern, specifically the ban on all forms of advertising. It is already prohibited to advertise tobacco products through traditional mass media in Georgia and he said companies have since resorted to advertising online and on billboards.

"Outdoor advertising is a very good way to communicate with your customers about innovations, new brands, or new changes in existing brands. It allows us to present and explain innovations. By restricting this advertising, we think that it will be a violation of the customers' rights to get information about the product they consume," he said.

The draft also calls for an increase in the size of health warning labels on tobacco product packaging to 50 percent of the surface area on each side. Gamkrelidze said he is also pushing for higher taxes on tobacco products while recognizing that the Ministries of Finance and Economy will have the final say to develop "more flexible and appropriate" levies. Ultimately, according to the proposal, this increased revenue will go towards anti-addiction and educational programs for youth.

But, both Mchedlishvili and Agdgomelashvili said that previous tax hikes on tobacco actually led to a decrease in overall revenue for the government because they spurred a dramatic increase in tobacco smuggling. In 2005-2006, the Georgian government briefly increased the excise tax on tobacco products to .90 lari per package of imported cigarettes and .70 lari for domestics.

They both pointed to a report commissioned by British American Tobacco (BAT) that in 2006 found that the percentage of smuggled and counterfeit cigarettes in the Georgian market by that time reached 60-65 percent of the total market, and up to 85 percent in certain regions.

Another source in the tobacco industry in the region who spoke on condition of anonymity because he was not authorized to speak with the press said he was aware of the report and its findings, but, because Georgia now has some of the cheapest tobacco prices in the region, a tax increase would merely balance the market out. In fact, he said, the only major smuggling his company had observed recently was going the opposite direction with Georgian cigarettes being funneled into Turkey.

He also downplayed the overall affects of the measures on the industry's bottom line, as the multi-national tobacco companies have observed the market effects of FCTC regulations in other markets over the last 10 years.

Generally, he said, price increases and public smoking bans drive consumers to cheaper brands and slightly lower levels of consumption, while funds that the industry would have put into advertising are instead reinvested in the product. In the end, only small numbers of smokers drop the habit and the industry's bottom line isn't severely affected, the source said.

Predictability is the most important factor in the regulations, Mchedlishvili said. For example, if the Georgian government decides to increase or modify warning labels on packaging, tobacco companies will need to know a year in advance, otherwise their supply chains will be disrupted and they may be forced to waste products that cannot be consumed before the regulations are enforced.

A nearby example of how to do this, he said, is Russia. In February, Georgia's northern neighbor passed a law that conforms local legislation to the FCTC and totally banned smoking in public places, increased prices and restricted where cigarettes can be sold. The new regulations will be enforced starting in 2014.

Nick Clayton covers the Caucasus for Mergermarket, a part of the Financial Times Group.

Supersizing the Supermarkets

Now that French retail giant Carrefour is easing into the market, the landscape of Georgian owned and operated grocery stores is changing. Will the European hypermarket have a super-sized impact on how Georgian supermarkets develop in the future?

The French Effect

When Carrefour opened its first store in the Caucasus, expectations were high. Prices were supposed to fall, the new competition was going to weed out weaker stores, and selection at supermarkets across the board would get better.

Fast forward six months and while no local chain has closed, the French giant is certainly making waves.

One of the first chains to buckle under the weight of the increased competition was Populi, one of Georgia's first local grocery stores. The owners sold 88 percent of the supermarket chain to Ioli, a competitor owned by two private, international equity funds -- Caucasus Growth Fund and the SEAF Fund - in February.

Competing with Carrefour is not easy, noted Jon Copestake, the Economist Intelligence Unit's chief retail & consumer goods analyst.

"Smaller stores try to compete with Carrefour by offering different products, different services. For instance, offering products Carrefour doesn't or offering more personal service," he said.

Carrefour's deep pockets – its ability to offer more goods at a lower price – is hard for smaller chains to match, Copestake said.

Local chains in Tbilisi are also stressing their niche, instead of taking on Carrefour head on.While Goodwill anticipated some initial loss in clientele when Carrefour opened last year, Natalia Darchiashvili stressed that today, the giant of Georgian hypermarkets is still going strong.

"We have learned all the demands that Georgian customers have. And we think we have this…Carrefour is a rather strong competitor because it is the second largest chain in the world and the largest in Europe…but we have chosen our strategy and we think that being orientated on quality and service [is key]," Darchiashvili, the marketing manger for Goodwill and Marshe, said.

Esben Emborg, the managing partner at the Caucasus Growth Fund, underscored that Populi's decision to sell is due to internal management issues, not

pressure from the French retail giant.

"[T]he company has had different problems… it was criticized for being too expensive, criticized for being a bad payer…but nevertheless it has been a successful chain for many, many years," he said.

"We don't see them [Populi and Carrefour] in direct competition in that sense because [Populi] is a different format of stores, …we are an around-the-corner convenience store which means we have a lot bigger network, much more shops… we believe that, even though there are new players on the market, there is still a lot of space to grow for everyone."

Goodwill also noted that, despite some earlier discussions about selling the chain before Carrefour entered the market, now the Georgian ownership is planning to stay.

"[We] have not seen such a strong competitor on the market where it became necessary to find a foreign investor," noted Darchiashvili.

$400 million and Growing

Despite rumors that Ioli and Populi were closing or going through bankruptcy, Emborg said the funds are optimistic the combined chains – after a bit of restructuring – will be primed for growth.

"SEAF has had experience with grocery stores in many other similar markets, similar types of chains [such as in] Serbia, Afghanistan, and Poland," he said. "They have been very good investments for us so we were quite interested in the prospect of having a good foothold in the Georgian retail market."

Carrefour is also confident that there is room in the Georgian market for growth.

"We started already in Georgia for several reasons… The first is the huge job that has been done concerning [eradicating corruption]. The second is quite a good climate for new businesses…third reason is there is no international retailer in this country until now," noted Jean Louis Clary, the Georgia District General Manager at MAF Carrefour Georgia.

"The GDP of the country is growing, it is starting low but growing…at least 80 percent of the business at this time is done on the street in local street bazaars. But we should not forget that in some other countries, especially Europe, a few decades ago it was the same. Things have been moving, things will move in Georgia also in the same direction."

The 80 to 20 split – supermarket and hypermarket chains estimate that 80 percent of the population still opts for the less convenient, but cheaper, minimarket/bazaar for their shopping needs – means that the potential for Georgia's supermarkets is largely untapped.

"Of course this market is fragmented at this stage…the dynamic is very good for us, for a chain," noted Darchiashvili.

Carrefour, Goodwill, and Smart are all planning to expand; Ioli and Populi – by far the largest chain in the country with 70 stores – does not plan to close stores although some outlets may be relocated.

More Services, Better Management

But future Georgian supermarkets and hypermarkets will have to stress better – and more sophisticated – management to survive, noted retail professionals.

Emborg stressed that "basic things" like how shelves are stocked, and how inventory is treated, have to be dealt with.

"There is a desire in the client to have a well assorted, round-the-corner store. There is a desire from the client not to have to go to the bazaar to buy their daily goods. But there is also a limited amount of purchasing power…so you still need to find what to offer – a reasonable quality at a reasonable price," he said.

"I think what supermarket chains in Georgia need is real professional management. I think it is attention to detail in the shops, so that is how the shop is run – the client satisfaction of being in one of your stores. Is the service okay? Are the goods stocked right?"

Smart, the supermarket chain owned by the Wissol Group, is betting that years of market research locally – plus consulting with foreign specialists – will give the chain an extra edge as the Georgian market transitions to its next stage of grocery shopping.

"We set ourselves the goal of creating a completely different kind of supermarket from what was previously available in the country," the press department wrote in an email interview with Investor.ge.

"Our goal was to create such a type of supermarket which would be distinguished by its design, retail inventory, technologies, service and assortment of goods."

Carrefour has lowered prices in the market, and – with services like a product return policy – it is pushing the Georgian market toward Western customer service practices.

"I think the first impact for everybody and especially for customers is that they will see in the country prices decrease. Because of our size, because of our policy, because of it is our duty to decrease the prices so it will push everybody to be more competitive on prices," noted Carrefour's Cleary.

"For example, at Carrefour, which is something new for the country, if you buy something and you are not satisfied with what you bought – according to some criteria of course – you can change it… this is our core business…we are working on this every day."

Five Questions with...
Business Ombudsman Giorgi Gakharia

Prime Minister Bidzina Ivanishvili named Giorgi Gakharia the country's new business ombudsman on February 19. Gakharia has experience working in international companies, including Lufthansa airlines. Investor.ge asked him to share his vision of this agency and his plans as a business ombudsman.

MAIA EDILASHVILI

Three years ago, the government created the Business Ombudsman's Office to give entrepreneurs a voice. By 2011, the most recent statistics available, the office had received 882 complaints and drafted 138 recommendations for the government.

Q: PM Ivanishvili has spoken about changes in how the business ombudsman operates. What is going to change?

A: This agency had been mostly seen as one focused solely on tax issues. My goal is to decrease the number of complaints concerning taxes. Special attention will be given to medium and small businesses, as well as to the rights of our exporters. We would like to speed up our response time to complaints because, in most cases, the actual reaction from our office begins 30 days after the complaint is received - which is not very helpful.

Our job is to analyze the complaints, react to them, and make proper recommendations to the government concerning loopholes in tax legislation. Our office is also involved in educational activities. Initially, I was pretty skeptical about this function, but now I am certain that this is a most important tool without which we cannot make progress.

Q: You have mentioned the need for education. What other challenges are facing businesses in Georgia?

A: The key challenge is that it is a very small market with low purchasing power. Our duty is to balance our time in a rational way so that we are not focusing purely on complaints referring to the alleged abuse of businessmen's rights in previous years.

Rather, we want to work on current problems and strive to solve them quickly. Initially, I expected that 80 percent of the complaints coming to us would be related to tax issues, but I was wrong. In recent years, new tools to protect taxpayers' rights have been put into force, including the Mediation Council. It's very good and, once such issues are no longer on our agenda, we can work in other directions.

Q: There have been complaints that, while large businesses are more or less involved in policy making, small and medium sized businesses are ignored. You have noted that small and medium sized business will be your main area of concentration. What will you do to increase their involvement?

A: Large companies have more financial and intellectual recourses. Another reason for the absence of small companies in the policy making process is that we have no strong business associations which are able to act as mouthpieces for small businesses. But this is a process which should happen naturally- without artificial interference from the government. Bottom-up initiatives are necessary.

If there is no opportunity for the development of medium businesses, we will not have a middle class. So I plan to commission one of our experts to work specifically on the challenges of small and medium businesses.

Q: The 2011 Business Ombudsman Report warned wine companies that when entering the Russian market, they should first consider its unpredictability and politically charged business environment. Now Russian quality experts are inspecting Georgian wine companies and granting them permission to enter the market. What is your position?

