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# SECTOR OVERVIEWS FOR ONLINE INVESTMENT GUIDE

**December 2007**

This publication was produced for review by the United States Agency for International Development. It was prepared by Alesya Parshina, who interns as an investment assistant on USAID/Business Climate Reform, contract No AFP-I-00-04-00002-00, TO 3, managed by Chemonics International Inc. and submitted to USAID /Caucasus Cognizant Technical Officer Revaz Ormotsadze.

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## **EXECUTIVE SUMMARY**

At the request of the American Chamber of Commerce in Georgia, USAID Business Climate Reform assisted AmCham in updating Online Investment Guide. In particular, project investment assistant Alesya Parshina updated six sectors under the Sector Analysis section of the guide.

Project staff members Erekle Natadze, David Lelashvili and Maka Tevdoradze updated and developed various topics within the Doing Business in Georgia, Legal Overview and Economic Overview sections of the guide.

In addition to the sector update assignment, project investment assistant developed non-alcoholic beverage sector overview based on those recommendations, guidelines and templates provided by USG consultant, within the assistance to the National Investment Agency in building its capacity to develop and update quality sector overviews for investors. Non-alcoholic beverage sector overview is also included in the AmCham's updated Investment Guide. Currently investment assistant has been working on alcoholic beverage and energy efficient construction materials sectors.

Texts of all sector overviews updated and developed by investment assistant are incorporated in this report.

## **INVESTOR'S OVERVIEW: ELECTRICITY SECTOR IN GEORGIA**

Hydropower plants produce approximately 83% of Georgia's electricity (that represents 34% growth over the year 2006), while thermal power plants meet 13% (that represents 43% decline from 2006) of demand, while 4% is satisfied by imports (mainly from Russia, Azerbaijan and in the near future Turkey and Armenia will enter the Georgian market). The largest hydropower plant of Georgia, Enguri, produces nearly half of the generated power.

The privatization process that started in 2005 brought fruitful investments to the sector. The Energo-Pro Company that combined Adjara and United Distribution Company through privatization processes invested 285 million USD in February 2007 for the rehabilitation of infrastructure and power units. Over the past years, the technical conditions of power plant turbines have deteriorated significantly. As a result, some HPPs stand idle for much of the year or even year round.

Out of total capacity of hydro and thermal plants (4 600 MW), 1 927 MW, that is 41.9% of the installed capacity, was not used in 2006. As much as 4 billion kWh equivalent of water was spilt due to inactivity of the Enguri plant for three months in 2006.

Thermal power plants face a similar situation. The state owns the thermal power plant Tbilisres, which contains six power units having a total capacity of 740 MW. Currently, only 2 units operate while the remaining ones are not running due to unsatisfactory technical conditions and as a result poor technical-economic indicators. The ninth power unit of Mtkvari-Energetika uses 200-220 MW of its 300 MW installed capacity. The tenth 300 MW power unit (owned by RAO UES) also belongs to Mtkvari-Energetika and uses only 270 MW of its 300 MW installed capacity. It is worth noting that thermal power plants cannot compete with imported electricity due to high tariffs.

Significant foreign investments were received for the rehabilitation of the energy sector since the commencement of the privatization processes in Georgia. The government believes that the privatizing facilities and attracting private investors to the industry will improve the situation. The privatization process started in 2005 is almost finished. Tbilisres thermo power plant and Engurhesi and Vardnilhesi hydro power plants are still owned by the state.

Up to thirty hydropower stations will be built in the next three or four years. Along with the rehabilitation of the existing power units, the Government intends to increase internal generation through construction of new hydropower stations. One project mentioned in the agreement made between the Government and Energo-Pro Company will provide Georgia with an additional 100 megawatts of electric power per year. The other project in the agreement focuses on the planned construction of the Hudon hydropower station in Western Georgia. According to a statement by Ms. Marika Valishvili, the Hudon station will be able to generate 650 megawatts of electric power for distribution within the Georgian power grid.

Reflecting a 10-month period in 2007, about 52.7 % of electricity is handled by distribution companies, up to 24.2 % of electricity consumed by direct customers (such as large companies which receive electricity bypassing distribution companies), 14.2 % is supplied to the autonomous republic of Abkhazia, which is beyond the control of the Georgian authorities, and 8.9 % was exported. The collection of payments from direct customers was almost 100%, while power supplied to Abkhazia received almost no returns. The collection indicators of distribution companies, though still short of the acceptable level, are gradually improving.

The main problem in the distribution sector is the metering of supplied electricity and improvement of the technical support net due to insufficient numbers of individual meters.

In 2006 electricity consumption declined by 31% over the previous year, representing a consumption rate of rush hour 550 MW.

Problems in distribution created serious difficulties for financing operations in the sector. Partial payments for supplied power by distributors disabled the ability of the wholesale electricity market to pay the full amount to generating companies. Given a chronic shortage of means, money is mainly spent on maintaining energy facilities in operational modes. Therefore, dams, derivative channels and tunnels, power units and equipment are left without care. A similar situation exists in the electrical network regarding automatic systems and relay protection.

There are three large distribution companies in Georgia: Telasi, serving Tbilisi, Energo-Pro Georgia (United Distribution Company), serving the regions, and Kakhetis Energo Distribucia. Other distribution companies are small and hold an insignificant share in the market. In 1999, Telasi was purchased by the strategic investor AES. The company made significant investments to replace cables and technical equipment as well to improve capacities for individual re-metering, which is of critical importance for its operation. As a result, Telasi managed to reduce technical and commercial losses and to achieve almost full collection of payments. In 2003, the Russian electricity giant RAO UES acquired Telasi, which was sold together with other companies in the CIS in one cluster.

Energo-Pro Company is geographically the largest company in Georgia and needs large investments to arrange accurate metering of electricity. Electricity distribution territory of Energo-Pro Georgia covers over 70% of Georgian territory, serving 875 000 customers through its distribution net.

According to 10-months data, in 2007 Georgia generated 6 707 million kWh electricity, 10.4% less than in 2006, of which 5 809 million kWh (9.2% more than in 2006) was generated by HPPs. The thermal generation decreased by 57.3% compared to 2006 and made up 898 million kWh. The increase in hydro generation can be explained by recent investments in the sector through privatization processes. Electricity imports to Georgia declined by 61.8% over the previous year and a total of 7 003 million kWh was consumed.

## Potential of the Electricity Sector

Among Georgian natural resources, first place is taken by hydro energy. The territory of Georgia contains 26,000 rivers, the total length of which is about 60,000 kilometers. Out of these rivers, there exists high energy potential for 300, whose annual potential capacity equals 15 000 megawatts and averages an annual energy supply of 50 billion kilowatts.

As Georgian rivers have clearly distinguished seasonality, distribution of these resources in annual or multi-year periods is only possible through the construction of hydro plants with regulated water reservoirs. Due to ecological concerns, small water reservoir hydro plants have so far been the standard.

The Ministry of Energy of Georgia is considering one of the main energy potentials of the country – the possibility of effective use of hydro energy resources and the construction of large, medium and small capacity hydro power stations such as Khudoni hydro plant on the river Enguri – 700 MW; Jorkveli hydro plant – 160 MW; Dizi hydro plant – 136 MW; Cheri hydro plant – 107 MW; Lukha hydro plant – 80 MW; and Lakhamula hydro plant – 62 MW.

On the river Rioni: Cascade of Namokhvani hydro plants 450 MW (consisting of Joneti hydro plant – 110 MW, Namakhvan hydro plant – 250 MW and Tvishi hydro plant – 100 MW), and Alpana hydroplant – 77 MW. On the river Tskhenistskali, Tsageri hydro plant – 142 MW and Lakhashuri hydro plant – 167 MW. And finally, on the river Mtkvari Aspindza hydro plant – 88 MW, Idumala hydro plant – 65 MW, Khertvisi hydro plant – 50 MW, Minadze hydro plant – 41 MW and Paravani hydro plant – 80 MW.

In addition, construction of medium and small hydro plants, with the exception of Paravani hydro plant, needs investors.

Of priority for the country is also the use of alternative, renewable energy such as wind power, solar power, geothermal waters, biogas and other ecologically clean energy resources.

Georgia has significant wind power potential, the average annual amount estimated to be 4 billion KW/h.

There is great potential in the acquisition of geothermal waters. Based on hydro-geological studies, it is identified that in Georgia forecasted reserves of geothermal waters reaches 250 million m<sup>3</sup> per year. Are known over 250 natural and artificially bored outlets, which total debit reaches 160 thousand m<sup>3</sup>/per 24 hours, have been identified. Furthermore, annual potential of solar energy in Georgia is assessed at 108 MW, annually equaling 34,000 in conditional fuel.

According to information supplied by the Ministry of Energy, investors from Israel, USA, India and the other countries are interested in capital investment for hydropower development in Georgia. According to a statement by the Minister of Energy, Alexander Khetaguri, currently there is the investment boom in this field in Georgia.

## INVESTOR'S OVERVIEW: GAS SECTOR IN GEORGIA

Located at the crossroads of Europe and Central Asia, Georgia is a bridge connecting several important economic regions, including the EU, CIS, Turkey, and the Caucasus Region. Overall this economic region represents a total population of 827 million, and Georgia remains a key link in the shortest transit route between Western Europe and Central Asia for oil, gas, and dry cargo transportation. During the last ten years, five million USD was invested by British Petroleum (BP) and its partners to develop the three major oil and gas pipelines that cross Georgia, the Baku-Tbilisi-Ceyhan (BTC) pipeline, the South Caucasus gas Pipeline (SCP) and the Western Route Export Pipeline (WREP).

Of three registered gas fields Ninotsminda, Samgori and Rustavi, gas is only extracted in a small amount from the Ninotsminda gas field through the company Kanargo. Current reserves are estimated at 2.5 billion m<sup>3</sup> and distribution of gas relies entirely on imports. Gas is imported to Georgia from three main sources: Azerbaijan – Shah Denis, Tbilis-Karadakgi, which was rehabilitated in 2006, and Russia. While the months of January to May 2007 saw Russian gas imports to Georgia, since June only transit has occurred. Out of transited gas in Georgia, only 10% stays in the territory. Transportation of gas is carried out by the Georgian Gas Transportation Company. Among more than fifty gas distribution companies, KazTransGas-Tbilisi and Itera Sakartvelo (which serves the biggest cities of Georgia), are the largest.

Significant increases in gas prices since June 1st, 2007, the low capacity of enterprises, faulty distribution networks, improper metering and the low paying capacity of the population are to be mentioned. 21.4 million m<sup>3</sup> of gas was supplied in 2006, which represents 44.6% increase over the previous year; however, for further extractions, significant investments are needed. In 2006 Georgia consumed 1 800 mln m<sup>3</sup> of gas, 540 mln m<sup>3</sup> was consumed by the population of Georgia, and the rest was used by industry, representing represents a three fold increase over the previous year.

The main problem faced by gas distribution companies is excess losses caused by the poor state of pipelines, resulting in gas leakages and improper metering, which makes it easy to consume unmetered gas for free. In order to improve these conditions, significant investments were introduced to arrange the proper metering of natural gas. Due to installation of individual gas heaters on a large scale in recent years to prevent theft, the existing low-pressure gas network is no longer sufficient. The state sees privatization as the only way to solve these financial and technical problems. One of biggest investment projects that recently took place in Georgia was the project "Saguramo - Tsiteli Khidi," which rehabilitated the main gas pipeline (481-506 km) section from Navtlugi through Gardabani territory of total length 30,348 km. Implementation of the project will help to restore the old structural scheme of gas distribution. Currently 80 million GEL is invested in the project. For the Millennium project, 40 million USD has already invested. The Baku-Tbilisi-Ceyhan (BTC) pipeline, completed in 2005 at a total construction cost of nearly four million USD, can transport up to a million barrels of oil a day from the Sangachal terminal in Azerbaijan to a newly constructed marine terminal in Ceyhan on the Turkish Mediterranean coast. The South Caucasus gas Pipeline (SCP), completed in 2006, will carry natural gas from the Shah Denis field in the Caspian Sea to customers in Georgia, Turkey and Azerbaijan. The gas supplied through SCP represents a source of

future energy security and supply diversity for Georgia. SCP brings benefits of gas "in-kind" in lieu of tariffs. Under the current sales agreement, Georgia's capacities will increase to 800 million cubic meters of gas at peak production. Finally, the Western Route Export Pipeline (WREP), also known as the Baku-Supsa pipeline, has brought valuable transit fee revenues to the government of Georgia since it was completed in 1998.

