GEORGIA

By Interfax-CNA

Georgia's GDP grew 5.4% in 2002 compared with 2001. The overall growth was fuelled mostly in increases of 7.8% in industry and 28.2% in construction, which accounted for 12.7% and 4.5% of GDP respectively. Transport accounted for 11.4%. Agricultural output fell 0.1%, and accounted for 18.3% of GDP, 2.3 percentage points less than in 2001.

Official industrial output grew by 7% in constant prices in 2002. Manufacturing output grew 19.2% and constituted 58.3% of total industrial output. Extractive industry output fell 5.2%. Georgia increased production of copper, manganese and quartzites, oil products, fertilizers and nitrous compounds, cement, sugar, mineral water and non-alcoholic beverages. However, output of crude oil and natural gas, building sand, finished metals, gypsum, tea, wine, beer and tobacco goods, all fell.

Georgia's foreign trade deficit totalled US$395 million in 2002, 8.5%, more than in 2001. Exports rose 1.5% to US$325 million and imports went up 6.1% to US$720 million. Georgia's main exports were aircraft (13.7%), scrap ferrous metal (9.7%), and gold (8.8%). The biggest imports were oil and oil products (12.1%), medicine (6.4%), natural gas and gas hydrocarbons.

Georgia's State Geology Department estimates the country has mineral resources worth US$90 billion, and analysts estimate that an investment of about US$650 million in the development of the resource base would have an economic impact of up to US$10 billion.

A general 15-year plan for the development of Georgia's mining sector was unveiled at the Economics, Industry and Trade Ministry in December 2002. Work on the programme had been carried out over two years, and included studies of the country's main mineral deposits and the outlook for their ecological rehabilitation and development. The mining sector is supposed to grow to at least 10% of the nation's GDP by 2017 from 2.5% at present. The programme is to be implemented in three, five-year phases. Specialists from Japan's International Co-operation Agency took an active part in developing the programme. Experts from the agency think that, first of all, Georgia needs to combine the three state organisations that now work in this sector. The country also needs to improve legislation in order to streamline the tax system and make it competitive. Procedures need to be simplified for holding international tenders and issuing mineral development licences.

In December 2002, Georgia's parliament passed amendments to the oil and gas law that was adopted in 1999. The amendments were drafted by the State Agency for Regulation of Oil and Gas Resources with support from USAID. The amendments are aimed at extending legal regulation to investors that produce and transport oil products in Georgia, as well as creating a favourable investment climate in this sector. The amendments envisage the creation of an effective mechanism for government regulation of the oil refining industry, and the formation of a flexible tariff and licensing system in the country that would stimulate production of high-quality oil products.

Manganese, ferroalloys

Chiaturmarganets, the country's biggest manganese producer, is probably the most famous Georgian mining company. The Chiatura-Sachkhera manganese field, is thought to contain more than 200 Mt of ore and is regarded to be one of the finest deposits in the world on the strength of its ore properties and geological location.

Chiaturmarganets signed a deal to supply 120,000 t/y of ore to Delta Export Ltd of Singapore. The Singaporean company will make pre-payment of US$60/t for the supplies and ship them through the port of Poti to Ukraine for the Nikopol Ferroalloy works in the Dnepropetrovsk region. Originally, Delta was prepared to buy 200,000 t of concentrate. But the ministry said it also had to supply its long-standing partner in Georgia, the Zestafon Ferroalloy Works. The contract with the Singaporean company states that if the Zestafon works is not ordering enough concentrate, the company would undertake to buy more than 120,000 t. It is thought the contract with Delta Export will earn more than US$7 million for Chiaturmarganets, which will be able to issue back-pay and start clearing tax debts which total Lari35 million.

Zestafon Ferroalloys Plant used to be the key consumer of manganese produced by Chiaturmarganets. Chiaturmarganets has been experiencing serious financial troubles recently, and Zestafon has similar such problems, though to a lesser degree.

Meanwhile, the Georgian Government's 79.9% stake in Chiaturmarganets and 51% stake in Zestafon Ferroalloys Plant will be offered in an international tender. One of the main conditions of the tender will be that the investor must buy manganese from Chiaturmarganets for production of ferroalloys at Zestafon. Georgia is now continuing preparations to merge Chiaturmarganets and Zestafon, its main customer. A comprehensive plan has been worked out to attract investment.

