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OVERVIEW OF TRANSPORTATION AND LOGISTICS SECTOR IN GEORGIA

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SECTION 1. SECTOR EXECUTIVE SUMMARY

Located at the crossroads of Europe, Central Asia, Russia, the Middle East and Asia, Georgia is a bridge connecting several important global economic regions with a total potential market of more than one billion people (see table below).

Region	Population
European Union	495 million
Russian Federation	145 million
5 Central Asian countries	50 million
3 Caucasus Countries	16 million
Balkans	55 million
Turkey	73 million
Iran	70 million
Arab Middle East	120 million
	Potential Market of More than One Billion

The shortest route from Europe to China and Asia — 400 km of highways and 600 km of air routes — passes through Georgia. The modern-day significance of Georgia’s geographic position reminds us of its location on the historic “Silk Road,” which connected Europe with Asia in ancient times. The corridor starts in Eastern Europe and ends at the borders of China and Afghanistan. There are two routes: one through Georgia’s Black Sea ports and the other, a land connection through Turkey.

Georgia is the transportation hub for the South Caucasus region (Georgia, Armenia, and Azerbaijan) and Central Asia (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan). Georgia’s investment strategy is to attract technologically advanced, export oriented, efficiency-seeking foreign direct investment.

The sector’s total output in 2006 is estimated at more than one billion GEL (approximately 9.8 percent of Georgia’s GDP and a 19.6 percent increase over the previous year), and it employs more than 41,000 Georgians. Total volume of cargo today is 11 million tons. If the volume increases to 20-25 million tons, however, as some projections say that it may, the region’s entire transportation system would need to be modernized, especially the Azerbaijani rail system..

Georgia is the key link in the shortest transit route between Western Europe and Central Asia for transportation of oil and gas. Georgia’s oil and gas pipelines, Black Sea ports, well-developed railway systems, and airports with direct air services to 17 locations are playing an increasingly important role in linking East and West. By positioning itself as the central link in a chain connecting Europe with Russia, the Middle East, and Asia, Tbilisi is trying to turn its 4,000-year-old curse — its geographical sandwiching between Asian, Middle Eastern, and Russian empires — into a new source of strength, commerce, and job creation.

Georgia is quickly rediscovering its “Silk Road” heritage as Western goods and oil from the Caspian basin flow through its territory. The Georgian government’s Eurasia corridor policy will require substantial investment.



Opportunities exist in the following areas:

- Cargo infrastructure (TAM Project).
- Railway links under construction.
- Modern logistical systems in the ports.
- Airport development.
- Management expertise in port structure, implementation and monitoring system.
- Development of the opportunities that will arise from the Special Economic Zones.
- Warehousing and storage facilities.
- Transportation/logistics-specific think tanks to provide the system integration that will make Georgia strategy become reality.

SECTION 2. SECTOR SEGMENTS

According to the Georgian Customs Department, the volume of total transit through Georgia (excluding oil and gas) rose from approximately 10 million tons in 1999 to 23 million tons in 2006.

Pipelines

British Petroleum (BP) and its partners have invested more than \$5 billion over the last 10 years to develop the major oil and gas pipelines that cross Georgia.

Name of Pipeline	Capacity/volume	Route	Payments
Baku-Tbilisi-Ceyhan	1 million barrels oil per day, finished in 2005	Sangachal, Azerbaijan, to marine terminal in Ceyhan, Turkey	Estimated profit tax payments to Georgia 2007 \$25 million
South Caucasus Gas	800 million cubic meters potential, finished in 2006	Shah Deniz field in Caspian Sea to 3 Caucasus states	In-kind gas in lieu of tariff; energy security for Georgia
Western Route Export	Finished in 1998	Baku-Supsa	Transit fee revenues

Source: Ministry of Economic Development; "Invest in Georgia" 2007

Railways

Georgia's rail system served 3.9 million passengers and 22.6 million tons of cargo in 2006, with links to the rail systems of Armenia, Azerbaijan, and Russia. The planned new railway serving Georgia, Turkey, and Azerbaijan will be completed by 2010. Georgia's double-track rail system allows trains traveling in the opposite direction to pass each other easily. Railways connect Tbilisi to the major ports, Batumi and Poti and the eastern region to Azerbaijan.