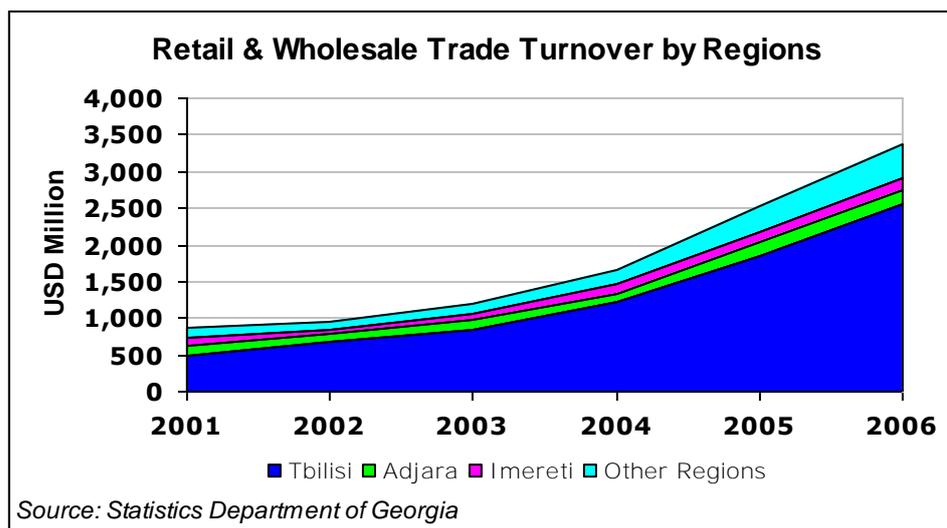
## INVESTOR'S OVERVIEW: TRADE SECTOR IN GEORGIA

Georgia's foreign trade has been growing rapidly since 2003 as a result of aggressive policy reforms to make cross-border trade easier and less expensive. In the first half of 2007, total trade turnover increased by 37.1%, reaching \$2.7 billion USD, with exports increasing by 20.1% and imports by 42%. For the last few years, there has also been an upward trend in the number of Georgia's trading partners, which now totals 132 countries.



*Source: Department for Statistics of the Ministry of Economic Development of Georgia*

In Q1 of 2007, trade accounted for the highest share of GDP, totaling 12.8% and representing a growth of 13.9% growth over the previous year 2006 Q1, which placed 4th for the highest growth of rates registered. This growth may be attributed to increased consumption as well as the crackdown on illegal trade and counterfeiting. Since 2004 there has been a consolidated effort by the government to crackdown on counterfeit trade, leading to reduced smuggling and sale of counterfeit goods and products.

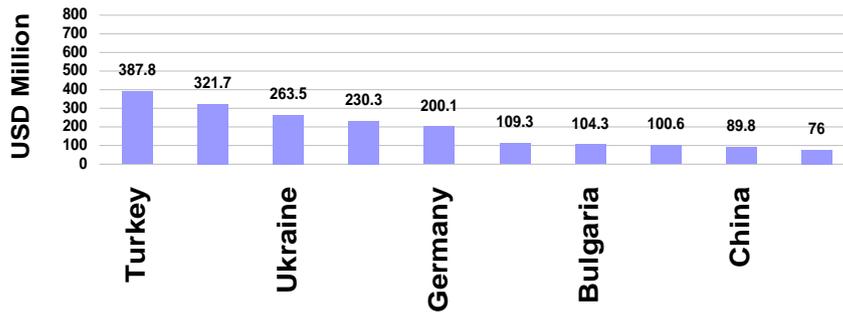


Retail trade is highly developed in Georgia. In 2005 retail trade accounted for 67% of trade through Georgia, while the other 33% belonged to wholesale trade. Retail trade is chiefly conducted through bazaar retail outlets. In 2006 retail trade turnover remained USD 1,194.3 million, individual entrepreneurs engaged in trade sold USD 242.7 million worth consumer goods, 79.7% of sale was done through legal entities. According to a study carried out by the State Department of Statistics of Georgia, in October 2007, trade turnover of economic entities operating on Georgia's markets and bazaars represents USD 172.8 million, retail trade remained 94% of sales.

Georgia offers a number of favorable trade regimes that make it an attractive production platform to serve other markets.

- **MFN Tariffs with WTO Members:** Most of Georgia's trade partners are members of the World Trade Organization (WTO). Trade relations with them are based on Most Favored Nation (MFN) trade status, which provides lower tariffs for WTO members.
- **Preferential Tariffs with the USA, Canada, Switzerland and Japan:** Georgia benefits from a Generalized System of Preferences (GSP) when trading with the USA, Canada, Switzerland and Japan. Accordingly, lower tariffs are applied on goods exported from Georgia to these countries.
- **GSP Plus with the EU and Turkey:** Georgia is one of the only two CIS beneficiaries (besides Moldova) of the new EU GSP Plus trading regime and one of only 15 beneficiaries worldwide. GSP Plus status allows Georgia to export 7200 products to the 495 million EU market duty free. From January 2006, Georgia has also enjoyed GSP Plus status with Turkey.
- **Free Trade with CIS Countries:** Georgia has a free trade regime with CIS countries, resulting in duty free trade of goods and services. CIS countries account for 39% of Georgia's foreign trade turn-over, and 40% of Georgia's exports are to these markets.

### 10 Largest Trade Partners in 2006 (by Trade Turnover)

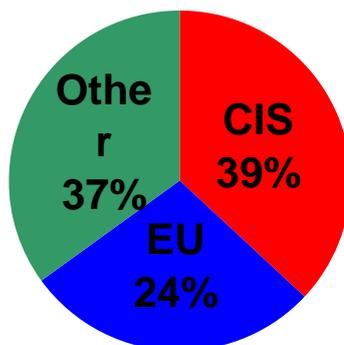


Source: *Department for Statistics of the Ministry of Economic Development of Georgia*

Georgia also has an extensive and growing double taxation treaty network:

- Georgia has entered into double taxation treaties with the following countries: Armenia, Austria, Azerbaijan, Bulgaria, Belgium, China, Great Britain, Greece, Iran, Italy, Kazakhstan, Latvia, Lithuania, Netherlands, Poland, Romania, Turkmenistan, Ukraine and Uzbekistan.
- Georgia has signed and ratified double taxation treaties (but they have not been entered into force yet) with the Czech Republic, Germany, and Russia.
- Treaty negotiations are underway with Belarus, Cyprus, Denmark, Estonia, France, Israel, Kyrgyzstan, Luxemburg, Malta, Moldova, Spain, Sweden, Tajikistan and Turkey.
- Georgia's Tax Code offers unilateral protection against double taxation. The tax paid on income or profit received in countries with which Georgia does not have a double taxation agreement may be credited while paying tax in Georgia (up to the amount of the tax assessed in Georgia).

### 2006 Foreign Trade Turnover by Region



Source: *Department for Statistics of the Ministry of Economic Development of Georgia*

## Amcham Members

### Agritechnics Group

Tel: +995 (32) 250 496

Website: <http://www.agritechnics.net>

Agritechnics Group is engaged in different spheres of activities, such as distribution of food products, selling of agrochemicals, seeds and irrigation equipment, hospitality, media, insurance and security business. Their main partners are Dole, AJC, Sadia, BASF, Syngenta, and Hunter Industries.



### Agrocorp Caucasia Ltd

Tel: +995 (32) 752 532

Agrocorp Georgia Ltd. serves livestock needs in high quality feeds, feed ingredients and other supplies. The company's goal is to support the development of Georgia's livestock farming by establishing an availability of high quality animal feeds at affordable prices.

### Air BP

Tel: +995 (32) 947 726

Website: <http://www.bp.com>

Air BP as part of BP/Amoco Group started up the first refueling operations at Tbilisi Airport in May 1998. The company engages in aviation fuel sales to airlines and casual flights through Fueling Services Company LLC, a joint venture between Air BP and Avia Fuel Service LTD.



### British American Tobacco

Tel: +995 (32) 537 501

Website: <http://www.bat.com>

BAT markets and distributes a number of well-known cigarette brands.



### CanArgo Standard Oil Products Ltd.

Tel: +995 (32) 335 611

Website: <http://www.canargo.ge>

CanArgo Standard Oil Products Ltd. (CSOP), an expanding British-Georgian oil company operating the widest chain of 23 branded service stations Georgian-wide, is the wholesale and retail marketer offering high quality petroleum products, hassle-free car wash experience and innovative service products to its customers. Since the outset, CSOP has chosen to base its success on service product innovations, thus securing competitive advantage in the market and maintaining customer loyalty. In 2002 CSOP pioneered the electronic payment corporate Smart Card system into the Georgian oil market. The company provides special privileges to its corporate accounts and designs various incentive schemes for individual customers



### EKO Georgia

Tel: +995 (32) 292 364



## **Greco Group**

Tel: +995 (32) 393 138



Founded by the California based Southern Counties Oil Co in 1993, Greco is a pioneer American investor in Georgia and one of the founding members of AMCHAM Georgia. GRECO GROUP through its division companies has diversified investment portfolios in the sectors of Petroleum product distribution, Commercial real estate, and Transportation. GRECO OIL is an official distributor of ConocoPhillips Lubricants, GRECO TRANS is a distributor of Petroleum products and is also involved in Transportation sector through Georgian Truck Center- GTC, and GRECO CENTER is the owner and operator of commercial real estate projects in Georgia.

## **Nestle Georgia & Armenia**

Tel: +995 (32) 923379



A representative office registered in November 1998 to develop the business of Nestle in Georgia and Armenia. The representation functions as a consultant to Nestle operating companies based outside the Caucasus. Consultation covers imports through local importers of Nestle products into Georgia as well as exports through the same importing companies of agricultural commodities out of Georgia and Armenia.

## **Oriflame Georgia**

Tel: +995 (32) 252 467

Website: <http://www.oriflame.ge>

Oriflame is a Swedish cosmetics company with its head office in Brussels, Belgium. The company sells high-quality natural skincare and cosmetic products through an independent sales force outside the traditional retail environment. "Oriflame Georgia Ltd" was founded in 2000. The company is responsible for cosmetics sales and "Know-How" distribution in the territories of Georgia and Armenia.



## **Philip Morris**

Tel: +995 (32) 439 001

Website: <http://www.philipmorris.com>

Representative office of Philip Morris Management Services B.V. was registered in Georgia in 1996 and is primarily involved in tobacco marketing and advertising.

## **Procter & Gamble**

Tel: +995 (32) 975 421

Website: <http://www.pg.com>

Tbilisi office of Procter&Gamble manages a distribution network for P&G hygiene products through its Arti Ltd.



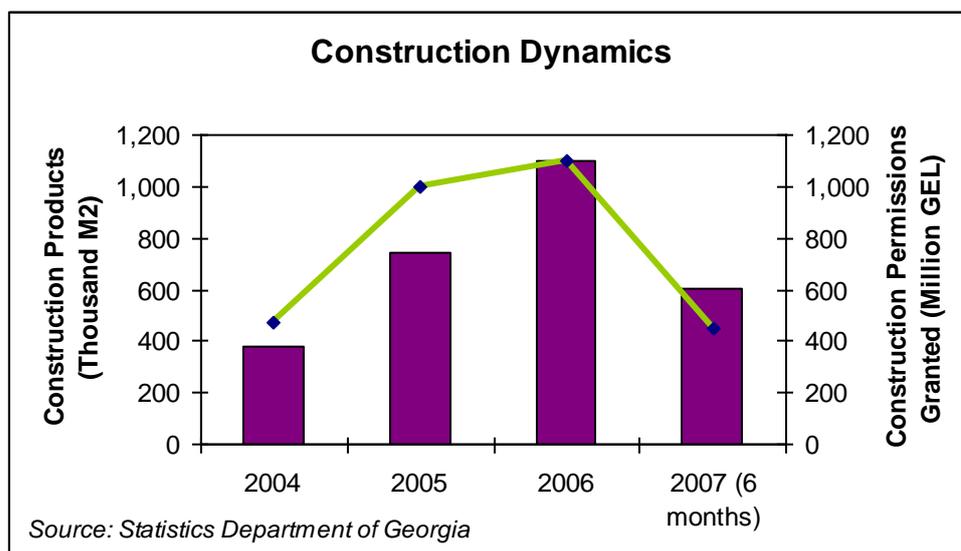
## INVESTOR'S OVERVIEW: CONSTRUCTION SECTOR IN GEORGIA

The recent boom in the demand for residential and commercial space has made construction one of the fastest growing sectors of the economy. Government reforms, as outlined below, are facilitating this growth. Also the rapid development of mortgage financing is powering the purchasing ability of customers and creating a much larger market than existed previously.

