



Statistical Bulletin

**This Bulletin is Produced by the Analytical Centers
for Petroleum and for Alcohol and Tobacco Products
on the Basis of One Month's Research**

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INTRODUCTION

Georgia is a corridor connecting Europe and Asia and performs a significant role in the stabilization of the economy and politics in the region. Thanks to its geographic location, the country has assumed a transit function which can significantly contribute to the growth of its economic potential, however for the same reason it has become a transit territory for illegal cargos especially of tobacco, alcohol and petroleum products. Sometimes incorrect and hasty economic decisions and corruption remaining in public structures also foster smuggling of these products.

Present economic conditions observed in Georgia instigated the complex and diverse development of various sectors of the economy. For growth, progress and modification of these sectors and enhancement of revenues, a variety of legal, administrative and economic activities have to be undertaken.

Latest developments in the country highlight a wide range of problems related to growth of various sectors of the economy. Export, import and domestic manufacturing are influenced by several problems. Sources of the problems should be sought in the activities of the physical or legal entities engaged in these sectors, and in the conditions under which these economic entities are operating.

Goal of the First Thematic Analysis of the Analytical Centers

This first thematic analysis by the Analytical Centers (AC) at this stage reflects the current situation in terms of domestic production and consumption of tobacco, alcohol and petroleum products, current exports and imports, and accordingly represents an initial analysis of consolidated statistical data and abstains from making final conclusions, which will be delivered upon completion of further methodological elaboration of the information obtained.

Table 1 – Budget Revenues from Selected Products (Q1 2004, Q1 2005)¹

	Full Year 2004 (mln GEL) ²	Q1 2004 (mln GEL) ²	Q1 2005 (mln GEL) ³	% increase ⁴	Q1 2005 (mln GEL) ²	% increase ⁵
Total Tax Revenues⁶	1 913. 816	351.572	471.058	134	472.363	134
of which: VAT ⁷	626.429	103,440	194.758	188	194.759	188
Excise ⁷	153.167	27.665	54.229	196	48.679	176
From Oil products ⁸	158.335	23.425	54.253	232	54.041	231
From Tobacco products ⁸	97.693	14.366	18.196	127	18.211	127
From Alcohol products ^{8,9}	20.407	2.261	4.964	220	4.989	221

1 – 2004 Q1 data on excise revenues and revenues from petroleum products includes Central Budget Revenues (IMF information)

2 – Data from IMF

3 – Data from Treasury Department

4 – % increase between IMF data for first quarter 2004 and Treasury data for first quarter 2005

5 – % increase between IMF data for both first quarter 2004 and first quarter 2005

- 6 – All tax revenues from all products and services
- 7 – VAT from all products and services, excise from all excisable products
- 8 – Revenues from petroleum products, tobacco and alcohol include VAT, excise and customs duties
- 9 – Data includes excise tax revenues from beer.

The above table presents data for the selected products. According to the IMF, total tax revenues for the full year 2004 were nearly 2 billion GEL, with nearly 352 million collected in the first quarter of that year. These revenues – from all taxes on all products – were up 135% in the first quarter of 2005. Value Added Tax on all products contributed significantly to this increase, with 190% growth quarter-on-quarter. Excise was also a major factor, with between 176% and 196% growth, depending on data source (IMF or Treasury, respectively). Of the excisable products, petroleum products, tobacco and alcohol are the principal contributors. For these products, the table above shows dramatic budget revenue increases in the first quarter of 2005, by 127% from tobacco and by 232% from petroleum. It is one of the key tasks of the Analytical Centers to identify which products and taxes are most significant, and whether revenues are being missed.

Main Information Sources Used in the First Thematic Analysis

This thematic analysis is based on information compiled and further processed by the AC from official or private structures:

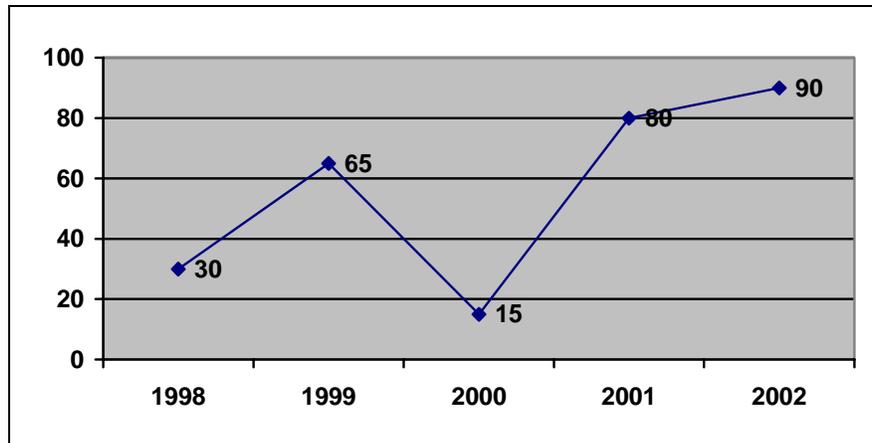
1. Department of Statistics of the Ministry of Economic Development
2. Customs Department of Georgia
3. Service of Excise Stamps of Georgia
4. Companies engaged in production and/or export-import of petrol, tobacco and alcohol.

The Analytical Centers compiled and developed data from 1998 through the first quarter of 2005. Comparative analysis was used as the methodological base of the analysis.

PART I. TOBACCO AND ALCOHOL PRODUCTS

1. Tobacco Products

Diagram 1 – Volume of tobacco production 1998-2002 (million packs)



Source: State Department of Statistics of Georgia, Ministry of Economic Development.