A: The warning was very logical. Any normal person understands that there are many political risks in the Russian market. The political aspect of the return to the Russian market is the easiest part of the challenge, however, even bigger problems are sure to begin once this political one has been resolved. Our winemakers will only feel it once they get there. But, currently, many entrepreneurs don't think about what is going to be the real concern – distribution, logistics, marketing, which is [very] expensive in Russia.

Monopolistic and cartel agreements between producers on the Russian market are an additional challenge. So my personal view is that expectations in Georgia are exaggerated. For instance, Moldova – whose wine was banned alongside Georgian wine in 2006 – returned much sooner to the Russian market with its wines and yet regained just 20 percent of what they had previously held. I mean that overly optimistic expectations lead to overly optimistic costs and, once our wine makers are confronted with reality, I fear that the idea of going back to the Russian market may become discredited.

Q: Prime Minister Ivanishvili has underlined the need for lower taxes and simplified customs procedures. What will be your recommendation to the government in this regard?

A: It's impossible to do everything together. For me, the key source of information will be the complaints that we receive. When a critical mass of similar complaints accumulates, this will be a sign for me that a certain issue needs particular analysis and attention from us. So, our recommendations will be based on what people complain about.

The hotline of the Business Ombudsman's Office is 2 282828; and the e-mail address is ask@businessombudsman.ge

EU-GEORGIA BUSINESS COUNCIL

Deep and Comprehensive Free Trade Area (DCFTA) Negotiations: An Update

The EU-Georgia Business Council (EUGBC) has been working on the DCFTA intensively since negotiations were launched. Over the past year, the Georgian government has revised several major laws to meet EU requirements.

TAMAR KHUNTSARIA, EUGBC

The DCFTA negotiation process has been quite intensive, especially over the past year. The government of Georgia has already launched a number of reforms as required by the DCFTA process, including the labor code, and the law on competition.

Amendments to Georgia's Labor Code, currently still under consideration in parliament, were prepared to bring the Code into compliance with International Labor Organization (ILO) standards.

A revised Competition Law is being adopted to improve the competition policy in Georgia and to create a single Competition Agency. In addition, a Food Safety Code is being prepared.

Georgia has also made progress in the establishment of a legislative and institutional framework in the Technical Barriers to Trade (TBT) area, in order to make its standards and procedures compatible with international standards. This, however, is a long-term process and more time is needed to put in place a functioning Quality Infrastructure.

In terms of Intellectual Property Rights (IPR), the legislation is not a major concern (Georgia is a party to The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and other international Conventions), but IPR enforcement needs to be improved. The DCFTA suggests that Georgia adopts adequate measures and procedures to improve its IPR enforcement system.

Implementation of these reforms is first of all important for perfecting trade related regulations and practices at home.

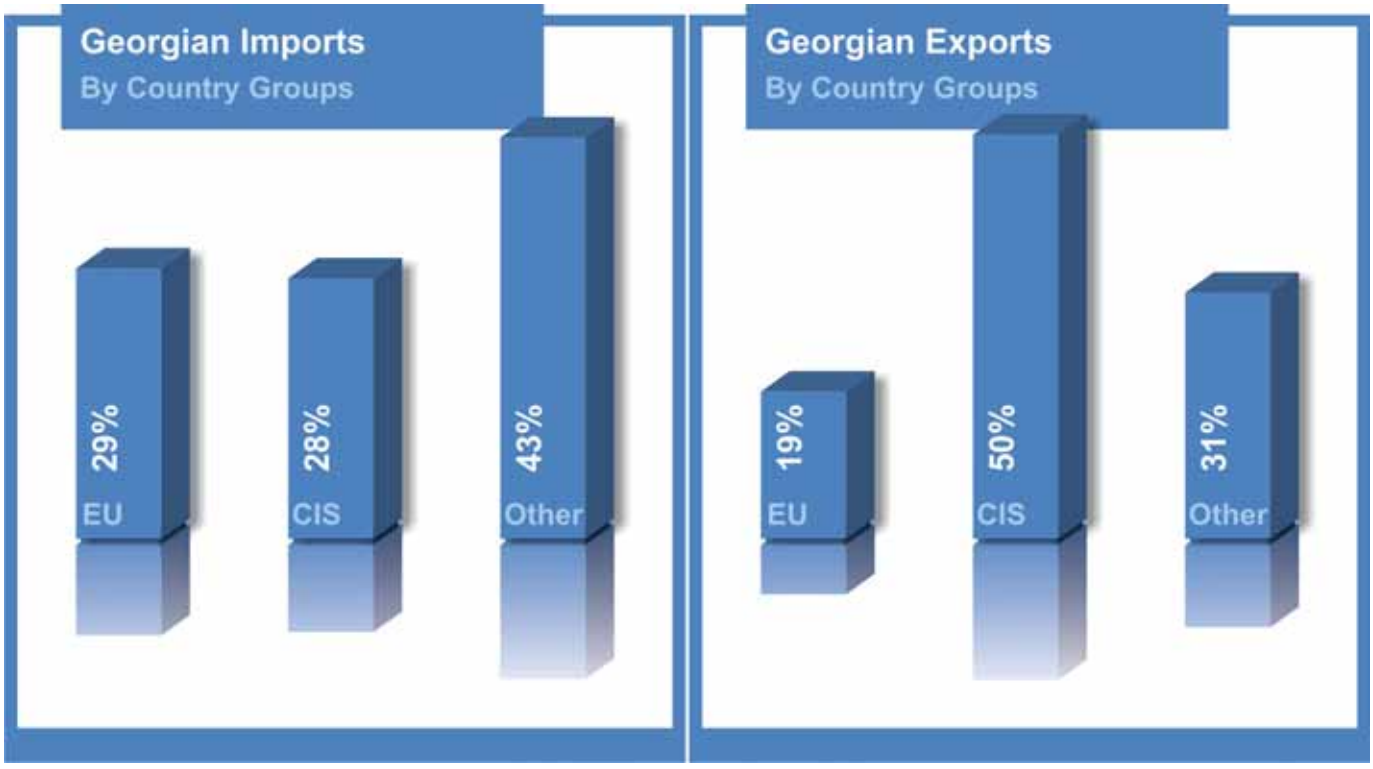
Secondly, attaining the DCFTA through these reforms is crucial for gaining full access to the EU market. The EU is Georgia's main trading partner (the share of trade with the EU accounts for approximately 30% of Georgia's total foreign trade). For the development of Georgian export, it is crucial to penetrate the EU market- one of the largest, richest, most civilized, and predictable markets. In the long term perspective, a free trade agreement with the EU is expected to bring high gains for Georgia's economy and increase the welfare implication. Moreover, developing deep and stable economic ties with the EU is essential for the diversification of Georgia's export markets, and for the securing of its foreign trade stability.

The EU officially launched negotiation on Deep and Comprehensive Free Trade Area (DCFTA) with Georgia in February 2012. The 6th concluding round of negotiations was held on March 18-22 in Brussels.

Negotiations in all fourteen chapters of DCFTA were covered: Trade in Goods; Rules of Origin; Customs and Trade Facilitation; Technical regulations on industrial products, Standards and conformity assessment procedures; Sanitary and phytosanitary measures; Services; Freedom of establishment and investment; Competition; Intellectual Property Rights (IPR), Geographical indications (GIs); Public procurement; Trade and sustainable development; Transparency; Trade defense instruments; Dispute-settlement/mediation mechanism, and Institutional structures/ provisional application.

The Association Agreement, of which DCFTA is an integral part, is planned to be initialized at the Vilnius Summit of the Eastern Partnership taking place in Lithuania in November 2013. It is important to note, however, that concluding the negotiations and signing the agreement does not imply that the agreement enters into force. Initially, it will take time to implement and institutionalize the EU requirements and DCFTA provisions at home. In addition, a certain period is needed for the ratification of the document by all EU member states' parliaments and the European Parliament. Therefore, the exact date the DCFTA will be in full force is not known.

The EU-Georgia Business Council (EUGBC), as an association representing major European and Georgian businesses operating in the country, and has been actively involved in the DCFTA process. Early in 2012, immediately after negotiations started, EUGBC created a business driven Working Group on DCFTA to strengthen and develop EU-Georgia trade relations by providing a forum for discussions on EU-Georgia trade policy, including negotiations on DCFTA that involved Georgia's business community, authorities, relevant EU institutions, diplomatic representations of EU Member States accredited in Georgia, and other stakeholders.



"A Non-Aggressive, Fair Approach Towards Taxpayers"

Investor.ge speaks with Lasha Khutsishvili, the new head of the Revenue Service, about new plans and how they will affect tax payers.

MAIA EDILASHVILI

Since January 8, Georgia has a new head of the Revenue Service (RS), Lasha Khutsishvili. Previously, he worked at Ernst & Young LLC Tbilisi Office and the Council of Tax Resolution at Finance Ministry, respectively.

Q: What needs immediate changing in this field at both legislative and administrative levels? What is the short- and long-term plan for the RS?

A: It's important to eradicate the possibility of double interpretations in the Tax Code. We are working on this actively and, in the near future, we will make certain changes public. At the same time, RS is introducing a non-aggressive, fair approach towards taxpayers. The number of sanctions against violators is on a decline. We are working to provide descriptions for certain articles so that tax payers understand them easily.

Given the rigorous cooperation with the EU on Deep and Comprehensive Free Trade Agreement, we consider it significant to harmonize Georgia's tax and customs legislation with the EU's legislation. It's urgent that all stakeholders – state agencies, the business community, and experts – are engaged and public discussions are organized on such topics.

Q: Considering the revenues in 2012 and in previous years, what were the most remarkable trends last year in terms of tax collection?

A: In 2011, we introduced cash-registers for cash payments and started using GPRS systems, which allows the receiving of information online for transactions made on the cash-registers. Since 2012, we have had access to information on the commodity invoices of taxpayers, while previously only information on VAT payers' commodity invoices was available. These measures have simplified tax procedures, made the revenues of taxpayers transparent, and at the same time simplified tax administration. Finally, all these have positively impacted on tax collection figures.

Q: Prior to the elections, the AmCham Commercial Law and Tax Committee communicated with the RS about the need to reduce the frequency of changes to tax legislation, and introduce ad hoc, mid-year effectual dates of tax legislation. This would increase the predictability of the tax law, greatly reduce legal and accounting risks for Georgian companies, and

greatly reduce their legal and accounting expenses. Would you support such reforms to the procedures for adopting tax legislation?

A: Concerning the procedures for adopting tax amendments, such an initiative is acceptable and, yes, we would support it.

Q: Will you have a new strategy to keep taxpayers informed about what you are doing? How they can administer their business in a more comfortable way?

