



Feasibility Study of New Terminal
Facilities in the Georgian Ports
**Executive Summary and
Privatisation Concept**
July 1998

REPORT COVER PAGE

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Executive Summary and Privatisation Concept

Feasibility Study of New Terminal Facilities in the Georgian Ports

Contents

Part 1 Executive Summary

Part 2 Privatisation Concept

Part 1 Executive Summary

Table of Contents

1. Introduction	1
2. Introduction to the Phase Reports	2
2.1 Phase I	2
2.2 Phase II	2
2.3 Phase III	3
2.4 Phase IV	3
3. Description of Tasks	4
3.1 Traffic forecast and review of trade, shipping and ports in the Black Sea area	4
3.1.1 The most viable Route	6
3.2 Organisational Structure	7
3.3 Marketing	8
3.4 Finance and Accounting	8
3.5 Analysis of the Present Port Performance	9
3.5.1 Port Operation	9
3.5.2 Storage Facilities	10
3.5.3 Labour	10
3.6 Assessment under Railway Engineering and Mechanical Engineering aspects	10
3.7 Civil Engineering	11
3.7.1 Port of Poti	11
3.7.2 Port of Batumi	13
3.8 Rail and Road Connections	15
3.9 Customs Procedures and Public Participation	16
3.9.1 Customs procedures	16
3.9.2 Advise on Public participation	16
3.10 Port Master Plan and Port Development Plan	17
3.10.1 Port of Poti	17
3.10.2 Port of Batumi	18
3.11 Planned Handling Equipment	19
3.12 Environmental Assessment	19
3.12.1 Port of Batumi:	20
3.12.2 Port of Poti:	20
3.13 Cash Flow Analyses and Financial Analysis of the Recommended Development	21
3.14 Privatisation Concept	23
4. Project Information	25

Executive summary

1. Introduction

The Project Feasibility Study of New Terminal Facilities in the Georgian Ports started in August 1998 after the contract between the consultants and the European Union had been signed on July, 22nd, 1998.

The consortium HPTI, Hamburg, Germany, Dornier System Consult, Friedrichshafen, Germany and the RMG Rotterdam Maritime Group, Rotterdam, The Netherlands under the leadership of HPTI had worked out 3 Reports in line with the terms of references, necessary adjustments and additional requirements. Especially the additional requirements resulting from the activities from other projects or private companies actions in regard of "taking over the port of Poti or parts of it" had been fulfilled to the benefit of the Port of Poti even without the refunds or other compensation.

The overall target of the project was to develop Port Master Plans for both Ports (Batumi and Poti), to recommend the first investments and privatisation projects to work out a privatisation concept and to supply tender documents. Furthermore, a recommendation for a Georgian Marine Administration should be worked out. To avoid double workings, the consultants were requested to use existing reports and workouts and to implement these results into their reports.

Within the project period various experts from abroad had been in Georgia, working on subjects they are specialised in. Additionally, Georgian experts had given assistance to them.

Before starting with the explanations of the three phases, the project leader and the team leader would like to thank all those who have helped to finalise the report. The special thanks are to be given to:

- The Minister of Transport Merab Adeishvili and his deputies for the good co-operation and assistance
- The General Manger of the Port of Batumi Aslam Smirba and his First Deputy Djambul Ninidze and the General manager of the Port of Poti Jemal Inaishvili and his Deputy Devi Gvalia for the day to day assistance, the hospitality and the help received from the employees of the both Port
- The Georgian Takis TRACECA unit for the assistance
- The members of the GTZ team for their co-operation
- The Georgian members of the teams involved in the project in Batumi and Poti for their engagement
- The foreign experts for their presence in Georgia and their engagement

Without the help of the before mentioned persons and especially without the help of our Georgian partners and friends it would have been much more difficult to reach the targets and to be in line with the timetables.

2. Introduction to the Phase Reports

2.1 Phase I

The Phase I Report was delivered in October, 1997 and consists of 5 Volumes. The main subjects of the Phase I Report are

- Review of Trade, Shipping and Ports in the Black Sea Area (Volume II)
- Preliminary Traffic Forecast (Volume II)
- Organisational Structure (Volume III)
- Comments on Financial Reporting Procedures (Volume III)
- Analysis of the Present Port Performance (Volume III)
- Assessment under Railway Engineering and Mechanical Engineering aspects (Volume III)
- Civil Engineering Assessment for the Port of Poti (Volume IV)
- Civil Engineering Assessment for the Port of Batumi (Volume IV)
- Environmental Assessment (Volume V)

2.2 Phase II

The Phase II Report was delivered in February, 1998 and consists of 6 Volumes plus one volume containing the annexes to volume 2 and 3. Furthermore, an electronic version exists, containing in addition to the printed volumes, tables on which the cash flow analyses are based on.

- Traffic Forecast and the Most Viable Route Connections between TRACECA and the TEN (Volume II)
- Preliminary Simulation Model (Volume II)
- Organisation, Marketing (Volume III Section 1)
- Finance and accounting (Volume III Section 2)
- Rail and Road connection (Volume III Section 3)
- Port Performance (Volume III Section 4) and from Phase I Report Volume II
- Port Master Plan and Phase Development Plan (Volume III Section 5)
- Planned Handling Equipment (Volume III Section 6)
- Civil Engineering (Volume IV)
- (This volume contains also the present port facilities out of phase I report)
- Environmental Assessment (Volume V)
- Cash Flow Analyses and the Financial Analysis of the Recommended Development for the proposed priority investments (Volume VI)

2.3 Phase III

The Phase III Report was delivered in May, 1998 and consists of 6 Volumes and an Outline Privatisation Concept. Furthermore, an electronic version of the report, containing a full set of all volumes, including the volumes and sections published in Phase 2 Report, as well as all input data used for the cash flow analysis, exists.

- Executive Summary (Volume I)
- Traffic Forecast (see also Phase 2 Report) (Volume II)
- Transport Simulation (Volume II)
- Organisation, Marketing (See Phase 2 Report) Volume III Section 1
- Finance and Accounting (Volume III Section 2)
- Rail and Road Connection (See Phase 2 Report) Volume III Section 3
- Port Performance (See Phase 2 Report) Volume III Section 4
- Port Master Plan (See Phase 2 Report) Volume III Section 5
- Planned Handling Equipment and Technical Specifications of Port Handling Equipment for the Ports of Poti and Batumi (Volume III Section 6)
- Civil Engineering (Volume IV)
- Civil Engineering Assessment of Existing Port Facilities (from Phase 1 Report) Volume IV Section 1
- Investment Projects for the Ports of Poti and Batumi (from Phase 2 Report) Volume IV Section 2:
- Extension of the Container Terminal of the Port of Poti (Volume IV Section 3):
- Development of Multi-Purpose Terminal of the Port of Batumi (Volume IV)
- Environmental Assessment Volume V (See Phase 2 Report)
- Financial and Economic Impact Analysis (Volume VI Section 1:)
- Cash Flow Analyses and the Financial Analysis of the Recommended Development for the proposed priority investments (from Phase 2 Report) Volume VI Section 2
- Preliminary Cost-Benefit Analysis (Volume VI Section 3)
- Privatisation Concept

2.4 Phase IV

The Phase IV will be finished as per contract terms on July, 22nd, 1998 and documents will be delivered in accordance to the terms of reference point 5, reporting.

The documents to deliver are:

- Draft Tender Documents for the Extension of the Container Facilities in the Port of Poti
- Draft Tender Documents for the Multi Purpose Terminal in the Port of Batumi
- Executive Summary and the Privatisation Concept
- Cost-Benefit Analyses (final Version)
- Updated Simulation Model

3. Description of Tasks

Not to go too much into details, the following tasks are the headlines of activities which were carried out on detailed work and investigations. The scope of work and methodology was

- The Evaluation, Review and Forecasting Part (Phase 1)
- The Port Master Planning (Phase 2)
- The Preliminary Design and Outline Specification for Tender Documents (Phase 3)
- The detailed Design and Production of Tender Documents (Phase 4)

3.1 Traffic forecast and review of trade, shipping and ports in the Black Sea area

Various interviews were held with ports, shippers, forwarders, shipping agencies and cargo routing parties. In common, the transport industry not only in the Black Sea Region is convinced that the Ports of Batumi and Poti will play a major role in the transit traffic to the Caucasian and the Central Asian Republics. Most of the interviewed persons are in favour of Poti as the forthcoming transit port. Almost all of the interviewed persons had combined the future possibilities with requirements, not only in the port areas, to be fulfilled. Improvement required can be found in the fields of port operation, storage capacities, customs procedures, rail cars and rail services, safety and security, tax regulation, communication and bank transfer possibilities.

The ports visited in the Black Sea Ring are better organised and better equipped than the Georgian ports. Transit cargo is handled by all ports, but mainly cargo to or via Russia. All ports, except the black sea ports of Turkey are interested in co-operation. The Turkish ports of Samsun and Trabzon are classic transit ports which were losing their transit business because of the political situation between Turkey and their neighbours Iran and Armenia. As soon as the situation will be back to normal, the ports of Samsun and Trabzon will try to regain their old position. For the time being, the Georgian Ports only have their strategic position as advantage against the other ports. But this is such a great advantage, that all major forwarders and container operators are on the move to Georgia. It is of highest importance to meet the requirements of the transport industry specified in this report, in order to avoid losing the advantages.

The basis of the traffic forecast for the ports of Poti and Batumi should have been, in accordance with the working plan for the project, the TRACECA project „Regional Traffic Database and Forecasting Model“. Because the forecasting data are not available until now and the data for the base year (referring to 1995) are not very reliable, it is not possible to proceed in the originally planned way. Therefore, other existing traffic forecasts for the region (mainly Takis/TRACECA studies) were examined and used for the estimate of future ports traffic.

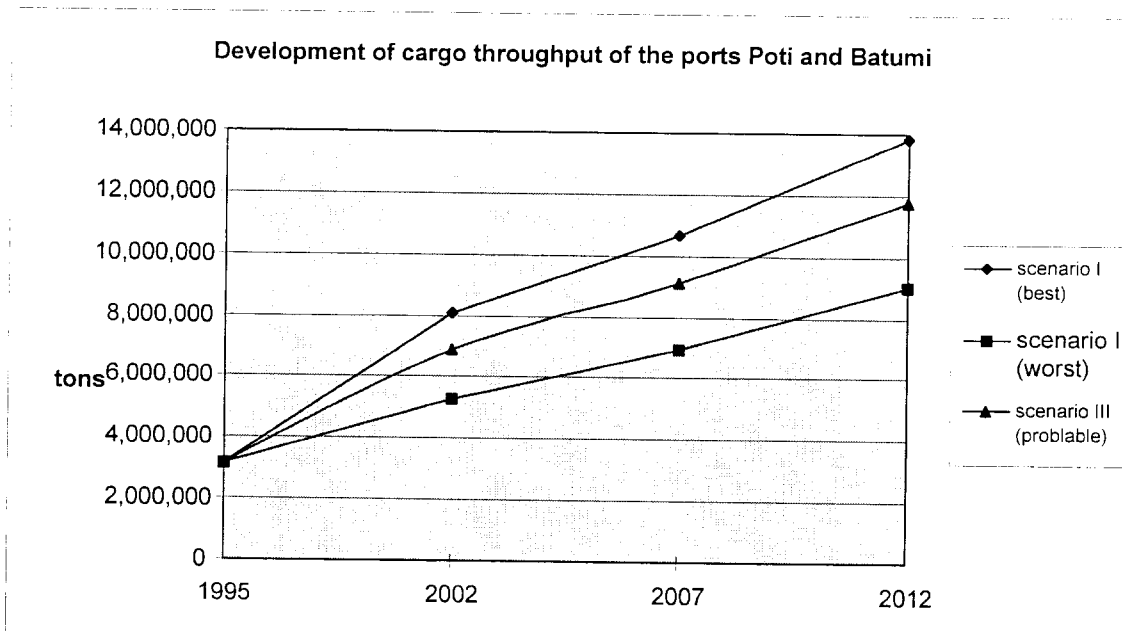
The traffic forecast is based on three scenarios. Scenario I may be described in short as the "best case" based on a favourable political and economical development of the TRACECA region. Scenario II may be stated as the "worst case". A retarded economic development and political problems are the underlying assumptions. Between these two scenarios a third scenario (scenario III) describes an economical and political development that is characterised as the "probable case".