Construction companies operating in Georgia are working to meet a great deal of pent-up demand for new, high standard, modern living accommodation, office and industrial spaces.

Value Added generated in the construction sector in 2006 represented approximately USD 2499 million, representing a 63% increase over the previous year. In 2006, the construction sector's turnover totaled approximately USD 7006 million, representing a 44.5% increase over the previous year. Furthermore, construction in Georgia enjoyed high rates of output over past years (total output of the construction sector in 2006 has risen by 58.8% over the previous year and represents USD 7377 million).

Note: exchange rate for 2007-12-21 USD/GEL - /1 USD=1.6060 GEL/



The residential market in Georgia is quickly developing, with high construction activity and rising prices. In the absence of efficient saving mechanisms, the residential market has become highly speculative, with individuals buying flats as an investment. Advance payment schemes are popular in Tbilisi's demand-driven residential market. The most common mode of payment is mortgage loans at the rate of 14%. Despite these high rates, banks are increasing their loans for the sector.

Several large construction and development companies currently operate on the Georgian market, some of which are foreign owned. Some of the better known companies include: Axis, Arsi, Center Point, 7 Sky, CI & D Architects, Module, Iberia, Aword, and Paladi Palace.

Cement is a competitive local building material, while other building materials are imported from Turkey, Iran, United Arab Emirates, Russia and European countries.

### **Impact of Government Reforms**

The Government's Liberalization Program assigns special importance to streamlining and liberalizing the regulatory environment affecting the construction business.

**Licensing and inspection system:** significant reforms have been carried out in recent years to simplify the system of issuing permits in the construction sector. As a result, procedures are simplified: a "one-stop-shop" is responsible for issuing permits before a statutory time limit, after which silence means consent.

**Standardization and technical regulation:** According to the implemented reforms, construction businesses now can use the technical regulations of OECD and EU member countries acknowledged by the Government of Georgia. At the same time, they can voluntarily choose other internationally recognized standards for their construction projects.

Recent reforms have simplified the introduction of new technologies in Georgia, while removing unnecessary barriers for foreign investors, and contributing significantly to the development of the construction industry.

### **AmCham Members**

#### **GMT Group**

Tel: +995 (32) 988 988

Website: <http://www.gmt.ge>

GMT Group manages a number of investment projects in hotel business, construction and other areas.



#### **GeoEngineering LLC**

Tel: +995 (32) 537 904

Website: <http://www.geoengineering.ge>

Established in 1997, GeoEngineering operates in Georgia and Azerbaijan.

Services of GeoEngineering include engineering surveys, design, construction, project management, etc. GeoEngineering operates in the following areas: transport systems, energy and civil engineering. Over 95% sales account for international clients such as BP, Chevron, Conoco, Siemens, Spie-CAPAG/Petrofac, GPC, U.S. Embassy, AIOC



## **INVESTOR'S OVERVIEW: MINING, QUARRYING, EXTRACTION SECTOR IN GEORGIA**

“Invest in Mining” – this is the title of a new project by the Ministry of Environment, Protection and Natural Resources of Georgia, which envisages the use and reclamation of natural resources in the country. For implementation of this project, a spatial information center was established at the Ministry.

There are up to 1550 types of minerals that have been discovered and studied in Georgia. This list includes: manganese ore for industrial use, charcoal, non-ferrous and rare metals, different raw materials for mining, construction and facing stones, mineral, thermal, fresh water and other types of well-known deposits.

Eleven oil fields with reserves estimated at 28 million tons are yet to be explored and larger oil reserves are believed to exist. Coalfields with 400 million tons of coal reserves have already been explored. A large volume of natural gas is also thought to exist along the Black Sea coast in Adjara. The oil potential of the Black Sea shelf alone is estimated at 70 million - 1.3 billion barrels. Chiatura manganese deposits have reserves reaching 215 million tons. Industrial reserves of copper and iron-zinc, barite, diatomite are also thought to exist. There are large deposits of raw materials for producing cement, as well as facing materials, marble, and metallic sulfur.

Georgia lacks the financial resources to introduce modern mining and processing technologies, and therefore extraction levels do not reflect full operational capacity. Only two mines, with a capacity of 600-700 tons annually, are now operable—in Chiatura and Marneuli.

The manganese deposits located in Chiatura have an annual output of 850-970 tons of high-quality manganese that are used in the metallurgic industry. This production, however, comprises only 5-6 percent of potential output.

Other mineral deposits include the following:

- The Kvaisa zinc deposits in the Java district have the capacity of 100,000 tons of zinc per year, while the Luchumi arsenic deposit, located in the Ambrolauri district, is exploited seasonally and output reaches 2,000 tons annually.
- The Marneuli deposit of cement-clay, reserves of which are estimated at 22 340 000 tons. Clay from Marneuli deposits together with limestones form basic raw material for cement production.
  - The Askana bentonitic clay deposit in Ozurgeti has an output of 60,000 tons per year and is used for the production of bentonite powder.
  - An andesite deposit is located in the district of Borjomi. Its yearly output is 75,000 tons and is used for producing acid-proof powder and andesite tiles.
  - The Kساتibi diatomite deposit is located in the Akhaltsikhe district where, apart from diatomite, technical agate is also extracted, which is used as a construction material. Yearly capacity totals 120,000 tons. Diatomite reserves in the Akhaltsikhe district represents 10 393 000 tons.
- Chobareti marble deposit, Akhalkalaki district, total reserves of which are estimated at 26 680 000 cubic meters. Chobareti marble has never been

processed and might only be of use as a facing slab; output of the block from mining mass currently stands at 18.5%.

- Chuberi marble deposit, Mestia district, 5 444 000 tons. Chuberi marble is not processed and may be used as a facing stone; current output of the block from mining mass is 21.9 %.
- There are two more deposits of technical agate at Pamachi and Shurdo.

Several companies are exploring Georgia's oil reserves. Gas potential may be about 125 billion cubic meters, while already explored resources are approximately 8.5 billion cubic meters. Several foreign companies are involved in oil exploration and production including Frontera Resources, CanArgo Energy, British JKX, Swiss national Petroleum, and German GWDF.

To get additional information regarding natural resources of Georgia please visit website: [www.moe.gov.ge](http://www.moe.gov.ge)



## AmCham Members

### **Anadarko Georgia**

Tel: +995 (32) 251 156

Website: <http://www.anadarko.com>

Oil and gas exploration in the Georgian Black Sea. Office established in July 2000.



### **Askana LLC**

Tel: +995 (396) 64 553

In 1998 Silver & Baryte Ores Mining Company purchased from the Ministry of State Property Management of Georgia (Ozurgeti Department) 97.7% of ASKANA LLC, a limited liability company registered in Ozurgeti District since 1997. The company's principal business is extraction, process and sale of bentonite clays.

### **BP Exploration Georgia**

Tel: +995 (32) 593 400

Website: <http://www.bp.com>

BP Georgia, as part of the BP family of companies, coordinates local operations for BP. It is heavily involved in regional energy projects particularly in the Caspian basin and has expanded its activities into Georgia with the onset of major pipeline construction.



### **Frontera Resources**

Tel: +995 (32) 252 412

Website: <http://www.fronteraresources.com>

Oil extraction and exploration in Eastern Georgia.



### **JKX Navtobi**

Tel: +995 (32) 222 210

Website: [www.jkx.co.uk/operations\\_gr.cfm](http://www.jkx.co.uk/operations_gr.cfm)

Since 1993 JKX has explored and farmed out a number of offshore and onshore blocks in western and central Georgia.

**Wenaas Caspian Ltd.**

Tel: +995 (32) 311 204

Website: <http://www.wenaas.az>



As BP contractors, Wenaas Caspian Ltd. has been operating in Georgia since BTC opened its offices in Tbilisi. Prior to BTC the company supplied Western Route and continues to do so now. Wenaas Caspian Ltd. has been integral in setting high safety standards and supply of quality oil field equipment not only to BP, but to all international contractors and local Georgian constructor companies involved in the BTC pipeline project.

## INVESTOR'S OVERVIEW: WATER SECTOR IN GEORGIA

Despite huge natural reserves of still water, supply of potable drinking water remains one of the most acute infrastructural problems in Georgia. The main source of drinking water is underground water, accounting for 70% of all supply, while the remaining 30% is obtained from water resources in Tbilisi, Batumi and Borjomi. 84% of urban and 15.7% of rural drinking water supply is handled through centralized systems. 2000-2007, most cities and towns had centralized water supply, while most villages still use water from wells and natural springs. There remains an abundant source of supply of water in Georgia; however the lack of water treatment infrastructure has impeded efficient distribution. Significant amounts of foreign investment from Western sources have recently been invested into the infrastructure of water in Georgia.

While most of water supply infrastructure and cleaning and filtering systems are outdated, in 2007 significant investments were made in Poti, Kutaisi, and Batumi in this domain.

The organization of entities in the water supply system (WSS) varies considerably, with only the largest entities having structuralized management capacities. The remaining bulk of the entities function as caretaker organizations, containing only billing/recovery and reactive technical departments, and staffed by craftsman with inadequate training in engineering or planning.

Tariffs in the sector and the way in which they are applied through billing and the recovery processes varies widely. Tariffs are set by the Energy and Water Regulating Committee, and local governments are obliged by law to subsidize WSS utilities. Generally, tariffs cannot cover operational costs, even if all customers pay their bills in full. In addition, high rates of cross subsidy by industrial and commercial customers are applied to facilitate low domestic tariffs. None of these entities are in a stable, commercially viable condition. In Tbilisi, the price per cubic meter of water for legal entities is 4.40 GEL, while the general population pays 10 tetri per cubic meter, according to Tbilisis Tskhali, the major water company in Georgia.

Poor water quality and erratic service has led to a low perception of water services and may account for consumer reluctance to pay for this service. Despite this, the collection rate has recently improved in the larger cities of Georgia; however, in the regions it still remains low. Moreover, the intermittent and unreliable service provision encourages people to squander water whenever available and to hoard water for later use only to dispose of it when the supply nest returns. This attitude is unlikely to change until a safe and secure supply is available.

A key technical issue to be addressed is measurement, as the supply/demand balance in most cases has not been established due to the absence of systemic metering. The only valves present are the main valves at the tank or intake reservoir, thus making it impossible to manage this resource by demand. There is also an absence of adequate databases in pipe networks, location, material, age, and/or diameter. Assets are owned by WSS utilities; however, utility managers are not in a position to manage them (sell, lease, pledge, etc.) without the permission of the local government. Even though tariffs are not fully cost recovering, collection rate is low. Another source for WSS

income is subsidies and almost all utilities have significant debts due to unpaid electricity costs and taxes.

# INVESTOR'S OVERVIEW: NONALCOHOLIC BEVERAGE SECTOR IN GEORGIA

## EXECUTIVE SUMMARY

Georgia's Strategic Geographic Location or New Silk Road for Energy and Trade plays a very important role in restoring the overland route between Europe and the developing markets of Central Asia. Georgia has huge fruit and mineral water resources in different regions that could sustain a long-term expansion of the sector. Modern technologies, natural products, quality control, consciousness of consumer demands and a constant striving for excellence are, however, required to ensure success. Georgian companies are constantly introducing innovative products and packaging in order to increase competitiveness. Currently Georgian brands are well known in the CIS and UAE, but great potential exists in western markets for the export of Georgian wine, mineral water, fruit concentrate, and natural juice. While the global per capita consumption figure may belie vast regional differences, the global growth in the nonalcoholic drink's industry is indicative of a number of salient trends. First and foremost, bottled water, natural juice and CSDs (Carbonated Soft Drinks) have made tremendous volume gains over the last decade by successfully tapping into divergent consumer trends around the globe. These drinks offer beverage manufacturers across the globe many advantages, such as high gross margins, the ability to segment the market, the possibility of trading up and high growth. Yet, the bottled water, natural juice, and CSD markets in Georgia and around the world are still highly fragmented, leaving the window open for acquisition and investment opportunities.