Analysis of the above diagram demonstrates that after introduction of excise tax rate in late 1999, production dropped significantly in 2000. It is noteworthy that also per information of the Department of Statistics, the excise tax resulted in an increase of tobacco prices by 1.3 times on average.

One of the reasons for the drop in production by 4.3 times in 2000 can be found in the complex administrative procedures of marking, which involves four stages:

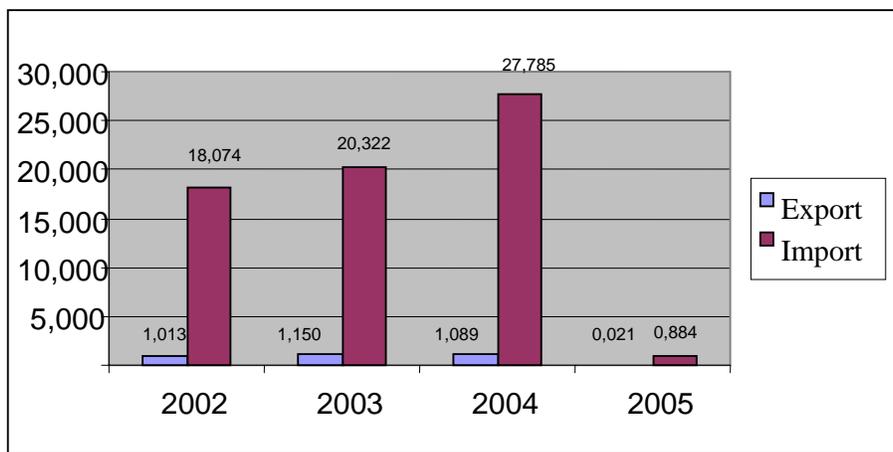
1. The customer (or importer) orders and purchases stamps from the Excise Tax Inspectorate. As soon as relevant establishment produces the required excise stamps, they are available to the customer. To obtain the stamps, the customer must submit an order to the Excise Tax Inspectorate, prepare all trading documents, and satisfy financial requirements set forth by the tax service. Once ready, the stamps are placed in a box to prevent from damage during transport and are sent to the manufacturer/importer.
2. The manufacturer receives the stamps. Upon the receipt, the customer should have accomplished the following operations: customs clearance, checking of boxes, delivery to the enterprise of the manufacturer.
3. The customer delivers the stamps to the factory, where they are counted, and the factory affixes series and numbers to the stamps to avoid confusion with other customers' stamps.

The factory segments the stamp papers into separate stamps, places them in 1,000-piece packs and boxes them 160 000 to a box. During this process, a certain number of stamps

become damaged for which report has to be produced. The excise stamps are then ready for use. The integrity of the stamps has to be checked at each subsequent stage of production.

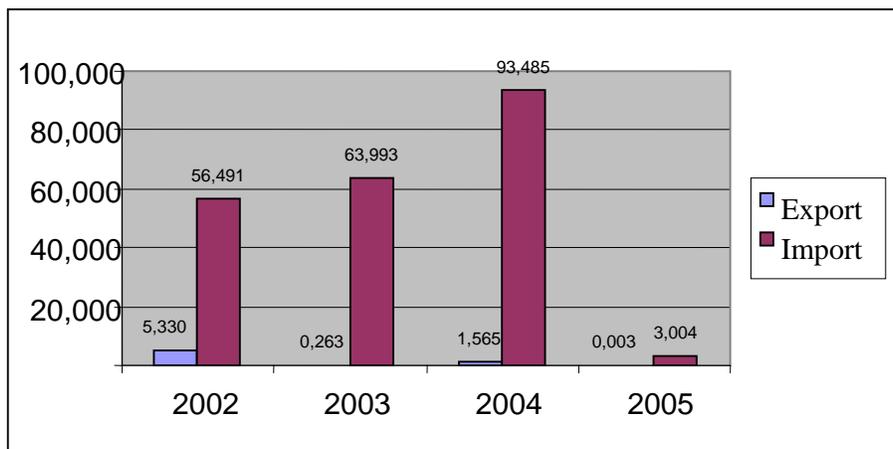
It is noteworthy that the drop in domestic production observed in 2000 was not accompanied by a reduction in consumption, thus to some extent freed up a share of the tobacco market which would have eventually been filled by tobacco products of ambiguous/illegal origin. Information from the Department of Statistics on growth of tobacco consumption in Georgia allows such a presumption, especially in light of the low level of accountability prevalent at that time.

Diagram 2 – Imports and exports of tobacco 2002-2005 (US\$ million)



Source: Customs Department, Ministry of Finance (Q1 2005 only).

Diagram 3 – Imports and exports of tobacco 2002-2005 (million packs)



Source: Customs Department, Ministry of Finance (Q1 2005 only).