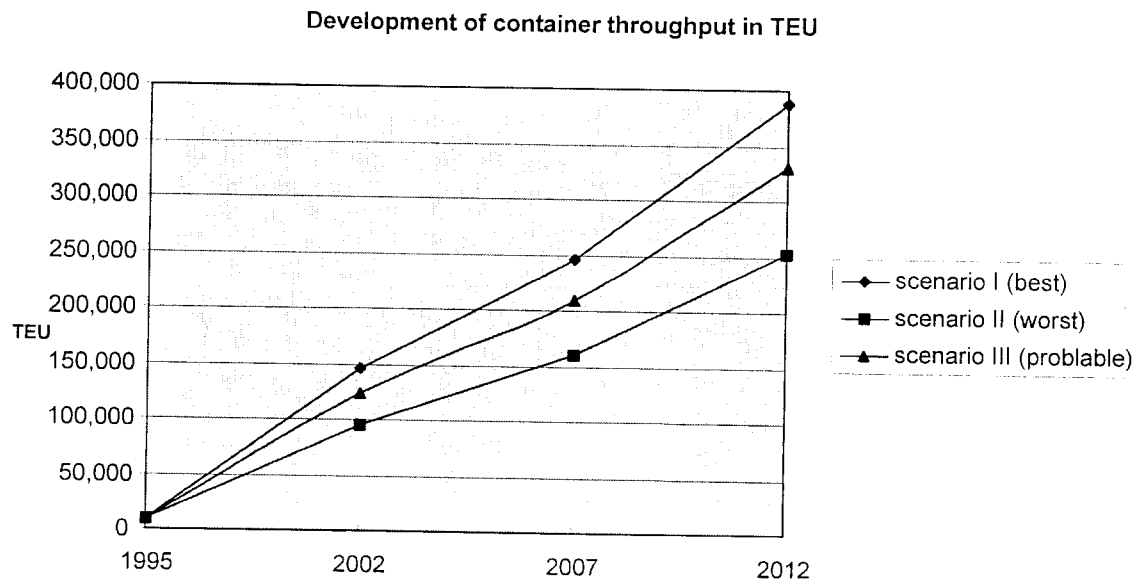
The results of the traffic forecast indicate a total throughput of the port of Poti and Batumi of 8.1 mil tons in the year 2002, 10.7 mil tons in 2007 and 13.8 mil tons in scenario I. In scenario II the throughput for the year

2012 amounts 9.0 mil tons and in scenario III to 11.7 mil. It is assumed that the portions of the commodities develop the same way in all scenarios. Therefore, the share of bulk in total throughput decreases from 44 % in 1995 to 33 % in 2012. Oil products share decreases also slightly form 40 % to 25 %. The general cargo's share (except containers) is increasing between 1995 and 2002 but decreasing in the following period. The reason for the up and down has to be seen in the increase of container traffic, since the container load consists mainly of general cargo. In scenario III the container throughput in the year 2002 amounts to 1.2 mil tons (that equals a share of 18 % of total throughput). In the year 2012 the throughput is 3.3 mil tons (a share of 28 %).

Concerning the international traffic flow, the ports of Poti and Batumi are to a high degree exchangeable. The question whether the cargo runs through Poti or Batumi will depend on various circumstances as there are the companies involved, the specialised offer and vacancies of the ports for commodities and the in between competition of the ports.

In scenario III the throughput of the year 2012 in Batumi is 3.9 mil tons and for Poti 9.3 mil tons. The transport modes for the hinterland traffic are to a share of about 80 % railroad and 20 % road. Bulk and oil products are transported mainly by rail (80 % and 98 % respectively). General cargo and containers are transported within a range of 30 to 35 % by truck. These figures are due to the assumption that the railways system will also in future be the backbone of the transport sector.





More and detailed information about the traffic forecast are in the corresponding phase reports.

3.1.1 The most viable Route

As result can be stated that there is strong competition between the classical north routes (via St. Petersburg) and the south TRACECA routes (via Poti or Batumi). But the Black Sea routes between the ports of Poti and Batumi and the ports of Constanta and Varna/Burgas with the direct link from the TEN to the TRACECA corridors will have an important role in the future concerning the economic development between Europe and the TRACECA regions. The major routes extend from Europe to the TRACECA regions are:

From central Europe via Poland, Ukraine and Russia using TEN corridors II, III, V and IX to Baku. Route III has two different branches. Route IIIa is the link between TRACECA corridors and the TEN corridors IV for rail/road and VII on the Danube through Constanta in Romania. Route IIIb is the connection of the TEN corridor 9 (Europe, Ukraine, Ilyichevsk) with the Georgian Ports.

In addition, there is a route from middle and southern Europe to Hungary and along the Danube to Constanta (TEN corridor IV and VII) and further to the ports of Georgia and a the sea link from the ports of Georgia through the Bosphorus and the Mediterranean Sea to the ports of Europe.

Another route is the inland water way between the Black Sea and the Caspian Sea. A typical route using this inland waterway is the transport with a river-sea-going vessel e.g. from a port in the Mediterranean Sea to Turkmenbashi via the Volga-Don-Canal (via Rostov, Astrakhan).

3.2 Organisational Structure

In accordance with the terms of reference the study "Optimising and Reorganisation Study for the Ports of Poti and Batumi" were studied in adopted. The developed organisational structures for the two ports are based on profound knowledge of the GTZ Team and real port experience. The remarks given in regard to the implementation and the overall implementation problems are reflecting the existing situation in the ports. Remarks given in regard of responsibilities, information and supervision are in line with modern management and organisational structures. Especially the basic principles described in chapter 2.2.3 of the above mentioned study are of very high importance. Remarks to this are only in the field of the capability of staff and the information flow necessary.

During the executed project planning workshops in Batumi and Poti with the managers of the two ports, the changes necessary in future had been discussed. One important issue was the subject "to change the attitude towards work " In this respect, the mental barriers to overcome were discussed. We learned from this, that it is not enough to give the persons in charge responsibilities but to make them feel responsible. This is one of the main tasks in the whole process of changes. Even a catalogue, describing the tasks, duties and responsibilities may not be enough. The catalogue itself may make the persons involved believe, that everything not mentioned in this catalogue is not their responsibility. A way out could be to assist the managers with training on the job.

Another important point is the information flow. Even a management information system (MIS), which is definitely necessary, cannot improve the whole situation alone. Information from a MIS are normally available after a certain period. The up-to-dateness depends on the generation of the figures and the systems behind. The important brand new information are not in a MIS-System. These information also have to be made available, though. In addition to that the managers involved have to learn that it is not enough to wait for the arrival of information needed or expected. They have as well to be active to collect the necessary information. In the same respect also here an existing barrier is to be overcome.

The last remark in this respect is the capability of the managers to delegate. Within the mentioned study the items and the rules are described. But to delegate is as well to overcome a mental barrier and it seems to be, that also in this field assistance to the management by training on the job is required.

In the Phase I report reference was made to the organisational structures described in detail in the GTZ Project "Optimising and Reorganisation Study of Poti and Batumi" elaborated by HPC Hamburg Port Consulting GmbH., Hamburg, dated April 4th, 1996.

Meanwhile the GTZ-Team is preparing and executing training programmes based on the above mentioned study and the additional evaluation were made in the past 4 month.

The Port of Batumi has recently declared its status as a Municipality Port. Privatisation or other changes in regard to the structure of the Port are not visible and if they are to be expected it mainly concerns the persons involved in. Therefore, the proposed management structure as per Phase I report will remain unchanged.

The Port of Poti is in a real change process. In respect of the forthcoming investments and the discussions with regard to privatisation the legal status of the port has to be established and a profit centre structure has to be developed. The management structure and system itself has to be implemented by the General Manager of the port. This can only be done as a top to down approach and has to go hand in hand with the improvement of the information flow and the delegation of responsibilities. Problems are in the details. To

change the attitude towards work or rather to make persons in charge feel responsible is the key to success. Consequently, the organisational structure has to be built in a way that real responsibility for the port and its commercial results is given to the General Manager of the port and as a down approach result responsibility must be delegated from the General Manager to the Department Leaders.

The Department Leaders of the different areas on which the port is producing services (production areas) should also be responsible for the commercial results. Departments which are not directly generating services to customers of the port should be transformed into service centres with budget responsible manager on top.

3.3 Marketing

After the political and economical changes in Georgia, Georgian ports have to identify their role in the country's economy. During the Soviet period the main customers were the organisations and institutions of the Former Soviet Union (FSU) and all port activities were planned and regulated by the government. Nowadays ports should look for new customers themselves and should establish the organisational structure that meets the requirements of market economy.

To meet the requirements of the future, the marketing of the two ports should be respectively strengthen. On this subject the GTZ project is as well working. They elaborated the report about "Reorganisation of the Georgian Ports Sector" which includes the proposals to establish a Marketing Department. This version has been studied and in principle agreed upon. The given remarks are based on the GTZ project papers with some additions, e.g. customer evaluation system and customer equity.

Batumi has a marketing department with 10 employees. It is not clear, what this marketing department is really doing in respect of port marketing. In a discussion with the responsible managers it occurred that it is more or less taken care of shipping agencies, respectively forwarding marketing but not of port marketing. The clients of the port are identified as shipping agencies or forwarding companies. These companies are offering their services, including the port services, to cargo or ship owners.

In Poti a marketing department is currently under development. Therefore, presently no real marketing is existing.

3.4 Finance and Accounting

In this part the existing reports and statistics are described. Special attention are drawn on the subjects financial reporting procedures, port statistics, and the general planning data. The requirements for an efficient financial reporting systems are described in general and in sector specific, organisational and individual level. The work of the expert was in both ports done in a close co-operation with the GTZ team, implementing already new structures and procedures. The necessary changes based on a weak point analysis are described in improved procedures and other instruments.

Financial and accounting report is based on the report of HPC Hamburg Port Consultants GmbH to GTZ Gesellschaft für Technologische Zusammenarbeit mbh dated February 13th, 1997 and the evaluation made by the GTZ Team during the last month. Remarks are made in regard to the organisational conditions especially to the financial reporting procedures. The difference with the western economies and the specific

problems to analyse figures of previous years are outlined. The analyses of the financial results and the expenses of the main activities and the frequency of these reports for both ports are described.

The processing of data into the main ledger, the source for the completion of financial reports are made by hand in Poti and in Batumi, is supported by EDP to a considerable extend.

The input procedures in the financial reporting system is a monthly recapitulation of the transaction journals. In general, the value of the controls applied are doubtful.

The ports traffic statistics are limited to the handling of cargo volumes and the production of these statistics is performed manually in both forms. The problems out of the subject "General Planning Data" in regard to the changes from the 5 year cycle into shorter cycles and the differences between central government requirements and ports ability are addressed.

The planning and control requirements are specified and a week point analyses with necessary changes is outlined. Improved procedures are suggested and the changes are proposed.

The general remarks are based on profit and service centres, involvement of employees, EDP and invoicing. In order to secure sustainability of the efforts the EU is putting into the TRACECA programme, the EU expressed its intention to foster projects that eliminate physical and organisational bottlenecks or increase considerably the capacity of the TRACECA Transport link.

3.5 Analysis of the Present Port Performance

In this section an assessment of the present performance as well as a capacity calculation for both ports was made.

Both ports provide 24 hours uninterrupted service 365 days per year with professionally carried out pilot and tug services.

3.5.1 Port Operation

The prevailing way of cargo handling is the direct delivery with delivery and receipt of cargo mainly by railway. This way of operation leads to slow performance of the ports, also due to the fact that frequent shunting operations of the railway constitute a substantial hindrance. Also, the condition of the rail cars is generally poor and the rail tracks in the ports are in a disastrous state.

Rail tracks are generally not paved in and cannot be crossed by forklift trucks or other mobile handling equipment.

In Poti the part of cargo which is either being transported out of the port or being trucked to the port for shipment is increasing steadily. Trucking is a viable solution for cargo which remains in the country.

Ferry operations are in a developing state. This applies to the traffic volume and to the available facilities. It can be assumed that once the port provides the appropriate facilities (ramps & marshalling areas) this kind of traffic will increase rapidly.

The trucking business in the port of Batumi has not yet picked up a share comparable with Poti. This can also be attributed to the geographical location and topographical environment of Batumi. The road leading from Batumi requires a lot of skill from truck drivers to manage it, because it zigzags its way up and down through the mountains. This disadvantage will always have an effect on the pattern of cargo passing through the port of Batumi and its delivery or dispatch. Additionally, the port lacks suitable parking areas for trucks.

3.5.2 Storage Facilities

For Poti it must be said that number, size and layout of warehouses is insufficient for a port of the size of Poti Port. Despite that, the warehouses are not fully utilised which has to be attributed to the prevailing system of direct delivery. The requirements for warehousing space is expected to increase rapidly, as it can be seen in the field of cotton exports. As a consequence of the lack of suitable storage facilities for cotton in the port, exporters have taken the initiative and developed their own facilities in the 'Old Tea Warehouse'. Here, the port tends to lose a very big business apart from loading the stuffed containers on vessels.

The port of Batumi has two warehouses which are currently being used for storage purposes. The size and layout do not match international standards. Due to the narrow space, the buildings have been patched together as in the case of shed No. 1 to the extent to follow a curve of the railway tracks. Nevertheless, the sheds are under-utilised. Lack of specialised forklift-attachments and pallets are the main bottlenecks apart from the before mentioned.

In both ports the facilities for the indirect delivery mode by paving the open storage areas and providing suitable warehouse space for the prevailing and expected types of cargo have to be improved or built. For Batumi, an additional problem is the limited space of the port. Thus, the port cannot develop as much storage area as might be necessary in future.

3.5.3 Labour

The ports are working in a 12 hours two shift system with a fixed number of brigades and workers in each shift, which contributes to an inflexibility of port operations.

