GEORGIA

By Interfax-CNA

Georgia's GDP grew by 4.5% in 2001. Gross value-added grew by 14.9% in the communications industry, 8.1% in construction, 36% in the financial services sector, and 34.4% in the hotel and restaurant industry. The figures also grew by 5.6% in agriculture, but slumped by 4.2% in industry.

Fixed capital investment in Georgia was down 5.2% year-on-year. Foreign investment accounted for over a third of overall capital investment at US$40 million, up 10.5% from 2000. The US made up 38.7% of foreign investment, against 19.5% the previous year. Turkey accounted for 25.2% of foreign investment, down 3.1% from the previous year. The British Virgin Islands made up a 23.1% share, Japan accounted for 0.6% and Germany for 0.3%. The World Bank contributed 12.1% of overall investment and the European Bank for Reconstruction and Development accounted for 0.1%.

Recently, Japan has become involved in the development of Georgia's minerals. The Japanese International Co-operation Agency (JICA) has been working on a general plan, to develop Georgia's mining industry for more than a year. Work on the general plan in conjunction with the Japanese specialists, should be completed by the end of this year.

Georgia's geological mineral reserves are thought to be worth nearly US$100 billion. But new approaches to rehabilitating the sector and developing it are needed. The model being proposed so far states that strategic raw materials could be privatised, but only to 49%. At the moment, Japan is focusing on ways to resurrect the gold and copper industries, which are the biggest hard-currency earners.

The Chiatura Manganese mining plant, the country's biggest manganese producer, is probably the most famous Georgian mineral producer. The Chiatura field now contains around 200 Mt of ore, of which 60% is recoverable through underground mining and 40% through strip mining. Of all manganese ores, 26.5% are oxides, 45.1% are carbonates, 15% are oxidised and 14.4% are mixed ore. Previously the main customer for the concentrate was the nearby Zestafoni ferroalloys plant, which at one time bought 60% of Chiatura's manganese output.

Copper

The copper industry is represented by the Madneuli mining and benefication plant at the settlement of Kazreti in Bolnisi region, southern Georgia. The company is the country's only producer of copper concentrate. The Madneuli deposit, which has been mined by open pit since 1974, contains the bulk of Georgian copper reserves. It contains around 460,000 t of ore, including 300,000 t of proven reserves, averaging 1.29% Cu. Madneuli processed about 1.5 Mt of copper ore and produced 57,000 t of concentrate in 2001. Output by value was about US$10 million, 14% more than in 2000.

The government, which owns 98% of the stock, is now drafting the terms for the privatisation of the Madneuli plant. The plant in southern Georgia was incorporated in 1994 and its charter capital is US$16 million. Switzerland's Glencore is likely to be among the favourites to acquire the controlling interest, and on several occasions has said it would bid in a tender for the shares. In 1997 the Swiss metals trader won a tender for the exclusive right to buy Madneuli's concentrate at world prices for a period of five years.

Steel

In 2001 the government was looking for an investor for the Rustavi Metallurgical Combine. Turkish investors were selected and will have the right to run the steel mill while they are carrying out upgrades, and then to buy 98% of the shares from the government for a token amount. Work on a contract between the parties is already under way. The steel mill was incorporated in February 1996. The state owns 98% of the shares and employees 2%. Fixed assets are valued at US$152 million.

Switzerland's Conal AG, in a consortium with Germany's Fuchs System Technik and MSM Meer, had been under consideration. Their offer was preferable, but it had to be rejected as the consortium failed to present financial guarantees for the steel mill's rehabilitation by the deadline. The Turkish group, though, presented guarantees from the Turkish Government that had been confirmed by an official letter.

According to the initial offer, Chukurova Holding, in which Erdemir, one of Turkey's biggest steel mills, was encouraged to participate, proposes to invest US$85 million in the Rustavi combine. It guarantees to restart idle capacity at the Rustavi mill before 2010. The Turkish company is willing gradually to clear debts to foreign creditors, which account for just over half of the Rustavi mill's total indebtedness of US$101 million. The creditors include Chukurova itself, to which Rustavi owes US$13 million, Russia's Gazprom and the international Itera Energy Corp.