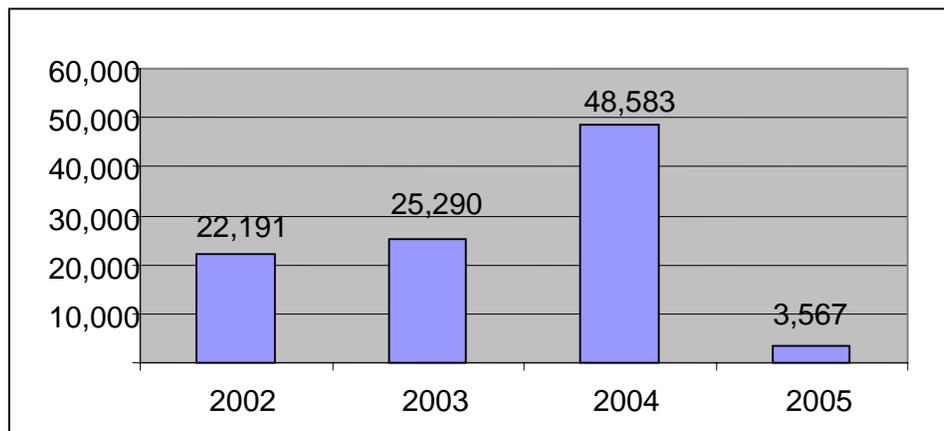
Diagrams 2 and 3 above evidence growth of the import of cigarettes in 2002-2004. Further, a comparison of first quarter tobacco imports for 2005 (3 million packs) to first quarter imports

of 2004 (11 million packs) (this data is not reflected in diagrams 2 and 3) shows a massive drop, whereby 2005 imports comprise only 3.2% of the 2004 level. A likely cause is the significant increase in the excise tax rate on tobacco from January 2005, and the resulting release of leftover stock purchased at the end of 2004 in anticipation of the tax hike.

As to tobacco exports, values were stable over 2002-2004, though volumes fluctuated significantly. This suggests a changing mix of products and thus prices of exports. Exports for the first quarter of 2005 are almost zero, a situation explained by operators as the result of the excise hike which forced at least two local producers to stop operations and exports.

In all likelihood, given data from the Department of Statistics suggesting stable consumption over 2002-2004, the substantial shrinkage of both local production and official imports freed up market share for illegal supply, either from illegal production or smuggling.

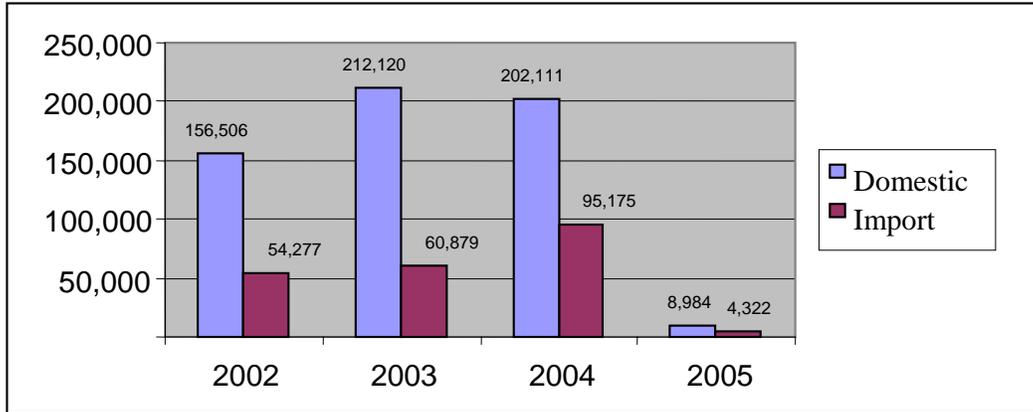
**Diagram 4 – Funds transferred from Customs to the budget for tobacco imports
2002-2005 (GEL million)**



Source: Customs Department, Ministry of Finance (Q1 2005 only).

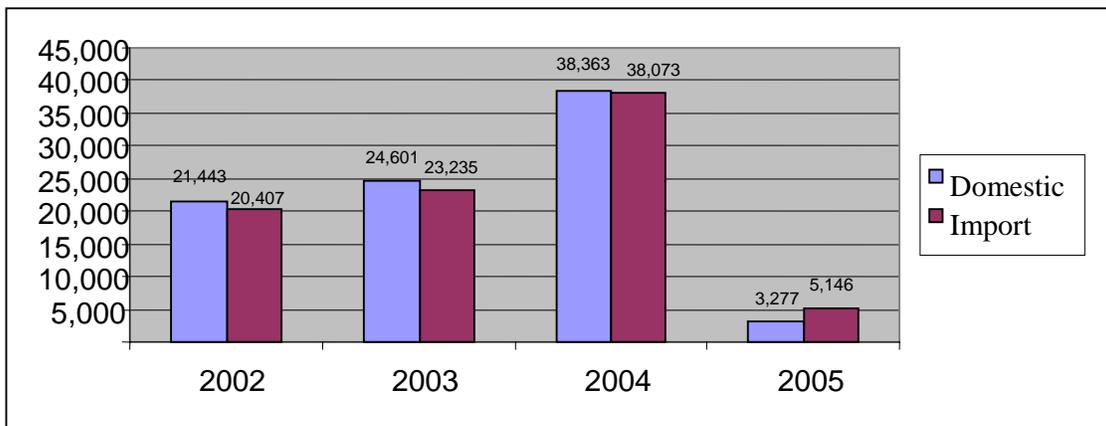
Analysis of the funds transferred from Customs to the budget over 2002-2004 evidences the funds accumulated in the budget grew over the period. However, comparison of the data of the first quarter of 2004 (not shown in diagrams) with the same period of 2005 demonstrates that amounts transferred to the budget decreased by 1.3 million GEL (or 36%), the reason for which can be alleged to be the increase in the excise tax rate, which in turn caused a decrease in official, tax-paying import.

Diagram 5 – Volume of excise stamps issued for tobacco products 2002-2005 (million units/packs)



Source: Excise Tax Inspectorate, Ministry of Finance (Q1 2005 only).

