

FactCheck



Tamar Beruchashvili:

Minister of Foreign Affairs of Georgia

According to Tamar Beruchashvili, at the current stage Rosneft does not violate the Law of Georgia on Occupied Territories.



Lasha SENASHVILI
FactCheck

On 6 January 2015, after the Foreign Policy Inter-Agency Council meeting, the Minister of Foreign Affairs of Georgia, Tamar Beruchashvili, assessed the fact of the Russian company, Rosneft, entering the Georgian market. According to Ms Beruchashvili, selling 49% of the stocks of the Petrocas Energy Group to Rosneft is a very delicate issue. She also added that according to her information, Rosneft does not violate the Law of Georgia on Occupied Territories at this stage as it is not operating on the territory of Georgia. According to the Minister, the Government of Georgia is interested in this issue as the case concerns the selling of a strategic object, the Poti Port Oil Terminal.

At the end of 2014, Rosneft purchased 49% of the stocks of the Petrocas Energy Group, a company owned by Davit Iakobashvili. However, Mr Iakobashvili retained controlling interest of the company. A statement issued by Rosneft says that the aforementioned deal will promote the extension and diversification of the company's activities in the Caucasus region and enable it to play a more prominent role in the oil market of Central Asia and the South Caucasus.

The Petrocas Energy Group is a multifunctional holding that transports petroleum products in the Caspian Sea region, Central Asia and the South Caucasus. The group carries out the selling, dispatch (east-to-west and vice versa) and storing of oil and chemical products at the Poti Port Oil Terminal. The group also owns the largest network of petrol stations in Georgia operating under the

world-famous Gulf name.

According to the information expressed in the Russian media, the Poti Port Oil Terminal and Gulf petrol stations are being passed into the possession of Rosneft. Head of Rosneft, Igor Sechin, stated that the partnership of Rosneft and the Petrocas Energy Group will play a main role in the energy security of the region.

The agreement reached between Rosneft and the Petrocas Energy Group raised the legitimate question of whether or not the Law of Georgia on Occupied Territories has been violated. The Minister of Economy and Sustainable Development of Georgia, Giorgi Kvirikashvili, stated that Georgia has not participated in the deal and the agreement has been reached at an offshore zone. However, he ordered his Ministry to study the legalities of the deal together with the Ministry of Foreign Affairs and the Ministry of Justice.

Article 5 of the Law of Georgia on Occupied Territories clarifies that any transaction regarding real property that is concluded within the occupied territories in violation of the legislation of Georgia shall be deemed void from the time of its conclusion and shall have no legal implications. Article 6 of the same Law restricts economic activity in the occupied territories.

In addition, Article 322 (2) of the Criminal Code of Georgia states that carrying out economic activities restricted by the Law of Georgia on Occupied Territories is punishable with a penalty or detention from three to five years. The same activity committed a) by a group, b) more than once or c) by a person previously convicted for being in violation of the article is punishable by detention from four to six years.

Not only is Rosneft represented in occupied Abkhazia's market but it signed an Agreement on Oil and Gas Extraction with Abkhazia in 2009 that granted it the right to carry out oil extraction activities on the Abkhazian Black Sea shelf. The Abkhazian Shelf company (ООО ФН-Шельф Абхазия) was founded there in August of the same year. Rosneft's official website includes the list of its oil stations in Abkhazia with their respective addresses. This illegal agreement granted the Russian company the right to carry out oil extraction activities on the territory of Abkhazia, in its maritime area and on the continental shelf. Moreover, it owns three petrol stations on the territory of Abkhazia, violating Articles 5 and 6 of the Law of Georgia on Occupied Territories. The Ministry of Foreign Affairs of Georgia responded to the signing of the agreement in 2009 and called it a deliberate violation of Georgian as well as international law. The Rosneft website also shows the addresses of its branches on the territory of Abkhazia.

Article 20f of the Law of Georgia on Occupied Territories defines the occupied territories and sea zones. These sea zones include the Abkhazian Continental Shelf which was made subject to the treaty between Rosneft and the separatist regime of Abkhazia and which resulted in the establishment of the Abkhazian Shelf LTD company. According to the terms and conditions of the Law of Georgia on Occupied Territories, a special regime has been established over the occupied territories. The Law also establishes a special economic regime over the occupied territories which restricts free movement, economic activity and transactions concerning real property.

Can India match up?

by FREDERIC NEUMANN,
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In size and per-capita income the Indian economy stands where China's did in the early 2000s - when the Mainland started to make its impact felt globally. Whether India will swiftly follow China's lead depends on the country's ability to raise savings and shift towards more manufacturing.