Coal, Oil, Natural gas

Georgia produces very little coal, oil and natural gas, which makes it reliant upon imported fuel, mainly from the neighbouring CIS countries. World Bank officials have said that Georgia must create the conditions to enable further financing projects to develop the energy sector. International financial organisations have provided US$100 million in long-term low-interest loans to finance a programme to rehabilitate and develop Georgia's energy sector. The programme was drawn up by the World Bank, USAID, and the Georgian Government. However, due to the crisis in the industry the release of the money was suspended.

Oil reserves in Georgia are preliminarily estimated at 600 Mt, including 200 Mt on the Black Sea shelf, and up to 125 billion m^3 of gas. Geological oil reserves total 3,300 Mt, with 2,000 Mt onshore and 1,300 Mt offshore. Industry experts estimate oil reserves that can be developed total 1.112 Mt.

Oil production in Georgia in 2002 should remain at the same level as in 2000-2001, when the republic produced 110,000 t. The forecast for 2002 is based on actual work by oil companies currently exploring and producing hydrocarbons in Georgia. The leading producer will continue to be the Georgian-UK joint venture GBOC (Canargo holds about 40% of shares), which produced 60,000 t of oil in 2001. Georgian-Swiss Ioris Valley produced 20,000 t of oil last year and Georgian-German Georgoil Servis - 11,000 t. The oil and gas department at Gruzneft produced over 6,000 t in the reporting period.

Other companies set up in Georgia with the participation of foreign partners are currently busy prospecting and exploring fields, these include Georgian-US Frontera Eastern Georgia and Andarco Georgia and also Georgian-UK Ramco Kakhed O.L. According to a programme developed by Gruzneft based on investment projects being carried out by oil joint ventures operating in the republic in 2001-2005, it is planned to produce up to 4 Mt of oil in Georgia.

Seven foreign companies are conducting oil and gas exploration in Georgia at present. The companies that are licensed to develop several blocks have invested more than US$150 million since 1995 and produced 685,000 t of oil.

Canada's Canargo expects to find a reservoir containing as much as 20 billion m^3 of gas at the Ninotsmindi field in Georgia. Canargo has been stepping up its work at the Manavi oil field, which seismic exploration indicates holds a large amount of natural gas. A single well to 4,000 m could yield as much as 1.5 Mm^3/d of gas.

Canargo intends to start drilling another such well at the Norio field in the Gabardan district. It has already obtained a licence from the Georgian Oil and Gas Reserves Regulatory Board to prospect for oil. According to a business-plan for 2001-2005, Canargo plans to produce 540,000 t of oil and 1.74 billion m^3 of gas in Georgia. Canargo has been on the Georgian gas market since 1996, and has invested US$70 million.

Meanwhile, Georgia's state agency for oil and gas resources is planning to call an international tender for the right to conduct oil and gas exploration on several blocks. The agency and the US company P.A. Consulting, a contractor for USAID, are working on the documents for the tender. Georgia has issued licences to develop seven of the country's 14 blocks. According to Georgian officials, foreign investors might be interested in Adzharo-Meskhetinsk region, which covers 6,350 km^2, Imereti (6,800 km^2), Trialeti (4,750 km^2), Dzhavakheti (4,400 km^2) and other regions.

The state agency that regulates oil and gas resources in Georgia has drawn up new rules for oil companies based on international standards. The new rules are in line with the rules of operation for companies in the US, Canada, and Norway. The rules outline relations between the state and oil companies and investors, simplify a number of technical procedures, and simplify the settlement of any disputes that may arise between oil companies and state organisations, and set higher safety standards. Georgia began working on the new rules more than a year ago with support from USAID. Oil and gas companies working in Georgia helped draw up the new rules. The rules took effect in mid-January 2002 as part of an experiment for several oil and gas companies working in Georgia.