Diagram 6 – Funds transferred to the budget from excise stamp sales for tobacco products 2002-2005 (GEL million)



Source: Excise Tax Inspectorate, Ministry of Finance (Q1 2005 only).

According to data provided by the Excise Tax Inspectorate of Georgia, the quantity of excise stamps issued for domestic manufacturing of tobacco products over 2002-2004 consistently exceeded the quantity of excise stamps issued for imported tobacco products. Analysis of the amounts transferred to the budget from sales of excise stamps for the same period shows that funds transferred from domestic manufacturing also exceeded funds accumulated from imported tobacco products. However, in the first quarter of 2005, funds transferred to the budget from import (5.2 million GEL) exceed funds transferred to the budget from domestic manufacturing by 1.8 million GEL, despite a larger amount of stamps being issued to production. It is argued that the increase in the excise tax stopped local production and thus funds transferred from domestic manufacturing decreased. The excess amount of excise

stamps issued for domestic manufacturing of tobacco as compared to imports, may be caused by prior purchase of excise stamps by domestic manufacturers.

Despite these changes, overall budget revenues from tobacco products, per Treasury data, went up by 27% in the first quarter of 2005 (GEL 18.2 million) compared with the first quarter of 2004 (GEL 14.4 million).

The picture per 2002-2005 data on amount of excise stamps and budget contributions is as follows:

- The number of excise stamps issued for domestic tobacco production in 2002 exceeded the number issued for imports 2.9 times; the budget contributions from production were 1.1 times those from imports;
- The number of excise stamps issued for domestic tobacco production in 2003 exceeded the number issued for imports 3.5 times; the budget contributions from production were 1.1 times those from imports;
- The number of excise stamps issued for domestic tobacco production in 2004 exceeded the number issued for imports 2.1 times; the budget contributions from production were 1.6 times those from imports;
- Although the number of excise stamps issued for domestic tobacco production in the first quarter of 2005 exceeded the number issued for imports 2.1 times; the budget contributions from production were 1.6 times less those from imports.

A final appraisal of the data cannot be made solely on the figures, it is expedient to consider administrative and accounting methods to explain the data. It is also necessary to make thorough consolidation of quantitative and qualitative information from private sources, which is retained as one of the major trends of further strategic research by the AC.

Mirror analysis is used to compare official export statistics of a country with official import statistics of its partners, and can help quantify smuggling, though it is not a full measure thereof. Discrepancies in trading records between Georgia and its main tobacco products partners is presented below.

Table 2 – Mirror analysis of Georgian tobacco product imports with selected countries, 1997-2004 (US\$ million)

	Georgia	Turkey	Ukraine	Difference
1997	32.9	0.0	-	32.9
1998	3.4	0.2	-	3.2
1999	1.5	0.0	-	1.5
2000	3.5	-	3.1	0.4
2002	9.6	-	10.1	-0.5
2004	1.1	-	1.2	-0.1

Note: Georgian imports from Turkey 1997-99, Georgian imports from Ukraine 2000-04.

Source: Customs Department and Ministry of Economic Development (2000 and 2002, 10 months only).

Although introduction in 1999 of an excise tax for tobacco products improved accountability and increased budget revenues, the problem of smuggled imports was not resolved, as shown

by the mirror analysis of trade between Georgia-Turkey and Georgia-Ukraine above. There are several possible motives for contraband, one of these the complex marking procedures (which encourage businessmen to opt for smuggling or produce false excise stamps). Other reasons can be: tax related, bureaucracy and corruption.

It was obvious from the beginning that analysis of the tobacco sector would be incorrect if private business representatives were not involved. For confidentiality, information provided by them was analyzed in terms of an overall database. Over almost one month, the AC had intensive meetings with various Georgian businessmen, both entrepreneurs and importers, including Phillip Morris, Eliz, British-American Tobacco, Georgian Tobacco Manufacturing. The AC developed a special questionnaire which serves to the following purposes:

- identification of the volume of product produced and/or sold by companies in 2003, 2004 and 2005.
- diversification of the products sold according to the types of products.
- determination of the activity area of the companies (segmenting appropriate market).
- identification of associated or partner companies and their characterization.
- identification of supplier companies and analysis of business conditions of their affairs.
- identification of problems existing in the sector by the companies.

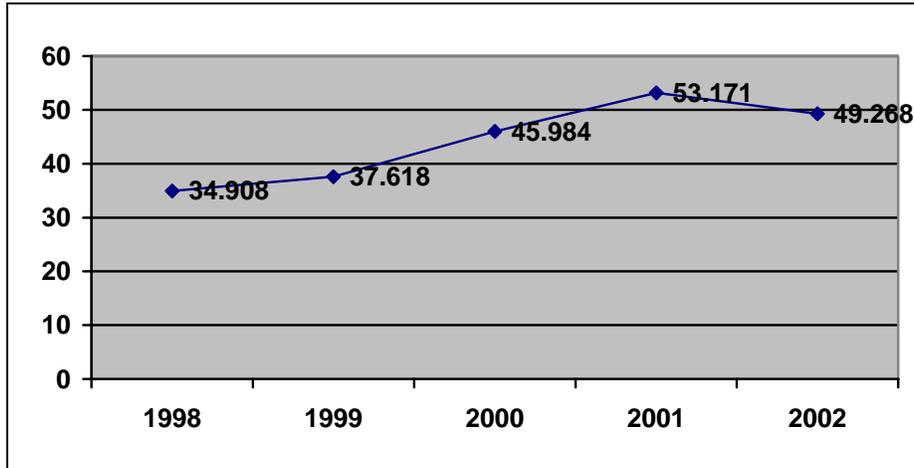
Some of the findings from the AC's interviews and analysis include:

