

# Rosneft's entry into Georgia's energy market raises criticism

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Rosneft's investment into an oil terminal in Georgia has sparked a political row in the country over whether it poses a strategic risk and whether the deal should have been blocked because of the Russian oil company's alleged involvement in the breakaway enclave of Abkhazia.

On December 29 RN-Foreign Project, a subsidiary of the Russian state-owned oil producer, bought for an undisclosed amount a 49% stake in Cyprus-based Petrocas Energy, with the aim of creating a joint venture in logistics and retail sales in the Caucasus.

Petrocas operates Georgia's oil terminal in the Black Sea port of Poti through its subsidiary Channel Energy and also one of Georgia's largest retail gas station chains under the Gulf brand. The company is owned by Georgian-Swedish businessman David Iakobashvili, who made his money in Russia in the early 1990s with his long-time business partner, Gavril Yushvaev. He was one of the main shareholders of Russia's biggest food producer Wimm-Bill-Dann (WBD) which was bought by US PepsiCo. Iakobashvili will retain 51% of Petrocas's shares.

The city of Poti is home to Georgia's major seaport and harbour on the eastern Black Sea coast and the country's only terminal that is able to unload oil products from tankers. Rosneft has used the port in the past as a logistic base to transport petroleum products to Armenia. The trade has increased since 2013 when Russia agreed on duty-free supply of petroleum products and natural gas to Armenia, hence gaining a market-dominant position in the country.

Georgia has not joined the Western sanctions against Russian companies and key economic figures – Rosneft's chairman Igor Sechin is on the blacklist – but the arrival of the Russian energy giant has sparked criticism in the South Caucasus as opposition politicians claim it poses a "threat to the national interest".

Russia's vitriolic relations with Georgia under the previous government culminated in 2008 in a brief conflict over Georgia's breakaway region of South Ossetia. Since then Moscow and Tbilisi have no

diplomatic relations, but the current government is committed to improve ties with Russia, a move opposition parties resist.

In Davos for the World Economic Forum (WEF), Iakobashvili was quoted as saying that he does “not interfere in politics and on the other hand the government should not interfere in my business activities”. Asked why Rosneft, Iakobashvili responded that “more than a thousand people will be employed at the Poti Port Oil Terminal and about \$200mn investments will be implemented by Rosneft”.

Iakobashvili has also said that the Poti port oil terminal is Georgia’s smallest and is no longer of strategic relevance.

The dispute revolves around Georgia’s law on occupied territories, which bans foreign companies from operating in the breakaway regions of Abkhazia and South Ossetia without clearance from the Georgian authorities.

“The purchase of a large stake in a large energy company is certainly bound to divide, and in this case it raises legitimate questions with regards to the occupied territories,” explains Paata Gaprindashvili, deputy director at Georgia’s Reform Associates (GRASS), a Tbilisi-based think-tank which runs the news and information watchdog service FactCheck.

According to Lasha Senashvili, FactCheck’s researcher, in 2009 Rosneft signed a five-year agreement with the Abkhaz authorities to explore for oil reserves in the Black Sea and established the subsidiary Shelf of Abkhazia, which runs three gas stations in the breakaway region.

However, Petrocas’ vice president Niko Mchedlishvili has claimed that “Rosneft’s subsidiary does not work in Abkhazia, so [the deal] does not break the Georgian Law on Occupied Territories”.

For its part, the government has not voiced a unified position. Commenting on the deal with local reporters, Foreign Minister Tamar Beruchashvili stated on January 7 that it does not break Georgian legislation but the government is following “closely” the implementation of the agreement. But talking to reporters on the margins of Davos, Georgia’s Minister of Economy Giorgi Kvirikashvili criticised the decision.

“The government’s delayed and fragmented position, and an overall lack of transparent response, has contributed to the debate in the society,” commented Gaprindashvili. The former deputy minister of defence added that when in 2009 Benetton Turkey, the Turkish arm of the Italian clothing retailer, opened a shop in Abkhazia’s capital Sukhumi, the vigorous response from the government led the company to back down and close the shop.

The current government's policy of restoring economic ties with Russia led Moscow to revoke the embargo on Georgian products – water, wine, and agricultural products – introduced in 2006. Analysts consider that a strong government reaction to the deal could upset Moscow and lead it to restore the limits on the import of Georgian products.

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