That's a challenging transformation. India may never quite match China's rapid ascent, but even at a slightly slower speed it will make waves.

China adopted reforms in earnest in the early 1980s; India in the early 1990s. India is a little ahead of China at the same stage of the development process - though

the Mainland's 'growth spurt' came late, so India will need to pick up speed, ideally raising growth to double digits.

One key issue is productivity growth: that essential ingredient for sustained progress. But, except for a brief period in the early 1990s, India's productivity growth has always lagged China's and the gap has remained stable over two decades.

The disappointing productivity performance reflects India's low contribution to GDP from manufacturing - 13 per cent compared with China's 31 per cent. Services are much more important - 57 per cent of GDP against 46 per cent in China - but efficiency gains are easier to attain in manufacturing. So if India wants to match China's development trajectory, it needs to shift its economy more to manufacturing - hence Prime Minister Narendra Modi's "Make in India" campaign.

Government policy has

an important role. Pruning the regulatory burden of labour laws and red tape would help boost manufacturing, for example, and that sector requires proportionately more and better physical infrastructure than services. India's new government has promised plenty on these fronts.

When China was roughly at India's development stage, its investment as a share of GDP increased dramatically. So India not only needs to reverse its declining investment share but to raise it well above its historical peak.

However, that poses the question of how to fund all that capital spending, whether private or public. China's national saving rate rose dramatically when investment took off. Indian saving must now increase sharply - even more than in China, because India is already short of local funding for its current level of investment.

Quotes of the week

"Russia continues to escalate the conflict by sending mercenaries and tanks we euphemistically [call] little green men without patches, in who are very sophisticated special operations soldiers," Vice President Joe Biden.



"There is a high probability that he will intervene in the Baltics to test NATO's Article 5," Anders Fogh Rasmussen, the former secretary-general of the Atlantic alliance.

Does Competition Spoil People?

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After this experience, I was much more careful about choosing restaurants. Fortunately, I remembered a lesson from "Principles of Microeconomics": one can avoid informational asymmetries by relying on brands. Brands are, more or less, reliable, as misbehavior would devalue the name of the whole brand, which is the most important asset for many companies. Yet small businesses cannot afford to establish brands, can they?

They can! Look at the photograph. There is a queue at the door of this guy's booth, who is selling nazuqis (Georgian sweet bread) at the road of Surami, like his neighbors do, for years. We hardly managed to grab two breads, which were hot and yummy and of excellent quality, as we expected. Despite the New Year traffic, such queues were not to be seen at the neighboring shops, which were also selling nazuqis.

Again, we see the forces of competition in action. In the

past, the nazuqi market came close to what economists call "perfect competition": a number of booths that were selling identical nazuqis. These were offered by women who were standing outside, waving with the fresh bread. Then they started to engage in product differentiation, so as to reduce competitive pressure. Some became very innovative and started to have dummies outside, holding the bread, instead of women standing in front of the shops. However, the one shown on the photograph is the most popular booth, indicating just the name of a man, probably a head of the family.

encouraging - economic failure is not due to inherent shortcomings of people, but due to something that can be changed: market structure.

It is also comforting to see that some of the best character traits of Georgians, namely holding one's word and caring about one's reputation, are not offset in a market economy but rather encouraged. Failure to meet high standards is not induced by competition but by a lack thereof. A monopoly can turn even the most decent Georgian into a lazy bum. Yet if Georgians compete, their work becomes a matter of pride for them - they want to be better than others -- and nothing can stop them from being successful!

GEORGIANS NEED COMPETITIVE CHALLENGE!

The bottom line of my observations is that Georgians, when exposed to healthy competition, are efficient and creative, and they develop marketing skills. This is very



CONCLUSION

In 2009, Rosneft signed an illegal agreement with the separatist regime of the occupied territory of Abkhazia without the permission of the Government of Georgia. Moreover, it has been carrying out oil extraction activities on the continental shelf within the sovereign borders of Georgia since 2010, violating the Law of Georgia on Maritime Space and the Law of Georgia on Occupied Territories. Additionally, Rosneft also owns three petrol stations on the territory of Abkhazia in violation of the Law of Georgia on Occupied Territories. Therefore, the statement of the Minister of Foreign Affairs of Georgia, Ms Tamar Beruchashvili, that at the current stage Rosneft does not violate the Law of Georgia on Occupied Territories, is a LIE.



LIE



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Fighting Advertising Monopoly

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remain the leading company as we were before," Konstantine Chavchanidze, Director at Outdoor.ge, told The FINANCIAL. "Our main competitor is 'Alma +'. In addition, there are over 15 or 16 other companies operating on the outdoor ads market," said Chavchanidze.