Once tariff structures, equipment shortages, facility limitations and better business processes are addressed, the system will be able to handle the increased container traffic from the ports. The American Chamber of Commerce (Am-Cham) in Georgia in its transportation sector study states that "Georgia's favorable location between Europe and the rapidly developing economies of Central Asia, such as Kazakhstan, is an asset to its future rail development, as it can provide a staging area for companies providing products and services to the oil industry, and can be a warehousing, distribution and final assembly site for companies."

See the Georgian Railways Web site (www.railway.ge/eng) for details on legislation, lists of assets for sale or privatization, tenders, etc.

Black Sea Ports and Shipping

Water transportation accounts for 41 percent of total cargo imported in Georgia. Georgia has two Black Sea ports, Poti and Batumi, which have rail ferry links with Ukraine, Romania, Russia, and Bulgaria. Both ports are key links in the TRACECA trade route.

Poti (depth 11 meters; established 1858; www.potiseaport.com). More than 7 million tons of dry cargo were transshipped through Poti in 2006, 9.1 percent more than in 2005. One of Georgia's largest Black Sea ports, Poti is estimated to carry 15.5 million tons by 2010 and 19 million tons by 2015. Georgian Ministry of Economic Development officials expect the cargo transshipment to grow by 12 percent in 2007. Poti has direct automobile ferry connections to Burgas (Bulgaria), Rize (Turkey) and Novorossiisk (Russia). The table below summarizes Poti's figures for the first quarter of 2007.

Poti Port Category	Time Period	Amount
Cargo Flow	First quarter 2007	1.8 million tons; 54% cargo in transit, 16% import; 29% export
Number of Containers through port	First quarter 2007	42,977 TEU (Twenty Foot Equivalent Unit; 1TEU=20 foot container)
Handled Containers	First quarter 2007	16,576 empty and 26,401 full
Total Turnover	2007	6 million tons
Cargo Flow	2007	3.7 million tons
Number of Vessels Calling at Port	2007	1,957 ships
Total Throughput (TEU)	2007	126,905
Handled Containers Empty	2007	44,439
Handled Containers Full	2007	82,466

Source: Poti Sea Port

Georgia is developing a free economic zone in Poti and the surrounding area to allow investors to leverage Georgia's strategic location. In July 2007, Georgia invited foreign companies to submit expressions of interest in a concession to run the Port of Poti and develop and run an adjacent 400-hectare free industrial zone for 49 years.

Kulevi. This is a new oil terminal, a former military port in the Kolkheti National Park near Poti, which is under construction (privately funded and supported by the World Bank), to be completed by the end of 2007. It will consist of 16 tanks with a capacity of 22,000 cubic meters, serviced by a railway that can support up to 10 million tons of oil in the 1st phase of construction and up to 35 million tons in the 2nd phase of construction.

Batumi (depth 12 meters). Batumi is both an oil terminal and a seaport, which carried 14.2 million tons of shipping in 2005, and is estimated to carry 17.5 million tons by 2010 and 33.8 million tons by 2015. Its annual capacity is 18 million tons for oil and 2.3 million tons for dry cargo per year. Batumi Port is managed by Green Oak Group of Denmark, which won a 49-year contract to manage the Port. Batumi's new airport, which opened in 2007, has a runway of 2,420 meters.



Trade Facilitation/Logistics

Freight Forwarders. International freight forwarders in Georgia are represented by the Association of Freight Forwarders, which has 26 members, including many employees with FIATA diplomas and involved in the ISO certification process. The Georgian International Road Carriers Association (www.girca.org) is a member of the International Road Transport Union.

