GEORGIA

By Interfax-CNA

Georgian GDP grew 8.6% in 2003, industrial production rose by 14% and agricultural output increased 7%. Industrial ouput accounted for 13.3% of GDP, while agriculture accounted for 20.3%. The highest rates of growth were 57.7% in the mining industry, 34.2% in construction materials, and 16.9% in the timber industry and the production of paper and furniture. Output increased 7.5% in the fuel and energy sector. There were 3,181 companies registered in Georgia's industrial sector at the end of 2003, including 2,928 companies in operation.

Georgia's foreign trade deficit rose by 55.4% in 2003 to US$613.7 million. Foreign trade rose 39.2% to US$1.5 billion, with exports up 27.7% to US$444.1 million and imports up 44.6% to US$1.06 billion. The rapid rise in imports was largely due to the supply of materials and equipment needed for the Baku-Tbilisi-Ceyhan (BTC) pipeline project. Ferrous metal scrap accounts for 12.7% of Georgian exports, wine accounts for 8.2%, sugar for 7%, ferroalloys for 5.9%, and copper ore and concentrate for 5.2%. The biggest imports were oil and petroleum products that accounted for 9.7%, pipes and fittings for 8.9%, natural gas and gaseous hydrocarbons for 6.2%, and medicines for 4.9%.

The European Bank for Reconstruction and Development (EBRD) intends to invest more than US$100 million in Georgia, mostly for oil and gas pipeline projects, in 2004. The EBRD would pump US$70 million into the BTC oil pipeline project and US$20 million into the Baku-Tbilisi-Erzurum gas pipeline project.

Georgia's Agency for Management of State Enterprises published a list of 43 companies slated for privatisation. The list included the Zestafon ferroalloys plant, manganese producer Chiaturmarganets and the Madneuli mining and milling combine.

Georgian budget revenues from the privatisation of state property in 2003 were Lari25.6 million (US$12.2 million), or 62% of the target. The failure to meet the target was due to a decision not to privatise a number of power facilities and several major enterprises before they have undergone international audit, including the Chiaturmarganets and the Madneuli mining and milling combine.

Manganese, ferroalloys

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

The government owns 79.9% of Chiaturmarganets, whose charter capital is US$110 million. Chiaturmarganets was put into bankruptcy in 2001, but creditors approved a 15-year programme to revive the company. The programme calls for US$10 million of capital investment and the repayment of Lari54 million (US$25.8 million) in debt.

Austria's DCM DECO Metal is now eyeing Chiaturmarganets, and the company acquired the controlling stake (51%) in Chiaturmarganets-affiliated Zestafon Ferroalloys Plant in September 2003. The latter was renamed Ferro, in which DCM DECO Metal plans to invest US$20 million. In early 2004, a foundation was built, and US$11 million has already been invested in its rehabilitation. Two furnaces were restored, boosting ferroalloy production from 3,000 to 8,000 t/mth. There are plans to bring another two furnaces on line, as demand for the plant's products, almost all of which are exported to Europe and the US, is growing constantly.

Ferro's business plan includes increased labour productivity and improvement of conditions for personnel, plus hi-tech equipment, including the introduction of an electronic system and the creation of new refining equipment. The company hopes to increase the main types of production by renovating reserve furnaces. It plans, for example, to increase output of silicon manganese from the current 35,000 t to 60,000 t in 2004, 80,000 t in 2005, and 100,000 t in 2006. In the next three years, it will increase in stages the production of carbon ferroalloys, from the current 8,000-9,000 t to 17,000 t in 2006.

In March 2004, Ferro and Nissho IWAI Corp of Japan signed a long-term partnership deal on ferroalloy supplies. Exports to Japan might increase to 4,000 t in the near future. Nissho is interested in participating in the expansion and modernisation of the ferroalloy producer. Two Japanese furnaces assembled in the 1980s need to be overhauled. They can produce 250 t/d ferroalloys, the same amount that the plant's other eight furnaces now produce together. Ferro is also considering restarting the sintering mill that was shut down a few years ago. If the Japanese furnaces are restored and manganese concentrate producer Chiaturmarganets provides firm guarantees of stable supplies of ore, Nissho IWAI expects a significant increase in exports of silicomanganese.