1. According to companies operating in Georgia, the average monthly indicator of tobacco consumption is 49,680 boxes of filtered and 9,936 boxes of unfiltered cigarettes –in total, average consumption is approximately 59,616 boxes monthly.
2. As a result of the suspension of domestic manufacturing following the excise tax increase, the legal share of the domestic wholesale or retail market was substituted by illegal and unrecorded products. In 2004, the ratio of illegal to legal products was 20%-80%: in January-February 2005, the same ratio changed to 35%-65%.
3. According to information provided by private business, turnover of products legally imported by local importers fell 10.9 times. However, budget contributions according to the data presented above were reduced by only 1.2 %. The reason is radical growth of excise tax rate at the beginning of the first quarter of 2005.
4. Sales of some importer companies have decreased at the beginning of 2005. If in 2004 their sales increased 52.9% compared to 2003, comparing first quarter data of 2005 with the same indications of 2003 and 2004 shows sales fell by 6.4 times and 12.17 times, respectively. (And for some types of tobacco, even more – up to 7.3 and 14.4 times.)
5. Companies experience significant losses due to technical problems in marking: the quality of paper and placement of holograms lead to tearing and rubbing making the stamps unusable and increasing the cost of marking.
6. According to information provided by the private sector, the bulk of imported products consumed in Georgia have the excise stamp of foreign countries (or none at all). The sources of illegal products are Russia, Armenia and Azerbaijan.
7. One of the significant reasons for growth of smuggling can be found in Georgia's comparatively high excise tax rate: 90 tetri per pack, as compared to 6 tetri in Russia.

All of the above provide the starting point for further research by the AC.

2. Alcohol Products

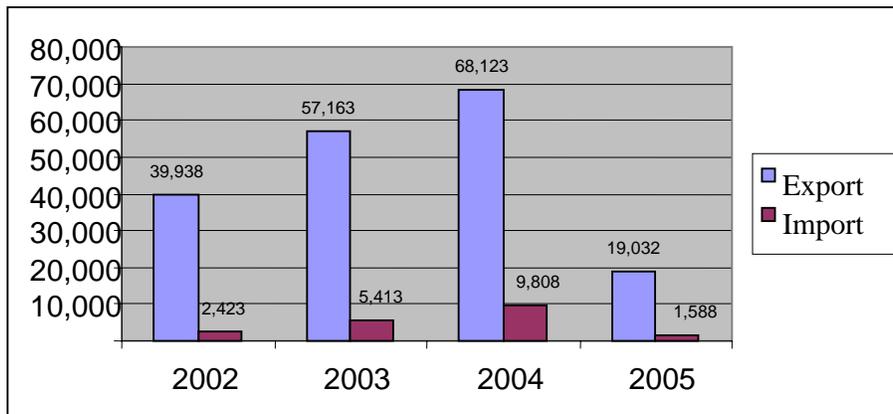
Diagram 7 – Volume of alcohol production 1998-2002 (million liters)



Source: State Department of Statistics of Georgia, Ministry of Economic Development.

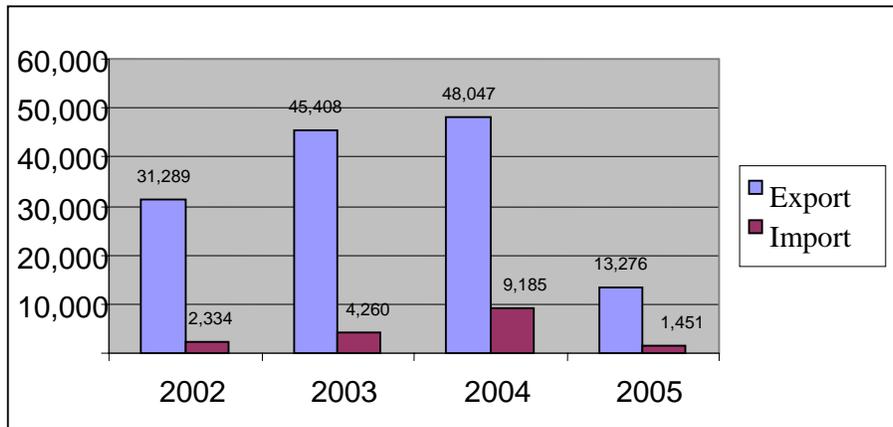
In analyzing the diagram above, data from the Anti Monopoly Service of Georgia should be taken into account. Over 1998-2001, so-called falsified alcoholic beverages were produced in Georgia and exported to CIS countries. At the same time, a number of new domestic production brands grew and production capacities increased. A minor drop in production was observed in 2002 (by 1.1 times), but explanation of this cannot be precise due to lack of relevant information. However, it is suggested that the reasons for the reduction include expansion of smuggling, poor climatic conditions at that time and fluctuation of the purchase price of grapes.

Diagram 8 – Imports and exports of alcohol products 2002-2005 (US\$ million)



Source: Customs Department, Ministry of Finance (Q1 2005 only).