Storage Facilities/Warehousing. Most of Georgia’s storage and warehousing facilities are located near the ports and airports of Poti and Batumi and the Tbilisi airport. The storage handling market for air cargo in 2005 was \$1.5 million. The potential for warehousing and storage is substantial, especially for refrigerated storage.

Global Participation. The United States, via USAID, the Millennium Challenge Corporation, the Overseas Private Investment Corporation (OPIC), and the Export-Import Bank, along with the World Bank, EBRD, the EU, the Japan Bank for International Cooperation, and other donors are examining methods to improve the transport, water supply, and wastewater treatment infrastructure. Millennium Challenge Georgia (MCG) has allocated \$102.2 million for road construction and reconstruction (the Samtskhe-Javakheti Road Rehabilitation Project). The EU has helped to start the TRACECA (Transport Corridor for Europe, Caucasus and Asia) with 9 countries, signing bilateral agreements on preferential trade and cargo regimes.

Civil Aviation / Airports

Tbilisi’s new international terminal with its 3,000-meter runway, opened in February of 2007, is hailed as one of the world’s most comfortable and efficient terminals. Four national and 14 foreign airlines serve Georgia, including Austrian Airlines, British Airways, Lufthansa, Air Baltic, and Turkish Airlines. The right-hand chart below illustrates direct flights from Tbilisi. Kutaisi has a 2,500-meter runway; Batumi, a 2,420-meter runway; Senaki, a 2,400-meter runway; and Poti, a 1,500-meter runway.

From Tbilisi, you can reach the following cities by direct flight:

London	Amsterdam	Paris
Frankfurt/Munich	Vienna	Athens
Kyiv/Kharkiv	Minsk	Riga
Astana/Almaty	Tel-Aviv	Dubai (via Baku)

Air Cargo. In 2005, 2.7 million tons of air cargo were shipped through the Europe-Caucasus-Asia corridor. If the air cargo market rises to 8 million tons, as some estimates predict, more logistical hubs will be required, especially 3-modal hubs, in addition to those in Baku, Almaty, and Tashkent. These air cargo sites require specific runway lengths, proper equipment control links, and parking spaces for planes. Georgia still has significant unused air cargo capacity, if the proper infrastructure is built. Major global players in this air cargo market include Quantas, Lufthansa, KLM, Swissair, and Lasare.

Road Transportation / Trucking

Georgia has allocated 181 million GEL in 2006 and 459 million GEL in the 2007 state budget to improve its 20,229 km of public roads. The World Bank has financed road rehabilitation and construction on all of Georgia's major trunk roads and is now rehabilitating the secondary roads in the regions.

Free Industrial Zones. On July 3, 2007 (effective September 1, 2007), the Parliament of Georgia adopted a bill creating Free Industrial Zones (FIZ). The bill envisages zones located on at least 10 hectares. Zones may be established by government, legal entities, or private individuals. Companies in the multi-currency zones will be free from profit, property, and VAT taxes.

SECTION 3. SKILLS DATABASE AND LOCAL MAJOR PLAYERS

The loss of highly qualified workers from 1991 through 2004, the degradation of the value of certain formal education qualifications in the 1990s, the rapid expansion of imports with small corresponding job creation, Georgia's large informal market, and other factors have adversely affected the country's skill mix. The Labor Code reform, making Georgia one of the world's most flexible labor markets, and the improvement of vocational, professional and university training have helped stem the tide of rising unemployment and emigration. Georgia's total labor force is estimated at 2.1 million.

