

# FactCheck



## Irakli Gharibashvili:

Prime Minister of Georgia



“Georgia will be the first country in the region which will have a free-trade regime with China.”

Beso NAMCHAVADZE  
FactCheck

On 10 September 2015, during his visit to China, the Prime Minister of Georgia, Irakli Gharibashvili, talked about concluding a free-trade regime with China. Mr Gharibashvili stated that Georgia will be the first country in the region which will have a free-trade regime with China.

FactCheck verified whether or not the countries of our region have free-trade regimes with China and also analysed the issue of trade between Georgia and China.

Free trade between two countries implies trade without custom duties and quantitative limitation (quotas). The Government of Georgia is seeking to conclude this kind of trade deal with China and is ready to start negotiations. Free trade increases trade volume between two countries as well as the level of diversification which is mutually beneficial.

According to the Chinese Free Trade Agreements network, China has free-trade regimes with the member states of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam), Hong Kong, South Korea, Pakistan, Chile, Peru, Costa Rica, New Zealand, Australia, Iceland and Switzerland. Additionally, negotiations to conclude free-trade agreements are on-going with certain Arabic countries (Bahrain, Kuwait, Oman, Saudi Arabia and the UAE), Japan, Norway, Sri Lanka and the Maldives. China is also considering starting negotiations with India, Columbia, Moldova and Georgia.

As it appears, China does not have free-trade agreements with any countries from our region and if Georgia manages

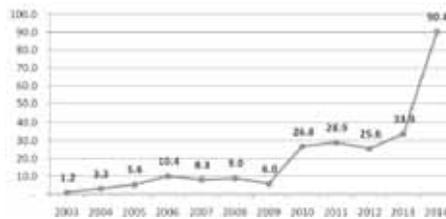
to pass the negotiations steps without delays, it will be the first country indeed. As concerns Europe, China has already concluded free-trade agreements with Switzerland and Iceland whilst negotiation with Norway is still in progress. China does not have a free-trade agreement with the EU and it is not even on the agenda. Together with Georgia, China is considering starting trade negotiations with Moldova.

Since 2010, Georgia's export to China has been increasing

In January-July 2015, trade turnover between Georgia and China reached USD 421 billion which is 7.6% of Georgia's total trade turnover. As a result, China is Georgia's third trade partner in terms of trade volume after Turkey and Azerbaijan. As of January-July 2015, the biggest chunk of Georgia's exports to China comprises copper ore and concentrates (USD 40 million) and wine (USD 3 million).

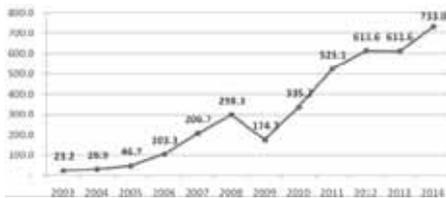
Of note is the fact that Chinese production is one of the

Graph 1: Georgia's Export to China (USD million)



Source: National Statistics Office of Georgia

Graph 2: Import of Chinese Production to Georgia (USD million)



Source: National Statistics Office of Georgia

rapidly (Graph 1). In 2009, total exports were USD 6 million whilst in 2014 they reached USD 90.4 million.

On the other hand, Chinese exports to Georgia have also been increasing markedly (Graph 2). They increased fourfold in 2014 as compared to 2009.

most competitive in the world and can easily penetrate any market, including Georgia's, despite custom duties. On the other hand, a free-trade agreement with China means the opening of a considerable market of 1.4 billion people for Georgian products.

## Georgian Wine: Plan for the Worst, Hope for the Best

Continued from p. 2

some of the windfall profits) to promote Georgian wines to new markets, the government spent tens of millions of lari on subsidising the industry at a time when money was its least concern. As grape prices soared, the government slightly reduced the subsidy from 36 to 28 tetri per kg (on average). However, the total amount of taxpayers' money thrown at wine producers and farmers (including, since 2013, not only smallholders but also large farmers cultivating more than 10ha) exceeded 30mln GEL in both 2013 and 2014.

What a waste!

### THE WAY FORWARD: CHINA AND CHURCHKHELAS?

While not representing a very large share in Georgia's total exports (or GDP), the wine sector is of key significance for the livelihoods of the vast majority of Georgian farmers. At the same time, given how long it takes to go from grape seed to placing a bottle in a grocery cart, it is a sector that is extremely sensitive to changes in demand.

Hence, the need for some sort of insurance.

Understandably, all governments in Georgia's recent history were eager to provide price support and subsidize smallholder farmers in order to prevent a social and political crisis. Such a policy is equivalent to spreading the risks that are specific to wine-making over all the other sectors of the economy.

