



## Georgia's Untapped Potential for Trade and Transit

Of all Georgia's possible roles in the region, trade and transit are the most natural fit. Reforms and investment in infrastructure have bolstered the country's regional role moving oil and gas, as well as other commodities, to Central Asia. But transit and trade specialists believe even more is necessary if the country is to develop into its full potential as a hub for regional commerce.

**F**or centuries Georgia's greatest wealth has been in its location. While it lacks oil, gas, and precious metals, its invaluable ports allowed the nation to play a treasured role in moving neighbors' goods to far flung markets.

Before that meant caravans. Today it means pipelines, railways, and container trucks.

The oil and gas pipeline projects put Georgia back on the world's transit map after decades of closed borders under the soviets. But corruption and crime kept the country from reaching its potential before the Rose Revolution.

President Mikheil Saakashvili and his government, however, made customs and

trade a priority: massive reforms have streamlined bureaucratic hurdles and insured no crime or corruption hindered cargo moving through the country.

Today, trade is a major industry for Georgia. Last year the Caucasus Transit Corridor (CTC) handled 8.5 million tons of liquid bulk and 8,457 20 foot long containers by rail (TEU) – a unit of measure used by customs officials – and 8,010 TEU's by road, according to a report by Deloitte Consulting.

The data, published in the "Competitiveness Analysis of the Caucasus Transit Corridor Improving Transit Potential for Central Asia-Europe Traffic," was written as part of the USAID Economic Prosperity Initiative (EPI).

Georgia has the potential to be a regional center for trade and transit goods – a regional center for moving goods between large markets in Europe, Central Asia, and even China, noted transport specialist Vakhtang Marsagishvili.

Marsagishvili, who works for Deloitte on trade and transportation issues for USAID's Economic Prosperity Initiative (EPI), said the country has made

significant progress streamlining laws and limiting burdens -- solid steps toward facilitating the trade and transit industry.

To fulfill its potential, however, Georgia needs more investment in logistics and infrastructure – the building blocks to creating inexpensive and efficient routes for cargo.

"I think the country needs to develop infrastructure projects, like a logistical center," he said. "This will be very helpful to attract more cargo, to accumulate more cargo, to add value in this logistic center to the cargo and then redistribute it to the different markets in the region. This is very important."

Giorgi Doborjginidze, a senior representative Caucasus TransCare and the chairman for the Georgian Logistics Association, is working on a \$35 million logistics center project created by TransCare. "The cargo potential of Georgia is relatively small," Doborjginidze said.

"[T]o have a profitable ports and profitable companies you need additional cargo, so to attract this cargo you need good infrastructure, you need good people in efficient management, and you

need good prices ... I think this will come step by step.”

Logistic centers will allow goods brought in by rail and container to be processed in one location – and should make the process faster and cheaper.

Reducing the time and cost of customs is vital if Georgia wants to compete with other transit corridors heading east, like the popular Baltic-Russian route, noted John Braeckeveldt, the director at Gosselin Georgia and the co-chair of the AmCham Trade & Transportation committee.

“This was always the idea – transportation hub, distribution hub. To make Georgia the best,” he said. But despite good reforms, the Baltic route is still cheaper – and Georgia is losing potential clients due to the cost and effectiveness.

Tom Kennedy, an EPI consultant in transport & logistics and the author of the “Competitiveness Analysis of the Caucasus Transit Corridor” study, found that if the cost of going through the CTC went down 10 percent, processing time was reduced by one week, and the ferries on the Caspian became more efficient, the corridor through Georgia would be competitive – opening it up to cargo heading to and from Europe, Central Asia, and China.

“More than 0.5 million tons of Central Asian traffic now moves through Baltic ports. If a regular schedule for the Caspian Sea ferries could be implemented and a more transparent pricing policy at Baku port, it would be possible to reduce the cost and decrease transit time over the CTC route, resulting in increased transit traffic,” Kennedy wrote.

“While the additional traffic which could be attracted to the CTC from these other routes cannot be determined with precision, it can be concluded that, based on discussions with existing and potential users, it is quite significant.”

## Developing Georgia’s Potential as Transit Hub: A hit list of actions

Specific Recommendations to improve Georgia’s capacity as a transit hub from the “Competitiveness Analysis of the Caucasus Transit Corridor Improving Transit Potential for Central Asia-Europe Traffic” a report published by Deloitte Consulting LLP as part of the USAID Economic Prosperity Initiative (EPI).

- Further modernization of Georgian Railways infrastructure and motive power;
- Expansion of container handling capacity of Poti port
- Deepening of the channel at Poti allowing liner vessels to call at the port providing direct services to Asia, North America and Northern Europe
- Provide additional warehousing capacity at Poti for specialty cargos, such as export cotton, additionally there may be opportunities for further processing of cotton at Poti resulting in added value in Georgia
- Increase the professionalism and efficiency of the logistics industry in Georgia
- More transparency and stability in the assessment of port and customs charges at Poti port.
- Creation of a bi – national corridor working group that would not only develop working solutions to the issues of Baku Port and the Caspian Sea ferries, but would also be instrumental in developing, among the various participants, a single seamless pricing system so customers see only a single organization, as the customers of Plask using the Viking service between Klaipeda and Odessa as well as the other private container trains operated over thousands of kilometers from Baltic Ports to Almaty and other destinations in Central Asia. These organizations provide the one – stop window for railway pricing and are the real vision of the future of the Trans Caucasus Corridor becoming increasingly price and service competitive.
- Provide additional ferry capacity on the Caspian Sea and establish greater service regularity