Due to the entire different mode of operation, the productivity of the dockers cannot be compared with Western European standards. Considering the circumstances, the figures are quite good.

3.6 Assessment under Railway Engineering and Mechanical Engineering aspects

In both ports, the railway have been assets in detail and the mechanical engineers have made the same for each part of the port equipment.

The engineering parts are basically self explanatory. The general condition of the visited supra structure is poor. The condition of the railway in the ports is, according to the railway expert, nearly at the end of their life span. The overall situation of the two ports in regard to engineering matters is best explained in the report itself: Civil Engineering Summary Civil Engineering Aspects - Phase 2 and 3.

3.7 Civil Engineering

3.7.1 Port of Poti

Layout

The cargo port of Poti is located at the Inner and Southern Basin and encloses an area of 49 ha. The main adjacent areas are

- Military Marine Base
- Ship Yard
- Grain Milling Company
- City Centre

The Port of Poti has a port development plan dated 1994. The extensions comprise an area of 53 ha. Furthermore, the port has in mind the Rioni River Delta area of 480 ha for further port development. At the moment the tender process for the design and construction of a rail ferry ramp at berth no. 2 has been closed. The construction of this ramp will be completed in 1998.

Technical Condition of Port Facilities

The condition and characteristics of the berths and storage facilities are presented in Annex 1. The water depths at most of the quays vary between 8.0 and 12.5 m. The lengths of the berths vary between 175 and 220 m. The condition of the port roads in general is satisfactory, with the exception of the road behind berth 7 and the railway crossings. However, if the port cargo volume will increase with a substantial portion of truck traffic the road system will not withstand heavy truck traffic. Except of berth 1, 2 and 4, the storage areas at the northern side of the basin are mainly not paved, but consist of sand/gravel. At berth 4, a new storage area made of concrete is presently under construction. The storage area of the container terminal is in a poor condition. The rail tracks on the quays are not provided with pavement between the tracks and therefore other port equipment cannot cross the area. There are only two warehouses at the Inner Basin of Poti, since mainly all cargo is directly handled from ship into train. Two breakwaters protect the Port of Poti, a small one at the northern, and the main breakwater on the western and southern side. The condition of the main breakwater is very poor. A part has been subsided up to 1 meter causing a number of holes in the breakwater block wall. Furthermore, the whole breakwater is threatened by coastal erosion.

Navigational Conditions

The Port of Poti suffers of severe siltation which is caused by the Rioni river outlet 3 km north of the port entrance. The total discharge of sediment is estimated at 4 to 5 million tons per year. Before 1939, the river flowed through the city and entered the sea south of the port, resulting in beach formation at this location. After 1939, the flow of the river has been changed to the northern side of the port. By doing so, the river sediment outflow was shifted from the southern side of the port to the northern side. As a result, on the southern side of the port coast erosion started and on the northern side the dynamic balance has been disturbed. The delta of the river was growing quickly in western direction, while port operations were hindered as a result of the substantial siltation of approach channel and basins. The erosion on the south side of the port is a serious matter of concern for stabilisation of the breakwater. Consultants propose under mentioned investment projects for the Port of Poti:

- Extension Existing Container Terminal.
- Reconstruction of Handling and Storage Facilities at Berth 9 - 11.
- Reconstruction Aprons and Storage Areas.

- Viability Study Grain Handling Facilities
- Development New Container Terminal.

Extension Existing Container Terminal

At present, containers are mainly handled at Berth no. 7. However, the available storage area is not sufficient. Therefore, Consultants advise to extend the container handling facilities as much as possible on short notice. To extend the existing container terminal the area of Berth 5 and 6, the area behind Berth 7 and Berth 12 to 14 has to be used for container handling.

The detailed cost estimations are presented as well as the drawings and other results in the corresponding Volumes.

Reconstruction of Handling and Storage Facilities at Berth 9 - 11

Consultants advise to create an operational handling area and a new warehouse to enable indirect cargo handling. Therefore, the existing warehouses, buildings and the loading apron which do not meet nowadays handling requirements should be demolished and replaced by paved open storage areas and one warehouse. (see also Drawing 1.1 in the Phase II report).

The Port of Poti does not agree with the Consultants' proposal to demolish the existing warehouses and intends to complete construction of the warehouse at Berth 10. Nevertheless, the demolition of the existing warehouse is include within the proposed investment project.

A detailed cost estimate as well as the main results are presented in the corresponding Volume.

Reconstruction of Aprons and Storage Areas

Consultants advise to level the entire terminal area, especially at the quay aprons, the operational areas and storage areas. The spaces between railway tracks have to be paved in to enable access to rolling equipment. A detailed cost estimate as well as the main results are presented in the corresponding Phase report.

Viability Study Grain Handling Facilities

Consultants recommend to undertake a feasibility study to construct a new silo buffer at Berth 8 or alternatively renovate the existing grain silo at Berth 15, including a new quay construction and a conveyor belt.

Development New Container Terminal

The Port of Poti will not be able to handle the forecasted container throughput around the year 2002 just by realisation of proposed extension of the present facilities. Considering the forecast of the years 2007 (150,000 TEU) and 2012 (290,000 TEU) it is clear that a new container terminal is required.

Within the present port perimeters, the only location to accommodate a container terminal with a capacity of 200,000 to 300,000 TEU is at the Southern Basin (Berth 14 and 15). However, further extension will not be possible. Furthermore, this area would be the approach to the grain silo at Berth 15. Therefore, a new container terminal at this location cannot be combined with reconstruction of the grain facilities at Berth 15.

The second option is north of the existing port outside the breakwater. This area is allocated for future port development and offers sufficient space (400 ha). However, development of this area involves substantial investment costs to construct infrastructure connections (approximately 8 km rail and road connections) and a breakwater of approximately 2 km.

Considering long term development, Consultants advise the terminal development at the northern side, under the condition that it is feasible. The investments for both terminal options have been worked out.

For both alternatives and the required infrastructure, a detailed cost estimate is presented in Annex 4.1. The main results are presented in Table 1.

Table 1 Investment Costs Port of Poti

Description	Total Investment Costs (in 1000 USD)
Extension Container Terminal	11,263
of which:	
– Extension Berth 6 - 7	8,725
– Extension Berth 12 - 14	2,538
Reconstruction Facilities Berth 9 - 11	6,585
Reconstruction Aprons and Storage Areas	7,297
New Container Terminal	
– Variant South	37,435
– Variant North	31,649
– Infrastructure and breakwater	37,000

3.7.2 Port of Batumi

Layout

The Port of Batumi (founded in 1878) is located in the bay at the northern side of the city. This bay provides the port with a natural protection to western winds and waves. The port has one basin with 11 berths and one off-shore buoy mooring facility. The total port area encloses 13.7 ha. The layout of the port is presented in Drawing 2.1. The main adjacent areas are

- Oil company
- Fishery Port
- Furniture factory
- Railway
- City

The under mentioned development plans made by the port exist

- Development container terminal:
- New grain elevators:
- Development of RoRo ramp:
- Improve hinterland railway connection:

Technical Condition of Port Facilities

The condition and characteristics of the berths and storage facilities are presented in Annex 1. The water depths at most of the quays vary between 8.0 and 12.5 m. The lengths of the berths vary between 175 and 220 m. With exception of some potholes, the present condition of the roads is satisfactory for the present traffic volume. However, the roads will not withstand heavy truck traffic. The crossing with the railway line near the railway gate is in a very poor condition. The drainage of the pavement is fairly good, which is necessary because of the severe rainfall. The storage facilities exist mainly of warehouses, of which some are difficult to access. The open storage areas are in general small. In general, the roofs of the warehouses are in a good condition. Because of the severe rainfall (approximately 2,500 mm/year) in this region, the port of Batumi puts a lot of effort in maintaining the roofs.

Navigational Conditions

The Port of Batumi is protected from western wave attack by the natural layout of the harbour bay. However, more dangerous is the situation during the south-western storm (locally called Tjagun). It creates an underwater current, which circles anti clockwise inside the port basin. This current makes ship manoeuvres unsafe even with tug boats. Furthermore, the ships moored at the quays have to leave the port, because of the dangerous ship movements the current can cause. Consultants propose under mentioned investment projects for the Port of Batumi

- Reconstruction of handling facilities at berth 9.
- Reconstruction aprons and storage areas.
- Construction of Multi Purpose Terminal.
- Construction of new bridge.

Reconstruction of Handling and Storage Facilities at Berth 9

Consultants advise to create an operational handling area and a new warehouse to enable indirect cargo handling. Therefore, the warehouse and railway tracks should be located as much to the South as possible. A detailed cost estimate as well as main results are presented in the corresponding report.

Reconstruction of Aprons and Storage Areas

Consultants advise to level the entire terminal area, especially at the quay aprons, the operational areas and storage areas. The spaces between railway tracks have to be paved in to enable access to rolling equipment. A detailed cost estimate as well as main results are presented in the corresponding report.

Construction of Multi Purpose Terminal

The Port of Batumi is not facilitated to handle containers, which is recommended by the Consultants. However, the cargo throughput forecast does not justify the development of a dedicated container terminal. Considering the potential Ro-Ro developments at the Black Sea, Consultants advise to develop a Multi Purpose Terminal. The best location is considered to be at the existing berth no. 5.

Considering the potential cargo throughput for rail ferries, Consultants advise not to develop a rail ferry in Batumi which is not in line with the development plans of the port. The available port owned area at berth no 5 is not sufficient to accommodate all required facilities. To maximise the area Consultants advise:

- To construct the new quay wall up to 30 m farther to the West, which results in an additional area of 5,000 m².
- To use not port owned areas at the eastern side of the perimeter wall. These areas enclose approximately 10,000 m².

At the allocated area, old oil pipelines are situated in the ground. These pipelines are not being used anymore and are replaced by a new system farther to the North. Because of the bad condition of the pipelines oil has been leaking into the ground (see also Volume 5: Environmental Assessment). This oil pollution is an area of concern.

The oil company, which has caused the oil pollution in the ground, is officially responsible for the consequences. However, it will be difficult to get the cleaning of the soil financed by the oil company. A very rough estimate to clean this area is taken into account. However, a comprehensive cleaning will result in substantial higher costs. To present a realistic cost estimate to clean the contaminated soil, more information about the level of pollution is required. A detailed cost estimate is presented as well as main results in the corresponding report.

Out of a railway shunting operational point of view, it is required to double the railway line at the railway gate. However, the columns supporting the bridge above the railway gate make extension of the railway tracks impossible. Furthermore, the bridge is in a technical bad condition and has a maximum allowed axle load of 3 tons. Consultants recommend to undertake a feasibility study to renew this bridge.

Table 2 *Investment Costs Port of Batumi*

Description	Total Investment Costs (in 1000 USD)
Reconstruction Facilities Berth 9	4,839
Reconstruction Aprons and Storage Areas	2,848
Construction Multi Purpose Terminal	
– Variant excluding adjacent areas	25,253
– Variant including adjacent areas	17,458
– Construction New Bridge	678

Draft Tender Documents for the two Ports

The Consultants have prepared designs for the extension of the existing container terminal at Poti and for the development of the multi-purpose terminal in Batumi. These designs are illustrated in drawings to section 3 of Volume IV of the Phase 3 report. Also, the scope of work to be carried out for the planned port development has been outlined in section 3 of this report.

The draft Tender documents for the two ports are submitted together with this Executive Summary and Privatisation Concept.

3.8 Rail and Road Connections

For the two ports the connection to the Georgian railway and the Georgian roads are described. Used rail cars and the locomotives, the rail logistics as well as the shunting yards inside and outside the ports are specified and the possibilities for inbound and outbound cargo dependence on rail facilities are evaluated. The Rail ferry project, the estimated rail car volume and the impact to the Port of Poti are investigated. In this part of the Phase II Report are given the road transportation and its specific regulations as well as the trucks

used. In addition, estimated road cargo volumes and the results of cargo handling are described. The specific differences between the Ports of Batumi and Poti are visible, especially with reference to the railway engineering report of the Phase I Report.

Furthermore, the distance, conditions and problems on the route to Tbilisi as well as to Armenia and Azerbaijan are described.

The principle requirements for modern logistics on rail and road are outlined and the need of sufficient electronic communication tools are pointed out.

3.9 Customs Procedures and Public Participation

3.9.1 Customs procedures

The customs procedures are described in the Tacis project "Trade facilitation, Customs Procedures & Freight Forwarding Project - Uzbekistan Cotton Extension". They are not describing the detailed methods of customs clearance in the two ports for import, export and transit goods. The official statements received from custom officers are very general and it is obvious that the real procedures are different from the day to day praxis.

There is no doubt that modern ports need adequate customs facilities and customs procedures. This is only possible if the custom offices are computerised and linked via Electronic Data Interchanges (EDI) based on standard UN-EDI fact messages. This would allow a pre-clearance system and will eliminate deviations from the standard customs procedures.

For the time being, the custom office in Poti is equipped with PC's and customs clearance software from Microsoft. The computers are not linked to each other, external links are not available.