A: There is a plan to send taxpayers electronic messages about the legislative changes. We are also discussing the possibility of informing taxpayers in advance about planned tax inspections throughout the year, which would allow them to prepare their documents beforehand and correct any loopholes in tax auditing such as declarations and accounting. On our web page www.rs.ge we post leaflet-style brief instructions. We constantly arrange meetings with taxpayers in the frame of our "open door" format, both in Tbilisi and in the regions. At such meetings, RS representatives unveil the changes to the tax code and answer questions concerning tax and customs regulations. After the meetings, we study the questions and consider initiatives proposed by the participants. In addition, in the customs offices, informative leaflets in Georgian, Russian, English, Turkish, Armenian and Azerbaijani are available.

Q: The previous government instituted a practice of issuing draft tax claims, and then allowing the taxpayer the opportunity to discuss the claims with the RS before the claims were issued in an official tax collection act. Do you intend to continue the mediation practice of the previous government? Could you improve it by establishing a stronger and more permanent legal basis for it?

A: The mediation process will go on and, in the near future, there is a plan to introduce an amendment at the legislative level on increasing time for the initial consideration of the draft tax claim. Currently, taxpayers have the opportunity to submit a written claim about their position on the draft tax inspection act within five days, which is not enough time for formulating one's position comprehensively. We plan to increase this period to 10 days. At the same time, without undergoing the mediation process, the tax authority will not be allowed to impose additional taxes on a taxpayer as a result of the tax inspection.

We are also working to introduce electronic registration of complaints and tax resolutions. This format will allow the possibility of putting draft tax claims online so that taxpayers have the chance to make decisions online.

Q: Under the previous government, a number of tax agreements were reached with companies in Georgia (businesses like these tax agreements as they give certainty to their tax positions). Will it be possible for companies to conclude tax agreements during 2013 and beyond?

A: The tax agreement process can be continued but not in the form which existed previously. Currently, we are starting to discuss applications by taxpayers who propose to pay no less than the core volume of the tax in order to reach agreement.

Q: One of the new services offered by the RS is Prive, a personal service package. Can you give us some details, and name the advantages of this service?

A: Within this service one gets a personal tax consultant, who studies the individual needs of the taxpayer and assists him/her to identify the tax obligations. This service aims to help taxpayers evade violations. Up to 300 organizations currently use this service, mostly large businesses. According to IPM – an independent consulting company – 96.1 percent of the taxpayers said they would continue touse this service in the future as well. This figure confirms that PRIVE is a consumer-oriented service.

Q: The Trade and Transportation Committee at AmCham requested the Georgian government to introduced the EU legislation's provision which makes it easier for foreign investors to come for residency and bring their personal items. They adopted this regulation but made another entry restricting it only to diplomatic people and investors of importance. Should the business community expect a change in this particular regulation?

A: If a non-resident person crosses into Georgian territory temporarily (for a work assignment or work contract) his/her personal belongings get cleared in a simplified manner (under Article 45 of Decree #290 by the Finance Minister). Any business person can take advantage of this regulation.

Q: Will there be any change concerning the function of the Customs Department of the RS? Will the procedures become cheaper, for instance?

A: RS has already cancelled or cut some service fees. This trend will continue in the future. In our opinion it's important that, in the revenue service, customs procedures are administered comprehensively by one department, rather than by several departments as it is today. This would increase the efficiently of customs control and service for the consumers. Accordingly, there is a plan to bring the functions of various departments of the RS into the Customs Department, which is aimed at better implementation of customs control.

Investment Outlook 2013

Foreign direct investment numbers may be down, but sectors across the Georgian economy are prime for development. Over the next several issues, Investor.ge will continue to look at how investors view the real estate market, the investment climate, and what the government is doing to make investment easier – especially what it is doing to encourage competitive lending and access to finances. If you have any questions, or suggestions, please contact Investor.ge's editor, Molly Corso, at m.corso@amcham.ge.

Restoring the Rustavi Metallurgical Plant

When officials and economists evaluate Georgia's potential for foreign investment, agriculture, tourism, trade and transit usually top the list. Georgia's industrial sector may seem rooted to its rusting Soviet past, but investors are still betting that the country's mines and production capacity are a good opportunity. While overall investment fell from $1.1 billion in 2011 to $865.2 million last year, the level of investment in industry remained nearly stable. In 2012, foreign investors put $191.7 million in industry – more than any other sector of the economy. Over the next year, Investor.ge will profile industry and manufacturing plants in Georgia.

The Rustavi Metallurgical Plant, once the jewel of Georgia's industrial sector, is still the largest metallurgical complex in the region.

At the height of production, when the plant was an integral part of the Soviet Union's system of factories, the plant turned out 1.45 million tons of steel, 700 thousand tons of pig iron, and 500 thousand seamless pipes, among other products.

Today, there are 1800 people (just three of whom are expats) working at the plant, where "step by step" the new management is trying to revive its capacity, according to Dr. Farooq Siddiqui, the plant's director.

The plant's shops are working hard to increase steel, reinforcing rods, and pipes. A running ticker on the company's website (www.rmp.ge), marks steel product: 24.4 thousand tons and counting as of March 31. As capacity increases, Siddiqui said, the production numbers will also grow. The company plans on producing 100,000 tons of steel this year and 250,000 by 2015.

The plant is also reprocessing slag – waste from the production facility – into scrap that it uses to make steel.

Exports from the plant include steel, reinforcement rods for construction, seamless pipes, and scrap from its slag reprocessing plant.

The initial investment budget is $20 million, but Siddiqui noted that, if plans to reopen and modernize the central blast furnace are realized, the company will invest an estimated $175 million.

The central blast furnace, however, depends on iron ore supplies. The company is in negotiations with the Azerbaijani iron ore mines to create a business model to restore supply lines.

New Government Funds to Bolster Financing for Investors

Prime Minster Bidzina Ivanishvili plans to create three new funds, including a non-government private equity fund, in a bid to attract investors. Investor.ge spoke with economists, investors, financial managers, and lawyers about how the funds could help Georgia – and what mechanisms should be in place to ensure the funds attract investors, not crowd out existing private businesses.

Plans to create three funds – an agriculture fund, a sovereign wealth fund, and a private equity fund that will include an undisclosed percent of Prime Minister Bidzina Ivanishvili's money – have raised questions about how the government plans to structure and manage the funds.

There are also concerns about how the government plans to finance the fund, and where the fund will receive the money necessary to finance investments.

The core fund – a government run $2 billion sovereign wealth fund – will hold the same state assets as the current Partnership Fund: the Georgian Railway (100 percent stake), Georgian Oil and Gas Corporation (100 percent stake), Georgian State Electrosystem (100 percent stake), Electricity System Commercial Operator (100 percent stake) and Telasi (25 percent stake).

Economist Paata Sheshelidze noted that the source of the financing is the first question. "[E]ven if they have those assets, how will they have liquidity," he asked. "Because funds need cash to give out..."

Deputy CEO of the Partnership Fund Giorgi Bachiashvili told Investor.ge that financing for investments will likely come from IPOs of the state assets and, in some cases, budgetary transfers. Some entities, like the Georgian Oil and Gas Corporation, have already issued Eurobonds.

He stressed, however, that any budgetary transfers will have "important withdrawal rules for transparency."

Those rules – and the actual structure of the sovereign wealth fund – are still a work in progress: the government, through an international tender ,has hired a law firm.

Bachiashvili said the firm is one of the "top ten" international law firms with expertise in creating sovereign wealth funds. He added that once the tender process has been completed, the government will publish the results.

Maintaining a high level of transparency will be crucial, noted Zaza Bibilashvili, a founding partner of BGI Legal law firm.

"The key issue is that these funds should be transparent in the way they are set up, in the way they are managed, in the way they are financed, and in the way they are made accountable to the government and the public," he said.

One major test will be how the funds treat investments that will compete with existing private investors.

"The government has always to really look not to crowd out other players," noted Vakhtang Lejava, the chancellor at Free University who worked as an advisor for former Prime Minister Nika Gilauri.

That means making a clear distinction in how the government fund's choice of investments could affect the private sector.

Gogi Mgeladze, the general director for Mina, a glass bottle producer, noted that there were some concerns about how the Partnership Fund treated the line between government support and direct competition with private business.

Under the previous management, the Partnership Fund looked into investing into a glass factory – creating a joint partnership between an Azerbaijani company and the Georgian Oil and Gas Corporation, a business deal that could have presented a serious conflict of interest had it been funded, Mgeladze said.

Government-run funds, he noted, have to be careful not to compete directly with private investment.

"We cannot demand that the state protects and does not allow anyone to enter this business – of course it is a free market, it is a competition," Mgeladze said. "The only thing we don't want is competition with the state."

Bachiashvili stressed, however, that the government is aware of these concerns.

"Trust me, the investments that we make…none of these investments are competing, not even with the banks…. Basically we are like an equity investor," he said.

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Shah Deniz Two to be Largest Ever Foreign Direct Investment in Georgia

While European countries still have months to wait before the final decision on which pipeline will receive Shah Deniz Two gas, in Tbilisi the project is already been felt, according to Neil Dunn, the general manager and vice president of BP Georgia. Dunn was a speaker at this year's Georgian International Oil, Gas, Infrastructure and Energy Conference in Tbilisi.

The Shah Deniz 2 pipeline that carries gas from Azerbaijan to Europe will pass directly through Georgia regardless of which route is chosen to Europe. Neil Dunn, the general manager and vice president of BP Georgia, told Investor.ge that $2 billion in investment is planned for Georgia over the next three years.

The planned investment will make the Shah Deniz 2 pipeline the largest foreign investment in Georgia's history, he said.

Dunn spoke with Investor.ge during the two day, 12th Georgian International Oil, Gas, Infrastructure and Energy Conference in Tbilisi, Georgia, on March 26-27, where Dunn spoke about the Shah Deniz 2 project.

"Overall the FDI in Georgia will about around $2.0bn. We expect around $400 million of that to be spent with local companies," Dunn said, noting construction on the pipeline in Georgia will run from 2014 to 2017, with first gas planned for 2018.

Other investment includes employment and staff training, as well as purchasing land usage rights, a process Dunn said is nearly complete.

"It is hugely important for the region. Opening up the southern corridor and providing access to Europe's energy markets every country along the value chain," Dunn said. "The eyes of Europe will be upon Georgia and the rest of the Region; therefore, Georgia matters. For Georgia this is the single biggest foreign direct investment - ever. Bigger than BTC...so this project is very material."

In addition, the project means another source of gas for Georgia.

"While the FDI and the employment benefits the project will bring to Georgia are good, the incremental gas supply that Georgia will receive is very important as well," Dunn said. "Right now Georgia receives about 0.8bcm of gas per year – which satisfies between 40-50% of the core demand. Georgia will have access to 1.6 bcm yearly once we reach peak delivery which really adds to their energy security by providing energy in their own right."