## SECTION 1. SECTOR SEGMENTS

### Local Companies - Producers/Distributors of Nonalcoholic Drinks

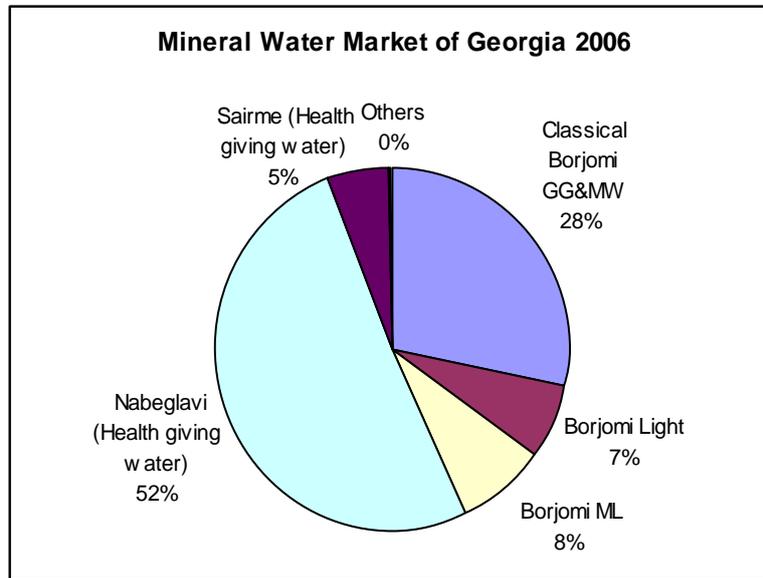
<b>Mineral Water</b>	<b>Fruit Concentrate</b>	<b>Natural Juice</b>	<b>Soft Drinks</b>
<ul style="list-style-type: none"><li>• GG&amp;GW</li><li>• Mineral Water, Healthy Water Company</li><li>• Sairme Ltd.</li><li>• Progress 2000 Ltd.</li><li>• Borjomi Product Ltd.</li></ul>	<ul style="list-style-type: none"><li>• Samegobro Ltd.</li><li>• Gorkoni Ltd.</li><li>• IE Panacea</li><li>• Antoni and Company Ltd.</li><li>• Kartuli Produkti Ltd.</li><li>• Aleksandre Ltd.</li></ul>	<ul style="list-style-type: none"><li>• Sante GMT Products</li><li>• Aromaproduct Ltd.</li><li>• Miragi Ltd.</li><li>• Euro-Product Ltd.</li><li>• Iveria-food Ltd.</li><li>• Gagra Plus Ltd.</li><li>• Agro Products of Georgia Co. Ltd.</li></ul>	<ul style="list-style-type: none"><li>• PepsiCo JSC</li><li>• Coca-Cola Bottlers Georgia Ltd.</li><li>• Lomisi JSC</li><li>• Kazbegi JSC</li><li>• Kartsivadze da Kompania JCS</li><li>• AIA Ltd.</li></ul>

#### Segment I.1 Mineral Water

The mineral water sector in Georgia had an estimated GEL 264 million (approximately USD 163 million) output in 2006. The total Georgian mineral water market represents 3 million people. The middle market, representing 1.7 million people, is the largest of this segment of this market with a total value of GEL 163,2

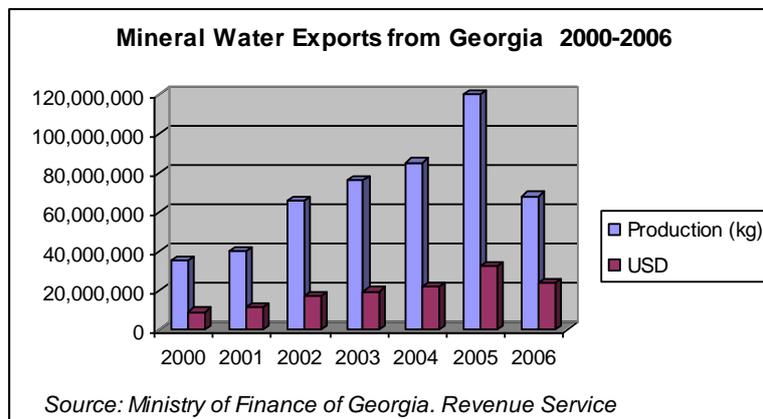
million (approximately USD 100,65 million). The average person drank around 15 liters of mineral water segment in 2006, which represents a 15% increase over the previous year. Almost 134 million bottles of sparkling and still mineral water were produced in Georgia in 2006. Between 450 and 500 people are employed in the sector, depending on the season.

### The Georgian Mineral Water Market



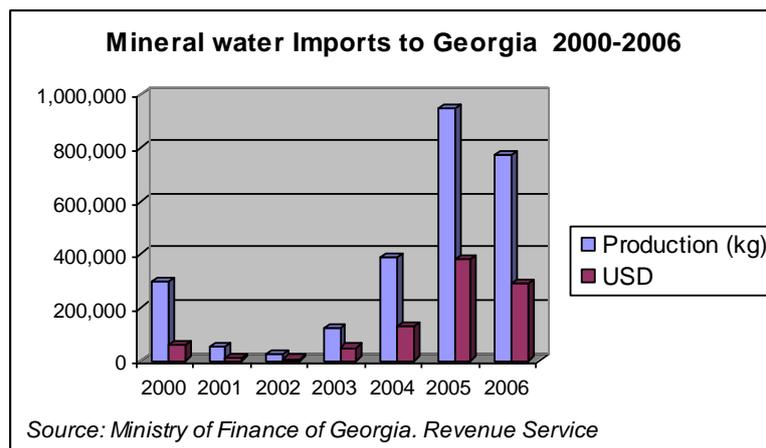
Source: International Research of Kakhaber Djakeli. UALE University 2006

### Mineral Water Exports from Georgia



Source: Ministry of Finance of Georgia. Revenue Service

## **Mineral Water Imports to Georgia**



## **Major Domestic Players of the Segment**

### **GG&GW Company**

GG&GW Company has been operating since 1995. Today the company owns four mineral water producing factories, equipped with state-of-the-art technology. European experts oversee the bottling process and quality control. GG&GW has had an ISO Certificate since 2007. Its product line includes: Borjomi (also known as "Borjomi Classic"), Likani and two recent additions - Borjomi Springs and Borjomi Light. GG&MW's products are extremely well known in CIS countries and can be purchased in many other countries, including the US, the EU, Israel, and Germany. More information about the company can be obtained at [www.borjomi.com](http://www.borjomi.com) or [www.borjomi.ru](http://www.borjomi.ru)

### **Healthy Water, Mineral Water Company**

In 1997 Healthy Water Mineral Water Company was established by Georgian and Swiss investors in Nabeghlavi in Chokhatauri region. The company produces Nabeghlavi Natural Mineral Water and Bakhmaro Natural Spring Water. The plant, which has just-in-time regime, has water piped directly to it, where it is then bottled. In 2004 the plant was re-equipped with a new Austrian-German Kosme-Krones line with a 6 000 bottles-an-hour capacity. Further expansion came in September 2007 with a new PET line with the capacity of 14 000 bottles per hour. In November, a glass line will be installed with the capacity of 10 000 bottles per hour. The company has a well-developed distribution network covering almost the entire country. Local distribution companies export the company's products to CIS, European and Asian markets. For more information, visit the company website: [www.healthywater.ge](http://www.healthywater.ge)

## **Segment Analysis and Investment Opportunities**

Despite the loss of the Russian market, there is still room for optimism regarding the export potential of sparkling mineral and still water, with steadily growth in the sector expected. Water exports in 2005 were worth an estimated USD 32,48 million, which represents a 49% increase on the previous year. Such high export figures are reflected in the glass per capita consumption rate in the country, which was 16-17 kg in 2006. Currently, water producing companies are working on producing new glass packaging to replace PET. The sector enjoys some major advantages: a cheap labor force,

experienced specialists, good trainings, a highly developed local distribution network, and strong protection from forgery, all of which gives existing players and new entrants tremendous potential to expand and capitalize on product distribution networks both locally and internationally. Currently, about 80% of Georgian sparkling mineral and still water is exported to Ukraine, Azerbaijan, Armenia, the EU, and the UAE. The UAE, deemed the second Global Bottled Water Market in 2005, offers Georgian companies great possibility because of its advantageous geographic location. Healthy Water, Mineral Water Company has already penetrated the market successfully.

### **Strengths**

- Water quality
- Existence of huge natural resources
- National pride, part of the Georgian culture, tradition
- Mineral water is synonymous with health in Georgia
- Qualified personnel
- Low cost labor force
- Highly developed local distribution net
- Well protected from forgery
- Infrastructure development in new FIZ's
- Well equipped with state-of-the-art technology
- Just-in-time packaging regime is implemented in the sector
- Opportunity to expand by introduction of new lines
- Niche existence
- 15% annual increase of per capita spending on mineral water
- First demand product
- Availability of land and private property
- Export and re-export potential
- Investment opportunities to privatize wells and land
- High competitiveness

### **Weaknesses**

- Imbalance between domestic consumption and exports
- Lack of advertisement in domestic market
- Lack of promotion of the product in foreign market creates problems for exports
- Electrical cuts & cost
- Few local specialists operating in the sector
- Need to import glass bottles from Turkey, Ukraine, etc.
- Long-term investment required

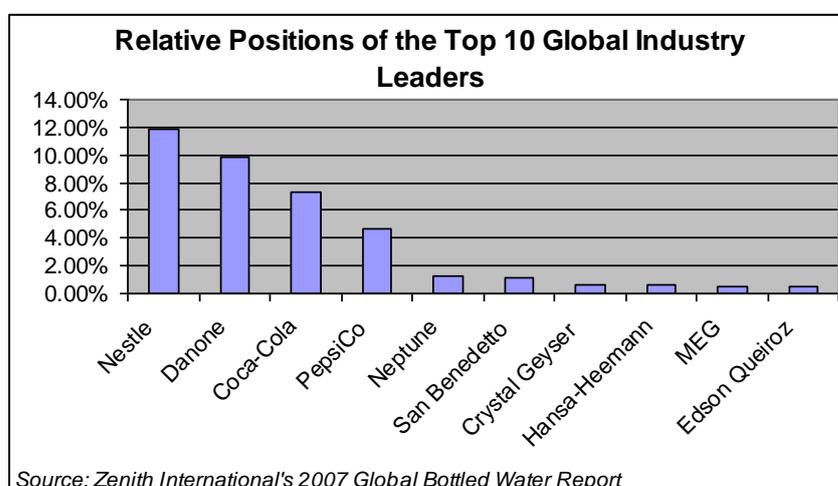
### **Investment Opportunities**

- **Progress 2000 Ltd.**, which produces “Racha Springs”, has been operating since 2000 in the village of Khotevi. The company is equipped with modern technology and staffed by skilled and highly professional specialists. Although a relative newcomer, the company has made considerable inroads into both local and international market. Chemical and micro-biological analysis of the water, carried out in Moscow and Tbilisi, has shown it to contain all vitally necessary minerals. Its chemical structure and taste also correspond to the highest international standards. The company has big potential to expand, and increase its distribution network not just regionally but abroad as well. Contact information: Customer Services Manager Marina Kevlishvili: +995 77 51 24 39.

- **Sairme Co. Ltd** has been operating since 2003 in the Tsalabris Tskali Valley 950 meters above sea level. It is 55 kilometers south of the second biggest city in Georgia – Kutaisi. It is located at a resort which has been in existence since 1930. The company’s laboratory has relatively old technology. Sairme, however, is competitive and is consequently developing. Sairme mineral water is a favorite of Georgians. Currently, it produces Sairme mineral water in plastic one liter and 0.33 PET bottles. The company plans to introduce new product lines in new packaging. Contact information: Vakhtang Kopaleishvili: +995 99 46 10 26.
- An efficient local distribution network gives the sector the opportunity to expand by exporting and re-exporting; at the same time Georgia has enough water resources to meet both local and international demand.
- Opportunity to develop balneology infrastructure (SPA infrastructure development).
- Lack of water world-wide makes Georgia an attractive investment opportunity.
- Only 5-10% of Georgian water deposits are in use.
- Development of partnerships in which the mineral waters producers would share the distribution and the logistical costs.
- Development of cool water segment, with new generation water refrigerators
- In terms of size and distribution, there is an opportunity to be number one in the Georgian market.