The situation in Batumi is the same, but standard software is not available so far

3.9.2 Advise on Public participation

At the meeting scheduled on March 18th to 19th, 1998, the whole project and the outcome of Phase II was presented to the Management of the two ports, the Mayors of the two cities and the Minister of Transport of Georgia as well as Monitors of Tacis and the representatives of the TRACECA Co-ordination team.

For the Port of Batumi the public participation is automatically given, because the city mayor is the General Manager of the Port. The change into a Municipality Port of Batumi needs no more activities.

The public has already received the information about the Port of Poti because of the various Projects (USAID, Sealand, GTZ and Tacis) which are regularly discussed at the highest levels in Georgia. Even European Union Delegations and the Ambassadors of the Member States are involved and informed. Various proposals, drafts, commentaries and documentation in regard to the other projects have been worked out by the Tacis team besides the tasks referring to the terms of references.

See also chapter 2.1 of this volume. (Phase 3)

3.10 Port Master Plan and Port Development Plan

The background and the reasons for establishing both plans have been described already in depth in the report.

The report which is documenting the proposals of Port Development and other Experts is actually merging the conclusions reached by producing a Port Master Plan and a Port Development Plan.

Master and Port Plans for Poti and Batumi had already been drawn up in the recent years. They do not reflect any resemblance of reality and possible future scenarios which is also documented by the proposed sizes of the extensions. The outdated philosophy of cargo handling procedures, which had been applied to draw up these plans, do not reflect modern cargo handling techniques.

The proposed design of the wharfs does not consider operations in a modern three-line general cargo handling mode.

In terms of the general national arrangements, the Experts are proposing changes from being subordinate ports, following instructions of a central government, which was the system used in the FSU. This change would entail to transform the Georgian ports into independent economic entities.

The Port Master Plan elements provide general information about the future development of the Georgian ports and how to cope with the forecasted traffic volumes. These elements do not deal with detailed plans for new facilities but do provide the general framework. Hereby national and regional aspects have been considered. It has been observed that all factors which might have an impact on the general development of a national port-scheme have been incorporated into the planning process.

After the elements which would govern the Port Master Plan had been identified, the decisions for new facilities had been made in turn. These decisions were based on a comprehensive traffic forecast for the period under planning. The proposed development projects were reached in close co-operation and with the agreement of the port management's of both ports.

3.10.1 Port of Poti

The current and forecasted developments of the cargo throughput do reveal that the main priority in terms of development of facilities has to be placed on the development of dedicated container handling facilities.

Due to certain procedures like obtaining of financing and construction periods it became abundantly clear that a container terminal could be available by the end of the year 2002 at the earliest. As a consequence, an intermediate solution would have to be found, if the port wanted to stay in business in the forthcoming years.

In numerous sessions with those concerned of the port management, the experts had developed an intermediate solution to cope with the forecasted container-traffic volume, until a new facility would be ready. This has been done under consideration of the anticipated needs for the handling of other cargoes. All investments which will have to be carried out to accommodate the container operations, have also been planned under the aspect that they would not be wasted after the start of the operation of the new container terminal and could still be used for the existing port.

Another priority subject, the construction of a handling facility for RoRo traffic, had already been tackled and the preparations are well under way to build a terminal which would be able to handle the rail ferries and the conventional RoRo-traffic. The necessary back-up facilities like parking areas and shunting and marshalling rail tracks for the necessary railway operations have been considered.

The upgrading of the existing facilities including the rehabilitation of the port's railway-system, the pavement and the levelling of the areas as well as the construction of modern transit-sheds and warehouses have been proposed.

In order to facilitate a smooth flow of traffic, a new traffic scheme separating the traffic generated by the southern and northern parts of the port has been proposed.

3.10.2 Port of Batumi

Batumi by its geographical location inherits some problems which can only be overcome to a limited extent.

This is firstly the difficult road connection to the Georgian Hinterland and thus also to neighbouring countries, which is a result of the fact that Batumi is surrounded by a mountainous area of the Small Caucasus'. The manoeuvres which have to be carried out by the truckers transporting 40 feet containers are in the range of artist's displays at some bends of the serpentine crossing the mountains.

The second obstacle is the weather. In Batumi it rains between 150-160 days a year on the average. Peaks are said to exceed even this level. The planning of the design of new sheds has taken that fact into consideration, by foreseeing sheltered areas for the cargo transfer to and from rail wagons.

The third area of disadvantage is the limited space of the port premises. Areas which could be used for port extensions in the real estate surrounding the port are very limited, and would already be consumed by the construction of the multi-purpose terminal. This is one of the facts which had a dominating effect in the planning of the further development of the port. This resulted in the bottom line to rearrange port installations, with the objective to secure as much as possible space for operational and other revenue earning parts of the port.

The fourth disadvantage of importance is the lack of container handling facilities. Considering the continuing trend to more containerisation of cargo, a port which deserves this name has to offer container handling facilities. These facilities had to be incorporated into the port development of Batumi.

The non-existence of container handling facilities has added to the necessity to construct the multi-purpose terminal where self-sustaining feeder vessels would be able to operate, albeit on a low level.

Due to the topographical environment which had been described earlier, it can be expected that the modal split will be dominated by on- or pre-transport by railway.

The fifth subject which deserved attention was the lack of dedicated RoRo facilities. RoRo vessels were presently moored and dispatched at pier no. 11. This interferes with the passenger terminal and the yacht club which is under construction and which will be one of main tourist attractions at Batumi. On the long run, this important source of income for Batumi cannot be endangered by RoRo ferry activities. This apart from the fact that no areas for parking of waiting trucks and other rolling units can be provided.

The Experts and the port management agreed to integrate a RoRo-landing facility into the planning of the multi-purpose terminal. This project would alleviate this bottleneck.

Apart from these projects, the Experts suggested to rehabilitate the port's railway-system, level it with the apron and open storage areas and to pave all these areas.

In line with transforming the direct mode of cargo transfer into the indirect transfer system, the erection of modern sheds with increased storage capacity has been suggested.

Although the shift of the cargo transfer operations from direct to indirect operations has been proposed, the construction of additional railway tracks has also been suggested. This is not contradicting the basic philosophy which favours the indirect cargo transfer, but is meant to ease shunting purposes for grain and other bulk cargoes which will still have to be handled in the direct mode. This will lead to increased productivity in this sector and guarantee a fairly uninterrupted cargo operation during the rehabilitation works.

3.11 Planned Handling Equipment

Based on the evaluation of the existing equipment in both ports, a summary of the rehabilitation cost has been made. The rehabilitation measures are specified by the port handling equipment according the phases and measures for individual berths for both ports. In addition, required handling equipment for the different phases of the development for the two ports are specified. Also for the two ports the rehabilitation measures are specified by type of equipment separately. The rehabilitation costs and the investment cost for the new cargo handling equipment are also outlined for the two ports separately.

The equipment considered to be necessary to fulfil the future needs of the ports in accordance with the port development plans is specified in technical specifications. The equipment required for the first development phase as well as for the future development plans have been specified for both ports separately. Additionally, the requirements for the rehabilitation of port handling equipment have been defined.

3.12 Environmental Assessment

After gaining independence, Georgia established a new set of modern Environmental Laws in accordance with Agenda 21 principles. Since January 1, 1997, the "Law of Georgia on Environmental Permits" and the "Law of Georgia on State Ecological Expertise" are in force, by which the procedure of conducting an Environmental Impact Assessment (EIA) is regulated and defined. From beginning of this year, the preparation of an EIA is required for the implementation of any construction activity on the territory of Georgia.

An analysis of the present environmental situation of the ports of Poti and Batumi, however, shows that there has been only limited success in implementing these new laws. A weak technical basis does not allow to execute the provisions which are laid down in the relevant national laws and international binding conventions as MARPOL 73/78. Due to the lack of adequate treatment facilities for oily waste, sewage and garbage, a proper management of vessel generated or operational wastes is not possible for the time being.

A range of areas of environmental concern has been examined. From these, the oil terminals have been found to be regions of highest environmental concern in both ports. Especially in Batumi, the level of oil

pollution of the ground filling of the pier is extremely high. This pollution, which is dating back to the 1920ies, generates a permanent flow off of oil to the water body.

Following the requirements of the national Georgian law, two scoping meetings have been conducted, one in Poti and another one in Batumi. Representatives from the ports, from public authorities and Non Governmental Organisations (NGOs) have been invited, in order to be informed about the nature of the project. The scoping meetings have been undertaken to enable the invited parties to raise issues and to propose alternatives which should be addressed in the EIA.

Since this project merely concerns construction works to rehabilitate existing terminals, the environmental impacts are not expected to be significant. The planned operations can be classified as "C" level operations according to the environmental screening categories given in the "Environmental procedures" of the European Bank for Reconstruction and Development (EBRD). Because of some areas of ecological concern, however, the port rehabilitation projects have been considered and treated as "A" level operations. It was decided to follow Annex 2 of the "Environmental procedures" of the EBRD, which provides a sample report format for a full Environmental Impact Assessment that will be used for such a comparatively small project.

The final lay-out of the terminals is given in Vol. IV (Civil Engineering Assessment) of the Phase II Report. According to the engineering decision, the following projects are recommended:

3.12.1 Port of Batumi:

- a) Reconstruction of handling facilities at berth No. 9
 - warehouses and the bunker are to be demolished
 - relocation of the railway lines
 - construction of new warehouses
- b) Reconstruction of aprons and storage areas
 - pavement of the area from berth No. 9 to berth No. 5
- c) Construction of a multi purpose terminal at berth No. 5
 - replacement of broken parts of the quay walls
 - construction of new storage facilities
 - enlargement of the area

3.12.2 Port of Poti:

- a) Extension of the existing container terminal.
- b) Reconstruction and upgrading of handling and storage facilities at berths No. 9 to 11
 - demolishing of old buildings
 - reconstruction of aprons and storage areas
 - building of new warehouses
- c) Reconstruction of shunting yard at berths No. 4 to 6

3.13 Cash Flow Analyses and Financial Analysis of the Recommended Development

The purpose of this task is to elaborate a financial plan for the development of the ports of Poti and Batumi. In this stage and in the available time a scheme was developed with which the relevant commodities can be calculated. The chosen example for the cash flow model is the planned new container terminal in Poti. The other commodities can be adapted accordingly. The results of the calculation will lead to an intensive discussion about the input data and the assumptions on which the calculations are based in the next weeks.

The basis for the financial plan and the cash flow analysis is given in the previous volumes of the present report, especially in the traffic forecast and the master plan. Many discussions with the port management took place to get the relevant input data about the present situation and the expected development.

The macro-economic situation in Georgia is in a phase of transition from the state planned economy of the former Soviet-Union to a modern market economy according to western example. As a result of this change the cost of the input factors can be expected to increase to a more realistic market price level within the forecast period. To avoid an estimation of a Georgian inflation rate, all figures have been expressed in constant US-\$. All increases in costs and revenues in this report are therefore real increases.

The cash flow and financial analysis are based on the evaluation of the proceeds and costs.

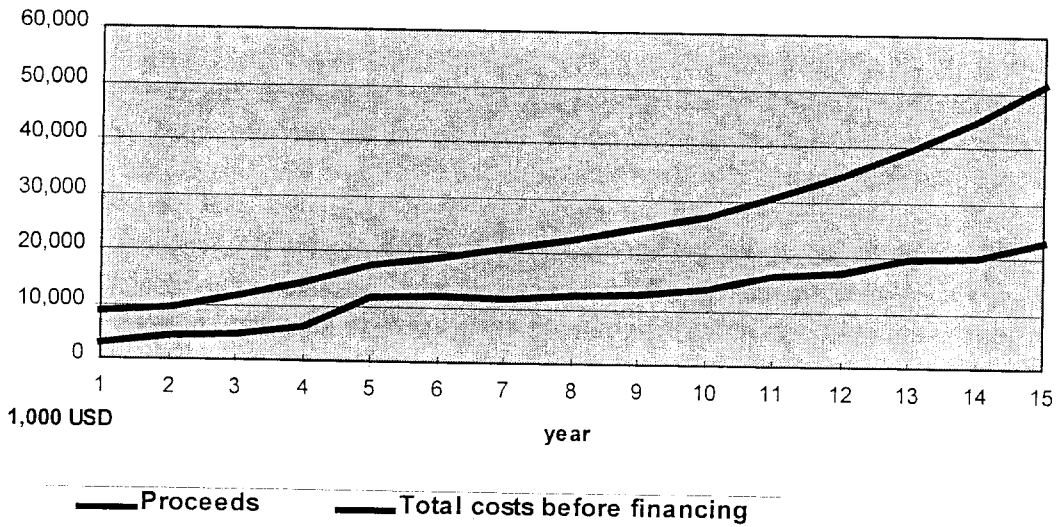
For both ports detailed income and cost calculation have been made. The proceeds are orientated at the list of tariffs of the Georgian ports and the quantities calculated out of the traffic forecasts based on the real (most probable) scenario. The costs also based on the volumes out of the traffic forecasts and the productivity calculated in the port master plans are divided into

- real estate
- depreciations
 - equipment related based on the port handling equipment report Volume 3 Section 6 divided into new equipment and rehabilitation of equipment.
 - Constructions based on the civil engineering report Volume 4
- operating cost based on the port performance Volume 3 Section 4 and the Port Master Plan Volume 3 Section 5 including
 - personnel including surcharges for social insurance and equipment cost other than depreciations(fuel, repair, maintenance)other energy cost
- communication cost
- office cost
- taxes
- financing (in the different models)

The cash flow calculation with the above described proceeds and cost are evaluated by several calculation runs. Calculations have been made for the planned new container terminal with and without the necessary infrastructure and the terminals for general cargo and bulk in Poti.