The choice between Trans-Adriatic Pipeline project (TAP) and Nabucco West, the two options under consideration, will be made in June. Reports that parts of Europe are consuming less gas than previously forecast were widely discussed during the conference.

But Dunn dismissed speculation that the diminished demand could impact the project.

"Forecasts indicate that in some parts of Europe [demand is decreasing] while in other parts, there is an increase," he said. "My take on this is Europe imports a good portion of its gas. Shah Deniz 2 is really a modest volume compared to everything they import so once we get the gas to Europe; it feeds into the European grid. This first tranche of gas is really modest compared to their demand. If their demand is static or even decreases a bit there is still plenty of opportunity."

For the rest of Europe, the final decision between TAP and Nabucco West will depend on several factors, including economics, "strategic considerations" and scalability.

"We published in 2011 our criteria for making our decision with the intent of being very transparent and public about how the decision will be made. Economics of course will be very important – other things like strategic considerations, scalability, l operational reliability and also legal reliability. Considering the route this is going to take, each government has their own legislation which adds to the project's complexity. We want stable, predictable legal and fiscal regimes," Dunn said, but he noted the decision won't be simple.

"There will be several all kinds of quantitative and qualitative assessments [to making the final decision on pipeline routes through Europe]."

For Georgia, Dunn stressed, the pipeline means a lot more than just gas or investment.

"Georgia will become increasingly important for the people of Europe. People will be watching Georgia because they want to make sure their energy security is in good hands - good, stable hands," he said.

"And that is not a bad thing from my standpoint. I have been in Georgia for five years – love the country, love the people and I think that our experience operating here demonstrates that this energy supply will be in good hands."

2013: The Return of Investment

Georgia has struggled to return to pre-2008 investment levels. Investor.ge looks at which sectors are poised for growth – and which are bringing in foreign investors.

NICK CLAYTON

Although Georgia's raw foreign direct investment (FDI) numbers are not projected to recover to pre-2008 levels this year, key sectors of the Georgian economy like energy, food processing and hospitality are attracting capacity-building investments that mark a recovery from the downturn five years ago.

Like most frontier and emerging markets, Georgia was hit hard by the global financial crisis in 2008 – as well as by the conflict with Russia. But many analysts say that capital is already re-entering the region and Georgia is already seeing dividends in specific areas.

"I think [Georgia] has just turned a corner," said Alan Hitchens, CEO of Strait Oil and Gas and executive consultant to Range Resources Ltd. "It was very difficult to get investment, especially just after 2003 and 2004, and then it began developing well. But the costly (2008) Russian invasion damaged (energy development) terribly. In fact, we lost the majority of our investors as soon as the Russians invaded, and it took just over a year in order for us to be able to recover those investors and bring them back into the fold."

In February, Range Resources Ltd., which owns a 40 percent stake in Strait, announced the launch of a joint development project with the Georgian Industrial Group (GIG) where it will invest about $100 million to extract coal bed methane gas in the Tkibuli region, which GIG will purchase and distribute within the country.

Energy Sector Re-energizing FDI?

According to Georgian government statistics, the energy sector attracted the second most foreign investment in 2012, accounting for nearly 20 percent ($171.4 million) of the country's annual FDI.

Last August, Czech mining company MoravskeNaftoveDoly (MND) bought a 50 percent stake in three of Blake Oil and Gas' Georgia-based subsidiaries, with the plan to launch "an extensive drilling programme over the coming three years," Blake CEO Vincent McDonnell said in a press release at the time.

Beyond the influx of capital, Hitchens said the development of Georgia's energy resources will have a ripple effect throughout the economy. He said Range Resources is currently in talks with two multinational energy companies to jointly exploit the estimated 3,000 sq km of shale gas reserves under Range's licensed mining zones.

Developing these reserves will require hundreds of millions of dollars in investment, he said. But, once they are exploited at full capacity, shale gas could provide for Georgia's entire natural gas needs and more, enabling the country to be an energy exporter, not merely a transit country.

Boost for Agriculture Investment?

Georgia's chronically underperforming agricultural sector is also beginning to gain the structural and logistical investment it requires to compete. Due largely to international aid programs from the U.S. and EU, food-processing soared to the top of Georgia's FDI rankings by sector, accounting for 22 percent ($191.7 million) of the country's total FDI in 2012.

USAID's 2011 Economic Prosperity Initiative report found that the lack of cold storage and processing facilities was one of the major factors in the stagnation of Georgian agricultural production. In the Gori region, for example, the report found that local cold storage facilities could hold about 1,000 tons of produce, but that such a capacity met only 10% of the region's demand.

Luckily for farmers, investments in Georgia's transit and logistics sector may facilitate greater efficiency for its products. In June, Austrian transit giant Gebruder Weiss (GW) will open the doors of its new 10,000-square meter logistics terminal near Tbilisi airport, which it will operate as a joint venture with Tegeta Motors.

General Director of Gebruder Weiss Georgia, Alexander Kharlamov, said that the company was attracted by the country's streamlined customs procedures and low levels of corruption. Kharlamov said GW, which employs more than 4,600 people worldwide with 3,500 trucks on the road every day, plans to make Georgia its regional hub and has space to expand its terminal as its business grows.

GW Georgia has already signed contracts with some local clients, he said, and it is already partnered with APM Terminals, which operates the Poti port.

Hospitality and Retail Sectors Poised to Grow

Another sector that is seeing rebounding value is hospitality. According to the 2012 Hospitality Valuation Survey for Georgia and the CIS, the value of Tbilisi hotel rooms increased by 14 percent in 2011 after sliding dramatically in the 2008-2010 period.

Alexander Korobkin, who co-authored the report, said that the Tbilisi hotel market is now in the 50th percentile for the region, ▸▸

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with a projected compound annual growth rate of 7.9% through 2017.

"I think Georgia is still making up lost ground, but that is true of the entire region," he said.

He added that the typical investor behavior in the region is to invest first in Russia, then in the energy-producing countries, and only after will the smaller markets like Georgia see the return of significant investments.

Korobkin said that the extraordinary growth rates of 2007 were "an anomaly" and won't be back anytime soon. However, Georgia's hospitality sector can expect to see 60-70 percent of those investment levels return in 3-5 years.

The retail sector will also get a large new addition with the arrival of the East Point Shopping and Entertainment center, announced last month. The $50-million project, developed by CBD Development, a Georgian subsidiary of Quadrum Property Group, will be a 65,000 square meter shopping mall on the Kakheti Highway that will include a Goodwill supermarket and a 27,000 square meter outdoor fashion complex.

This new project notwithstanding, many real estate developers in retail and hospitality remain cautious about the Georgian market, as evidenced by the conspicuous abundance of stalled work sites throughout the country. At the Turkey Retail Development Conference in Istanbul in February, one major developer, whose project stalled following the 2008 war, said that he was interested in finishing it, but that he could not find hotel operators willing to purchase the hotel once it was completed.

Another company executive focusing on office development at the conference said he had studied the Georgian market but it continued to present too much perceived risk and too little potential gain.

Many foreign investors were stunned by the surprising result of Georgia's October parliamentary elections, and regional observers say that the business community is waiting to see the results of this year's presidential elections before committing additional capital to the country.

In the end, it may be unrealistic to expect Georgia's FDI numbers to reach the high-mark of $2 billion that they passed in 2007, when statistics were buffeted by major privatization projects. Nonetheless, analysts say that once the "wait-and-seeism" of outside investors wears off, Georgia is poised for a robust recovery.

"Georgia is very investor and travel-friendly…" Korobkin said. "Just because there haven't been any big projects announced in a while doesn't mean investors aren't looking here."

Slow, Steady Growing Confidence in Commercial Real Estate

New developments, large investments, higher prices and increased demand are all helping the Georgian commercial real estate market rebound.

MAIA EDILASHVILI

Turning the corner

East Point, a 65,000 square meter shopping and entertainment center under development in Tbilisi, is just the latest sign that Georgia's real estate sector has recovered – and is growing at a solid pace. The project was launched by CBD Development, a Georgian subsidiary of Quadrum Property Group, an international development company with projects worth over $900 million in the United States, Southeast Asia and former Soviet Union countries.

"The retail market in Tbilisi is in need of additional first-class space. To meet this demand, and to provide a fresh, innovative retail offering, East Point is designed to be Georgia's first open-concept retail and entertainment destination," explained Nini Gorgodze, the Sales and Marketing Director at East Point.

"We have decided on an open air concept since high street shopping is quite popular in Georgia. The deciding factor in choosing this concept was the relatively mild climate in Tbilisi, which gives our shopping center even more appeal."

East Point plans to offer elite fashion boutiques, high street brands, restaurant and cafes, as well as a multiplex cinema, bowling alley, and a children's education and entertainment center. The mall is set to open in fall 2014.

"We will offer everything you typically find at an international quality shopping center – all of the services required for a family to come and pass several hours- where each member can find options that appeal to them as individuals. This type of environment does not yet exist in Tbilisi," Gorgodze added.

Georgia's real estate sector is in line with the development pace of many Eastern European countries.

In Lithuania, for example, the highest all-time prices for residential property were recorded at the end of 2007, and for commercial property in mid-2008. Real estate

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prices bottomed out in 2011, with just a slight growth noted in 2012.

"The recent crisis fundamentally changed the attitude towards investment in real estate. After such a sudden and sharp decline in prices, and the market activity in 2008–2010, the interest and the capacity to purchase property as an investment fell quite significantly," Raimondas Reginis, Senior Market Analyst at Lithuania-based Ober-Haus Real Estate Advisors, said.

He noted that one factor that lead the market's return was the "non-professional investors" who buy-to-let properties. For example, in Vilnius, the greatest interest lies in 40-65 sqm sized apartments, which in residential districts cost between 60,000 EUR and 100,000 EUR, and in the central part of the city up to 150,000 EUR.

"At present, such a property generates a yield of about 4–5 percent (if purchased using personal funds), which under today's conditions is quite attractive. Interest rates on deposits in banks presently average only around 0.5 percent to 1.5 percent, therefore, investment in a residential property is a relatively safe and positive alternative for those with limited resources," Reginis noted, adding that those with a little bit more experience and greater resources are interested in commercial property such as offices and retail, which cost up to 250,000 EUR and can generate annual yields of 8–10 percent.

Buy-to-let property, as an alternative form of investment, was popular in the pre-crisis period in Georgia, too, and market insiders note that such "investors" are gradually returning.

Nana, who lives in the Saburtalo district, says that in the five-story building where she lives, as many as 12 out of the 15 one-bedroom apartments are rented out. "They never stay vacant," Nana noted, and added that when she tried to find a two-bedroom apartment for rent for her son's family, they tried unsuccessfully for a month. "Whenever we picked out an advertisement and called the owner, it had already been rented out."