What the Georgian governments have failed to achieve thus far, however, is to properly insure the industry against extreme demand fluctuations which have been plaguing it since Gorbachev's anti-alcohol campaign of 1985-1988. Such insurance can only be achieved through greater diversification of Georgian wine exports, on the one hand, and promotion of new and traditional products such as organic and kosher wines, Chacha, brandies, and even Churchkhelas, on the other. Risks could also be reduced by investing in locally branded products and agritourism through a Japanese-style "one village-one-product" policy.

Finally, what about China? Almost a dozen small Chinese companies are currently trying to bring Georgian wine to China and the results are showing. Yet, the challenge these companies are facing can be

summarized in one word: information. The average Chinese consumer is simply unaware of a country called Georgia, let alone its being at the origin of the world's wine history. As we have learned through interviews, one or two containers of Georgian wine may take a year to distribute (through friends and relatives) as large Chinese wholesalers would rarely take upon themselves the risk of placing a relatively unknown product.

The Georgian government has recently established an office in Beijing to promote Georgia's brand as a country. Such investment in international marketing is, of course, a great step forward, but many more (smart) steps would be needed. The government has 58 embassies (all of them in potential wine markets) across the globe. Mikho the wine-maker from Kakheti does not have a single embassy. It would therefore be highly beneficial for the government to take some of the money wasted on subsidies and, instead, make use of its diplomatic infrastructure to promote Georgian wine-makers around the world. (Incidentally, in this way, the government will also buy its own image insurance against regular farmer protests in Kakheti.)

## Simplicity of Starting Business - the Main Motivator for Germans to Do business in Georgia

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and energy costs. There are plenty of business opportunities in many sectors. Democratic, efficient, business-friendly and corruption-free public institutions are a good basis for doing business easily," said Dr. h.c. Sascha Ternes, Board Member and Interim Managing Director of the German Business Association in Georgia and Armenia. "Due to the ongoing situation in Russia and Ukraine, investors targeting emerging

markets will consider Georgia a good alternative," Ternes said.

The German Business Association has been working in Georgia since 2007. It incorporates approximately 140 member companies, and hosted several delegations from Germany in 2015.

"Whenever investors arrive in the country, they provide cash investments and also lots of know-how and technology transfers. We can see it in any kind of business, regardless of the sector in which they are operating.

When they are bringing in their experience and knowledge, they are doing something for the local market. They are improving the standards, procedures and capabilities of staff which contributes to extending the market. Companies also invest a lot in the training of staff. So, education is important. We have a couple of members that are very actively engaged in trainings. With all of these activities the overall market conditions will improve a great deal," Ternes told THE FINANCIAL.

## CONCLUSION

CHINA HAS 21 FREE-TRADE AGREEMENTS IN THE WORLD WHILST THERE ARE ON-GOING NEGOTIATIONS WITH AN ADDITIONAL TEN COUNTRIES. NONE OF THESE COUNTRIES BELONGS TO OUR REGION. FURTHER, CHINA DOES NOT HAVE FREE-TRADE AGREEMENTS WITH EU MEMBER STATES. HOWEVER, IT DOES HAVE FREE-TRADE AGREEMENTS WITH SWITZERLAND AND ICELAND WHILST NEGOTIATIONS WITH NORWAY REMAIN IN PROGRESS.

FACTCHECK CONCLUDES THAT THE PRIME MINISTER'S STATEMENT IS MOSTLY TRUE.



**MOSTLY FALSE**



EUROPEAN  
ENDOWMENT FOR DEMOCRACY

G | M | F

The German Marshall Fund  
of the United States



Kingdom of the Netherlands

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## Pro Bono Network Launching in Georgia

The FINANCIAL

Leading Georgian and international companies operating in Georgia that wish to make their expertise available to organizations working to improve society, has combined to create the Pro Bono Network Georgia. The Launching Event of the Pro Bono Network Georgia will be conducted in Tbilisi, in Betsy's Hotel, on October 15, from 10.30. It is organized by the Center for Strategic Research and Development of Georgia. Partners of the event are BMW Foundation and Taproot Foundation; Supporting partners: MITost and Robert Bosch Foundation. At the Launching Event International experts and corporate speakers from Georgia, USA and Germany will present local and international experience in the field of Pro Bono.

Pro bono – short for pro bono publico, “for the public good” – has come to mean high quality professional services provided free of charge to the public benefit organizations working for social

change and public good. For the business companies Pro Bono is part of their social responsibility programs. This is one of the forms of social investment, when company is contributing human resources instead of financial resources, i.e. time, knowledge and expertise of its employees to the needs of the local communities.