## Global Trends in Mineral Water

**Leading industry players** - The 2006 figures shown below are for the world’s top ten bottled water producers by volume. They incorporate all sales of bottled sparkling and still water in small pack and bulk formats, but exclude flavored water. Subsidiaries and substantial equity partners are included within group sales. The total production capacity of these companies was an estimated 68.5 billion liters in 2006.



**GLOBAL BOTTLED WATER MARKET**  
**Per Capita Consumption by Leading Countries**  
**2000 – 2005**

<b>2005</b>		<b>Gallons Per Capita</b>	
<b>Rank</b>	<b>Countries</b>	<b>2000</b>	<b>2005</b>
1	Italy	42.2	50.5
2	United Arab Emirates	30.1	47.7
3	Mexico	32.7	47.3
4	Belgium-Luxembourg	31.2	42.4
5	Spain	27.8	38.7
6	France	33.2	36.6
7	Germany	26.8	33.8
8	Lebanon	20.3	28.2
9	Switzerland	23.8	27.4
10	United States	16.2	26.1
11	Cyprus	19.1	26.0
12	Saudi Arabia	21.2	24.6
13	Czech Republic	18.0	23.8
14	Portugal	18.9	22.0
15	Slovenia	14.9	21.5
	<b>Global Average</b>	<b>4.7</b>	<b>6.7</b>

*Source: Beverage Marketing Corporation*

**Global Bottled Water Market**

**GLOBAL BOTTLED WATER MARKET**  
**CHANGE IN CONSUMPTION BY REGION**  
**2002 – 2006(P)**

<b>Regions</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06(P)</b>	<b>5-year CAGR</b>
Europe	5.7%	10.1%	3.7%	3.9%	0.9%	4.8%
North America	10.4%	9.1%	7.2%	9.0%	8.8%	8.9%
Asia	16.8%	13.3%	13.9%	10.3%	15.9%	14.0%
South America	15.3%	10.8%	7.3%	5.1%	3.3%	8.3%
Africa/Mideast/Oceania	12.1%	4.6%	7.2%	7.8%	6.0%	7.5%
<b>Subtotal</b>	<b>10.4%</b>	<b>10.4%</b>	<b>7.4%</b>	<b>7.1%</b>	<b>7.3%</b>	<b>8.5%</b>
All Others	54.1%	-11.6%	13.5%	13.8%	-5.7%	10.7%
<b>TOTAL</b>	<b>10.8%</b>	<b>10.1%</b>	<b>7.5%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>8.5%</b>

(P) Preliminary

*Source: Beverage Marketing Corporation*

**The International Bottled Water Market**

**The Global Bottled Water Market Advanced by 8.3% in 2005** Bottled water continues to stake its claim to consumer 'share of throat', as demand for a healthy soft drink option has prevailed. The global bottled water market advanced by 8.3% in 2005 and bottled water clearly remains a soft drinks force to be reckoned with.

**Four Companies Have Come to Dominate Much of the Market.** While much of the world's bottled water market is still highly fragmented and controlled by local brands, consolidation is rapidly occurring, as four companies have come to dominate much of the market.

- Swiss food and beverages company Nestle and French entity Danone are the traditional leaders of the bottled water pack. Both companies centered their operations around the core market of Western Europe and the U.S.
- However, as water growth is increasingly coming from the developing world, Nestle and Danone have taken their battle to the new competitive fields of Asia, Latin America and other areas. In fact, Danone has retreated from the U.S. market to focus on some of these other markets.
- Complicating matters for the two European leaders is the entry of CSD stalwarts Coca-Cola and PepsiCo into the bottled water race. Beginning with their stunning success in the US, both companies are increasingly devoting resources and energy to developing their global bottled water businesses.
- PepsiCo and Coca-Cola already claim the top two brands in the US bottled water market, and while they do not pose an immediate threat to Danone and Nestle in Western Europe, they must both be considered serious threats in the less developed and other high-growth bottled water market of Asia, Eastern Europe and South America.

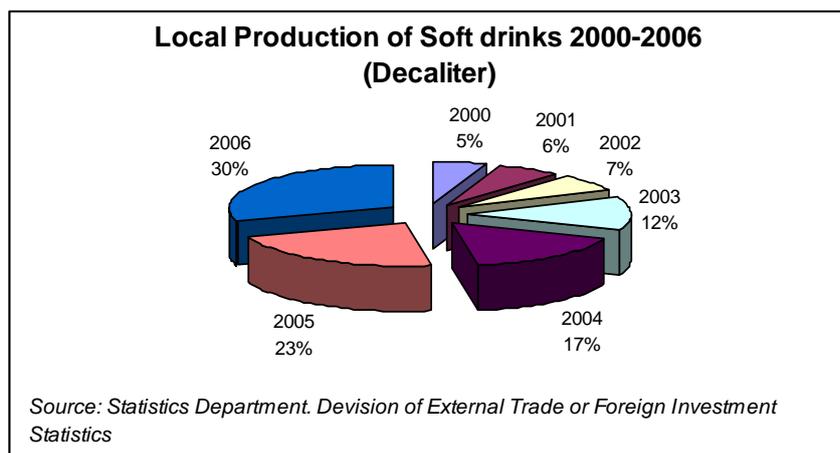
Three other trends will also be evident in the next few years as companies increasingly use new product development to differentiate themselves in the eyes of the consumer in what has become an increasingly competitive marketplace.

- In Europe, the key question in the next five years will be whether or not consumers will trade down, as North Americans have, and embrace cheaper water such as sold by Coke and Pepsi in the US. This trend has already started to manifest itself on the continent.
1. **Best Packaging innovation-** At times, packagers may be accused of imitation rather than innovation. However, these entries provide clear evidence of advancement within the water industry. The best packaging innovations belong to Bad Driburger Naturparkquellen, Compal, Earth International, Hamidiye, Micro Mobility Systems, Nestle Waters Italia (Sanpellegrino), Püro, Schoeller Arca Systems, Sheelpe Enterprises, Sidel, Sarah Wensley.
  2. **International Standards-** All bottled water imported into the U.S. must adhere to U.S. FDA standards and applicable state regulations. International members of IBWA are also bound by IBWA Model Code provisions, including an annual, unannounced third-party plant inspection and HACCP plan requirements. IBWA is also a participating member of the International Council of Bottled Water Associations, a global organization formed to share information and resources among the world's bottled water professional groups.
  3. **Codex Alimentarius Commission -** On a global level, the Codex Alimentarius Commission, the food standards body of the World Health Organization (WHO), also guides bottled water standards. Codex sets parameters that help nations develop and implement safety and quality standards for domestic and international trade. IBWA holds a designation as a Non-Governmental Organization to the Codex Commission and shares bottled water expertise with this crucial international body.

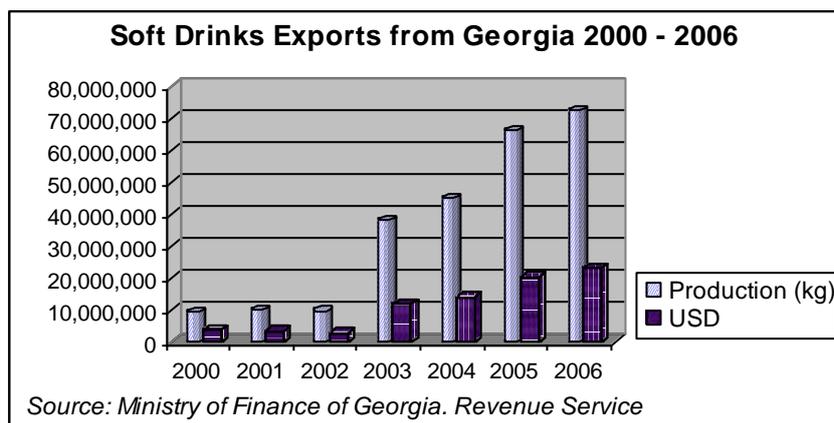
## Segment I.2 Soft Drinks

Local soft drinks production capacity in Georgia in 2006 was 16,495,600 deciliters, which represents a 32% increase over the previous year. The total production capacity of the above mentioned companies was an estimated 23,350,000 bottles in 2006, with the companies employing 1,865 people. Research conducted by Georgian Business Consulting Media Holding in August 2007 provides a breakdown of Georgians' preferences in terms of soft drinks. The results are as follows: 33.6%-Natakhtari, 21.6%-Coca-Cola, 12.8%-Kazbegi, 11.2%-Pepsi, 5.6%-Sante, 2.4%-Nikora, 1.6%-Castel. For more information, please visit [www.gbc.ge](http://www.gbc.ge).

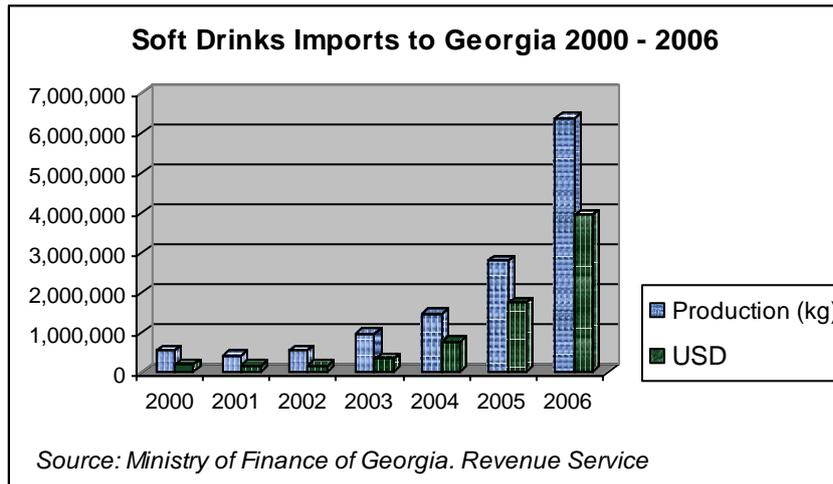
### Local Production of Soft Drinks



### Soft Drink Exports from Georgia



### Soft Drinks Imports to Georgia



## Major Domestic Players of the Segment

### **JSC PepsiCo**

Iberia Refreshment Co., established in 2002 by the Iberia Group, produces and distributes Pepsi soft drinks in Georgia.

Pepsi quality control in Georgia is carried out in compliance with the highest international standards. Each step in the production process is carefully monitored to ensure certain standards are met. The company is dedicated to high product standards and customer satisfaction.

### **Coca-Cola Bottlers Georgia Ltd**

The company has been operating in Georgia since 1993. According to research the company has a 99% recognition rate among Georgians. It is one of the most successful CSD producing companies in Georgia, producing Coca-Cola, Fanta, Sprite and Bonaqua still water. The company is mostly local market oriented and has a highly developed distribution network in the regions. Its production standards correspond to international Coca-Cola standards. Coca-Cola Bottlers Georgia has its own laboratory in which the final product is checked before it reaches the market.

### **LLC AIA**

LLC AIA was once a beer and fruit juice bottler. The factory was established in the 1880s in present day Tsereteli Street in the historic district of Kutaisi on the banks of Rioni River. In 1971 a new factory was built. In 1972 the brewery and the soft drinks factory merged. In 1987 and 1997, respectively, Czech-made soft drinks and German-made beer bottling technology was introduced. In 1993 the factory was privatized. In 2005-2006 a new brewing plant was built with new technological machinery installed. Currently a new bottling plant is being built and a bottling line is being installed. Once completed, the factory will produce not only glass, but also polyethylene plastic bottles of 0.5, 1.00 and 1.5 liter sizes. The factory is three hectares in size. The company also owns brand shops, café-bars, a distribution and transportation network and a hotel. At present it produces three kinds of beer and 12 kinds of fruit soft-drinks.

### **Ltd. Kazbegi**

In 1994 businessman Gogi Topadze and others founded the company. The company bought the Tbilisi second brewery at auction and invested USD 16 million in reconstructing it. The first Georgian beer - Ananuri - was produced in 1995, and a year later the company introduced two new brands - Pshavi and Kazbegi. The success of these beers has allowed the company to become the market leader. In 1997 the company purchased Rustavi Beer JSC and became a joint stock company itself. In 1999 the company started producing its own distinctive ice tea and lemonade. With its own laboratory in Rustavi, the company has been using original recipes, natural ingredients and fresh fruit for its products. In 2000 Kazbegi became the beer and beverage market leader, with seven varieties of beer, five varieties of ice tea, and seven varieties of lemonades and aromatic compounds. In 2006 Quatu Universal and Zamex Print companies were bought by Kazbegi. The factory is equipped with the latest technology and has its own laboratory.