Chavchanidze considers the word monopoly to be a bit of a loose term. As he said, he personally has been taught differently. "When there are over 17 companies on the market and we make up 45% while the other companies are managing to operate reasonably well, why should we be called monopolists? It is a little bit confusing and excessive to me. Why is Outdoor.ge a monopolist? - I have raised this question but not yet received an answer."

"I do support healthy regulation from the state that is aimed at the restriction of any kind of monopoly and that allows businesses to exist normally and healthily," he added.

In Chavchanidze's words, since the government change in 2012, the company has continued its work in the usual way and he does not see any threats.

In 2014 self-government elections took place in Georgia. As Chavchanidze said, an election period is generally considered a lucrative time for the outdoor advertising business. Accordingly, the year 2014 was a good year for his company and for the outdoor advertising business in general.

While the threat of the Mayor has had no impact on Outdoor.ge, the new restriction on outdoor tobacco advertisements remains a source of worry for the company.

"It is quite difficult to talk about the future of the outdoor ads business. What I know is that after the regulations regarding outdoor advertising of tobacco come into force, over 50% of billboards will be left empty. If the new TV ad regulations become balanced then it is hard to predict what the situation will be like. There are various means of advertising which may or may not compensate for the loss of the outdoor sector," Chavchanidze said.

"Tobacco companies are the main segment for our company. As a result, until this regulation comes into force the outdoor business will remain profitable," he added.

According to Chavchanidze, in some European countries, for example in Germany, the outdoor advertising of tobacco is still allowed. Accordingly, he holds out hope that it will not be totally banned here and that it will still be allowed in some places.

"We hope that many new companies will enter the market in 2015. This would balance our profit in the event that a large portion of our billboards are left empty due to tobacco ads prohibition," he said.

"Since the 2008 war and global economic recession prices on outdoor advertising started decreasing. Currently the average price is between USD 25 to 35, depending on the location and other conditions. Since our establishment, 2011 and 2012 have been pretty good years in terms of revenue received. By comparison, profit was relatively low in 2013," said Chavchanidze.

Source at the Finance Ministry told The FINANCIAL, investigation in another company CitiPark related to the former government is already started.

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ashvili. It is represented by Ioseb Mgeladze, who was the director of Universal Capital Group. Rifl management owns with number of companies, including UCG Green Power and UCG Agro. Rifl was represented by Ivane Nakaidze, who until July 2012 was the financial director of Channel Energy, an oil terminal operator at Poti port. Channel Energy is one of the owners of Poti Terminal Holding (32.67%).

Until December 2012, Universal Capital Group owned 51% in magazine Tabula. Since December 2012, following the changes in ownership these shares are owned by UCG Green Power, a company owned by Rifl Management SA. The official owners of this Pan-amese company remain untraceable, meaning that Tabula, which launched television broadcasting in mid-January using the frequency owned by a non-profit organization Civil Education Fund, is co-owned by an offshore-owned company, Tabula Magazine's co-owner Tamar Chergoleishvili told

90% of Casino Ajara LLC, which he acquired in May 2011 for USD 8.72 million.

In November, Iakobashvili became the major shareholder in Sun Petroleum Georgia (the company is owned by a Delaware shell company, Energy Investment Venture Holdings LLC). In November 2012, Sun Petroleum Georgia stated that Kezerashvili had given up all shares in the company but did not specify how much of the company is held by Iakobashvili. He increased his shareholding in Petrocas Energy Group from 25% (which he reportedly acquired in 2011) to 80%. Market observers valued the deal at USD 240 million. Petrocas trades and transports oil products, including for Lukoil, Socar, Rompetrol and Gulf and is active in Georgia, Turkmenistan, Kazakhstan, Kyrgyzstan and Vietnam. In 2012, the company reportedly generated a turnover of USD 800 million.

Iakobashvili became the majority shareholder in Channel Energy (Poti) Ltd (held via Channel Energy (Eire) Ltd, Gibraltar), an oil terminal operator at Poti port, which also controls storage facilities.

David Iakobashvili has a history of doing business with now Prime Minister Bidzina Ivanishvili in Russia.

TI Georgia that Kezerashvili is not connected to Rifl Management SA and that people behind this offshore company are Georgian businessmen. She however didn't wish to disclose the names. Tabula itself is not the holder of the frequency and is not obliged by the law to disclose offshore owners - an apparent loophole in media ownership transparency rules that ban offshore entities from holding a broadcasting license and require the full disclosure of beneficial shareholders.