Companies, united in the “Pro Bono Network Georgia” agree to provide free expert assistance in the spheres of their expertise respectively to public benefit organizations working to address our society's social, environmental and economic issues. Already 14 leading companies have joined the network.

Pioneering companies engaged in the Pro Bono movement are demonstrating that effective Pro Bono service can come in many different shapes and sizes (including training and consulting on various topics, such as marketing; human resources management; administrative and financial issues; information technology; organizational development; business planning etc.) It is widely acknowledged that

effective Pro Bono program maximizes both business value and social impact through targeting long term sustainable social impact and at the same time deepening company's reputation as a good corporate citizen.

Although companies in Georgia are becoming increasingly willing to undertake Pro Bono matters, they often lack a direct connection to the community. On the other hand civil society organizations often lack resources to access the professional expertise they need to achieve their missions.

The Pro Bono services Mediation Initiative has been created to bridge that gap between companies seeking opportunities to provide free expert help and those who need it. The Initiative is launched jointly by the Center for Strategic Research and Development of Georgia (CSO having 20 years experience of work with the third sector) and Pro Bono Network Georgia. It is supported by BMW Foundation and Taproot Foundation, who make Pro Bono the core strategy for their community programs.

## Georgian Railway Workers Union Celebrates 110th Anniversary

On October 4th, Georgian Railway's Workers Union celebrates its 110 years anniversary. Workers Union archives keep many significant and interesting facts that have years of history. A special event will be held at Art Hall to celebrate this date and demonstrate to the public the Workers Union's creation history.

Railway workers from different countries will participate in the event. We talked with the chairman of the Workers Union in this regard.

When has the first rail-track been laid, and when was the railway Workers Union created?

We are very proud to have crossed the century mark in the Workers Union's existence. There is a lot of noteworthy historical facts, photos and news fragments about the founding of the Georgian Railway's Trade Union.

In 1871, the first Georgian railway stop Poti-Zestaponi opened; in 1872, Tbilisi was connected via railway with the country's strategically important Poti sea port.

In 1883 a railway exchange between Georgia and Azerbaijan started while in 1899 the Georgian-Armenian railway connection opened. In parallel, the railway connections in every region inside the country were being constructed. All of this was taking place by the use of hired workforce. The work days often reached 16 hours a day for the minimum wage. The workers' unbearably hard conditions

created an impetus to found a professional union which would protect the railway workers' rights and represent their interests.

Despite the fact that the law legalizing the professional unions only came out in 1906, several separate entities in the 1905 Georgia were already able to found such unions based on data collected by the strike committee. One such organisation was Georgian Railway, which founded its workers union in 1905.

How was the Railway Workers Union protecting the workers rights back then? And what does it do to protect them today?

The first railway strike in Georgia took place in the fall of 1908, as a result of which the Georgian Railway administration increased the working day's hourly norms.

Georgian Railway's Professional Workers Union was actively in the professional unions' activities in the region as well as in Europe of that time. The Workers Union has provided these organisations with significant moral and material help. All of these are documented in the archives. Starting with 1908, Georgian Railways Workers Union is officially the member of Railway Professional Union International Confederation. Starting with 2000, Georgian Railway became part of the UK's International Transport Federation.

In 2014, the structure of the Georgian Railway Workers Union has been altered. Today we unite the workers unions from professional fields that are close to ours.

The three-month paid pregnancy leave was the result of Georgian Railway Workers Union's work.

Georgian Railway Workers Union was also behind balancing out the harsh work conditions of locomotive mechanics and their aids. We have prepared special uniforms, special shoes and other protective gear that has become part of the necessary outfit for locomotive mechanics. This step has entirely improved the working conditions of this group of professionals.

Between 2013-2015 within the framework of the collective contract liabilities a committee responsible for satisfying work complaints has been created.

You mentioned that Georgian Railway Workers Union should adopt a position of the leader of such unions in the region. What experience does the Union have in this regard?

We care about satisfying the interests of the railway workers not only in Georgia but also outside the country. We have been invited to Armenia twice by the request of the Armenian Railway Workers Union. Through negotiations, we have achieved signing of a contract between Armenian Railways' Workers Union and the Armenian Railways administration. This contract obliges Armenia Railway's administration to create a joint committee between the two.

Georgian Railway also actively cooperates with Azerbaijan Railways; we often partake in cultural activities together.