### **JSC Lomisi**

Lomisi has been successfully brewing beer for four years. In its first year it was bottling on average only 90 bottles per day. Since then it has invested to increase capacity and modernize its technology. In 2001 the company's factory was completely re-equipped and now has many product lines: a few brands of beer, ice tea, refreshing and vitaminized soft drinks. Following reconstruction and management support from the CERMA Center in 2001, the company overhauled its management systems and distribution network. Relations were also established with German and Czech raw materials suppliers, resulting in the acquisition of valuable technology and high quality production methodologies.

## **Segment Analysis and Investment Opportunities**

The positive growth in the global soft drinks market promises extensive growth potential to Georgia, as the country is located close to the target market. Stable growth in the Asian and neighboring countries' markets has meant an increase in competitiveness and investment opportunities. Local consumption of soft drinks is increasing by 5-7% annually. There are positive export/import dynamics: exports were worth an estimated USD 20 million in 2005, which is approximately a 45% increase over the previous year. Imports were worth an estimated USD 1.7 million in 2005, up 130% from the previous year. Similar growth was seen in 2006, with a 127% increase on the 2005 figures. This growth comes despite the fact that all the companies involved are relatively new to the game. They have received deserved success and recognition, not just within Georgia, but internationally, too. Still, the industry is considerably smaller than it might be, and offers a good investment opportunity. This is especially so, considering the fact that there are one billion potential customers within range in the Caucasus, the Black Sea region, Russia, Central Asia, the Balkans and the EU.

## Strengths

- Widely popular among sports men, teenagers
- Widely popular in middle market, which represents 1.7 mln people
- Reforms implemented in Georgia since 2003 have positively affected sector development opportunities
- Quality promotion and high level management has been introduced
- Consumption level in the sector is increasing by 5-7% annually
- High competitiveness

## Weaknesses

- Lack of falsification control
- Excise due on imported and locally produced beverages is the same
- Lack of properly trained specialists, engineers

## Investment Opportunity

- **Lomisi JSC (Natakhtari Brewery)**. To get further information about the company read the article on page 9, or visit [www.lomisi.com](http://www.lomisi.com). Contact information: Sergo Gviniashvili, Financial Director, Tel.: +995 95 229 951
- **PepsiCo Bottler in Georgia**. To get further information about the company read the article on page 8 or visit [www.pepsi.ge](http://www.pepsi.ge). Contact information: Tato Makharadze, CFO, Tel.: +995 99 500 150
- **Karcivadze da Kompania JSC** started operating in 1997. The company is located in the center of Batumi, with 700-800 square meters. Average production capacity is about 1,000 bottles per day. The company's equipment and facilities meet Sanitation Rules and Norms of Food and Safety Standards. The company does not export and its distribution network is limited to the Ajara region, mainly Batumi and Kobuleti. The company's products – ten in all – are traded under the Samotkhe brand name. The company has received quality control certification from a local laboratory. Contact information:, Djemal Karstivadze, Director General, Tel.: +995 99 551 899
- There has been a 5-7% annual increase in consumption rates in the sector, which promises further expansion and steady growth.
- CSDs are very popular in Georgia, as they are part of Georgian culture, and so there is tremendous expansion potential in the industry.
- There has been a 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 the products reach their destination.

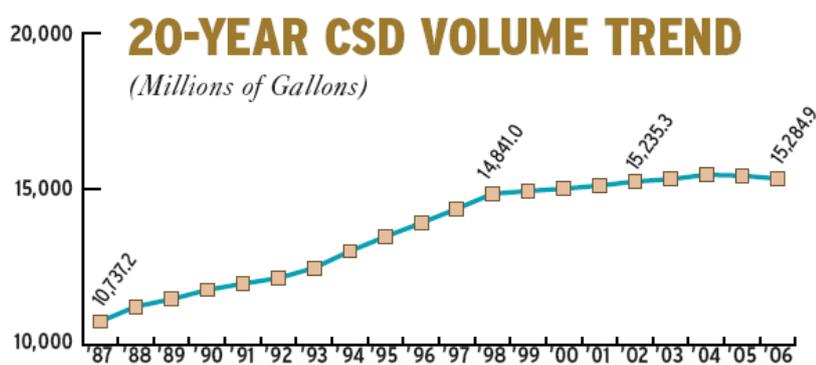
## Global Trends in Soft Drinks

TOP CSD PARENT COMPANIES					
Rank Company	Million Cases	Million Gallons	Market Share	2006 Growth	Share Point Change
1 The Coca-Cola Company	4,368.7	6,553.1	42.8%	-1.1%	-0.2
2 PepsiCo, Inc.	3,189.5	4,784.3	31.2%	-1.5%	-0.3

3 Cadbury Schweppes	1,512.4	2,268.6	14.8%	1.3%	0.3
4 Cott Corporation	524.3	786.4	5.1%	-4.5%	-0.2
5 National Beverage	249.3	374.0	2.4%	1.0%	0.0
6 Big Red	27.4	41.1	0.3%	1.2%	0.0
7 Monarch	11.9	17.8	0.1%	-1.1%	0.0
8 Carolina Beverage	6.7	10.0	0.1%	2.5%	0.0
<b>LEADING COMPANIES</b>	<b>9,890.2</b>	<b>14,835.3</b>	<b>96.8%</b>	<b>-1.0%</b>	<b>-0.2</b>
<b>TOTAL INDUSTRY</b>	<b>10,190.1</b>	<b>15,284.9</b>	<b>100.0%</b>	<b>-0.7%</b>	<b>NA</b>

**Source: Beverages Marketing Corporation; All Results Preliminary.**

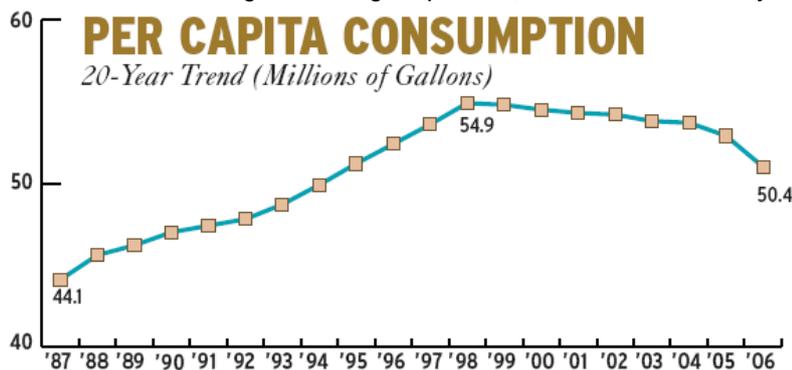
**CLIMB, PLATEAU, DROP:** It's hard to believe that just 20 years ago carbonated



soft drinks volume was still in a steady upward trend around the 5-percent range. As more New Age segments started to pop up to compete for the consumer's beverage dollar, that type of growth became a distant memory. The last time the category saw 1998 when total growth was 3.4

percent. It fell sharply to 0.6 percent the following year and last saw positive growth in 2004.

Source: Beverage Marketing Corporation; All Results Preliminary



**TOPPING OUT:** As the millennium approached, consumers' CSD intake reached its highest point and then began to slowly descend. Its pinnacle was just shy of 55 gallons in 1998 and since then it's declined by more than two whole gallons per capita. Bottled water probably had

something to do with it, as did any New Age category you could think of.

Source: Beverage Marketing Corporation; All Results Preliminary

**GLOBAL SOFT DRINK MARKET  
GROWTH BY REGION  
1999 – 2003**

<u>Continent</u>	<u>1998/99</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>
North America	1.2%	1.5%	0.6%	0.9%	0.8%
Europe	2.6%	3.1%	2.6%	4.9%	3.3%
South America	5.0%	3.0%	2.2%	-1.7%	0.0%
Asia	1.2%	3.6%	1.1%	3.1%	4.1%
Africa	0.6%	2.1%	7.2%	5.4%	4.8%
Middle East	4.4%	3.8%	-0.7%	-3.8%	2.1%
Oceania	<u>1.8%</u>	<u>1.4%</u>	<u>0.5%</u>	<u>3.2%</u>	<u>0.2%</u>
<b>TOTAL</b>	<b>0.6%</b>	<b>2.4%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.8%</b>

*Source: Beverage Marketing Corporation*

**CSD have witnessed the most growth in the developing market region**

**Asia/Australia** Overall, soft drinks have witnessed the most growth in the developing market region of Asia/Australasia, here achieving an 8.1% volume increase in 2005. This compares to a global average of 4.7% for soft drinks overall in the year. Asia/Australasia, together with other emerging economies, should remain the major growth drivers for soft drinks globally in the years to come. Economic obstacles and climate fluctuations will, of course, present numerous challenges, but the outlook for global soft drinks is as strong today as it has ever been.

**Soft drinks worldwide continue to forge new growth opportunities.** The five soft drinks categories – bottled water, carbonates, dilutables/concentrates, fruit juice/nectars, and still drinks – have had mixed fortunes across the globe. However, as a combined category, soft drinks overall remain a sustainable growth proposition, achieving 4.7% volume growth to reach 498 billion liters in 2005. This translated into global soft drinks consumption of 77.0 liters per person.

**Segment I.3. Fruit Concentrate**

Concentrated fruit juice is a product obtained from one or more fruit juices by the physical removal of a specific proportion of the water content. It is necessary to dilute this product with water before consumption. The product can be sold under the names: Fruit Juice, Fruit Juice from Concentrate, Fruit Nectar, Concentrated Fruit Juice, or Dehydrated/Powdered Fruit Juice. The production capacity of the companies listed below was an estimated 13,000 tons in 2005. The Georgian fruit concentrate industry is export oriented, with most output going to the U.S., Germany, Austria, Italy, Belarus, Israel, and Ukraine. Domestic companies engage mostly in apple concentrate production, as Georgia has an abundance of naturally tasty and juicy apples with an acidity of 3.8. Most market players import some inputs from Germany, Switzerland, Austria, and Italy.

Inner Kartli region, where fruit-trees of the continental type are cultivated, is the center of the fruit industry in terms of scale and quality. The region's fertile land and gentle climate support a varied and productive agricultural sector. The soil is rich and ideal for crops. The land is irrigated by fresh mountain water.

## Major Domestic Players

### **Samegobro Ltd.**

This fruit processing company was founded in Gori in 1986. In 1988 the company switched to canned fruits production. In 1989 Mandin Italian Company equipped the company with modern technology. In 1990 the company started producing fruit concentrate. In September 1992 it was privatized. Since then it has had its plant inspected by Italian specialists.

### **Gorkoni Ltd.**

Gori cannery, established in 1919, was instituted as a joint-stock company in 1994. The company has 100% private capital backing. It is located in an industrial park in Gori, 90 kilometers from Tbilisi and 240 kilometers from Poti sea port. The company has its own trademark. It mostly produces canned fruit and vegetable free of additives, preservatives, sweeteners, emulsifiers, enzymes, stabilizers, hydrocolloids, or colors. Product design is modern, –with 190, 250, 340, and 720 ml glass jars. Gorkoni has an 80 year production experience and tradition. It supplies the local market.

### **Kartuli Producti Ltd.**

Kartuli Produkti Ltd. operates a Gori apple concentrate producing factory, a Kobuleti tangerine processing factory, and a Gurjaani grape concentrate producing factory. The factories are equipped with state-of-the-art Italian technology and have a production capacity of 480 tons per day. A new line for processing vegetables will soon be opened. Next year juice, tomato paste and apple jam producing lines are to be introduced. Production is monitored by an EU laboratory.

## Segment Analysis and Investment Opportunities

The segment does not require long-term investment and is highly profitable. A rapidly developing agriculture sector, good weather conditions and high level demand around the world for concentrated fruit juice promise high growth potential to the segment. International demand cannot be met by Georgian producers. This suggests further growth potential. State-of-the-art technology and investment are required, however. The sector is strong enough to recover costs quickly and bring reasonable profits. The sector is already almost 100% foreign market oriented.