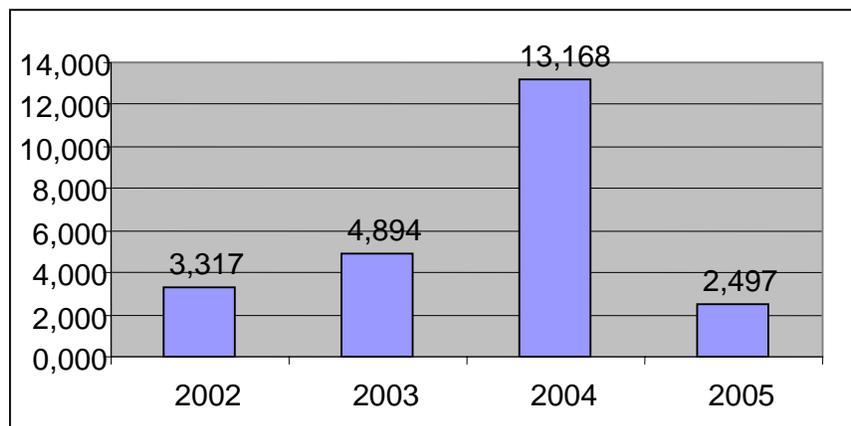
Diagram 9 – Imports and exports of alcohol products 2002-2005 (million liters)



Source: Customs Department, Ministry of Finance (Q1 2005 only).

The above diagrams illustrate that over 2002-2004 imports of alcohol product were growing in a stable manner, both in volumes and value. Comparison of export data for the first quarter of 2004 (US\$ 11.1 million) with the first quarter of 2005 shows that exports of alcohol beverages increased by 7.93 million GEL.

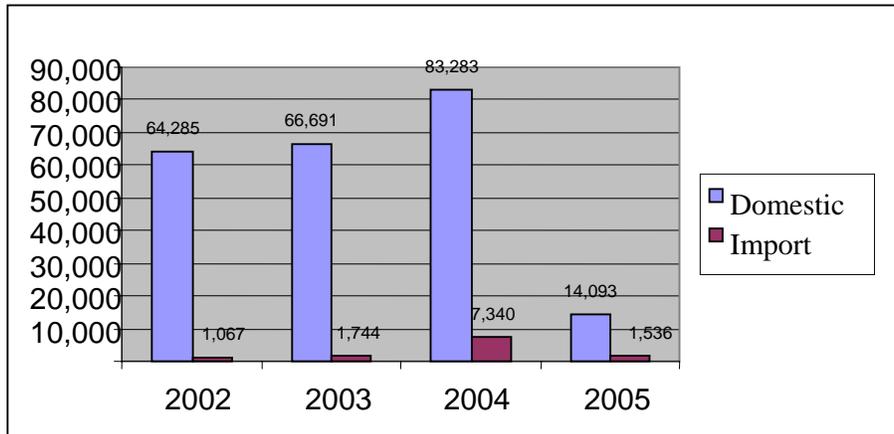
Diagram 10 – Funds transferred from Customs to the budget for alcohol imports 2002-2005 (GEL million)



Source: Customs Department, Ministry of Finance (Q1 2005 only).

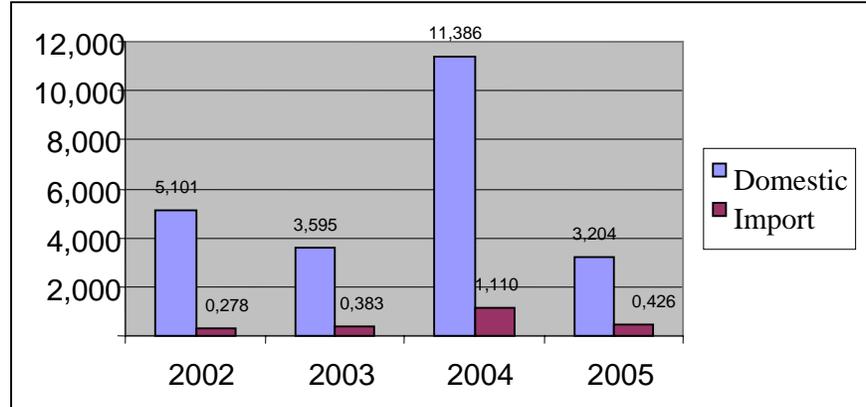
Funds transferred from Customs to the budget exhibit growth for 2002-2005, with first quarter 2005 fund receipts 0.76 million GEL (or 18.9%) higher than first quarter 2004. It should be noted that funds transferred are high compared to imports, in that the former include payment of arrears and penalties and not only revenues from current period imports. Per Treasury data, growth of budget revenues is observed in terms of alcohol products, which indicates development of this sector: increased collections are seen as a result of the increase of both the tax rate and production.

Diagram 11 – Volume of excise stamps issued for alcohol products 2002-2005 (million units)



Source: Excise Tax Inspectorate, Ministry of Finance (Q1 2005 only).

Diagram 12 – Funds transferred to the budget from excise stamp sales for alcohol products 2002-2005 (GEL million)



Source: Excise Tax Inspectorate, Ministry of Finance (Q1 2005 only).

The quantity of excise stamps issued for domestically produced alcoholic beverages over 2002-2004 exceeded the quantity of excise stamps issued for imported alcoholic beverages, and funds transferred to the budget from domestic production exceeded funds accumulated on imports. However, a drop is observed in 2003 which will be investigated further.

The picture per 2002-2005 data on amount of excise stamps and budget contributions is as follows:

- The number of excise stamps issued for domestic alcohol production in 2002 exceeded the number issued for imports 60.2 times; the budget contributions from production were 18.3 times those from imports;

- The number of excise stamps issued for domestic alcohol production in 2003 exceeded the number issued for imports 38.2 times; the budget contributions from production were 1.5 times those from imports;
- The number of excise stamps issued for domestic alcohol production in 2004 exceeded the number issued for imports 11.3 times; the budget contributions from production were 10.2 times those from imports;
- The number of excise stamps issued for domestic alcohol production in the first quarter of 2005 exceeded the number issued for imports 9.3 times; the budget contributions from production were 7.1 times those from imports.