The Swiss company, Novarco AG, owns 25% of Zestafon Ferroalloys Plant, Wadebridge Ltd of the UK holds 20.3%, and Ronly Holdings Ltd, also of the UK, owns 1%. Another 2.7% of stock is held by Georgian legal entities and private individuals.

Copper

Georgia's copper industry is represented by the Madneuli Copper Co. and its mining and benefication plant in the settlement of Kazreti, 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. There is an estimated 460,000 t, including around 300,000 t of proven reserves, averaging 1.29% Cu.

The Georgian Property Ministry plans to announce an international tender offering 75% of Madneuli Copper Co. The terms of the commercial tender have been virtually finalised and approved by the Economy, Trade and Industry Ministry, and the Environment and Natural Resources Ministry.

Glencore International of Switzerland is a potential investor. The Swiss company won a tender in 1997 and received exclusive rights to purchase Madneuli copper and barite concentrate for five years at world prices. In summer 2002, when the contract neared its completion, Glencore submitted a bid to the Property Ministry to buy the controlling stake directly.

Steel
Rustavi Metallurgical Combine, Georgia’s only steel plant, remained in a poor financial state during 2002. The mill is more than US$100 million in debt, and more than half of this sum is owned to foreign creditors. The state owns 98% of the shares and employees 2%. Fixed assets are valued at US$152 million.

The Property Ministry has called for tender offers for the right to manage the combine in return for investment in upgrades and the payment of debts. Candidates have included Swiss financial group Conal AG in a consortium with Germany's Fuchs System Technik and MSM Meer, and Turkey's Chukurova Holding, Italy's Lukini group, and Ares International of Italy.

In particular, the Lukini group has tabled plans to upgrade Rustavi and revamp the company's management. Lukini, which is already involved in rehabilitating the mill, has produced a 15-year plan to resuscitate equipment which has idled for more than two years. Lukini is prepared to run the mill with a view to getting in motion the whole production cycle, which includes smelting iron and steel. The Italian group is prepared to raise US$130 million in capital to make this possible.

Ares International of Italy, one of the bidders to run Georgia's Rustavi Metallurgical Combine, is promising to build a new steel-melting complex. Ares claims that the new complex, with an annual capacity of 500,000 t of steel could be built within 18 months. It would cost €40 million, which Ares International would raise. If the new complex replaces the obsolete open-hearth furnace that has been sitting idle for almost ten years, it would extend the life of the steel mill by at least 50 years. Also, with its own steel-production division, the mill would no longer have to import billets for the pipes it makes. Specialists calculate that producing billets on site would be US$100/t cheaper, and would boost the mill's international competitiveness.

Ares International has also worked out a 15-year programme under which the Italian company and its partners would raise up to US$240 million of investment to rehabilitate the whole of the Rustavi complex.

Coal, oil, natural gas
Georgia produces very little coal, oil and natural gas, and is therefore reliant upon imported fuel, mainly from neighbouring CIS countries.

Oil production in Georgia in 2002 fell 25.2% from 2001 to 73,900 t. The reason for the drop in production in recent years is the fact that production is taking place mainly in old fields with limited and already explored reserves. The development of new geological blocks, considered promising by geologists, requires large investment, but foreign oil companies are not yet rushing in. An exception is the US company Anadarco, which plans to drill a first exploration well off the Georgian Black Sea coast this year. The remaining four foreign companies that have set up joint ventures with Gruzneft are continuing to operate old wells in their contract zones.

Oil production by Georgian-UK company GBOC fell 30% to 40,000 t in 2002. Moreover, the company produced 13.4 million m^3 of gas compared with 35 million m^3 in 2001. Georgian-Swiss Joris Valley produced 20,300 t of oil last year. Georgian-US company Frontera Eastern Georgia, Georgian-German GeoGerOil and also the oil and gas production unit of Gruzneft all produced a little over 4,000 t.

Meanwhile, the Canadian-UK Canargo-Norio has started to develop a new oil and gas field in eastern Georgia. The Georgian Agency for the Regulation of Oil and Gas Resources transferred to Canargo-Norio management a licence for the development of two geological blocks near Tbilisi, for a period of 25 years. The blocks are located in Mtskhetsky, Tetritskaroisky and Gardabansky regions and cover an area of 300 km^2 and 186 km^2 respectively. Canargo-Norio received the right to develop the blocks following an international tender announced in summer 2002.

Georgia's oil production in 2003 is forecast at 80,000 t.