### **Strengths**

- High quality of fruits
- High apple acidity - 3.8
- High demand for fruit concentrates in Western countries
- Enough resources to satisfy local and foreign markets
- Low cost labor force
- Low cost inputs
- Developing agriculture sector in Georgia
- Good fruit growing weather conditions

### **Weaknesses**

- Lack of properly trained engineers
- Georgian apples do not meet international standards
- Lack of state-of-the-art technology
- Lack of financial support
- The segment is developing and requires much investment

## Investment Opportunities

### Opportunities to invest:

- **Samegobro Ltd** produces fruit concentrate. For more information about the company read the article on page 12. Contact information: Zaur Saganelidze, Commercial Director. Tel: +995 99 629 251.
- **Panacea Ltd.**, founded in 2004, is a fruit concentrate and brandy producing company. The company is 100% export oriented, with all its output going to the U.S. The company has a 3,000 square meter building and a 500,000 bottle inventory. It holds a U.S export certificate. Contact information: Gia Rusishvili, Director General. Tel: +995 99 974 334
- **Geofruit Ltd.**, founded in 2007, produces fruit/vegetable juice/concentrate and canned beef. Most of its output is in fact in cans. As the company has just been established, it still hasn't acquired any equipment. The company owns a 0.8 hectare factory with 24/7 energy and water supply. It also has 30 hectares of land on which it is hoped to grow fruits and vegetables. Although there is a high local demand for the company's output, the owners plan to break into the export market, too. The company, however, needs shareholder investment to buy equipment and develop new export lines. Contact information: Givi Jamelashvili, Director General. Tel: +995 99 580 673
- **Antoni da Kompania Ltd.**, founded in 2004 by four partners, produces fruit concentrate. The company has second hand but good Swedish equipment. It has a cooperation agreement with German partners. The company owns a one hectare factory with 24/7 energy, water, and gas supply. Contact information: Givi Jamelashvili, Director General. Tel: +995 99 580 673, E-mail: [anton@jamelashvili.com](mailto:anton@jamelashvili.com)
- **Marneuli Agro Ltd.** is a newly established company located in Marneuli. It produces fruit concentrate and juice in PET for both local and foreign markets. It already has about 70% of required equipment costing an estimated USD 2 million. It owns 8.5 hectares of land and a 10,000 square meter factory with a 24/7 water, gas and electricity supply. Contact information: Avtandil Svimonishvili, Director General. Tel: +995 99 236 081.
- Opportunity to open new fruit concentrate/juice lines
- Opportunity to expand the segment
- Georgia can become a leading fruit concentrate supplying country

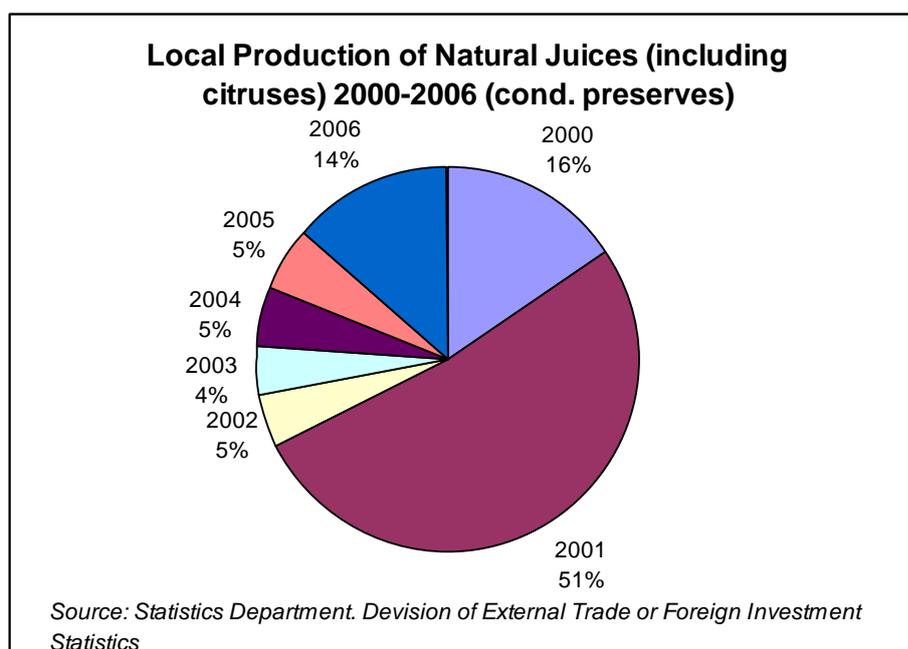
## Globally Known Brand

Dennick Fruit Source: Dennick FruitSource is a top manufacturer of fruit juice concentrate and puree. The company is the exclusive North American agent for CEA - Compania Envasadora del Atlantico. CEA is a world class manufacturer of fruit juice concentrates and puree for the beverage, yogurt, bakery, jam and jelly industries. It has combined experience of over 25 years in the industry. Contact Information: Phone: 1-813-884-4552 Fax: 1-813-884-1552 email: [info@dennickfruitsource.com](mailto:info@dennickfruitsource.com) Website: <http://www.dennickfruitsource.com/services.asp> Correspondence: Dennick FruitSource 11339 Countryway Blvd. Tampa, FL 33626-2610

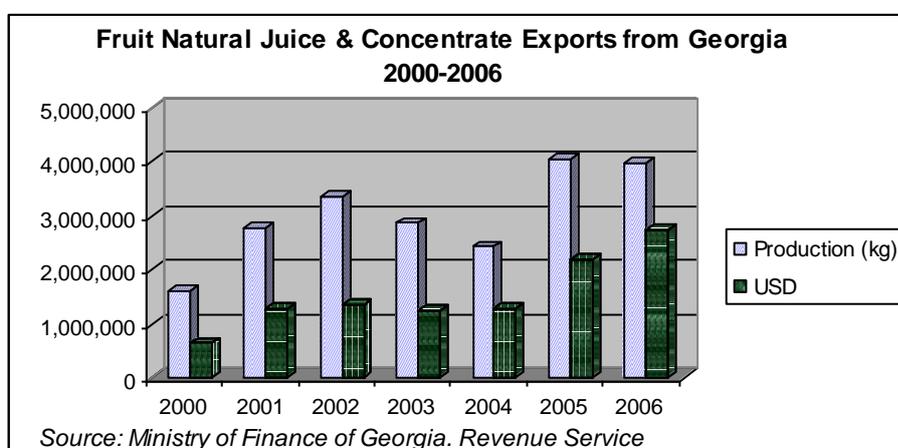
## Segment I.4. Natural Juice

There was an estimated 7,415,200 cans of natural juice produced in 2006, which represents a 155% increase over the previous year. Natural juice exports from Georgia were worth USD 2.73 million in 2006, which represents a 25 % increase over the previous year. The market is mostly served by Gagra Plus Ltd. – a distributor of Sandora natural juice - and Kanti Ltd. – the Santal natural juice distributor. The middle market is the biggest, and is mostly supplied from Ukraine and Russia. The most popular juices are Moya Semia, Sadochok, Vishnevii Sad, Dobrii, Biko, Rich and the locally produced Sante.

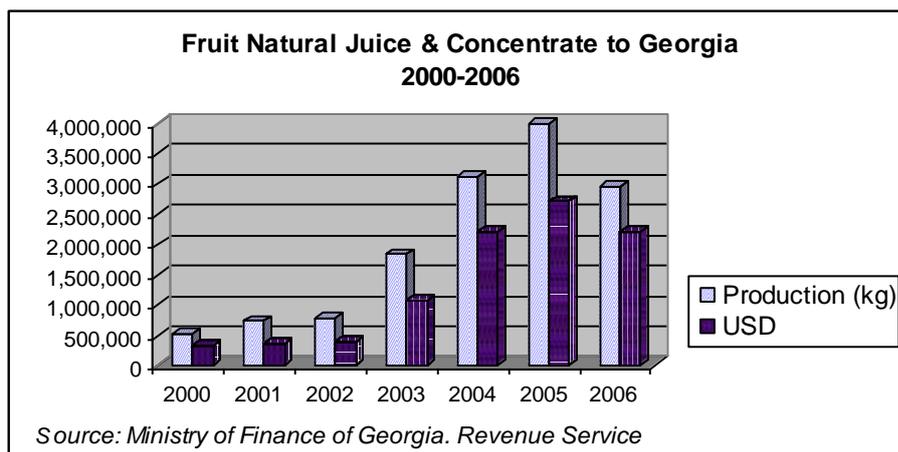
### Local Production of Natural Juice



### Natural Juice Exports from Georgia



## **Natural Juice Imports to Georgia**



## **Major Domestic Players**

### **Sante GMT Products**

Sante GMT Products Co., a member of the GMT Group, is the recognized leader in the production of milk and dairy products, as well as natural juices. The company has many pluses: guaranteed high quality products, flexible and qualified management, reliable and competent partners and credible investors. It has an average annual sales increase of 34%, which further strengthens its market position and ensures continued successful development.

To improve product quality, the company is investing in improved and more sophisticated equipment and is offering a wider range of products to customers.

### **Aromaproduct Ltd.**

Aromaproduct Ltd. is a leading Georgian producer of fruit juices, jams, preservatives, hazelnuts, red foodstuff dyes and spices. The company has two decades of experience in fruit processing. It was fully privatized in 1994. The company underwent extensive restructuring and has successfully diversified its markets, formerly confined almost exclusively to the former Soviet Union, to include many new countries worldwide. Currently the company sells its products to Japan, Taiwan, the U.S., Russia, Latvia and Estonia. Turkey, England, France, Switzerland, the UAE and Israel are expected to join this list soon.

## **Segment Analysis and Investment Opportunities**

According to MINTEL predictions the global market has potential to grow over the next few years, to be worth almost GBP 3 billion by 2009. Georgia's strategic geographic location increases the country's investment attractiveness and opportunities for growth. Positive natural juice export/import dynamics mean increased competitiveness among natural juice distributors. In Georgia there are two natural juice producing companies - Aromaproduct Ltd., which is 100% export oriented, and Sante GMT Products, which only supplies the local market. There is no

competition between local natural juice producers, and so there is an opportunity for foreign brands to enter the market and compete with local well know ones. Providing refrigerators and further developing cold water lines and the sparkling fruit natural juice segment would increase competitiveness and offer attractive investment opportunities.

### **Strengths**

- Presence of large niche in the segment
- Rich natural resources
- Good climate conditions for agriculture
- Cheap labor force
- Highly profitable and fast growing market
- Reasonable annual per capita spending increases

### **Weaknesses**

- Absence of production inputs in Georgia
- Lack of export network
- Lack of competition between local producers
- New segment for Georgia

### **Investment Opportunities in Georgia**

- **Iveria Food Co.**, founded in 2005, serves the local market with fruity ice tea and coffee. In 2007 it started exporting to Armenia. For further information about the company please contact Koba Lebanidze, Director General. Tel: +995 95 352 200
- **Aromaproduct Ltd.** produces natural juice. For further information about the company read the article on page 15, or visit the company website: [www.aroma.ge](http://www.aroma.ge) . Contact information: Vladimir T. Gugushvili, Director General, Tel: +995 99 502 123
- **Agro Products of Georgia Co. Ltd.** is a canned natural juice and still water producing/distributing company. For further information about the company please visit its website: [www.apg.ge](http://www.apg.ge) . Contact information: Niko Sheklashvili, Director General, Tel: +995 99 155 993; E-mail: [apg@apg.ge](mailto:apg@apg.ge)
- Opportunity to introduce new export lines that promise stable growth and introduce new brands.
- Opportunity to fill niches in the Georgian market. The biggest one is the sparkling natural juices segment.
- Development of cold water line.

### **Global Trends in Natural Juice**

**Remained Influential at Driving Growth in Global Soft Drinks.** Still drinks, those non-carbonated beverages with less than 25% juice content, have remained influential at driving growth in global soft drinks. Still drinks recorded a 7.5% rise in volume in 2005. This growth has been sustained by the emergence of new functional juice-based beverages and through the steady performance of sports drinks.

**Market Value Increased Impressively.** The overall market for fruit juice and juice drinks has grown substantially in recent years. Market value increased by an impressive 37% between 1999 and 2004 to reach GBP 2.32 billion, while volume has increased by 26% over the same period to around 2.2 billion liters. In 2004, fruit juice accounted for the majority of the market both in terms of volume (54%) and value (60%). MINTEL predicts that this market will continue to grow over the next few years, to be worth almost GBP3 billion by 2009.