"Since 2010 we have seen an increase in both prices and sales. It's a slow growth but still- it is growth," says Kote Gabrichidze of IMP Georgia, a Tbilisi-based consulting company.

The growing demand, which is observed both for commercial and residential space, in particular in the high class segment, drives costs high.

High-end residential space prices in Tbilisi increased to $1600 from $1300 in 2007, according to a December 2012 report on the real estate sector prepared by Jones Lang LaSalle, a US-based commercial real estate services provider, IPM Georgia, and Tbilisi Municipality.

During the same year, the cost of monthly rentals at prime shopping centers also jumped from $75 per square meter to $92.

IPM's research illustrates that over the past several years average shopping center rates have mostly stablized at $34 per square meter in 2012, down from a high of $45 per square meter in Vake's Chavchavadze and Saburtalo's Pekini during the boom period of 2007.

Aghmashenebeli Avenue in Dighomi is also gaining popularity for retail space - especially since the opening of the 72,000 square meter Tbilisi Mall in April 2012.

"Rentals are quite successful: 64% of the space has already been rented out and in total, we have 80 tenants," says Mariam Kutateladze, Marketing Manager at Tbilisi Mall. The average rental price at the mall is $45 per square meter.

The developer of the project, Rakeen, allowed a large number of fashion stores into the Georgia Retail Group, such as Zara, Banana Republic, Gap, and a range of other international brands. In September, the hypermarket anchor Carrefour opened there.

"On average, the consumer flow [at Tbilisi Mall] is 25,000 a day and the opening of five more new brands is already planned," Kutateladze added.

He noted that the developer's "expectations" have already been met.

Experts underline that Carrefour's entry to the market should attract other big names.

"Carrefour's choice to open in Tbilisi highlighted a very positive outlook for the Georgian market," Kote Gabrichidze (of IMP Georgia) said.

According to him, "quite a serious demand is starting to appear for big-box retail parks."

Located on the motorway known as the Kakheti Highway, which connects the city center with Tbilisi international airport, , the East Point mall expects 70,000 potential consumers to pass daily.

That volume of traffice would provide commercial brands with impressive visibility.

"At present, leasing negotiations are underway with several domestic and international companies, and we are receiving very positive intentions and feedback," Gorgodze, the director of sales andmarket at East Point said.

East Point has already reached agreement with Goodwill, Georgia's largest food retailer, for the opening of an 8,500 square meter store which will include a 6,500 square meter hypermarket. There are plans for adjacent service boutiques, as well.

The first phase of the development will encompass some 65,000 square meters of constructed area accommodating a hypermarket, a DIY (Do It Yourself) store, – an electric and white goods super store, and a 27,000 square meter outdoor fashion mall. The plans include a parking lot with over 2,000 plances, as well.

The developer is covering the entire cost of the project- approximately $50 million.

Bernhard Karpf: A discussion about Tbilisi architecture

Bernhard Karpf, an Associate Partner with Richard Meier & Partners, gave a series of lectures in Tbilisi on contemporary architecture as part of the Paradigms of American Architecture program sponsored by the U.S. Embassy in Georgia in cooperation with Lena Kiladze - Studio L. Investor.ge spoke with Karpf about the role architecture has in urban design and modern architecture in Tbilisi.

Bernhard Karpf, an architect with one of the top architecture firms in the world, helped design the Burda Collection Museum in Baden-Baden, Germany, and the Canal+ Headquarters in Paris, France, among other buildings. Tbilisi, he noted, is a city where one feels its "historic roots" – and contemporary architecture should add to, not diminish, that quality.

"What I find interesting about cities like Tbilisi is that they have a history," he said. "There is a certain visual character about the city. You just want to make sure that when you build something in that city, ... make sure you actually tie it in…[make sure you are] adding another layer; a contemporary layer to the city without ignoring or destroying what was there before."

Karpf met with city planners and architects, as well as architecture students, during his trip to the city in March. In addition, he gave a public lecture on architecture.

He noted that while economics and money play a pivotal role in a city's development, making a profit from a building should not be the only goal.

"The whole process of putting money into the development of a city like this should not just be about making money… there should be something more…a contribution to society, a contribution to the place; to the culture of the place," Karpf said.

"I think the smart developers have understood that, and there are plenty who don't understand that. If, as an architect, I could wish something, I would wish that developers understood that a little better."

Young Georgian architects, he said, should play a role in how the city's horizon develops in the future.

"[G]iven the recent developments over the past 10-15-20 years they [the government] are in a position to make good decisions for [the country's] benefit," he said.

"[W]e can contribute as architects…I hope there is something coming out of there that will put Georgia on the map, and Georgian architecture on the map."

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Abashidze: Talks with Russia Could Boost Investment

Ambassador Zurab Abashidze, the government's special envoy for Russia, spoke to Investor.ge about the small diplomatic steps that could lead to business and cultural relations between the two countries.

Four years after Tbilisi broke diplomatic ties with Russia – and nearly seven years after Moscow banned Georgian products from its market – the two countries are discussing ways to work together.

"We are speaking about the first steps out of the deadlock. It is not yet resumption; it is not yet political process. We started by just talking on certain issues like trade, transport, culture, and some humanitarian issues, and we will see if there is any chance to go forward," Ambassador Zurab Abashidze told Investor.ge.

"So far, we are just in the initial talk stage."

Abashidze and his Russian counterpoint Deputy Russian Foreign Minister Gregory Karasin have met twice so far – and plan a third meeting in Prague in May.

The discussions have been slow and pragmatic, he said, focusing so far on trade and culture.

"There are a lot of Georgian interests in trade and commerce…it is a huge market, a big country. We produce wine, they love wine. We produce fruits and vegetables – they like such products," he said.

"They are fond of sun and sea and having fun and we intend to be such a country, a good touristic route."

While Russia is an attractive market, Abashidze noted that better relations between Tbilisi and Moscow could encourage more investment in Georgia.

"The reduction of political tensions will also stimulate many people in Russia; many Georgians who are willing to invest in Georgia. Previously, they had political restrictions from both sides… Now this is changing," he said.

"The reduction of political tension also invites investors. No investor will come to a country which has such terrible relations with Russia, with the threat of military conflict. Who will invest money? That is not realistic."

Abashidze cautioned, however, that reducing tension will take time and pragmatism on both sides.

"We are trying to introduce some pragmatism in our foreign policy," he said. "In my opinion this is a pragmatic approach: to improve relations with Russia as much as possible, and I would like to underline that - as much as possible."

Common interests, not friendship or emotions, should define relations between states, Abashidze stressed.

"I am not very fond of using this word friendship between two countries. There might be friendship between people, between groups of people, but states are usually linked with state interests," he said.

"So we are trying to identify now those common interests … at some point we will see what is next on ...the horizon...in this part of the world one says one thing at the beginning of the road, and one speaks another language at the top of the mountain."

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Ford in the extra heavy duty truck segment - the Cargo 1846T, has been formally presented to the press in a launch ceremony in Izmir, Turkey. Engineered by Ford's Turkish division, Ford Otosan, the new model represents the entry of the brand into the heavy commercial vehicle market along the lines of its "One Ford" strategy which envisions sharing the design of development workload between Ford subsidiaries worldwide to create more globalized vehicles. The Turkish designed 1846T will be manufactured both in Ford Otosan's Inonu plant in Eskisehir as well as Ford's Brazilian plant. "Ford Otosan will be responsible for the development of Ford's heavy truck product range," according to the Director General of Ford Otosan, Haydar Yenigun. "Over 400 Ford Otosan engineers have worked on the Cargo 1846T model for more than 3 years," Yenigun said at the launch ceremony, adding that the development cost of the vehicle was around USD 75 million. Ford Otosan aims to sell 3,000 of the new truck in 2013, 500 of them to export buyers in Russia, Eastern Europe, Turkic Republics, North Africa and the Middle East.

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S-P-E-L-L-I-N-G to Learn

The first annual National English Spelling Competition finals were held at the National Youth and Children's Palace on March 30 in Tbilisi.

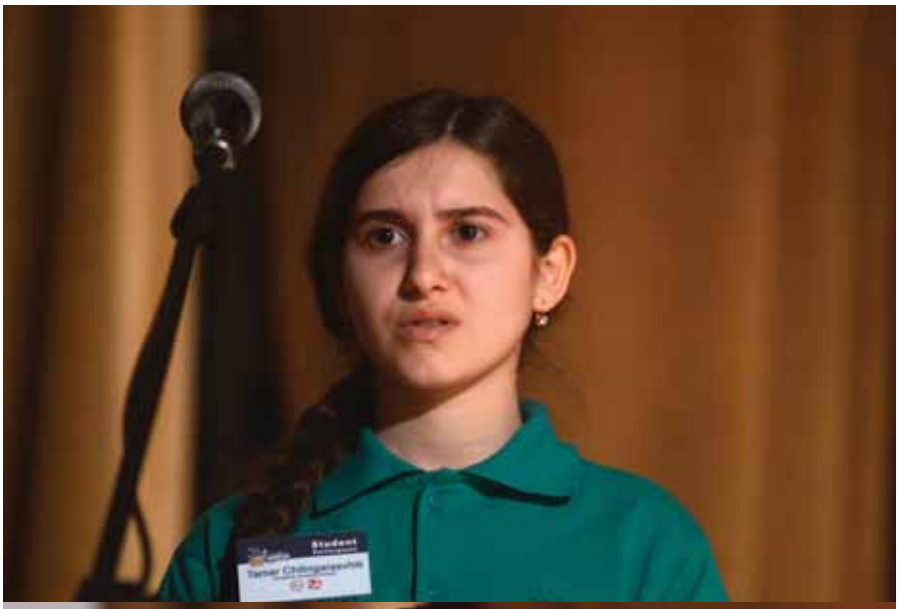
The competition was the final round of a year long project to help motivate Georgian children to learn English. Initiated by Peace Corp volunteer Adam Malinowski last year, the spelling bee started with local competitions in more than 126 schools around the country, with over 2400 students. On March 30, 34 top spellers from nine regions around Georgia came to Tbilisi to compete for iPads, iPods, free English classes, and other prizes.

The three winners for the 8th and 9th grades were: 1st - Sopho Tsikoridze, Kutaisi;

2nd - Tatia Kakhetelidze, Khashuri; and 3rd - Diana Baboyan, Akhaltsikhe. The three winners for the 10th, 11th, and 12th grades were: 1st - Nana Ghonghadze, Tbilisi;

2nd - Tamari Mtchedlishvili of Tetritskaro; and 3rd - Ani Talakhadze of Kvibisi.

The spelling bee's partners and sponsors include the Free University of Tbilisi and Agriculture University of Georgia, Rico Credit, World Vision Georgia, U.S. Embassy, The Ministry of Education and Science of Georgia, Peace Corps Georgia, American Corners, ETI, British Council Georgia, and American Friendship Club.