The scenarios for Batumi are showing as well reasonable earnings and good cash flow. Also here it seems to be possible to get the project financed. The used figures and the assumptions are described as well in the Volume 6 of the Phase 2 report.

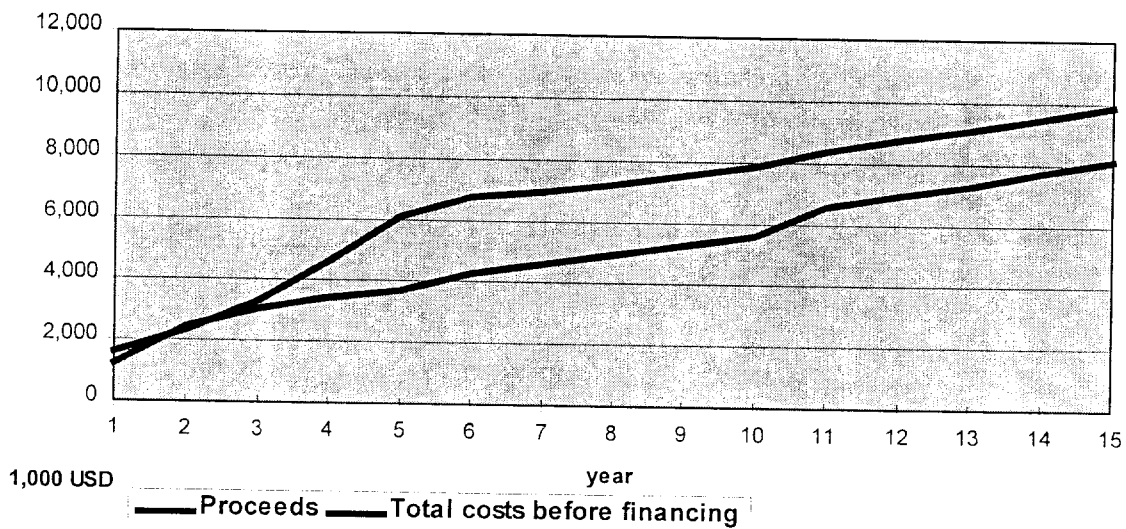
The following graph illustrate the relationship between costs and proceeds in the most probable case, if the port is released from the costs for construction of new infrastructure:



The results for Poti show that the new container terminal cannot finance the necessary infrastructure (breakwater, rail and road connection). Without this investment the project has a good line of both, earnings and cash flow. It has to be considered that the project cannot be realised without the infrastructure and it has to be investigated, in which way the infrastructure can be financed. The general cargo and bulk terminal in Poti is showing good results and it seems to be possible to get the Poti projects to be financed. The actual figures and detailed assumptions are described in Volume 6 of the Phase III Report.

For Batumi the multi-purpose terminal has been calculated.

The following graph describes the development of costs and proceeds in the most probable case in Batumi:



The scenarios for Batumi are showing as well reasonable earnings and good cash flow. Also here it seems to be possible to get the project financed. The used figures and the assumptions are described as well in the Volume 6 of the Phase III Report.

3.14 Privatisation Concept

Within the presentation to the President of Georgia, the status of the Project was explained and it was outlined that the European Union Tacis TRACECA team is in line with the terms of references and the time schedule. The finalised privatisation concept is in chapter two of this volume.

. The principles are:

The Georgian ports have to be restructured and privatised to meet the requirements of the future.

International Development Banks are not financing projects in Georgia if the majority shares are in the hands of state owned organisations (Source: World Bank, EBRD).

Privatisation projects have to be profitable and in the position to return the investments and to generate the interests.

From the 100 largest ports in the world, 80 ports are operated in a combination of the public as landowners and private companies as operators.

The extreme high growing rate in containerised and RoRo traffics (the most modern transport forms) makes it necessary to rehabilitate and to restructure the necessary port handling facilities. Therefore, it is intended to reconstruct 6 berth's (2, 6, 7, 12, 13, 14) and to invest in the necessary equipment.

An operation company should be established with the participation of the Ministry of Transport, a qualified management and international transport companies (forwarders, ship owners, container operators)

The Port of Poti has to have a legal status as state owned entity (Port Administration).

The remaining operation activities of the port are as well to be transformed into privatised companies within 24 month.

To avoid conflict of interests, the activities of the Port Administration are to be separated from the operational activities of the port.

In case that not all the operation activities of the port are privatised within this 24 month period, the remaining activities have to be carried out by an entity to be established

Special attention was given to the European Union Tacis TRACA Concept in comparison to the American USAID Proposals. The basic differences are shown in the table below:

European Tacis TRACECA Concept	American USAID Proposal
<p>Units to be privatised</p> <ul style="list-style-type: none"> - To privatise logical units (units with same type of operation) of the port with the priority of most urgent needs. - To generate feasible and profitable privatisation projects. - First the Container and RoRo unit. 	<p>Units to be privatised</p> <ul style="list-style-type: none"> - The whole Port in one
<p>Value</p> <ul style="list-style-type: none"> - For 6 berths US\$ 18 Million 	<p>Value</p> <ul style="list-style-type: none"> - For the whole Port US\$ 26 Million
<p>Shareholder</p> <ul style="list-style-type: none"> - 51 % of the Operation Company should be in Georgian hands (private and state) - 49 % in the hands of Foreigners 	<p>Shareholder</p> <ul style="list-style-type: none"> - 51 % in the hands of Foreigners - 49 % in Georgian hands
<p>Share capital US\$ 37.5 Million</p> <p>US\$ 19.5 Million own capital</p> <p>US\$ 18 Million equity for 6 berths</p> <p>Remark: The EBRD had announced, that they are interested to take part</p>	<p>Share capital</p> <p>US\$ 26 Million in equity (for the whole port)</p> <p>no own capital for investment</p>
<p>Investment volume</p> <ul style="list-style-type: none"> - US\$ 116 Million within 15 years and return of investment in same period of time. - Plus a part out of appr. 40 Million for necessary new infrastructure (breakwater, rail, road) 	<p>Investment volume</p> <ul style="list-style-type: none"> - US\$ 140 Million within 30 years without new infrastructure (breakwater, rail, road) with unspecified return of investment
<p>Employment</p> <ul style="list-style-type: none"> - The joint stock operational companies have to take over the required personnel from the port. A special fund has to be established to ensure, that living wages are available for pensioners of the port 	<p>Employment</p> <ul style="list-style-type: none"> - Almost same position

As the Ports of Poti and Batumi are the entrances for the TRACECA route and therefore of highest importance, various studies have been undertaken during the last years, aiming to arrange investments for the improvement of the ports' infrastructure.

Simultaneously with this project, the American USAID had elaborated a privatisation study for Poti Port, based on the sale of 51 % of the port to private investors. This forced the Tacis Team - besides the tasks outlined in their Terms of Reference - to elaborate a position paper (strategy paper) containing the EU intentions on privatisation and to assist the General Manager of the Port. In addition to this, the US situated Sealand Group, one of the largest container operators in the world, try to get parts of the port under their jurisdiction on an unfavourable base for the Port of Poti. Also here, besides the official tasks of the project, the Tacis team was assisting the Georgians and the General Manager of the Port. Close co-operation had been practised with the GTZ team, presently working on training programmes for the two Ports.

4. Project Information

Further to the information given to the public and the involved parties during the first two phases, special attention was given to the Tacis TRACECA project within the phase III. An American USAID team has published a privatisation concept and informed the public about their proposals by television and mass media, with studies and personal presentations the ministries involved, the city mayor and the city council, members of the parliament and committees of the parliament and via the American Embassy the President of Georgia. The World Bank in Washington and Tbilisi also received detailed information of the USAID proposal. In addition, a privatisation project was launched by the SeaLand group. Also, the Japan International Cooperation Agency (JICA) together with Japanese Companies are active in the Poti Port Project and a Greek Joint Venture has worked out a feasibility study and made a proposal to develop parts of the port.

The Tacis TRACECA team was several times requested to report and to publish their results even prior to the time schedule of the terms of references. Various on spot interviews were given to international newspapers on request of the beneficiary and various recommendation had been made to proposal the port management had received.

The Tacis TRACECA team had organised a workshop meeting in Kobuleti on March 18th and 19th and presented the status of the project as well as the Port Master Plans and the Phased Development Plans for the two ports. The interest in this workshop was extremely high. All Georgian TV-Station were present and the Minister of Transport of Georgia with his Deputies, the President of the Parliament of Adjara, the City Mayor of Batumi and General Manager of Batumi Port as well as the General Manager of Poti Port were present.

Further to this, the following activities in regard of public or official information had been carried out:

- Presentation of the Project Status in a Parliament Committee in Tbilisi
- Participation in an information meeting in the European Commission's Delegation office together with the Ambassadors of the European Member States
- Participation in a meeting with the Georgian Ministers of Transport, Finance, State Property Economy and the Personal Adviser of the President together with the First Secretary of the European Commission's Delegation and the Ambassadors of the European Union's Member States
- Personal introduction of the project to the City Mayor of Poti
- Personal introduction of the privatisation concept (preliminary form) to the President of Georgia

Within the privatisation concept in the second part of this folder, a feasible proposal is made and the Tacis TRACECA team is confident that the recommend development of the Ports are in the benefit of Georgia and the TRACECA States including the European Union.

It is now up to the Georgian Government to make the decision into the right direction.

Privatisation Concept

Table of Contents

1	Definitions and Remarks	1
1.1	General Remarks	1
1.2	International Solution Concepts in the Traffic Sector	2
2	Recommendation for the privatisation	3
2.1	Alternatives of Privatisation	3
2.1.1	SeaLand	3
2.1.2	USAID	4
2.1.3	Joint Venture Athena SA & Elliniki Technodomiki AE, Greek	4
2.1.4	The European Takis TRACECA Proposal	4
2.2	The Port Administration and the Georgian Maritime Code	5
2.2.1	General remarks	5
2.3	Recommendation for a Specified Concept	8
2.3.1	Shareholder Concept	8
2.3.2	Legal Status of the Port of Poti	9
2.4	Strategy Aspects of Privatisation	9
2.4.1	Future aspects	9
2.4.2	Importance for Georgia	10
2.4.3	Importance for TRACECA and the TRACECA States	11
3	Prerequisites in Georgia	11
3.1	Taxes and Regulations	11
3.1.1	The planned privatisation of port facilities under the aspect of the current Georgian tax system	11
3.1.2	Kinds of Taxes in Georgia	12
3.1.3	Relevance of the legal form of the enterprise in regard of taxes	13
3.2	Legal forms of enterprises in Georgia	13
3.2.1	The legal forms of private enterprises	13
3.2.2	The legal form of state treasure enterprise	14
3.3	Political Situation and Projects around the Ports	17
4	Creditworthiness of the two ports - results of balance sheet analysis 1996 and 1997 of Batumi and Poti Commercial Seaports	18
4.1	Initial situation	18
4.1.1	Development of economical indicators of the Port of Batumi and Poti	18
4.2	Preparation of balance sheet and profit and loss account for analysis	20
4.3	Financial analysis	20
4.3.1	Liquidity of the Ports:	21
4.3.2	Circulation of debt liabilities.	22
4.3.3	Capital circulation	22
4.3.4	Profitableness	22
4.4	Conclusions	23
5	Commercial results of the privatisation concept	23
5.1	Revised figures	23
6	Project financing	30
	Privatisation Concept	

7	How to attract investors	30
8	Potential investors	32
9	Consequences of privatisation	33
10	Next Steps	34
11	List of Attachments	35

1 Definitions and Remarks

1.1 General Remarks

The definition of the term privatisation has a great variety of meanings and is not used in a standardised way. Some authors already describe the introduction of a private legal form and/or guidance and incentive systems of private business as privatisation. Also, the decline in sovereign-administrative market-entering-barriers or regulations specific for certain branches is often called privatisation in the political discussion; those processes will, in the work on hand, be defined as liberalisation and deregulation. The most precise definition sees privatisation exclusively as a process in which ownership of enterprises is transferred from the state to a private person.

Following Yarrow, a practicable definition for the research on hand, privatisation is understood as the transfer of claims of corporate profit from the public to the private sector. Besides the sale of public enterprises this definition includes the placing of orders (Contracting Out, Franchising) to private businesses as a substitute for formerly state production of output.