<b>FRUIT JUICE/ DRINK COMPANIES</b>	
All Juice Natural Choice	Phone: 828-685-8821 Fax:828-685-8495
Alta Dena Dairy	Phone:626-964-6401 Fax:626-965-1960 Website: <a href="http://www.altadenadairy.com">www.altadenadairy.com</a>
Amazing Beverages INC	Phone: 215-886-6356 Fax:215-886-9362 Website: <a href="http://www.elliottsamazing.com">www.elliottsamazing.com</a> E-mail: <a href="mailto:elliott@elliottsamazing.com">elliott@elliottsamazing.com</a>
American Beverage Corp(American Beverage Corp), (Verona, PA 15147)	Phone: 603-882-2154 Fax: 603-595-2737
American Beverage Corp	Phone: 412-828-9020 Fax: 412-828-8876 Website: <a href="http://www.ambev.com">www.ambev.com</a>
American Fruit Processors	Phone: 818-899-9574 Fax: 818-899-6042
American Instants Inc	Phone: 973-584-8811 Fax: 973-584-0444 Website: <a href="http://www.americaninstants.com">www.americaninstants.com</a> E-mail: <a href="mailto:sales@americaninstants.com">sales@americaninstants.com</a>
American Soy Products	Phone: 734-429-2310 Fax: 734-429-2112 Website: <a href="http://www.americansoy.com">www.americansoy.com</a>
Andersen Dairy Inc	Phone: 360-687-7171 Fax: 360-687-4610
Anderson-Erickson Dairy	Phone: 515-265-2521 Fax: 515-265-2527
Apple & Eve LLC	Phone: 516-621-1122 Fax: 516-625-9474 Website: <a href="http://www.appleandeve.com">www.appleandeve.com</a>
Arcadia Farms Inc	Phone: 828-684-3556 Fax: 828-684-7988
Aspen Beverage Group	Phone: 210-684-6363 Fax: 210-684-6593 Website: <a href="http://www.aspencoffee.com">www.aspencoffee.com</a> E-mail: <a href="mailto:sales@aspence.com">sales@aspence.com</a>
Barber Dairies Inc	Phone: 205-942-2351 Fax: 205-943-0297
Bareman Dairy Inc	Phone: 616-396-0306 Fax: 616-396-5300
Barkers Farm Dairy Inc	Phone: 304-855-4512
Beckman & Gast Company	Phone: 419-678-4195
Bestliquidvitamins.com	Phone: 219-956-3590 Website: <a href="http://www.bestliquid.freelife">www.bestliquid.freelife</a> E-mail: <a href="mailto:owners@bestliquidvitamins.com">owners@bestliquidvitamins.com</a>
Big Train	Phone: 949-858-7776 Fax: 949-707-1000 Website: <a href="http://www.bigtrain.com">www.bigtrain.com</a>
Birdseye Dairy	Phone: 920-494-5388 Fax: 920-494-4388 E-mail: <a href="mailto:sjwilliams@new.rr.com">sjwilliams@new.rr.com</a>
Bliss Bros Dairy Inc	Phone: 508-222-0787 Fax: 508-226-6320

## SECTION 2. TOP 25 BOTTLERS REPORT 2006

<b>Top 25 Bottlers Report 2006</b>			
Ranked by 2005 net sales			
<b>List of Companies</b>	<b>2005 SALES (MILLIONS US\$)</b>	<b>Employees</b>	<b>Contact Information</b>
1.Coca-Cola Enterprises	\$18,706	73,000	Tel: 770/989-3000, Fax: 770/989-3788
2.Pepsi Bottling Group	\$11,885	66,900	Tel: 914/767-6000, Fax: 914/767-7761
3.PepsiAmericas, Inc.	\$3,726	16,000	Tel: 612/661-4000, Fax: 612/661-3825
4.Dr Pepper/Seven Up Bottling Group	\$2,100	9,000	Tel: 214-530-5000, Fax: 214-530-5010
5. Coca-Cola Bottling Company Consolidated	\$1,380	5,500	Tel: 704/551-4400, Fax: 704/551-4640

6. Honickman Affiliates	\$1,130	5,000	Tel: 856/665-6200, Fax: 856/661-4560
7. Coca-Cola Bottling Company United	\$599	2,800	Tel: 205/841-2653, Fax: 205/841-9168
8. Pepsi Bottling Ventures, LLC	\$564	2,000	Tel: 919/865-2300, Fax: 919/789-9809
9. Philadelphia Coca-Cola Bottling Company	\$540	1,000	Tel: 215/427-4500, Fax: 215/423-3557
10. Buffalo Rock Company	\$500	2,600	Tel: 205/942-3435, Fax: 205/942-2601
11. Swire Pacific Holding Bottling Company	\$385	1,750	Tel: 801/816-5300, Fax: 801/816-5342
12. G&J Pepsi Cola Bottlers, Inc.	\$376	1,612	Tel: 513/785-6060, Fax: 513/683-9467
13. Great Plains Coca-Cola Bottling Company	\$270	1,500	Tel: 405/280-2000, Fax: 405/946-5739
14. Coca-Cola Bottling Company of Northern New England	\$268	1,000	Tel: 603/627-7871, Fax: 603/624-9589
15. Polar Beverages	\$250	1,100	Tel: 508/753-4300, Fax: 508/793-0813
16. Pepsi MidAmerica Co.	\$220	750	Tel: 618/997-1377, Fax: 618/993-5452
17. All American Bottling Corporation	\$160	1,100	Tel: 405/232-1158, Fax: 405/232-1523
18. Southeast Atlantic Beverage Corporation	\$155	826	Tel: 904/739-1000, Fax: 904/737-9125
19. Kalil Bottling Company	\$152	770	Tel: 520/624-1788, Fax: 520/623-6662
20. Seven Up Bottling Co. of San Francisco	\$132	550	Tel: 925/938-8777, Fax: 925/933-7077
21. Lane Affiliated Companies, Inc.	\$120	500	Tel: 719/634-5566, Fax: 719/634-4003
22. Pepsi-Cola Bottling Company of Charlotte Inc.	\$118	376	Tel: 704/523-6761, Fax: 704/523-7535
23. Abarta Beverage Group	\$100	100	Tel: 412/963-3165, Fax: 412/968-1170
24. Refreshment Services Pepsi	\$95	80	Tel: 217/223-8600, Fax: 217/223-8769
25. Admiral Beverage Corporation	\$91	800	Tel: 307/347-4201, Fax: 307/347-3571
<b>TOTAL</b>	<b>\$44,022</b>	<b>196,614</b>	

### SECTION 3. GLASS CONTAINERS SEGMENT

International glass packing production is increasing at the rate of 2% and the fastest growth is recorded in Eastern Europe due to large capacity increases in the Russian Federation. Despite the continuing decline in Japan, the expansion in Indonesia and India has resulted in growth in the Asia- Pacific region. The demand for glass packaging worldwide is increasing around 2-3% in the alcohol drinks, beer, gaseous and non-gaseous drinks and food packaging sectors.

The current developments are rationalization in Western Europe, expansion in Eastern Europe, South America and the Asia-Pacific, contraction in North America and mergers in all regions.

Competition with other glass packaging producers as well as alternative packaging that is continually developing has resulted in dropping margins in the sector, necessitating economies of scale and increasing sales volumes.

The Georgian and Russian markets as well as the Balkans, Eastern Europe and Middle East are considered strategically and potentials for collaborations and joint moves are being assessed.

The Business's first foreign investment, Mina plant, has suffered from political troubles between Georgia and its important export market, Russia. The political trouble has caused a general stagnation in economic relations.

Mina, satisfying the complete demand for beer and mineral water and a significant part of the champagne and non-alcoholic drinks demand in the Georgian market, has started serving the Turkish market as well in 2006. But the second furnace investment which was due to start production in 2006 has been put on hold until the trouble between the two countries clear up.

JSC Mina holds a major part of the Georgian market, at about 60%-70%, and is one of the biggest exporters to Turkey, with about 50% of its production going there. It also exports to Azerbaijan and Armenia, but the domestic market still accounts for 42 % of production. Mina imports inputs from Ukraine, Russia, and Turkey. Georgia has abundant supplies of glass' most important input - sand. One of the biggest deposits of sand in Georgia is located at Ksani. The company is a regular supplier of glass containers to more than 70 companies in Georgia and Azerbaijan. It is an important component in ensuring the continued success of Georgian exports in general.

<b>Glass per Capita Spending (kg/per person)</b>		<b>Annual Production Capacity of JSC Mina</b>	
Greece	14 kg	2000	18 000 tons
Bulgaria	16 kg	2001	18 000 tons
Ukraine	17 kg	2002	18 000 tons
Russia	16-17 kg	2003	39 000 tons
Georgia	16-17 kg	2004	45 600 tons
EU	45 kg	2005	48 000 tons
		2006	42 000 tons

Source: *Turkiye Sise Ve Cam Fabrikalari A.S. 2006 Annual Report*

#### **SECTION 4. DEVELOPMENT OF COMPETITIVE ADVANTAGE OF NONALCOHOLIC BEVERAGES IN GEORGIA**

**Play Attractive and Win Games.** Recently implemented reforms by the Georgian Government have strongly affected the economic and business development of the country, with new attractive opportunities for international investors. Georgia needs technologically advanced and export oriented efficiency seeking foreign direct

investment. Modern technology, natural products, permanent quality control, priority attention to customer demand and sustained emphasis on progress - these values are required for the success and progress of the sector. Business registration in Georgia is currently done within three working days. The one stop shop principle has been introduced. Georgia's new Labor Code has been hailed as one of the best in the world, offering extremely flexible employment conditions and reduced labor costs. All recently implemented reforms are aimed at stimulating business development and growth opportunities, particularly in terms of introducing new production lines, identifying market niches and niche satisfaction. There have been reasonable increases in the export of nonalcoholic drinks since 2003, which represents better production and newer export/import lines.

Georgia, with recent regulatory reform presenting businesses with fewer onerous regulatory pressures, clearly offers many advantages.

**Obvious Advantage of Georgia.** Georgia's Strategic Geographic Location or New Silk Road for Energy and Trade plays a very important role in restoring an overland route between Europe and the developing markets of Central Asia. Georgia is the transportation hub not just for the South Caucasus region of Georgia, Armenia and Azerbaijan, but also the landlocked Central Asia region, comprising Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan.

**Target Potential.** Georgia has huge mineral water, fruit and vegetable resources and is located close to the target markets of the Caucasus, Black Sea, Russia, Central Asia, the Balkans and the EU. Combined, these areas offer a potential one billion person market.

**New Brand Introduction.** Georgians, and Georgian businesses, are seen as classic Brand Searchers.

**Georgia and Agriculture.** Georgia has been an agricultural country since ancient times and is rich in mineral still and sparkling water resources. Naturally tasty and juicy grapes, fruits and vegetables increase sector attractiveness and development opportunities. The demand for wine, mineral water and CSDs is a constant in Georgia, as these products are a part of Georgian culture.

**Free Niches** - natural juice and natural fruit juice concentrate production remains an unexploited niche area in Georgia. The country enjoys excellent climatic conditions for agriculture and it has big water reserves. Locally produced CSDs enjoy a distinctive taste and chemical mixture, both of which considerably enrich their quality. All of this provides tremendous sector growth potential and allows for the establishment of new brands and the further development of current ones.

- Introduction of sparkling water with different levels of mineralization.
- Development of cold water line in the given sector.
- Introduction of state-of-the-art technology in the sector
- Establishment of new distribution/export networks.
- Clean water and natural taste.

## SECTION 5. SECTOR STAKEHOLDERS

### Major Stakeholders

**1. Invest in Georgia. National Investment Agency**

Ms. Tamuna Liluashvili, Director

6 Khetagurovi Street, Tbilisi 0108, Georgia

Telephone: 995-32-43-34-24 Fax: 995-32-92-11-22

E-Mail: [tamunal@investinggeorgia.org](mailto:tamunal@investinggeorgia.org)

Website: [www.investinggeorgia.org](http://www.investinggeorgia.org)

**2. Ministry of Agriculture of Georgia**

Mr. Petre Tsiskarishvili

6 Gelovani Avenue, Tbilisi, Georgia 0159

Telephone: +995 (32) 37 80 09; Fax: +995 (32) 37 80 13

E-mail: [ministry@maf.ge](mailto:ministry@maf.ge)

Website: [www.maf.ge](http://www.maf.ge)