These irregular patterns will be further investigated and explained in subsequent bulletins. A full analysis of the data will require an assessment of administrative and accounting methods in use and consolidation of quantitative and qualitative information from private sources, all of which will form the basis for ongoing research by the AC.

The following preliminary conclusions can be drawn from the data presented above:

- Growth of alcohol production is the result of increased domestic production capacity, and by partial reduction of falsified products both domestically and throughout CIS countries.
- The drop observed in 2002 was caused by increased smuggling, poor climatic conditions and instability of the purchase price of grapes.
- Per data for the first quarter of 2005, as compared with the same period of 2004, budget contributions from alcohol imports grew, which is associated with the increase of excise tax and improvements in administration.
- Quantitative and qualitative growth of exports of alcohol hints at the development of the sector as evidenced by the figures provided in this bulletin.

PART II. PETROLEUM PRODUCTS

1. Petroleum Business and Smuggling

In 1994, despite the measures exercised by the executive power, a crisis gripped the national economy: GDP fell by 30% and in 1993 prices comprised 11,646 billion coupons¹. Exploration and production of petroleum and petroleum products was reduced, import of petroleum products was insufficient, mainly due to an indirect economic blockade by Russia. In January-December 1994, as compared to 1993, import of petroleum increased 1.1 times, yet due to the power crisis consumption of gasoline and kerosene increased three times, indicating substantial smuggling of these commodities (Table 3).

Table 3 – Production of petroleum and petroleum products for 1994 (prior to introduction of excise tax)

	Actual production (thousand tons)		Year-on-year difference (+/-)	Year-on-year growth rate (%)
	1994	1993		
Petroleum	67.0	88.0	-21.0	76.1
Gasoline	8.8	18.6	-9.8	47.3
Diesel	17.9	34.4	-16.5	52.0
Mazut	24.8	72.0	-47.2	34.4
Bitumen	1.4	1.7	-0.3	82.4

Source: Committee for Social Economic Information of the Republic of Georgia.

Petroleum production reduction was identified in 1995 and 1998 (Table 4) which is not in line with automobile transport and consumption growth. In 1995, this was conditioned by hard economic and criminal circumstances. In 1998, reduced production was conditioned by the global setting of a world financial crisis which was reflected in Georgia by a reduction of imports and subsequent processing (per expert date, production fell 1.5 times). The comparatively high indicators of 1996-97 reflect an improved economic environment.

Table 4 – Production of petroleum and petroleum products 1995-2002 (thousand tons)

	1995	1996	1997	1998	1999	2000	2001	2002
Petroleum	42.7	128.0	134.0	119.0	90.2	107.5	97.7	70.
Gasoline	6.7	-	4.4	2.4	3.6	1.8	-	-
Diesel	10.8	4.5	8.1	4.7	22.3	8.8	2.0	0.9
Mazut	16.1	6.8	12.4	4.7	23.2	16.0	8.6	13.9

Source: State Department of Statistics of Georgia, Ministry of Economic Development.

In 1999 and 2002, petroleum production is low compared to previous years. At the same time however, production of automobile gasoline, diesel fuel and mazut is high, which indicates production based mainly on imported oil. In this regard, the 1999 presidential

¹ In 1994, average annual exchange rate of the national currency in Georgia was : 1USD – 1 228 266 coupons

decree “On Temporary Measures to Enhance Control Over Accounting of Imports of Petroleum Products” is noteworthy, as it sought to prohibit imports of ethyl, a cheap gasoline with lead contents above 0.013 g/l, under import and re-import customs regimes. The data on volumes and values (Table 3) suggests there may nevertheless have been large imports of low quality ethyl gasoline and contraband production (the latter associated with excise introduction in 1995 and increase in 2005).

Table 5 – Imports and exports of gasoline and diesel 1999-2004

	Imports			Exports	
	Volume (kg)	Value (US\$)	Value (GEL)	Volume (kg)	Value (US\$)
Gasoline					
1999	303,535,550	39,302,987	82,021,126	3,880,965	567,317
2000	192,823,656	54,575,494	70,896,317	5,181,657	1,502,666
2001	267,571,168	65,491,187	90,907,059	2,147,577	405,863
2002	270,395,588	63,117,022	92,099,492	0	0
2003	266,293,818	71,045,766	94,445,488	0	0
2004	295,345,691	110,979,581	112,663,617	4,140,336	1,685,095
Diesel					
1999	75,629,517	7,910,422	11,432,515	27,356,394	3,526,923
2000	52,027,859	8,903,648	7,636,028	15,058,695	2,878,640
2001	81,288,229	16,450,027	13,437,206	15,193,015	3,229,999
2002	93,661,847	19,297,307	13,837,058	15,937,269	3,048,111
2003	103,117,096	25,018,392	16,194,775	6,720,425	1,601,637
2004	170,844,330	57,095,334	26,695,499	7,015,904	2,416,461

Source: Customs Department, Ministry of Finance.

Data reported above shows that in 2004 gasoline exports increased from zero in the two preceding years. This issue requires additional study and the AC intends to hold detailed research in this direction. First quarter data for 2005 suggests revenues from excise taxes increased compared to the same period in 2004, this has been associated with growth of imports, but the AC abstains from making forecasts at this stage.