## Kakha Kaladze:

Minister of Energy of Georgia

We have a huge deficit in electricity which is growing every year

Beso NAMCHAVADZE  
FactCheck

On 13 September 2015, the Minister of Energy of Georgia, Kakha Kaladze, stated that Georgia has a deficit in electricity which grows with each year. The growth of the deficit is due to increased consumption which is caused by the growth of the economy.

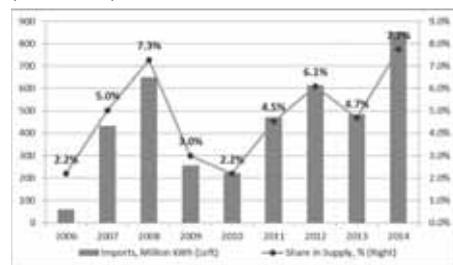
FactCheck analysed the trend of growth in the deficit of electricity and looked into its reasons.

The deficit of electricity referred to by the Minister implies the difference between the electricity generated in the country and the overall consumption of electricity. About 80% of local electricity production in Georgia comes from hydro power plants (HPP). The production rate is at its highest from April to August when the level of river water rises. In the April to August period import of electricity is unnecessary. Georgia's reliance upon imported electricity grows from September to March with imports characterized as especially high from November to January. Imports constituted about 15% of the domestic consumption from November 2014 to January 2015. The share of imports in annual consumption varies from 6% to 7%.

The Minister of Energy of Georgia is quite correct when talking about the annual growth of the electricity deficit. Chart 1 shows that the electricity deficit has had a trend of growth for the past several years and that an especially high level of growth was recorded in 2014.

Georgia imports electricity mainly from Russia and Azerbaijan. Hence, the im-

Table 1: Imports of Electricity from Russia and Azerbaijan (Million kWh)



Source: Electricity Market Operator

port dependency upon these countries grows as well. Electricity imports from Russia increased by 32% in 2014.

The main reason for the growth of imports is increased consumption. The domestic consumption grew by 919 million kWh from 2013 to 2014 whilst local production grew by 675 million kWh. The growth of consumption, apart from the economic growth of the country, is also determined by the changes in electricity tariffs. The tariff increased significantly in 2006 from an average of 10 tetri to 15 tetri. Due to the aforementioned changes, the supply of electricity increased whilst the population started to use electricity more economically. As a result, Georgia reached a 24-hour electricity supply. The amount of electricity generated in Georgia increased by 300% in 2007 as compared to 2006 whilst the production of HPPs grew by 377%.

The decrease in the electricity tariff was one of the pre-

election promises of the Georgian Dream coalition. At the end of 2012, the Georgian National Energy and Water Supply Regulatory Commission and the energy companies were tasked with “finding” the resources to decrease the electricity tariff. The tariff did indeed drop from January 2013. The electricity tariff for consumption below 300 kWh went down by 3.54 tetri and by 2.7 tetri for consumption of more than 300 kWh. The tariff remained the same for legal entities. Tariffs decreased in the main at the expense of a drop in profits for energy companies in parallel with the drop in their investment obligations.

Foreign direct investment in the energy sector decreased by 45% in 2014 as compared to 2012. The amount of investments dropped even further in the first half of 2015 and amounted to USD 20 million which is 65% less than in the same period of the previous year and 78% less than in the first quarter of 2012.

Chart 1: Electricity Imports (Deficit) to Georgia

	2011	2012	2013	2014	2015 (8 months)
Russia	448	517	461	607	265
Azerbaijan	23	98	24	184	102

## CONCLUSION

THE NEGATIVE BALANCE BETWEEN THE PRODUCTION AND CONSUMPTION OF ELECTRICITY (DEFICIT) IN GEORGIA IS GROWING. AS A RESULT, THE SHARE OF IMPORTED ENERGY AND THE COUNTRY'S DEPENDENCY UPON RUSSIAN AND AZERBAIJANI ELECTRICITY IS GROWING. HOWEVER, SO FAR THE ANNUAL SHARE OF IMPORTED ELECTRICITY IS 6%-7% AND IS NOT “HUGE” AS STATED BY THE MINISTER. IT REACHES ITS MAXIMUM OF -15% IN JANUARY. THE DIRECT REASON FOR THE GROWTH OF IMPORTS IS INCREASED DOMESTIC CONSUMPTION. HOWEVER, IT SHOULD BE POINTED OUT THAT IN THE CASE OF A HIGHER DOMESTIC PRODUCTION GROWTH RATE, THE IMPORT DEPENDENCY WOULD NOT HAVE GROWN. FACTCHECK CONCLUDES THAT KAKHA KALADZE'S STATEMENT IS MOSTLY TRUE.



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