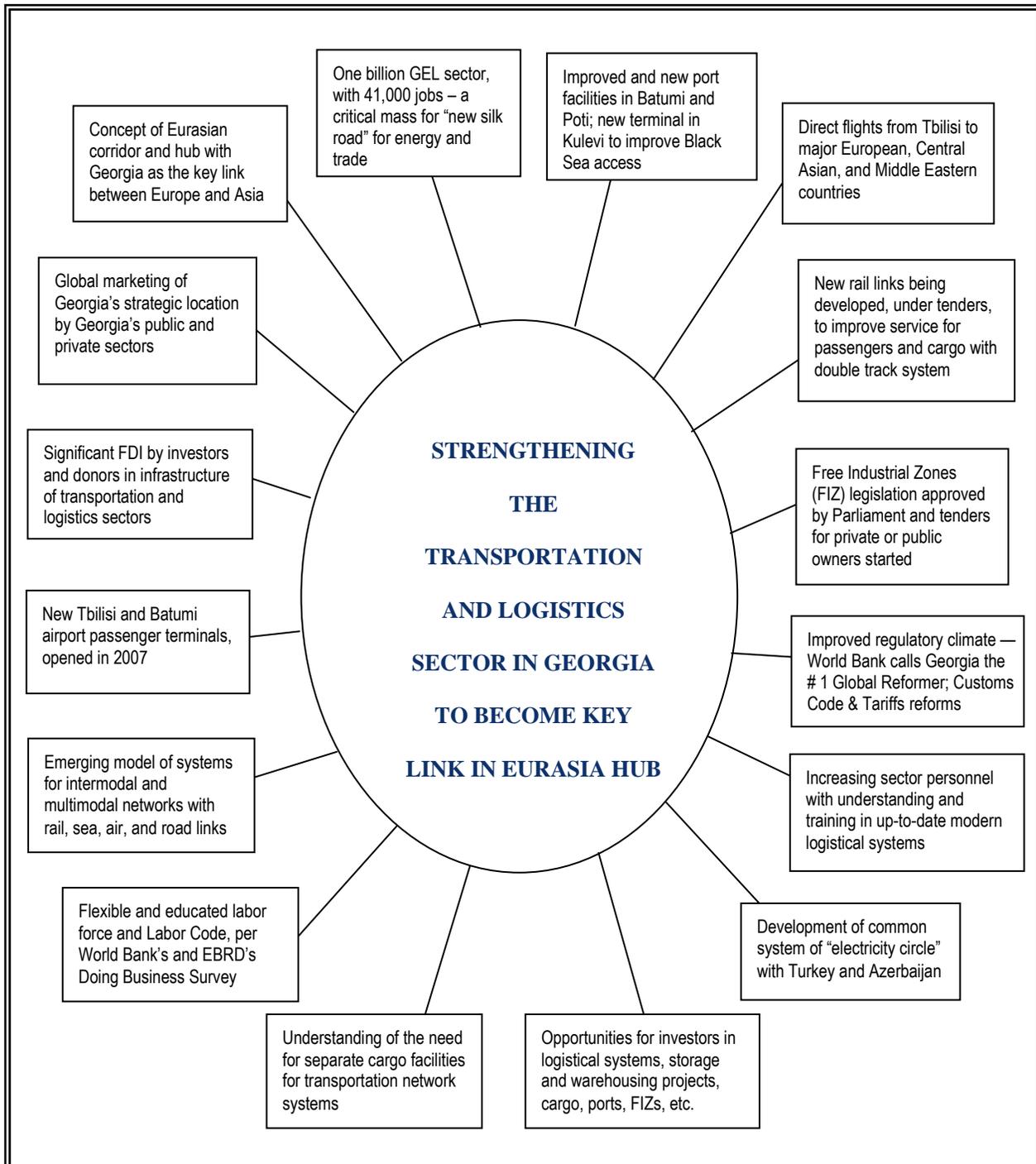
Although the transportation/logistics sector is economically vibrant, it is undergoing intensive enterprise restructuring, requiring specialized skills in modern logistical and management techniques with multimodal transportation standards. The challenge for the sector is to target current Georgian skills to the modern requirements of the Black Sea competitors. Georgia has four logistical hubs, air cargo centers, and standards to serve the specific demands of the global clients.