It is characteristic, that within OECD-countries privatisation is formed in those countries which have a high income per capita, developed capital markets and relatively stable, democratically elected, governments. They differ fundamentally from the development in developing countries and countries with formerly communist governments. The special features of privatisation in non-OECD-countries include the following aspects:

- non-existent or underdeveloped capital markets,
- underdeveloped legal systems, blurred or difficult to carry through conditions of ownership,
- lack of private management and entrepreneur's know how,
- political instabilities that make rationalisations and the reduction of price subsidies impossible,
- the dominating position of the old-established management (so called "nomenclature-privatisation" in Eastern Europe),
- discrimination or preferential treatment of certain ethnic and religious groups in the course of the privatisation
- special methods, e.g. mass privatisation in Eastern Europe or Debt-Equity-Swaps in Latin America.

A lecture of the UNCTAD points at the fact, that every port faces decisions which can only be made with state agreement:

"Land use and strategy considerations are generally a matter for government. The question, what a private port is, finds its answer in the formulation:

a private port is one where the assets are privately owned and incomes accrue to the private owner, not to the public or a public-owned body. A typical wholesale port privatisation tends to be limited to waterfront property and operating rights.

But: privatisation is not the answer to improve the efficiency of a port, it merely provides the frame conditions."

And the report finishes:

"Call it privatisation or call it commercialisation or corporatisation, it should make no difference to how the port performs. Regardless of who the owner is, the quality of management will be the factor that determines the success or otherwise of the port."

With regard to the Georgian ports, the conclusion is, that through privatisation by preservation of state interests frame conditions must be created, so that the ports' competitiveness is increased and secured, investment funds are made available, and generate an acceptable return for the shareholders.

Referring to the frame conditions, Prof. Papava, Minister of the Economy of Georgia, explains:

"To continue economic reforms in Georgia (and in other post communist countries in a similar situation) we offer the system of 'social selection', or what might be called the method of 'social promotion' of economic reform. The essence of the method is that the government should create the conditions promoting quick information of the stratum of entrepreneurs. At the same time, it is necessary to render target-orientated assistance to that stratum which is most in need, so that the poor do not prevent the process of reform.

The method of 'social promotion' of economic reform involves three essential measures:

- Improvements concerning the criminal situation, to relieve the fear of formal or partially formal military formations. Without settlement of this problem, it will be a serious obstacle to activate either domestic and foreign entrepreneurs, and prevent the arrival of foreign investors in Georgia.
- Promotion of the development of entrepreneurial activity. Without this, the entrepreneurial stratum will continue to be developed in the shadow economy, which is fertile soil for the consolidation of illegal activities and prevents the creation of legal entrepreneurial activity.
- Carrying out purpose-orientated social assistance to the most needy stratum of society, so that they are able to overcome difficulties which arise in the reform process. This targeted social policy would be the guarantor of support for the reform process."

1.2 International Solution Concepts in the Traffic Sector

There are world-wide tendencies to let the extension and the operation of transport devices respectively transport infrastructure to be carried out by private sector enterprises or let them, at least, be pre-financed with private capital. This development is not a new one, because in the history of many countries the set-up of a railway infrastructure and, more recently, the construction of motorways, was realised in this manner.

The enormous increase of transport on the whole and, connected with it, enormous investment requirements have all over the world led to reflections about the highest optimal procedure possible.

Because of the obviously very divergent national respectively regional objectives and political notions there are merely comparable basic models, which in their details show considerable differences:

- The simplest form is based on a license agreement, into which the mortmain enters with a selected operator/consortium. As a rule, the operator takes care of the investment and operation duties, but he also enjoys a high degree of freedom in terms of tapping of the market, property utilisation etc. These actions are not necessarily in accordance with the interests of the public.
- New ways of enlisting private investment are: BOT (Build-Operate-Transfer) and BOOT (Build-Operate-Own-Transfer)
- Models, where the transport infrastructure is passed to the mortmain or new agreements will be concluded after a fixed period of time (20 to 40 years). 'Build' could also be substituted by 'Rehabilitate' the existing facilities.

These models are not only brought into effect for the whole of infrastructure facilities, but also for investment in intensive plant parts, such as the container terminal or the multipurpose terminal.

Apart from private financing, fundamental advances are seen in the shorter building periods, economical construction and operation as well as the assumption of the risk.

These results are obtained by:

- segregation of capital requirements from public budgets,
- creation of the prerequisites for private sector business management,
- large degree of detachment from political influences.

The transfer of the ports into private hands is normally done via the sale of capital stakes; the extent is directed by the objective and capital requirements.

During every privatisation arises the important question of the availability of premises and the amount of assets owned by the company. The possibilities reach from a complete take-over of the entire infrastructure by one or more private operators, via various intermediate models, up to the division into an ownership company and one or more operating companies.

In the first case, the state as owner of the port is to alienate its entire shares to one or more private enterprises with the consequence, that the influence of the state in business policy is going to be massively restricted, if not ruled out altogether. Because of the ports' essential function for the country this cannot be in the interest of the Georgian state.

2 Recommendation for the privatisation

The below stated privatisation concept can only be put into effect for the Port of Poti. The Port of Batumi can not be privatised as long as it will be a state owned municipality port. Nevertheless, if this status will be changed, basic parts of the privatisation concept for the Port of Poti can also be used for the Port of Batumi.

The attached tender documents as well as the already distributed tender documents may be used if the Port of Batumi will realise the Multi Purpose Terminal by itself.

2.1 Alternatives of Privatisation

In general, the port has various options to privatise. Offers are made from various sources either to privatise partly or to privatise in full.

2.1.1 SeaLand

The SeaLand group offered to the Port of Poti to take over the container activities on an exclusive base in a first proposal at berths 12 to 14 and in a later at berths 7 (6). The disadvantage of this proposal is, that SeaLand is in the first line a container operator and competitor of the other clients of the port. Consequently, the competitors of SeaLand will not ship via the Port of Poti, if the port is in the hand of one major competitor. In addition, the concept of SeaLand is based on wheeled operation. These operations are costly and not as effi-

cient as a terminal concept. Furthermore, the contracts supplied by SeaLand were giving all advantages to this group and nearly all burdens to the port.

2.1.2 USAID

The proposal made by the USAID had two variants. The first variant was to split the port into various separate entities and to establish separate companies. The second variant - this one was favoured by the consultants of USAID - was to give 51 % of the whole port to a private investor and let this investor decide about the development. The first variant will create on the one hand competition in the ports but on the other hand various small companies with no solid background and difficulties in the over all cargo handling, berths utilisation and utilisation of equipment and man power.

The second variant of the USAID proposal means in fact that the strategic tool, the entrance to the TRACECA Corridor, will be leased out to unknown partners, with unknown development plans and with or without minor influence of Georgian interest. The main arguments for and against the USAID proposal and the Tacis TRACECA Team proposals were explained to the President of Georgia on a meeting, held in Poti on May, 16th, 1998 by the Tacis TRACECA Team Leader. The written version is attached hereto as Annex 1.

2.1.3 Joint Venture Athena SA & Elliniki Technodomiki AE, Greek

The joint venture has made a feasibility study about the rehabilitation of the container terminal on berth 6 and 7. This study is a result of the concerted efforts, initiated by the Memorandum of Understanding signed last June between the Ministry of Transport and the Joint Venture. Attached to this study is a contract draft and the recommendations hereto. This contract has to be studied carefully with international lawyers, but the commercial impact is basically in favour of the Joint Venture and not in favour of the port. The operational concept, based on only one Gantry Crane does not seem to be very realistic. The investment costs are not defined clear enough, the implementation of the construction works will be in the responsibility of the Joint Venture and the procurement is not made together with the port. The financing is based on a loan of 70 % and this loan should come from the EBRD, the ATGE Participation of the Joint Venture (27 %) and a participation of 3 % from the EU. There is no indication, that this is a realistic scenario.

The Joint Venture claims 54 % of the shares, the port should have 36 % of the shares and 10 % of the shares are to be distributed to institutional investors. The equity of the port and the existing business of the port are not even mentioned. Basics points like lease fees are not mentioned either.

The average inflow per container is estimated with US\$ 180 to 200 which is also not approved and discussed with the port. Further development plans, e.g. the new container terminal in the extension area, are not foreseen.

2.1.4 The European Tacis TRACECA Proposal

The specific concept recommended in chapter 2.3 below refers to the privatisation of the most urgent needed container and RoRo activities of the port. The advantages of this concept is:

- The port of Poti will be privatised in units which are feasible, clearly defined and transparent. The first parts to be privatised are the container and RoRo-activities on berths 2, 6, 7, 12, 13 and 14.

- The majority of shares will be in Georgian hands whereof the state owned enterprises have only 48 % of the total share, 3 % are in the hands of private Georgian investors and 49 % will be in the hands of foreign investors.
- The concept includes shareholders from all transport related industries (forwarders, shipping lines and financing Institutes). This shareholder structure guaranties, that no company can establish a monopoly. A list of potential shareholders is attached hereto.
- The management of the activities of the first privatised part of the port will be in the hands of a management company with "state of the art" knowledge of cargo and port operations. This management company will come from Western Europe or the USA.
- With this management company, the port operation and the communication will be on the highest level possible and any deviation by whatever reasons from business oriented action can absolutely be avoided.
- It is guaranteed that the port will be developed because the development will be based on the Port Master Plan and the Phase Development Plan hereto. This is also secured for the other parts of the development and the new container terminal in the extension area of the port.
- The financing of the first development project can be managed by the new company to be established. This company will have a share capital of almost US\$ 37.5 Million whereof US\$ 19.5 Million will be available in cash.
- After approval is given by the Georgian Authorities, the implementation of the privatisation of the first developments can start without any delay.
- The legal steps to be taken are either described in the GTZ report or in this study.
- Contract drafts for the Joint Stock Company to be established for the operation of the container and RoRo activities are attached to the privatisation concept.

In addition to the before mentioned advantages, a short form of the preliminary privatisation concept, presented to the President of Georgia on May, 16th 1998, is attached hereto, showing basic differences between a proposal made by the USAID team and the European ideas.

2.2 The Port Administration and the Georgian Maritime Code

2.2.1 General remarks

The Georgian Maritime Code is not available in an official English translation. The statements made below are based on the unofficial translation by the Tacis TRACECA team.

In principle, the Tacis TRACECA team has adopted the proposal of the GTZ team which has developed and distributed the following documents:

- Restructuring of the Georgian Port Sector (Report dated February, 2nd, 1997)
- Tasks, Duties and Responsibilities of the Georgian Maritime Administration (GMA) and the Georgian Port Administration / Authority (Update of the above mentioned GTZ/HPC report)

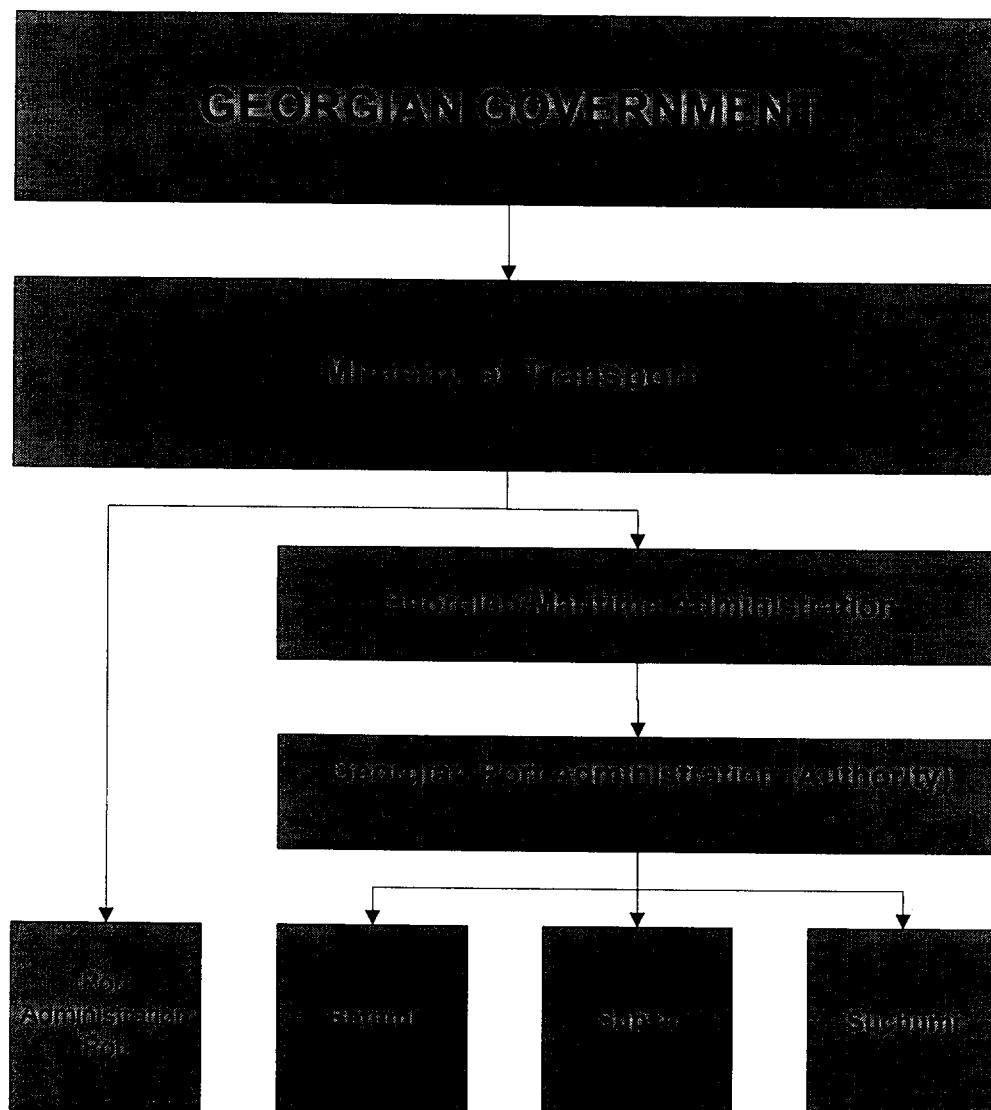
Within the outline of privatisation and the commentaries to the American proposals, it was considered that the port belongs to 100 % to the Ministry of Transport. This is without the land, which belongs to the Ministry of State Property. The Port of Poti has to pay a lease fee to the branch office of the Ministry of State Property in Poti.

