GEORGIA

By Interfax-M&CN

Georgian GDP increased by 1.9% in 2000, and industrial output rose by 10.8%, while agricultural production slumped by 15%. Industrial output as a share of GDP grew by 4.7% to 13.3%. The country's 52 largest industrial enterprises accounted for 38.3% of total output. Of the country's existing 2,840 large and mid-sized industrial enterprises, 797 did not function in 2000. Output compared with 1999 was up 10.7% in manufacturing, which produced 54.7% of industrial output; 75.6% in mining and quarrying, which accounted for 38.7%; and 4.7% in electricity, gas and water supply.

Capital investment in 2000 fell by 4.2% in current prices. Foreign investment last year was down by 30.1% from 1999. Last year US$61.1 million in foreign investment was absorbed. Of this, 28.3% came from Turkey, 19.5% from the US, 17.3% from Canada, 15.9% from the World Bank, and 10.1% from the Netherlands. The bulk of foreign investment went into the power sector, mining and manufacturing, transport and communications.

In January 2001, the International Monetary Fund approved a US$141 million three-year loan programme for Georgia to fight poverty and stimulate growth. The Georgian Government's three-year economic programme (approved by the IMF) calls for creating the basis for economic growth by solving poverty and servicing foreign debt. Under the programme, GDP will increase by 3.75% this year, compared with 1.25% in 2000, and inflation will be 6%. The budget deficit will be trimmed to 2% of GDP from 4.5% in 2000.

Georgia does not possess a large mineral resource base. Nonferrous and precious metals reserves have been reported to account for around 13% of the country's known mineral resources, and their total value is estimated at around US$11.1 billion. However, only 6% of these resources are under development. For example, Gruzgeologiya, a state-owned geological enterprise, has listed total known resources of around 260 t of gold and over 1,500 t of silver in the country. Nevertheless, Georgia's output of gold and silver is very small.

In March 2001, Georgia's State Agency for the Regulation of Oil and Gas Resources, which has been regulating the oil and gas industry since 1999, was given broader powers under amendments to the law on oil and gas. The agency now has the opportunity to manage the industry more effectively. The agency previously drafted regulations that were submitted to the president for approval, but now will be able to pass them itself. The law on oil and gas specifies that all oil and gas fields, and oil and gas companies working in Georgia, fall under the control of the state agency. The agency will maintain a register and balance of hydrocarbon deposits, select properties for exploration and offer them to investors, determine the conditions for tenders and auctions, and draft agreements and contracts with foreign companies on behalf of the state.

Manganese

Chiatura Manganese, the country's biggest manganese producer, is probably the most famous Georgian mineral producer. The Chiatura field contains around 200 Mt of ore, of which 60% is recoverable through underground mining and 40% through open-pit 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.

In July 1999, the State Property Ministry broke off a contract with the Russian-Georgian Bank for Reconstruction and Development and North Atlantic Research of the US, which has held a 51% stake in Chiatura Manganese for 3.5 years, for failing to meet its obligations. In March 2001, the Georgian Ministry of State Property dissolved an agreement with Saga-Print of the Czech Republic on the acquisition of 75% of the shares in Chiatura Manganese. The investor had not honoured its commitments. Despite frequent statements to the contrary, Saga-Print had not been able to get the enterprise running steadily. Georgia started to impose fines as per the contract in January this year. The investor had until February 16, 2001 to pay US$200,000 and resolve all problems that had arisen. But the company did not respond and it asked the ministry once again to give it more time to invest. Georgia signed the deal with Saga-Print on September 3, 1999. The investor paid US$350,000 for the shares. Saga-Print pledged to invest US$16.5 million over four years in stages and to raise manganese concentrate production to 240,000 t/y.