Finding qualified staff in such an emerging market is difficult, but considerable training is underway in both the public and private sector. Organizations like FIATA have been very helpful in providing training with local business associations, such as the Association of Freight Forwarders, to fill those needs. Some of the key players in this sector in Georgia are:

- Maersk, Georgia www.maerskline.com
- Barwil Georgia www.barwilpi.com.ge
- CTE Caucastransexpress www.cte.ge
- Chanel Energy Poti Port www.channelenergy.ge
- Batumi Oil Terminal, Ltd. www.greenoak-group.com
- Bertling Caspian Ltd www.bertlingcaspian.com
- Catoni & Co., Georgia www.catoni.com.ge
- Globalink www.globalink-logistics.com
- Nomad Georgia www.nomadexpress.ge
- Solar Georgia www.solargeorgia.com

SECTION 4. COMPARATIVE ADVANTAGE

The American Chamber of Commerce in Georgia states on its Web site that “Georgia’s comparative advantage is to emerge as a transit country with the shortest route from Azerbaijan and Central Asia to the West, and from Turkey to Russia. The Government of Georgia recognizes this potential and is undertaking broad reforms of the Customs Code and working to upgrade infrastructure, including roads, tunnels and bridges.” The chart below describes some of the Georgia-specific inputs for creating a comparative advantage in this sector.



Comparative advantages, or corporate location decision factors, are determined by many different factors. Some are:

FACTORS FOR INVESTORS	FACTORS FOR GEORGIA
Size and access to market	Potential to strengthen Georgian value chains, add value
Availability of raw materials/inputs	Employment/job creation potential
Availability of land and private property	Skills-set match
Availability and cost of trainable labor	Technology and innovation transfer
Quality and availability of infrastructure	Strengthen local firms ability to compete internationally
Intellectual property protection	Contribute to the rehabilitation of Georgia's infrastructure
Export and re-export potential	Export and re-export potential

SECTION 5. SECTOR ANALYSIS AND INVESTMENT OPPORTUNITIES

The transportation and logistics sector is labor-intensive, knowledge-based, and export-oriented. Investment in the sector is high. The sector offers the opportunity for Georgia to take advantage of its intellectual strengths, and allows Georgia to become a logistical hub in the Black Sea region. This fits with Georgia’s investment strategy to “attract technologically advanced and export-oriented efficiency-seeking foreign direct investments.”

Strengths	Weaknesses
<ul style="list-style-type: none"> • Location — Georgia is a crucial link in the Eurasian corridor • High educational level of Georgians • History of high-quality trading route: Silk Road • Potential for regional distribution to Caucasus, Black Sea, and other countries • Most flexible labor market in the region due to regulatory policies in Labor Code • Investment opportunities in air freight, logistics systems, etc. • New law on FIZs to re-export • Training plans and private organizations to correct lack of qualified personnel in specific sectors such as logistics. • Room on Black Sea for another logistics center on Georgian coast • Access to air, rail, sea, and road transportation and logistics • Strong partnerships with Azerbaijan in several Caucasus/pipeline/rail/electrical projects • Georgia’s NATO collaboration supports image of stability and security for investments • Multimodality: Air, Road, Train, Black Sea 	<ul style="list-style-type: none"> • Dependence on other countries for system efficiencies (i.e., Azeri rail system, etc.) • Loss of Russian transportation and logistics links due to political situation • Low per capita income • Incomplete realization of reforms • Perception of political instability on the part of some global business leaders • Skill shortages in sectors without educational skills training to needs of the labor market • Uncertainty about regulatory practices • Electrical shortages and cost of electricity • Infrastructure development in new FIZs will take time • Air cargo limitation at Tbilisi airport • Need for modern navigation systems • Competition on Black Sea from Bulgaria, Romania, Turkey for logistical center • Competition in Caucasus for Regional Hub with Azerbaijan

Several of the future global trends in airfreight are:

- Use of sophisticated supply chain management, just-in-time shipments, and modern quality control and monitoring.
- In the short-term, air cargo will grow, on average, by 10-15 percent per year, with volumes of more than 39 Billion euros. This is particularly true in the transportation of high-tech and pharmaceutical products, most of which have distribution centers in Europe.
- China will need various routes for transporting its products to Europe and receiving its energy supplies.
- Preference for separate cargo airports with three-modal capability and modern logistical equipment.