Sataphliasaurus, Georgia's Dinosaur

It may not be as famous as the T-Rex or the Brachiosaurs, but Georgia's Sataphliasaurus is a treat for travelers looking to escape the capital for the day.

HELENA BEDWELL

Lasha, a guide at Sataplia National Park, works every day to amaze locals and tourists with the 125 million year old dinosaur footprints, magnificent cave, and Kolkhi forest spread over the 300-acre subtropical climate reserve in the Black Sea country of Georgia.

"What makes our Sataplia remarkable is the fact that there are footprints of both kinds of dinosaurs- carnivores and herbivores, together," he said. "More than 150 footprints [are here] and there will be more underneath."

Several dinosaurs make noises in the woods. Kids scream and run for shelter, even though they know full well that they are plastic replicas. Lasha tells children to be quiet and not to touch the replicas. "They are very valuable," he says.

135 million years ago, Sataplia was just the lagoon beach of a warm ocean, where these two to five meter tall dinosaurs simply walked about. Their footprints then dried on the seabed and stones, simple as that, according to Vaso Gabunia, a Tbilisi scientist.

Until 1925, however, no one knew about Georgia's dinosaur past. Naturalist Petre Chabukiani discovered a cave in the area in 1925 but it wasn't until later, in the 1930s, that he found the first dinosaur footprints. The Sataplia Nature Reserve was created to protect the geological, speleological and botanical monuments. Gabunia is confident that there were three kinds of Sataphliasaurus, a name which was adopted in the 1950s. The Soviet government, however, did not do enough

to preserve the footprints, noted Gabunia: although one million rubles were allotted for the park, the bulk of the funds were spent on administrative buildings, not covering the footprints. Gabunia noted that some irreparable damage was done to the location, although now the government is working to conserve the footprints that remain.

And even if the Sataphliasaurus footprints have been eroded by time and the ignorance of Soviet management, they are still clearly visible and enjoyable.

"I guarantee there will be more findings," said Gabunia. "More excavations are necessary by all means to unveil more secrets of this place."

"Georgia has spent over 7 million lari since 2007 on Sataplia Nature Reserve to make it more attractive and interactive for the tourists," Giorgi Shonvadze, chairman of the Agency of Protected Areas, said in an interview in Tbilisi. "Now it's fully operational for everyone to enjoy."

The newly renovated preserve, funded by Georgia's government and companies such as BP, consists of a cave with upright stalagmites and down-growing stalactites, located 360 meters above sea level, a trail through a Colhic type of subtropical forest, and 150 dinosaur footprints.

The cave enjoys a perfect micro-climate of +14C, and visitors literally gasp looking at the stalactites, stalagmites and "curtains", and the arched ceiling within the largest domed hall in the cave which features a huge stalagmite in the center.

This is a no place for the faint-hearted, the tour guide often jokes, because of regular sightings of live organisms such as mollusks, blind crayfish, spiders and worms. Shonvadze agrees that for the Soviet system, it was much more convenient to keep the place slightly under wraps – it was largely left to Russian health tourists visiting spas in nearby Tskaltubo, and practically unknown to the rest of the world. Relocation of Georgia's Parliament to the country's second largest city, Kutaisi, and the turning of it into the second capital of Georgia, will definitely boost the significance of this place, Shonvadze said.

The numbers of both visitors and revenue have increased since 2010: as many as 87,000 visitors were seen in the area in 2011, according to data provided by the Ministry of Environment.

Helena Bedwell covers Georgia for Bloomberg.

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10 Things You Didn't Know About... Tourist Tours in Tbilisi From the Past

Day in, day out – seeing the same city every day can chip away at its charm. Thanks to the diligent Alexander Bainbridge and his website, www.batsav.com, Investor.ge is proud to offer excerpts of how foreigners saw Tbilisi in 1914 according the Baedeker's Guide Book for Russia.

1. Where to stay in 1914:

Tbilisi is Route 66 in the guidebook, tucked between an entry on the trip from Batumi to Tbilisi (or Tiflis, as the city is referred to) and advice on traveling to Baku. After listing the train routes to and from the city, Baedeker provides an insightful run-down of hotels tourists might enjoy. At the London Hotel and the Orient, English, French, and German were spoken. For those loving to mingle with the locals, however, the guide recommends Hotel Kavkaz, which Georgians were known to "frequent."

2. A city in the valley:

Baedeker describes Tbilisi in minute detail: "Tiflis or тифлисъ (1495 ft.), Georgian Tbilisi or Tbilizi Kalaki, the capital of the viceroyalty of the Caucasus and of the province of Tiflis, and the headquarters of the 1st and 2nd Caucasian Army Corps, stretches for a distance of about 7 M. along a narrow valley 1-1½ M. in width and enclosed by barren mountains 2300-2460 ft. in height. Pop. 350,000 (Armenians, Russians, Georgians, &c.). Latitude 41° 13' N., long. 44° 48' E of Greenwich." The guide goes on to note that the best season to visit is autumn, and that the city is hot in the summer.

3. What to eat:

Evidently not much has changed in the average tourist menu: the Baedeker thoughtfully explains national dishes like "shashlúik , basturmá (beef roasted on the spit), tchikhirtmá (soup with mutton or fowl, saffron, and other spices), lokó (boiled fish from the Kurá), and plov (the Turkish pilau)."

4. Getting around:

Travelers to Tbilisi in 1914 were advised to take an electric tram or a horse driven carriage while seeing the sites. Baedeker noted the tram routes (chief intersecting points were the Erivánskaya Square and the Samánnaya Square) and average prices for carriage rides (prices in rubles and kopeks – the national currency of the Russian Empire in 1914):

From the rail. station to the town (if the train is more than ½hr. late, 30 cop. is charged for each additional ½ hr. of waiting) - 75 cop.

From the town to the station - 50 cop.

Per drive - 50 cop.

Per hour - 1 rb

To the Mushtaïd Gardens or to the Botanical Gardens - 80 cop.

5. If you get sick:

If you think it is hard to figure out medical care today, in 1914 Baedeker had you covered – if you spoke German: "(German-speaking). Dr. Von Haffner, Torgóvaya 10; Dr. Kirschenblatt (internal diseases), Xénievskaya 6; Dr. Maissuryánz, Loris-Mélikovskaya 9; Dr. Mykirtchyánz (ladies' doctor), Bébutov

St. 58; Dr. Rosenbaum (surgeon), St. Michael's Infirmary.—DENTISTS. Helmrich, Golovínski Prospékt 41; Dr. Mykirtchyánz (see above).—BATHS at the foot of the fortress; fee to the masseur (Тёрщикъ)."

6. Places to go to meet people:

If you were in town to socialize, Baedeker listed several clubs visitors might want to consider, including the German Club and the Armenian Club, as well as the Kruzhok (introduction and fee required) and the Artists Club where guests could enjoy concerts and a garden.

7. A perfect day:

In 1914, it appears tourists enjoyed the same sites foreigners love today. On the first day of their trip to Tbilisi, Baedeker recommended travelers experience the Convent of St. David and the bazaars, followed by an afternoon at the sulphur baths, finishing with a stroll through the Botanical Gardens.

8. Sites to see:

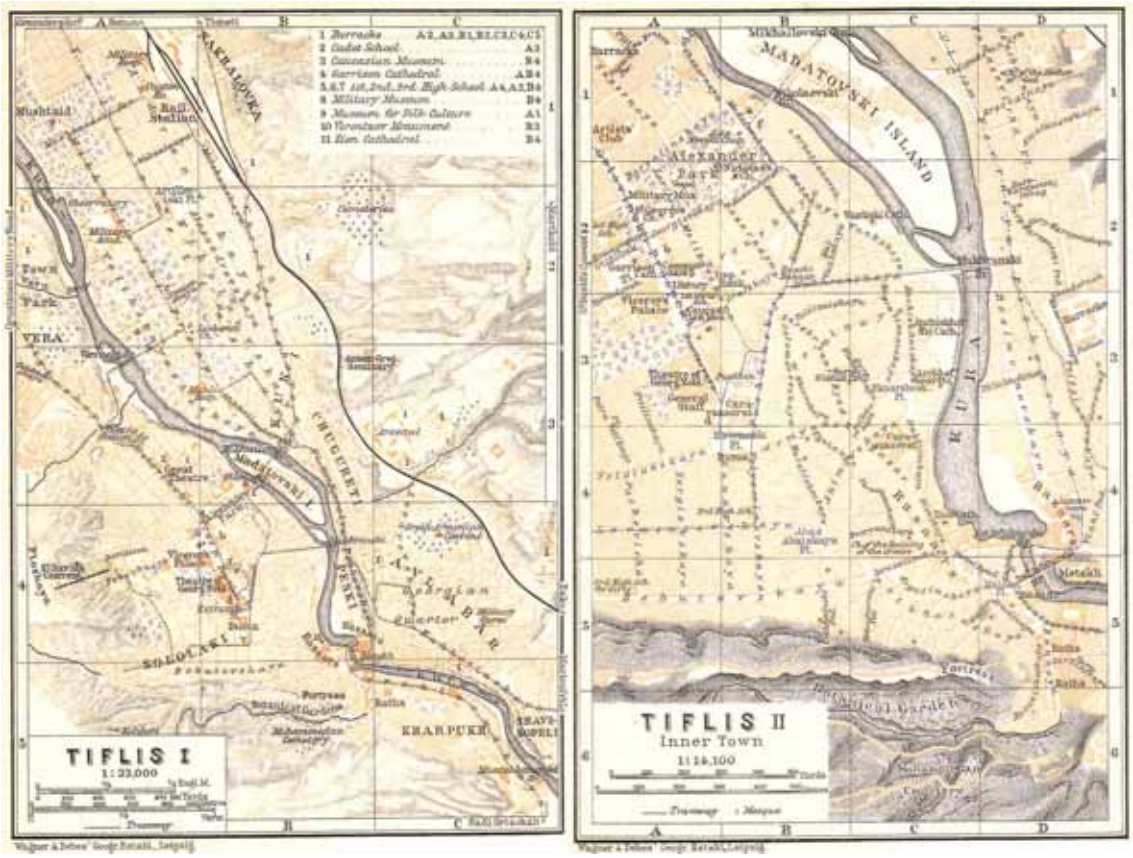
Baedeker divides the city by the Mtkvari River (known by its Russian name, the Kura) and by ethnic neighborhoods: the German Quarter, the Georgian Quarter, and the Russian Quarter. But the guide stresses that the best part of Tbilisi is the city's "street scenes."

"Perhaps the most interesting feature of Tiflis consists of the STREET SCENES in the native quarters. The streets are generally steep and often so narrow that two carriages cannot pass each other.