The Economics Ministry is looking for ways to make Chiatura Manganese and Zestafoni Ferroalloys profitable. Controlling stakes in the two Georgian metals giants will be put under the trust management of investors as a single production unit. Investors will be offered attractive terms, including a restructuring of the companies' debts and uninterrupted electricity supplies. Chiatura Manganese and Zestafoni Ferroalloys currently have debts of about L31.7 million (US$15.5 million) and L10 million (US$4.9 million), respectively. The companies have been operating at just 5% to 10% of potential capacity in recent years. Zestafoni Ferroalloys was set to resume production in April 2001. It planned to produce 200 t of silicomanganese daily, turning out 54,000 t this year. The operation will need 10,000 t/mth of manganese concentrate in order to meet its production targets. Chiatura Manganese could easily provide this volume as long as it receives the needed investment.

Steel

The Rustavi metallurgical works (incorporated in 1996) in southeast Georgia is the country's only steel producer, and is the largest metallurgical plant in the Caucasus. It has a design capacity of 1.5 Mt/y of crude steel and 1.3 Mt/y of rolled products. It also produces pipes. Rustavi operated for only a few months in 1998-1999. When it did work, it was only running at 5-7% capacity. In 2000, it hardly operated at all.

In February 2001, the Georgian Ministry of State Property dissolved an agreement signed three years ago with the Russian-Spanish-Israeli joint venture Metallurg East Oil and Gas Investment (MOGI) for the 10-year trusteeship over 51% of the shares in state-owned Rustavi Metallurgical Combine. MOGI became trustee of the 51% or 53,514,072 shares, par value US$1.46 each, in January 1998. It is owned by Georgia's Metallurg Invest, the Russian-Spanish Kapital bank and a citizen of Israel. MOGI agreed when tendering its bid to invest at least US$24 million in upgrades and development within two years, and up to US$90 million within 10 years. The Georgian audit commission is investigating why Rustavi's debts have mounted to US$100 million.

A new tender to manage the shares could be called soon. This time, the combine will be split into four sections for investment purposes - steel smelting, coke-agglomerate-pig iron, pipes and a heat and power plant. The right to upgrade each of them will be offered at tenders during the year. In particular, the ministry intends to modernize steel smelting capacity through repairing old open-hearth furnaces and installing electric furnaces and a steel casting unit. It is thought the investment requirement will be about US$30 million. Companies from Germany, the UK and Italy have already inquired about the tender. A major Russian metallurgical company might also bid.

Copper

The Madneuli mining and benefication plant at Kazreti in the Bolnisi region, southern Georgia, 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. Madneuli contains around 460,000 t of ore, including around 300,000 t of proven reserves, averaging 1.29% Cu.

In December 2000, Switzerland's Glencore International offered the Georgian Government a new investment programme for the development of Madneuli. The programme called for full upgrades and the introduction of new technology Madneuli. Glencore received the exclusive right to acquire concentrate produced by Madneuli for a period of five years at a tender in September 1997. According to the tender conditions, the Swiss company was due during the first three years to invest at least US$10 million. In 1999, Glencore accused the Georgians of not honouring the contract, saying it had invested US$2 million in Madneuli but had not received any of its concentrate in return. The Swiss company sued Madneuli.

But the conflict with Glencore is not Madneuli's only problem. Georgia's prosecutor general at the beginning of December 2000 opened a criminal case against Madneuli and the Kvartsit gold mining joint venture it had formed with Australia's Bolnisi Gold. The Georgian President ordered the audit chamber to set up a special commission to investigate a feud between the Kvartsit partners. It found gross violations in the joint venture's financial and economic activity.

Kvartsit was established in 1994 to mine precious metals in the Madneuli copper field, which contains 25 t of gold and 120 t of silver. It started to operate in the summer of 1997. Madneuli joint-stock company owns half of the equity. The rest is held by Bolnisi Gold. The company says its future lies in the development of new gold fields in Georgia. Back in 1998, it and the Georgian State Geology Department formed a company called Trans Georgian Resources, which is studying gold lode occurrences in the Madneuli district.