Investment Opportunities

1. The TAM (Tbilisi Aircraft Manufacturing; www.tam.ge) corporation is a unique aerospace industrial group in the Tbilisi region with 2,300 employees, located in the Veli Airfield. TAM is developing a world-class, multimodal cargo hub airport in its own ICAO-certified TAM Valley to convert the area into a cargo hub for the Europe-Caucasus-Asia air corridor, with an inter-modal transportation network and an air cargo distribution center, to be integrated into the network of air freight, trucking, shipping, and rail transportation. A 3,000-meter runway, parking positions for three Boeing 747's, modern visual and instrument landing systems, a fuel facility, and direct access to railway lines to Poti and Batumi and to Azerbaijan are anticipated, along with an 8,000-square-mile air cargo logistics center capable of handling 20,000 metric tons per year.
2. According to *Georgia Messenger* (July 23, 2007): "The first session of the coordination council for the Baku-Tbilisi-Kars railway was held in Baku [on] July 18-19, 2007. The Georgia section runs from Marabda to Katsakhi on Turkish border, which is estimated to cost \$90 million and be completed in two years. Georgia Railway director general Irakli Ezugbaia announced that both Azerbaijan and the United States will contribute to the financing. After completion, it is expected that 10 million tons of cargo will be running the rails from Baku to Kars, via Tbilisi."
3. Enhanced modern logistical systems in ports, airports, and other transportation nodes.
4. Further airport development in major cities.
5. Management expertise in port structure, implementation, and monitoring systems.
6. Development and implementation of the Free Industrial Zones and legislation and construction of the zones.
7. Significant increase in warehousing and storage facilities to meet current and future needs, especially in the area of frozen foods and refrigeration, to ensure freshness when products reach their destinations.
8. Development of one or many organizations with a knowledge base, or think tank within Georgia specializing in, or having a specific expertise in, Georgia's transportation and logistical needs for today and in the future. This public-private partnership should establish links with one or more of the global leaders in this field.

SECTION 6. SECTOR STAKEHOLDERS

Major Stakeholders:

1. The Georgian National Investment Agency
Ms. Tamuna Liluashvili, Director
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Telephone: 995-32-43-34-24 Fax: 995-32-92-11-22
E-Mail: tamunal@investinggeorgia.org
Website: www.investinggeorgia.org
2. The Georgian Ministry of Economic Development
Mr. George Arveladze, Minister
12 Chanturia Street, Tbilisi, Georgia 0108
Telephone: 995-32-99-69-96; Fax: 995-32-92-18-45
Also includes information on Statistics www.statistics.ge
Also includes information on Privatization www.privatization.ge

Additional Key Organizations with Web Resources

US Embassy, Tbilisi	http://georgia.usembassy.ge
United States Agency for Int'l Development	http://georgia.usaid.gov
American Chamber of Commerce in Georgia	http://www.amcham.ge
World Bank, Georgia	http://www.worldbank.org
International Monetary Fund	http://www.imf.ge
Ministry of Economic Development of Georgia	http://www.privatization.ge
European Bank for Reconstruction/Development	http://www.ebrd.org
European Union	http://www.eu.org
Young Economists' Association	http://www.economists.ge
Young Lawyers' Association	http://www.gyla.ge
Agency for State Procurements	http://www.spa.ge
Tbilisi Yellow Pages	http://www.yellowpages.ge/index