Mirror analysis is used to compare the official export statistics of an exporting country with the official import statistics of the receiving country, and can help quantify smuggling, though it is not a full measure thereof. Discrepancies in trading records between Georgia and its main petroleum product partners is presented below.

Table 6 – Mirror analysis of petroleum product trade with selected countries, 1997-2002 (US\$ million)

	1997	1998	2000	2001	2002
Imports					
Russia	2.4 / 0.2 / 2.2	1.1 / 0.1 / 1.0	-44.5	-45.9	n/a
Azerbaijan	2.6 / 23.4 / -20.8	n/a	n/a	-30.2	6.6
Turkey	1.5 / 0.2 / 1.3	n/a	1.6 / 4.9 / -3.3	n/a	n/a
Exports					
Turkey	5.8 / 0.05 / 5.75	n/a	7.8 / 37.5 / -29.7	5.5 / 28.5 / -23.0	2.4 / 13.6 / -11.2
Armenia	6.7 / 21.5 / -16.2	1.2 / 1.0 / 0.2	-1.1	-3.1	n/a

Note: where only one number appears it is the difference between the Georgia's imports from a country and that country's exports to Georgia, elsewhere data is reported as Georgian data / partner data / difference.

Source: Ministry of Economic Development (2000 and 2002, 10 months only).

Data reported by Georgia and its partners differ significantly at several observation points. Reasons for these differences can be administrative, economic or political. The figures above suggest the introduction and increase of excise may be linked to increased smuggled cargo, but it should also be noted:

- Petroleum products flow from Russia through Abkhazia and the Tskhinvali territory, and Georgian Customs are unable to detect exact trade because of regional tensions,
- Although Azerbaijan bans the export of its petroleum products to Armenia, there is evidence that some Georgian businessmen attempt to smuggle Azeri petroleum products through Georgia for re-export to Armenia.

Smuggling may therefore be inspired by political, fiscal or corrupt motives. The AC was unable to obtain data for 2004 and 2005, which would have illustrated the impact of the reinforcement of customs administrative control and the closure of the Ergneti market, where petroleum products were imported in large volumes. This is one avenue for further research.

2. Variations of Petroleum Consumption and Expenses 2005

According to the research data, the total volume of petroleum consumption fell after the increase of both the excise tax and world prices of oil. However, it should be determined which factor played the major role in this decrease. In particular, though an overall reduction of consumption was observed, the automobile park number in fact increased during the period, according to official data. At this stage, it is presumed that the government's strict monetary policy contributed to the price hike. Whatever the key factors, observations made in March-April 2005 suggest consumers have switched to low-price, low-quality gasoline.

It is notable that a new draft law on licensing of petroleum importers, wholesale and retail traders is being actively debated and developed by public and private entities. On March 26, with the support of USAID through GEGI, the Association "NIA" and the Federation of

Georgian Businessmen presented private sector comments to the draft law. A majority of the remarks were accepted by the Ministry of Finance attending the presentation, as a result of which the draft law was significantly amended. It is believed this draft law will facilitate:

- further growth of indicators of legalization in this sector;
- simplification and regulation of accountability and settlements;
- establishment of overall competitive business environment for all market players;
- attraction of new investments for business development in the petroleum sphere;
- employment;
- on this basis, further growth and stability of budget revenues from the petroleum sector.

3. Problems in the Petroleum Sphere

1. According to the information provided by the Excise Tax Inspectorate, there are 71 companies engaged in petroleum import in Georgia and 262 gas stations registered in Tbilisi alone. The AC actively cooperated with large and medium petroleum companies operating in Georgia, such as Canargo Standard Oil, Lukoil Georgia, Nukoil, Aviafuelservice, Georgiana etc. These organizations provided information on their import, sales and budget contributions. For confidentiality reasons, information received from the State structures was not by company: it is therefore impossible to compare information obtained from the private sector with the information of public agencies. In order to make information obtained from private companies usable, it is necessary to identify their relative share (official information identified per company: amount, volume of sales etc.) out of total consumption of petroleum products.
2. There is no mirror comparison for 2004 with major petroleum exporter countries – Azerbaijan, Romania, Bulgaria, Greece and Turkmenistan – so it is impossible to determine the exact share of smuggling. Real volumes of local petroleum production are not identified which complicates identification of real parameters of petroleum production and consumption. In order to identify the real figures of petroleum consumption in Georgia, it is necessary to hold a thorough marketing survey, which is a future intention of the AC.
3. Standards remain problematic for the oil sector. The GOST-41 standard adopted in 2000 and 2003 is still applicable in Georgia, which is identical to old Soviet GOST 2084-77 standard adopted in 1977, and as such is behind international requirements and contradicts ecological safety norms of Georgia. It is also noteworthy that there is no testing lab in Georgia fully equipped for determining petroleum quality, which would allow checking of quality of imported and domestically produced petroleum products.

STRATEGIC PLAN OF THE ANALYTICAL CENTERS

In looking for solutions to the above mentioned problems which have become acute over the period of January-February 2005, it is highly important to seek further cooperation with both the public and private sectors. Meetings and discussions held by the AC over one month illustrate this necessity. Such meetings and discussions will continue in future. Further development stages of the AC will include:

1. Creation of a precise information database;
2. Development of specialized software application and information management system;
3. Application of acknowledged international program analysis methods that will ensure fair and unbiased analytical outcome;
4. Application of direct and indirect methods of study.