Copper

The copper industry is represented by the Madneuli mining and milling combine sited at the settlement of Kazreti in Bolnisi region, southern Georgia. The company is the country’s only producer of copper concentrate. The Madneuli deposit, which has been mined opencast since 1974, contains the bulk of Georgian copper reserves, at around 460,000 t of ore including around 300,000 t of proven reserves, averaging a copper content of 1.29%. Madneuli produced more than 60,000 t of copper concentrate in 2003, an 8,000 t increase from 2002.

Switzerland's Glencore International has invested about US$3 million in Madneuli in the past five years and plans to invest at least a further US$10 million to modernise the operation Glencore has asked to extend a 1998 contract giving it exclusive rights to buy Madneuli's copper concentrate at world prices for five years. Glencore is drawing up a business plan that it intends to submit to Georgia's Agency for Management of State Enterprises.

The government currently owns 97.83% of Madneuli. Glencore had intended to offer US$5 million for a 75% stake in Madneuli that was scheduled to be sold at tender in 2002, but the tender was postponed to 2004 on the recommendation of the International Monetary Fund.

Steel

In May 2003, the Georgian authorities extended unprecedented tax breaks to the Italian company Ares International, which at the start of the year launched a 15-year programme for overhauling production facilities and financial revitalisation at Rustavi Metallurgical Combine (RMC), Georgia’s only steel plant. In August 2003, the Georgian President signed a decree instructing the relevant ministries and departments to help Ares Italy implement a rehabilitation programme. The Economy, Industry and Trade Ministry and the Finance and Justice Ministry were instructed to speed up approval of bills envisaging certain concessions for the Italian investor.

Over the coming three years, Ares will not have to pay basic taxes on condition it invests some of the savings in developing RMC’s production. Plans also call for restructuring RMC's debts to the government over a 15 year period and freezing the enterprise's payments for the coming five years. The enterprise will also be offered low rates for electricity supplies and transportation. Ares, to which some of the metal works' property has already been transferred, has undertaken to invest US$132 million during the next five years in production re-outfitting, and will pay off the enterprise's US$108 million in debts over 15 years. There are plans to build a new steel-making complex with a capacity of 500,000 t/y.

Meanwhile, in December 2003, RMC launched a refurbished pipe-rolling division that had been mothballed for several years. Ares invested US$6 million in reviving pipe production immediately began working on two orders: one from Turkmenistan for 35,000 t of oil and gas pipes, and one from Italy for 1,500 t of various types of pipe.

Coal, oil, natural gas

Georgia produces very little coal, oil and natural gas, which makes it reliant upon imported fuel, mainly from the neighbouring CIS countries. Gruzneft estimates oil reserves in the republic at about 600 Mt, with natural gas reserves of 125 bcm.

Oil production in Georgia increased 90% to 139,700 t in 2003, with natural gas output up 33% to 17.8 mcm. Georgian-British Oil Co (GBOC) accounted for over 66% of oil produced in the republic last year - 92,700 t. GBOC is developing the Ninotsminda field and launched two new directional wells in April and September 2003, making it possible significantly to increase production. Georgian-Swiss oil company Joris Valley, which is developing the

Samgori-Patardzeuli field, increased production 50% to 31,200 t in 2003. Georgian-US Frontera Eastern Georgia produced 7,100 t of oil last year, the Gruzneft production divisions about 5,000 t and Georgian-German GeoGeroil 3,600 t.

In December 2003, the state Oil & Gas Resource Agency named Gruzneft as the winner of a tender to develop one of three blocks offered in a repeat tender for oil and gas exploration and production. Gruzneft will develop a block in the southern wing of the Caucasus Ridge near Kartli and Kaheti covering 2,680 km^2.

Canada's Canargo Energy, which owns controlling shares in Georgian-British Oil Co, plans to invest US$20 million in the development of an oilfield in the Sagarejoi district of Georgia. Large reserves of hydrocarbons have been explored in the Sagarejoi district and the company plans to drill a new well, yields from which may be double those of existing wells, according to company specialists. Canargo Energy started work in Georgia in 1996 and the company's investment in the oil and gas industry in the republic amounts to over US$50 million.