The houses, mostly adorned with balconies, are perched one above the other on the mountain-slope, like the steps of a staircase. From sunrise to sunset, with the exception of the hot midday hours, the streets are crowded with a motley throng of men and animals, walkers, riders, and carts … The most conspicuous elements of the population include the Georgian dealers in vegetables, fruit, and fish, with their large wooden trays on their heads; the Persians, in their long caftans and their high black fur caps, often with red-dyed hair and finger-nails; the Tartar seïds and mullahs, in flowing raiment, with green and white turbans (tchalma); the smooth-shaven Tartars, in their picturesque tcherkéskas and shaggy fur caps; and women never appear in the street without their veils. Among other features are the lively little donkeys bearing heavy loads or ridden by one or more men, and the horses carrying waterskins, with their gaily-clad attendants."

9. The bazaar:

Located to the south of the Russian Quarter, the bazaars were noted in the guide book as "a network of narrow ▸▸



lanes and alleys occupied mainly by Armenian and Persian dealers." Baedeker recommended a "hasty visit" especially "if ladies are part of the party." The guide book notes a carriage ride will last 90 minutes, and tourists should take a commissionaire "recommended by the hotel-keeper" for safety. For the brave at heart, however, the guide book has this advice: "Those who have more time will find it very interesting to stroll through the bazaars on foot, studying the various popular types at their ease. Among the most interesting features of the bazaars are the open workshops of the goldsmiths and armourers; the stalls of the small-ware dealers and pastrycooks; the bakers' shops, with their flat loaves baked in huge clay ovens; the cobblers' stalls, displaying their gaudy slippers; and the wine-merchants' shops, where the wine is kept in sheep or buffalo skins (burdyúk), with the hair inside."

Potential shoppers are warned that Tbilisi is a hotbed of fake Dagestani swords, and the best wine is from Kakheti. Travelers planning on making "extensive purchases" are advised to bring an "experienced inhabitant" to help haggle.

10. Getting out of town:

For the adventurous, Baedeker noted that the summer resort "Kodzhori" is about 12 miles south-west of Tbilisi (walking not recommended). "Udzó, with an old church, and the ruined fortress of Ker-Ogli both afford fine views of the Little Caucasus, up the valley of the Kurá, and of the high mountains. In the environs of Kodzhori are the ruins of several old Georgian churches, with frescoes and curiously decorated doors and windows (Betáni, Kabenski Convent, &c.). About 7 M. to the S. of Kodzhori is the German colony of Elisabethtal (ca. 3280 ft.; inn)."

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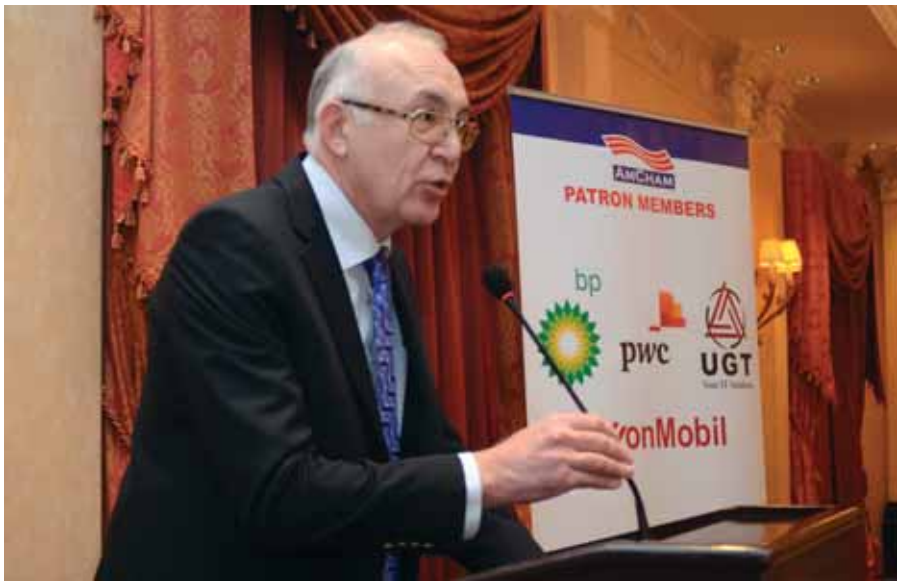

Ambassador Zurab Abashidze: Negotiations with Russia Move in "Small Steps"

Zurab Abashidze, the Special Representative of the Prime-Minister of Georgia for Relations with the Russian Federation, told AmCham members engaging Moscow in dialogue is a necessary albeit difficult task.

Abashidze spoke with AmCham members during the Chamber's monthly luncheon on March 13 at the Tbilisi Marriott Hotel.

A career diplomat who served as ambassador to Russia prior to the Rose Revolution, Abashidze has met with his Russian counterpoint, Grigory Karasin, twice since he was appointed late last year.

The meetings have touched on several issues, including trade and economic relations as well as Russia's visa regime with Georgia.

Moscow has announced plans to lift its ban on Georgian wine for approximately three dozen Georgian wine producers this year, and there are plans to open the Russian market to Georgian citrus and other products later in the year.

During the meeting, AmCham President Sarah Williamson introduced new member companies and made a brief statement about the Chamber's ongoing work on the labor code draft and AmCham board member Ketti Kvartskhava spoke about Chamber's work on the draft law on competition.

New Head GNIA Goes After Investment

Giorgi Pertaia, the newly appointed head of the Georgian National Investment Agency (GNIA), outlined the government's core strategy to attract foreign direct investment in a meeting with AmCham members on February 27 at the Sheraton Metechi Palace Hotel.

U.S. Ambassador Richard Norland opened the meeting with the embassy's regular update on current events and US-Georgia relations. The ambassador touched on several issues, including the US-Georgia Free Trade Agreement, during a question and answer session with members.

Pertaia, who previously served as the business ombudsman and deputy director of GNIA, detailed incentives for investors to come to Georgia during his presentation for members.

Pertaia stressed that while Georgia is a small nation, investing in Georgia gives companies access to a regional market of nearly 400 million, including CIS states, Turkey, and Europe. Georgia's numerous trade agreements with its neighbors, including attractive GSP agreements with the EU and GSP+ agreements with the US, Norway, Switzerland, Canada, and Japan, make investment even more attract for industry and trade-orientated businesses.

Pertaia also outlined key investment areas, including hydro power plants and tourism projects.

He noted that the number of visitors to Georgia has grown 40 percent year on year, with 4.5 million international arrivals in 2012.

Pertaia noted that most potential investors ask him about relations with Russia and judicial reform; he stressed that Tbilisi's policy toward Moscow is helping to relieve tension between the two countries and the new government is moving forward with plans to address concerns about the country's courts and judiciary.

IRI's Andrea Keerbs Presents IRI's National Survey

Resident Country Director of International Republican Institute (IRI) Andrea Keerbs met with AmCham members at Tbilisi Marriott Hotel to present the findings of IRI's first Georgian national survey after elections released couple of weeks ago.

The survey showed interesting developments and reflected changes in people's perceptions. According to the poll, unemployment remains the primary concern for the majority of Georgians and many believe the new government should address this issue first.

Threat of war and internal tension are major fears for the public, while the Georgian Orthodox Church, army and police remain the three institutions trusted most by Georgian society. The meeting was opened by U.S. Ambassador Richard Norland with the embassy's regular update on current political and economic events and US-Georgia relations.

IRI has been conducting polls in Georgia since May 2003, prior to the Rose Revolution. The randomly selected sample of 1,500 men and women was interviewed nationwide. The study was designed and analyzed by Baltic Surveys/The Gallup Organization.

AmCham Labor Relations Committee Working with Ministry on Draft Code

Following the approval of the working draft of the labor code of Georgia at a government session on Friday, March 1, AmCham called a Labor Committee meeting on March 7 to provide the committee members an update overview of the final draft and discuss some of the very important amendments that were suggested by AmCham and were not taken into consideration by the ministry of justice.

At the meeting labor committee members agreed on next steps to ensure continued lobbying efforts.

AmCham has been working extremely hard for the last couple of months on lobbying the interests of its members on amendment to the Labor Code. Lasha Gogiberidze, chair of the committee, along with other AmCham representatives, have had many meetings with the Ministry of Justice as well as the Ministry of Economy. Moreover, AmCham joined forces with all other large business associations to give a unified stance on issues of concern to their combined members.

AmCham Represents Voice of Business Community on Draft of Competition Law

Ketti Kvartskhava, a member of the Board of Directors of AmCham and a BLC Law Office Partner, chaired the competition working group meeting on February 28 to discuss the working draft amendments to the competition law as proposed by the Ministry of Economic and Sustainable Development of Georgia.

Some of AmCham's comments, based on meetings with the working group and close discussions with the economy ministry, have been included in the working draft law. Further input from AmCham, representing the interests of members will be put forward.

At this meeting, committee members went through each article elaborating the wording of the articles, developing commentaries and suggestions and pointing out articles that were unclear or ambiguous. AmCham will attend a roundtable to discuss the working draft of amendments, and represent members' concerns especially in regards to the definition of dominant position.

CLT Committee Reviews Discussions with RS, Ministry of Sustainable Economic Development

CLT committee members met on February 26 to discuss meetings with Lasha Khutsishvili, the head of the Revenue Service, and Natia Mikeladze, deputy economic minister, on issues with the tax code.

Both meetings were evaluated as extremely positive and constructive; officials welcomed AmCham's recommendations. BGI Legal's Lasha Gogiberidze also updated the committee members on the labor code and the recent developments with regard to proposed amendments.

The committee members also discussed the draft investment law and various provisions in the law. The committee is expecting a final draft from the ministry of economy to start active discussion of the law and form the position.

Margarita Zhiznevskaya Named New Head for CSR Committee

AmCham held a meeting of the Corporate Social Responsibility Committee on Tuesday, April 3. Interest was high with over 20 companies present at the meeting. At the meeting, Margarita Zhiznevskaya, Simple-as-That was announced as the new Chair of the committee. Michael Cowgill, Vice President of AmCham and former CSR committee Chair outlined the Board's commitment to the work of the revitalized committee. The committee discussed several goals

and strategies for the year 2013. These include a) assisting to develop a PR or advertising campaign to promote the image of businesses in Georgia (bringing economic development, employment, contributions to the budget, CSR and charity work, technical advances, etc.); b) to coordinate with the Anti-corruption Council under the Ministry of Justice on relevant anti-bribery and anti-corruption issues; c) to develop template Code of Ethics and Policy manuals for use by AmCham members and the wider business community; and d) ideas on how best to tackle IPR issues. For more information about this committee please contact the AmCham office.

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Founded in 2005 **Nodia, Urumashvili & Partners** have grown into one of the Georgia's leading law firms. The Firm has a successful practice in corporate law, commercial law, tax law, banking and financial law, real estate, construction law and dispute resolution (mediation, arbitration and litigation), and preserves stable place in all international rankings that cover Georgia (IFLR1000, Legal500, Chambers Europe).