The Georgian Maritime Code is not in line with these laws because there is stated that the Port Administration (Authority) has to be the Landowner. It is recommended, that the Georgian Maritime Code has to be revised to ensure, that the Georgian Maritime Code is in line with the actual Georgian Laws..

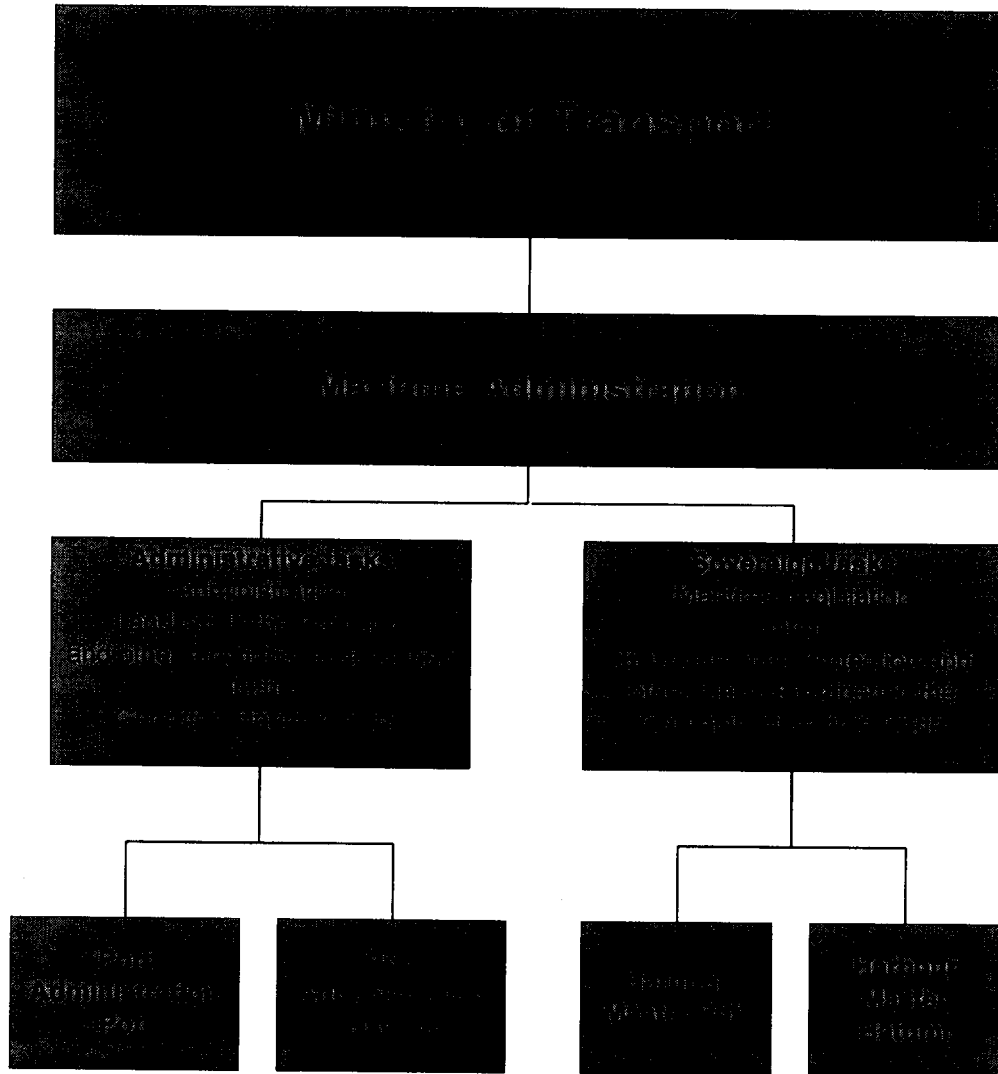
As the Georgian Maritime Administration is under the jurisdiction of the Ministry of Transport, it is possible to establish for the Port of Poti a Port Administration(Authorisation) directly under the jurisdiction of the Ministry of Transport.

This Poti Port Administration should on hand act in accordance to the updated Georgian Maritime Code and on the other hand as the Port Operation entity. This structure could be a feasible solution for an interim's period of 24 month in which this entity has to transfer the operation parts of the port to other companies (privatisation). After a period of 24 month (to be counted after decision for this proposal have been made), the Poti Port Administration has to have no activities in the port operations what means, that the whole port operations are privatised.

To avoid as much as possible conflicts of interests the Poti Port Administration should not be shareholder of the privatised companies. If the Government of Georgia will participate in one or more privatised companies, the shareholder should be the Ministry of Transport. This is also applicable with the first privatisation concept, the Container and RoRo Company.



After the interim's period of 24 month, the Poti Port Administration must be integrated into the Georgian Maritime Administration.. The main task must be, that a clear differentiation between the Port Operations and the Port Administration should be implemented. Therefore it is recommended, to integrate after this interim's period the Poti Port Administration into the Georgian Marine Administration. In case, that not all operation activities are privatised, the remaining activities have to be separated from the Port Authority in a separate entity.



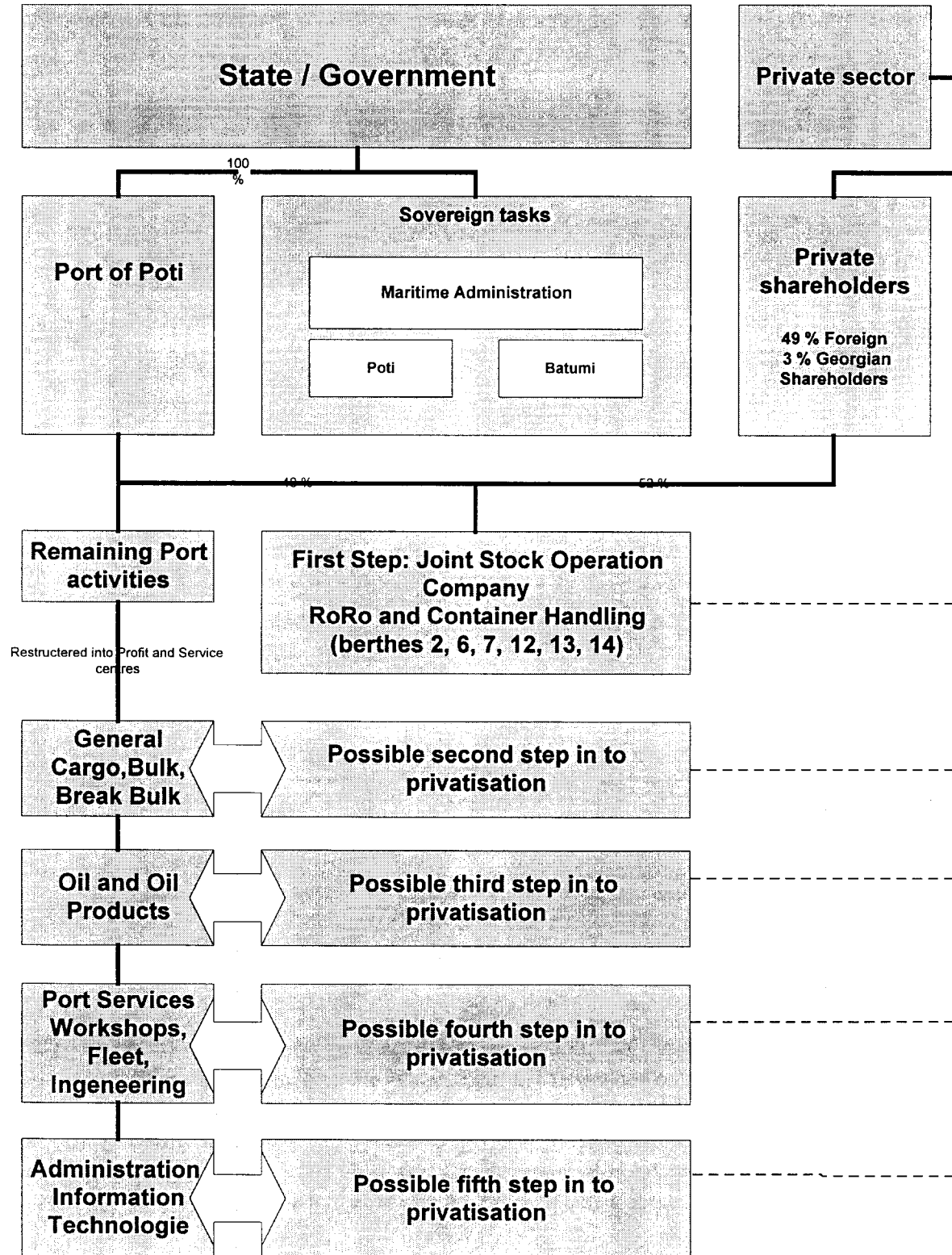
The recommendation of a specified concept on the next page is showing Poti Port as Shareholder. These shares have to be submitted to the Ministry of Transport, which will be the real shareholder.

To speed up the procedures of privatisation of the first activities of the Port to be privatised (Container and RoRo activities), the Port of Poti should be transformed into a state entity (Port Administration), properly registered to establish the first joint venture company for the operation of the container and RoRo activities.

This Poti Port Administration should negotiate, bring in assets and sign Joint Venture Contracts with the obligation to transfer the shares to the Ministry of Transport.

2.3 Recommendation for a Specified Concept

2.3.1 Shareholder Concept



It is intended to develop the Port of Poti into an important international port and furthermore to a multi-functional logistic centre. For this purpose it is necessary to create an efficient company structure which then has the possibility to act as a modern market orientated company.

The following principle notes shall be made to describe the specific concept (see graphic)

- The sovereign duties of the state/government (Ministry of Transport) will be separated from the economic activities.
- The Port of Poti has to have a legal status under the Ministry of Transport (directly) as Port Administration (Authority). This legal entity should have a lease contract with the landowner.
- The Port of Poti will negotiate the shareholder contracts of the activities to be privatised.
- The remaining activities of the Port of Poti should be restructured into profit and service centres for a certain period of time parallel to the first privatisation. This does not mean that these activities of the port could not be privatised parallel to the first privatisation project if the information about profitability and port assets are available.
- Georgian shareholders in the first operating company should have 51 % (including the Governmental shares of the Ministry of Transport in the amount of 48 % and 3 % private Shares) . The Share of foreign shareholders should be 49 % accordingly.
- The foreign shareholders and the private Georgian Shareholders will come from the transport industries and will consist of shipping lines, forwarders and financing institutes like the EBRD.
- The Port of Poti and the first operating company have to offer their services on market-orientated price levels.

2.3.2 Legal Status of the Port of Poti

The Port of Poti so far has no legal status in line with the Georgian Laws. Therefore, it is recommended to transfer the Port of Poti into a Port Administration, registered in accordance to the Georgian Law.

2.4 Strategy Aspects of Privatisation

2.4.1 Future aspects

To describe strategic aspects of port privatisation, the long term expectations are to be described. These expectations are in fact the restructuring of the ports and the specific objectives out of this. The most important aspect is to enhance the efficiency of port services. Institutional reforms like deregulation or privatisation are to diversify services and/or to reduce costs. The most important objective is often to obtain new financial sources for financial requirements especially for new investments or for the rehabilitation of existing equipment, berth or other port related assets or for the development of new parts of ports in general. Other objectives like:

- to enhance the efficiency of port services
- to diversify port services
- to reduce the ports' service costs
- to promote the ports in the transport chain
- to acquire management expertise
- to implement modern management methods

are easier to introduce but improvement is in the first line a result of sound management. Within the Top 100 container ports in the world only 4 ports are entirely private, 1 port (Tilbury) is private/public, 15 ports are

public (one is Singapore) and the remaining 80 ports are public/private (source: Cargo Systems, figures April 95 to Dec 95).

Most of these ports are profitable and their ranking is based on efficiency and competitiveness.