Iakobashvili's assets in Georgia include: Smod Advertising was bought for USD 345,000 via Milarm International Corp (BVI). In May 2013 Iakobashvili's representative in Georgia, Alexandre Beridze, basically confirmed Iakobashvili's ownership of Outdoor.ge, another billboard advertising company that has de facto controlled Smod Advertising. However change in ownership is still not traceable through Georgian public records, probably do to the reason that Iakobashvili bought the offshore company AD-projects (one of the owner of outdoor.ge) rather than outdoor.ge itself.

Iakobashvili acquired Universal Capital Group (UCG) for USD 2 million, which he holds via Gannado Worldwide (British Virgin Islands) and Redefi Management Limited (BVI).

Through Gannado Worldwide, he also holds

Channel Energy Poti holds 32.67% in the Poti Terminal Holding LLC.

Iakobashvili also owns Future Products Company, an energy logistics company affiliated with Channel Energy, owned through Future Products Company (Seychelles).

David Iakobashvili has a history of doing business with now Prime Minister Bidzina Ivanishvili in Russia. In March 2012, Ivanishvili's agro-industrial company Stoylenskaya Niva purchased several bread factories from Iakobashvili's holding 3AO Pycarponpoekt (Russian Agrarian Project). Iakobashvili confirmed the deal in 2012 but did not disclose the exact value of the transaction. Ivanishvili then sold Stoylenskaya Niva to Arco International Group, an American-based investments firm for a reported 180 million USD (this income does not appear in the Prime Minister's asset declaration).

An investigation by Studio Monitor and the Georgian Young Lawyers' Association described Iakobashvili as a shareholder of Akhali Rikhe LLC, a company that in 2006 bought a land plot in central Tbilisi from the city of Tbilisi for USD 7 million. In 2008, the plot was sold back in a controversial deal to Tbilisi City Hall for USD 17 million. In February, Iakobashvili stated that he had had plans to develop the property that fell through and that he was not involved in any criminal activity.



Nodar Khaduri:

Minister of Finance of Georgia



"Teachers' wages will be increased by 17%."



Natalia VAKHTANGASHVILI
FactCheck

On 12 December, the Parliament of Georgia discussed the 2015 State Budget Plan. During his speech, Minister of Finance of Georgia, Nodar Khaduri, elaborated on the issue of teachers' wages. He stated: "Teachers' wages will be increased by 17%. In addition, the wages of head teachers will be increased by 31%-34% whilst the wages of leading teachers and mentors will be increased even more."

FactCheck wrote about teachers' wages in 2014 as well. Our latest article describes in detail the mechanism which determines the rules for the distribution of the wages and surpluses for public school teachers.

Teachers' wages were last increased in 2013. The wages

for public school teachers increased from 26% to 59% in terms of the 2013 State Budget. There have been no changes in teachers' wages in 2014. Teachers were dissatisfied by this and so the Ministry of Education and Science of Georgia planned for an increase in teachers' wages in its 2015 budget. The Minister of Education and Science of Georgia made a statement about the growth of teachers' wages on 10 November 2014. According to Tamar Sanikidze, teachers will receive increased wages from September 2015.

More specifically, the growth of teachers' wages will be implemented according to the following mechanism: the basic wage will be increased by 17% at the first stage, amounting to GEL 365.85. The growth will reach 33% for the second stage. In addition, the wages of certified teachers will also

increase and the first stage growth of certified teachers at the second career level will be from 31% to 34%. According to the Ministry of Education and Science of Georgia, the average wage of a teacher will vary from GEL 800 to GEL 1,000 by 2017. They also point out that their plan is absolutely achievable.

It is also interesting to compare the data of the 2014 and 2015 State Budgets of Georgia. The 2014 State Budget allocated GEL 439.2 million for secondary education whilst the 2015 State Budget allocated GEL 497.9 million for the same purposes. The explanatory note of the 2015 State Budget states that in terms of these additional finances, the basic wages of teachers will increase by GEL 50 whilst the wages of teachers of different categories will be increased from GEL 100 to GEL 200. The growth of teachers' wages is planned in 2016 as well.

CONCLUSION

The basic wages of teachers will be increased by 17% (GEL 50) from September 2015. The wages of certified teachers will be increased from GEL 100 to GEL 200. According to the Ministry of Education and Science of Georgia, the average wage of a teacher will vary from GEL 800 to GEL 1,000 by 2017. Hence, FactCheck concludes that Nodar Khaduri's statement: "Teachers' wages will be increased by 17%," is TRUE.

TRUE



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