Last two years have been especially efficient for Nodia, Urumashvili & Partners. The Firm has significantly extended its clients baseinvolving large number of local and foreign industrial and commercial companies, all major domestic banks, international and domestic financial institutions and high net worth individuals. As a result, two senior associates of the Firm **Nino Bakakuri** and **Daduna Kokhreidze** were advanced to the position of Partners.

Nino Bakakuri

Nino Bakakuri leads the Banking and Financial Law practice of the Firm. She has the attorney's track record of 16 years and the judge's track record of 3 years. Prior to joining Nodia, Urumashvili & Partners she served as a judge at Tbilisi Appellate Court. She earned her LL.M. at Columbia Law School, Columbia University in the City of New York. Nino Bakakuri is admitted to practice law in Georgia and the State of New York, USA. She has considerable transactional, corporate, banking, financial and tax law experience.She is fluent in Georgian, English and Russian Languages.

Daduna Kokhreidze is with Nodia, Urumashvili & Partners since its incorporation and leads the Real Estate practice of the Firm. She has 10 years of attorney's track record. She is currently working on masters' degree in Construction Law and Dispute Resolution at King's College London, University of London. Her scope of activity spreads over real estate transactions such as acquisition, planning, development, design, construction and management, as well as corporate law and dispute resolution. She is an expert of FIDIC Contracts.Daduna Kokhreidze is fluent in Georgian, English and Russian languages.

Daduna Kokhreidze

Nodia, Urumashvili & Partners are pleased to announce that since March 5, 2013 Aleksandre Sukhishvili has joined the Firm as Partner.

Aleksandre Sukhishvili has extensive professional experience as a tax lawyer and is regarded as one of the most notable tax law professionals on the market.

Aleksandre Sukhishvili

Prior to joining Nodia, Urumashvili & Partners in 2011 Aleksandre Sukhishvili served on the position of a Head of Litigation Division at the Revenue Service of Georgia. In the years of 2005 – 2011 he worked as a lawyer and as a head of Legal Expertise Unit of Tax Department of Ministry of Finance of Georgia. Aleksandre Sukhishvili received his degree of a lawyer at Georgian Technical University Law Faculty in 2005.The main fields of his activity include tax and civil Law, administrative and tax litigation.He leads the Tax Law practice of the Firm in relation to such clients as ProCredit Bank, Bank of Republic, SocieteGenerale Group, GIMG (hotels and resorts), etc. Aleksandre Sukhishviliis fluent in Georgian, English and Russian languages.

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Goderdzi Janelidze has been a client of Crystal since 2010. He used Crystal's agricultural loans. With the support of Crystal, Goderdzi is continuously expanding and developing his greenhouse business.

JSC Microfinance Organization "Crystal" supports the development of micro, small businesses and agriculture in Georgia. Crystal was created by US investment bank "Developing World Markets" (DWM).

The Mission of Crystal is to offer a wide range of high quality financial services to micro and small entrepreneurs throughout Georgia.

The vision of Crystal is to become a leading microfinance institution known for: quality of service, innovative business model, cohesive corporate philosophy, focus on regional development and commitment to social responsibility.

The core values of Crystal are: Responsibility, Transparency, Access, Partnership and Professionalism.

Through the network of 19 offices, Crystal manages the loan portfolio of $17 million with total assets worth of $20.3 million and $6.5 million equity capital. The company serves around 17,000 active borrowers in 5 regions of Georgia.

In 2012 company's loan portfolio increased by 25% and the number of active borrowers grew by 39%. Despite such a dynamic growth, the portfolio quality remains to be one of the best in the sector: Portfolio at Risk (>30) is just 0.52%; the ratio of total rescheduled and restructured loans is 0.60%. Total write-off loans are at 0.60%.

Crystal offers a wide range of financial services to its customers, including: micro and SME loans (both for start-ups and existing businesses), currency exchange services, money transfers, remittances and utility payment services.

Crystal is funded by well-known international financial institutions, such as: EBRD, KfW, Commerzbank, IFAD, responsAbility SICAV, Developing World Markets, MicroVest, Oikocredit, Incofin, Rural Impulse Fund, Credit Suisse Microfinance Fund, Symbiotics, Micro Credit Enterprises and other financial groups. In October 2011, US investment bank "Developing World Markets" (DWM) became the first institutional investor and shareholder of Crystal.

For its high institutional standards and commitment to social responsibility and transparency, Crystal received several international recognitions, including: Platinum Award (highest grade prize) for its social performance reporting from MIX Market (in 2012); CGAP's Financial Transparency Award (in 2006); In 2011 Crystal won a "plain language loan contract" call by the Smart Campaign for Client Protection Principles in microfinance industry.

In December 2012 Crystal obtained "BBB" Microfinance Institutional Rating Grade with "Stable" outlook by Microfinanza rating agency. This was a grade 3 steps higher compared to previous rating (B-), which demonstrates strong achievement and organizational growth of Crystal.

For further information, please, visit
www.crystal.ge

"Crystal helped me to purchase more goats and develop the business; let me thank Crystal for having such high-quality service and giving a chance to farmers by providing them with necessary start-up funds". - Asmat Kardava

AMCHAM CELEBRATES

On February 22, the World Bank Group marked the 20th anniversary of its partnership with Georgia, a partnership that has made an important contribution to improving the lives of the Georgian people. A reception held at the National Parliamentary Library of Georgia hosted the Bank's many clients and partners including government officials, members of the parliament, representatives of donor and civil society organizations, private sector and all those who have been closely associated with the World Bank's two decades of cooperation with Georgia.
The student essay competition winners -- "Georgia Twenty Years from Now" -- were awarded certificates at a special ceremony during the reception.

AMCHAM CELEBRATES

SOCIAL PAGE

By spending an hour in the dark, Sheraton Metechi Palace hotel, and Sheraton Batumi Hotel, New Light, Georgia Today Group, Gulf, Ministry of Environment, CENN, UNDP, Beeline, AmCham, Teliani Valley, Lomisi and other companies will join millions around the world to send a powerful message about a brighter future for the planet.

This year Sheraton Hotels, together with increased number of partners, organized candle light party on the March 23rd in both hotels.

Hotel guests, media and officials enjoyed a special cocktail dedicated to the Earth Hour, where guest could enjoy live music of group.

SOCIAL PAGE

APM Terminals Poti opened an art center for kids on March 13. The new facility dedicated to children's creativity was just opened by Port of Poti.

In total 178 children will enjoy classes in singing, dancing, speech training, theater, guitar and history of art.

"APM Terminals contributes where we believe we add value, in this particular case with the focus on children and their development", said Tiemen Meester, Vice President, Business Implementation. "A lot of teachers are involved in trying to educate the children of Poti and we would like to think that with this building we have made their work a little bit easier."

APM Terminals Poti participates in local programs to improve social and economic conditions of the city, particularly in the areas of education, environment and health.

Board Of Directors 2013

Sarah Williamson, PRESIDENT
In Tbilisi since June 1998, Sarah Williamson is the co-owner and Vice President of United Global Technologies (UGT), the largest IT company in Georgia.

R. Michael Cowgill, First Vice-President
In his 12th. year in Georgia, Michael Cowgill is currently the President and co-founder of Georgian American University's business and law schools in Tbilisi, Georgia.

Irakli Baidashvili, Vice-President & Treasurer
Irakli Baidashvili is the Senior Vice President of GMT Group. The company is one of the largest US direct investments in Georgia, the owner of two Marriott hotels, production facility SANTE and several major real estate sites in Tbilisi .

Neil Dunn, Director
Neil Dunn is the general manager of BP Georgia since October 2008. He has 30 years of experience in the oil and gas industry, having various engineering and operations assignments.

Esben Emborg, Director
Esben Emborg has been in Georgia since 1999. He has worked a General Manager for Caucasus Region for Cadbury Schweppes and Nestle until 2008. Now he is working as Principal Partner for an Investment Fund (SEAF) that is currently managing a 30 mil USD portfolio of investments all over Georgia.

Lasha Gogiberidze, Director
Lasha Gogiberidze is a founding partner of BGI Advisory Services Georgia and the director of BGI Legal. Previously, Lasha worked at Ernst & Young's Georgian office. Lasha graduated from Tbilisi State University, has a LL.M. from the University of Illinois, and is licensed to practice law in NY state.

Badri Japaridze, Director
Badri Japaridze has been the Deputy Chairman of the Supervisory Board of TBC Bank since 1999 and the Vice-President of Georgian Glass and Mineral Water Co. (GG&MW) since 1995.

Steve Johnson, Director
Steve Johnson is the proprietor of Prospero's Books and the General Manager of The Hotel Betsy. Prospero's Books and Caliban's Coffee House is the leading English language bookstore in Georgia.

Ted Jonas, Director
Ted Jonas is the Managing Partner of DLA Piper's Tbilisi office. He advises clients on international business transactions, energy and infrastructure projects, government relations, and dispute resolution.

Ketti Kvartskhava, Director
Ketti Kvartskhava is a Partner of BLC Law Office. Her professional experience includes her work as a Commercial Law Advisor at the USAID Georgia and as an instructor at Tbilisi State University. She also worked as a Legal Counsel for the US-Georgian Commercial Bank JSC Absolute Bank and JSC Transcaucasia Bank.

Robin McCone, Director
Robin McCone is a NZ lawyer. He leads PwC's tax and legal practice in Georgia and Armenia. He has been with PwC mainly based in CEE countries for over 16 years. Prior to moving to Tbilisi he spent two years in New York as the leader of the CEE Desk. He looks forward to utilising his large international network in his role as a board member.

David Lee, Chairman Emeritus
David Lee is the General Director of Magticom, the largest telecommunications operator in Georgia and took up his position March 2004. David is also the Chairman of the Eurasia Partnership Foundation and is a Chartered Accountant with an MBA from Warwick Business School. A Russian speaker, he has worked extensively in the former USSR and served as a Royal Naval Officer for 9 years.

John Ashworth, Ex-Officio Member
John Ashworth is the Deputy Chief of Political and Economic Affairs and Senior Economic/ Commercial Officer at the U.S. Embassy. He worked previously in Uzbekistan, Barbados, and on the State Department's India Desk in Washington.

Betsy Haskell, Founding Advisor
Betsy Haskell is an 18 year resident of Georgia who started four successful businesses, and is currently developing a resort hotel and villas in the wine country. For the past 15 years, she has been the Georgia Contractor for Metrica, Inc, a US Treasury Department sub-contractor.

Amy Denman, Exec. Director
Amy Denman came to Georgia in 1996 from Chicago where she worked in the Marketing Department in the secondary education division of publishing company Houghton Mifflin. After working for the IFRC for a year, she became the coordinator then the founding Executive Director of the Chamber.

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