Coal, Oil and Natural Gas

Georgia produces very little coal, oil or natural gas, and is reliant upon imported fuel, mainly from the neighbouring CIS countries. Recently, however, Georgia has become more active in tackling its energy problems. According to Gruzneft, a total of 14 oil deposits have been discovered one oil and gas deposit and one gas condensate deposit. Total initial reserves at these deposits amount to over 580 Mt of oil and 125 billion m^3 of gas.

Georgia plans to produce over 4 Mt of oil and up to 2 billion m^3 of natural gas in 2001-2005, according to a programme prepared by Gruzneft in association with foreign companies operating in the republic. The forecasts are based on investment projects currently being implemented in Georgia by all joint ventures. Three of these ventures - Georgian-British GBOC, Georgian-Swiss Ioris Valley and Georgian-American Frontera Eastern Georgia - are already involved in production of oil and gas in the republic. These companies have produced a total of 542,000 t of oil and about 100 million m^3 of natural gas in the period from 1995 to the end of the first nine months of 2000. Investment during this period by foreign partners in developing deposits in Georgia exceeded US$110 million.

In September 2000, American Frontera Resources, which is involved in exploring for oil in the eastern Georgian Tariban oil deposit, discovered large gas deposits there. During drilling at the Tariban deposit (its reserves are currently estimated at 1,000 Mbbl, along with 1,000 bbl of oil), the company produced 28,000 m^3 of gas, which confirms forecasts of large reserves. Frontera plans to double oil production at Tariban, which currently amounts to up to 500 t/mth. According to the business plan, in the period up to 2007, Frontera plans to drill 60 wells in its licence area, which contains five oil deposits. In total, during the 25-year contract with Gruzneft, the US company plans to drill 125 wells and produce 230 Mbbl of oil. With this aim in mind, Frontera has attracted the interest of the European Bank for Reconstruction and Development, which has given the company a credit of US$60 million to carry out this work.

In December 2000, GBOC discovered industrial reserves of oil at the Ninitsminda deposit in western Georgia. Drilling at a depth of 1,900 m, a flow of high-quality oil was received. It is possible to produce about 50 t of oil from the well in a day, with up to 120 m^3 of associated gas for every tonne of oil. Work is currently being carried out at several other wells at the Ninitsminda deposit in Sarmatian beds that also may have large hydrocarbon reserves. According to experts, oil reserves at the Ninitsminda deposit may amount to not less than 55 Mt with up to 20 billion m^3 of gas.

In August 2000, BCCK Engineering Inc. of the US signed a memorandum on the project in Tbilisi with Georgia's Ministry of Fuel and Energy and Gruzugol. The company plans to build a plant for extracting gas from Georgia's Tkibulsko-Shaorskoye coal mine. BCCK would invest US$20 million in the project. The US firm will use its own equipment for building the plant. Work on the feasibility study is scheduled to begin in the near future. The plant will process hard coal to extract pure methane, producing up to 100 million m^3/y of natural gas. That amount represents 5-6% of Georgia's overall demand for gas. The plant will provide a cheap source of gas to major industrial enterprises in western Georgia, where the mine is located, and will reduce greenhouse gas discharge. Georgia's coal reserves are estimated at 800 Mt, of which over one-half are located at Tkibulsko-Shaorskoye.

In March 2001, the Georgian Government approved a project to build the Tkibuli thermal electric plant with a capacity of 220 MW, which will use local coal. The general contractor for the project is Slovakian Ses Tlmace. Together with the US investment company, Access International, which is investing US$330 million in the project, the Slovakian company is ready to implement the project over 33 months. This will be the first Georgian power station to operate on local coal. Reserves at the Tkibuli-Shaorsky coalfield, in the same area as the future power plant, amount to 4 Mt, which will supply the plant for 80 years. A special programme has been developed to rehabilitate old pits at Tkibuli, which will involve investment of US$30 million. It is also planned to invest US$100 million in the construction of each of the two power-producing units at the plant.