The points left as the strategic objectives of privatisation for the Georgian ports are:

- to finance port rehabilitation and port developments
- to eliminate or to minimise bureaucratic/political influence

The future requirements, based on sound traffic forecasts are described in the Port Master Plans and the Port Development Plans for the two Georgian ports. Meanwhile the decision has been made to develop in Batumi as a first project the Multi Purpose Terminal and in Poti the extension of the existing Container Terminal. Consequently, the first parts of the Ports to be privatised are the Multi Purpose terminal in Batumi and the Container Terminal in Poti. Without these developments both ports are not in the position to meet the requirements of the future and due to the specific Georgian situation this is only with private involvement possible.

2.4.2 Importance for Georgia

The Georgian ports are the entrance to the TRACECA route at the Black Sea. The growing economies in the Caucasus and Central Asian Republics will result in the growth of transport volumes. Considerable volumes will be shipped via the Georgian ports. This is a challenge and a chance for Georgia and the Georgian ports.

The possible advantages for Georgia and the ports resulting from the increasing transport volumes are job security in the ports, economic benefits for the country from taxes and profits from successful port companies. Georgia already has with its ports the basic assets and the strategic position to realise the possible advantages.

In 1993 an international agreement to develop a transport corridor on a West-East axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Asia had been signed by five Central Asian republics, three Caucasian republics and the European Union and in a later stage (1997) Mongolia and the Ukraine. The transit function and the role of Georgia in this corridor is of paramount importance for all the TRACECA member states. The fast growing states in the Caspian Basin, Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan as well as the European Union and the other member states of TRACECA will help and support Georgia as long as Georgia will fulfil their duties according to the signed agreements. To loose the influence on the entrance of one of the most important transport corridors, and that can be the case if the ports are going totally in the hands of private investors, might lead to the effect, that the support from the contract partners could be withdrawn and the image of Georgia as a reliable country could become negative.

There is now doubt, that the ports need private investors for the development of required new terminal facilities and the rehabilitation of existing ones but by strategic reasons the ports should be in the hands of Georgia.

Despite that, a privatisation and commercialisation project with strong involvement of Georgia will have a positive signal to push the Georgians to take more parts of their future in their own hands instead of selling their assets. Even by tax reasons it makes sense to have privatised and commercialised enterprises under control to avoid that benefits are not or not totally going to these mentioned enterprises. As already stated, the success of the ports in all countries in the world is a matter of management style, management qualification and management practise. This can also be generated by other methods than the privatisation.

2.4.3 Importance for TRACECA and the TRACECA States

After the breakdown of the Soviet Union the former Soviet Republics became independent states and in some respect unified in the Commonwealth of Independent States (CIS). Within the Tacis Projects (Technical Assistance for the Commonwealth of Independent States) TRACECA (Transport Corridor Europe Caucasus Asia) had carried out since 1993 following projects:

22 Technical Assistance (TA) Projects in an amount of	28.155.000 ECU
5 Investment Projects for the rehabilitation of infrastructure	24.500.000 ECU

These projects including basically all transport related activities even the related activities hereto.

Only for the Georgian ports TRACECA spends 1.5 Million ECU for the Feasibility Study of New Terminal Facilities in the Georgian ports and more than 5 Million ECU for the building of a Rail-RORO ramp in the Port of Poti.

Not only the financial engagement is an indication about the importance of the port Projects for the TRACECA and the member states of TRACECA. The industrialised countries of the European Union are going to explore the markets of the States in the Caucasus, the Caspian Basin and Central Asian Republics and the before mentioned States are going to export their products to the West-European Markets.

To be competitive in the world markets all TRACECA states need a reliable transport route under their jurisdiction to avoid influences and uncertainties from third parties or not TRACECA countries. This transport way is TRACECA and it is the only one.

3 Prerequisites in Georgia

3.1 Taxes and Regulations

The following part will cover questions of taxes and regulations relevant to investments and privatisation of Georgian port facilities and in particular to the container terminal of the Port of Poti.

The Georgian tax system aims at the further promotion of transitional economic development. In the past substantial progress in adjusting the tax system to modern market mechanisms were made.

3.1.1 The planned privatisation of port facilities under the aspect of the current Georgian tax system

At present the tax system in Georgia is diversified on the basis of the main activities of enterprises (agricultural, traffic and industrial, banking and insurance). The tax base is the source of money. E.g. agricultural enterprises pay 10 % profit tax, industrial including port facilities 20 % and banks 35 %. This system is only orientated on the subject of business and refers to domestic as well as to the registered international firms or joint venture enterprises. The legal form of enterprise has no influence on taxes in Georgia.

In private interviews with the local administration during May in Georgia the local authorities expressed the opinion that in the future a modification of the tax base applied can not be excluded. In July of this year the Parliament session is expected to make amendments on 103 articles of 273 articles of the Georgian Tax

Code. It is most probable that the tax system will be shaped further in accordance with the German model. This fact can give further incentives on investments and development of private business increasingly meeting international standards. The modifications of the Georgian tax system will be directed at the promotion of medium and long term economic development in Georgia by activating activities of domestic resources and international capital. The tax system guarantees long term and reliable conditions for domestic and international investments. In regard to the privatisation process and the planned investment in the Georgian ports it is rather important that in Georgia there is no special tax for transit cargo. There is a customs fee of 0,3 % from cargo value. The Poti Port Administration considers that this favourable condition remains in the future and will not be changed by next tax modifications.

3.1.2 Kinds of Taxes in Georgia

For information here a survey of current taxes for enterprises resident in Georgia and an assessment of their relevance in regard of the planned privatisation is given.

Name of tax	Rates for Georgian Ports	Remarks
Profit tax	20 %	As usual in industry, to reduce indicated profit by creating reserves for further investment should be possible
Company property tax	1 %	Fixed assets
Income tax for employees	12 %-20 % of the salaries	paid by the enterprise, progressive counting due to the amount of income
VAT	20 %	taxable transaction or import, see below
excise	special regulation	luxury goods, refers not to the transport
land tax	1.44 GEL/hect	without difference concerning use
social tax	27 %+1 % of salaries	paid by the enterprise, 1% by the employee, for medical insurance, pension fund,
tax for usage of natural resources	1 %-15 %	volume of extracted natural resources
tax on environmental pollution	e.g. the port pays 0,01 % of profit at the time	depends on the actual damage, decision of ecological inspection
various local taxes		no relevant impact on investments, decided by local administration

The VAT in Georgia is not different from western analogies. The present tax system takes 20 % from added value of services and goods. In connection with the further diversification of the Georgian industrial and entrepreneurial landscape the questions of sophistication the VAT mechanism will be given more importance in the future. Goods produced in the CIS and realised in Georgia are not taxed by VAT. Goods for export out of

countries of the CIS are zero rated. Goods produced in Georgia and exported in CIS countries are charged with special excises.

Enterprise Profit Tax is based on the subject of business and the amount of taxable profit. The tax base is subject to the business sector: industrial 20 %, agriculture 10 % and bank/ insurance 35 %. The taxable profit consists of

- trading profit
- profit on the sale of an enterprise property during the year
- income received from investments during the year
- other income and gains

Personal Income Tax for individuals resident in Georgia more than 182 days rates between 12 and 20 %. It is progressed in accordance with the total of personal income. The tax is imposed on all forms of personal income. There is a graduated scale depending upon the amount of annual income.

Property Tax is based on the assets on the annual average value of the enterprise fixed assets and stock. The rate of enterprise property tax is currently 1 %.

Social Tax is paid by the enterprises on the basis of the amount of salaries. 27 % are paid by the enterprise and 1 % by the employee.

Georgia has agreements on double taxation. Georgia has not yet concluded agreements on avoiding double taxation with Germany. There are agreements on avoiding double taxation with Armenia, Azerbaijan, Turkmenistan, Kazakhstan, Romania, Uzbekistan, Iran, Ukraine. Double tax relief for foreign tax paid is given to Georgian tax payers by means of a credit against income tax payable in Georgia. The tax authorities gives formal confirmation of taxes paid in Georgia.

3.1.3 Relevance of the legal form of the enterprise in regard of taxes

The tax rates (see table above) are the same for all legal forms of enterprises in Georgia. Thus, the investor/consortium's choice of the specific legal form of the enterprise has no impact on taxes to be paid. Nevertheless, there are important other factors which influence the options for legal forms of privatised enterprises. These factors and their relevance for the investor's option regarding the legal form can be fully compared with legal conditions in western industrial countries.

3.2 Legal forms of enterprises in Georgia

3.2.1 The legal forms of private enterprises

In Georgia the following main legal forms of enterprises can be registered:

- joint stock company
- company limited
- general partnership
- comandit partnership

It is also possible to start business as a physical person or as a co-operative. But both of these forms do not play any role for privatisation of port facilities and foreign investments in the transport sector. To complete the list it has to be mentioned that there are not yet privatised enterprises (transition of legal form). The ports are state owned and are directly subordinated to the Ministry of Transport. The legal form in-between, the state enterprise and the privatised one is the state treasure enterprise .

Concerning the general, basic legislation (regulations on private ownership - except of the land -, entrepreneurs and foreign investments) in Georgia the legal Georgian business environment does not essentially differ from western standards. Under the aspect of foreign investments the forms of a joint stock company and company ltd. can be considered as being most common in Georgia. Investors operating in joint ventures in Georgia mainly decide to use the form of the joint stock company.

This form meets the specific conditions of privatisation (state majority of stocks, participation of employees) of larger economic subjects in Georgia and this form can be efficiently applied in connection with foreign investments.

3.2.2 The legal form of state treasure enterprise

This legal form is established in Georgia in order to promote and to ease the transitional process by the Georgian Law on Entrepreneurs in 1997. The legal form of treasury is crucial for the country and the whole social development under the aspect of economic reforms. Decision about the establishment of the treasury (state) enterprise is made by the state or the appropriate local authority. These directing bodies decide about the further type of the enterprise's activity, the composition of the board of administration, it appoints the director, defines the rights and responsibilities. The treasury enterprise is a legal person and has its own company name. The treasure enterprise is registered in the Entrepreneur Register.

Treasury enterprise is a specific legal and new form of enterprise in Georgia. So it is not included in the list of typical enterprises in other laws concerning privatisation.. After the decision of state or local authority the treasury enterprise can be restructured into the JSC or LTD according to the Georgian legislation, if the enterprise is already registered in the Entrepreneur Register.

The port of Poti is a state enterprise and the port of Batumi a municipality port. The port of Poti has to be transferred into a state treasure enterprise before changing into a joint stock company.

Name	Definition	Advantages	Forms of taxes	Remarks
<p>Joint-stock company JSC</p>	<p>JSC is the company which has the equity capital divided into shares. The minimum nominal capital should be 15,000 GEL (11,500 \$). The cost of one share 1GEL or more. A company, having more than 50 partners or more than 500 employees must be established as J-S company.</p>	<ol style="list-style-type: none"> The existence of the company does not depend on the change of company shareholders. It is responsible with its property against the creditors Each shareholder has the right to take part in the decision-making process Due to the on-going transitional period the joint stock company meets the requirements of privatisation in the most efficient way 	<p>According to the Georgian Tax Code all types of organisations have same form and rate of tax. Income tax from salaries (12 %-20 %), profit tax 20 %, VAT, land tax, environmental tax, road tax for State budget and non-budget taxes on social insurance.</p>	<p>This form meets very well the requirements of the specific conditions of large company's privatisation. Nowadays, the Port of Poti is a State enterprise under the direction of Ministry of Transport, but distributing the profit independently. In the nearest future the reconstruction is foreseen. From the interviews with senior managers of the port it can be concluded that J-S is the most acceptable form for Poti port.</p>
<p>L.T.D</p>	<p>The partnership responsibility regarding creditors is limited by its whole property, is Ltd. It can be founded by one person. The equity capital should be more than 2,000 GEL (1,500 \$)</p>	<ol style="list-style-type: none"> Can be established by one physical or juridical person The minimum equity capital requires not a big amount of money LTD is the juridical person and the owner of its property LTD is established by the unification of the capital and the member of this organisation can leave the organisation at any time. 	<p>see above, the legal form of enterprises has no influence on the tax rate</p>	<p>This form should be used especially for the spin off of clearly defined parts of larger former state enterprises and for the creation of small and medium sized enterprises in Georgia</p>

Name	Definition	Advantages	Forms of taxes	Remarks
General partnership (GP)	A partnership, which includes a number of physical persons doing independent business activities under a united company name and are responsible before creditors by their whole property.	5. Responsibility is limited Is established by agreement of two or more persons. The relations between partners are based on mutual confidence. Partners can be only physical persons.	see above	It is in principal the German society GbR it plays no role in the transport sector in Georgia at the time
Comandit Partnership (CP)	Is established by number of persons, that make entrepreneurial activities independently. Partners are divided into two categories: complementary and co-manditor.	Does not require a minimum equity capital. Comanditor can be also the state. The complementary should be only physical persons	see above	It is very similar to the Kommanditgesellschaft

3.3 Political Situation and Projects around the Ports

With their neighbour countries Georgia has good relationships. The southern neighbour Turkey needs Georgia as transit country on the way to the Caspian Basin and Central Asia, the northern neighbour Russia is together with Georgia member of the CIS and the eastern neighbour Azerbaijan is member of TRACECA and needs Georgia as well as transit country. Armenia, south-east of Georgia has good relationships by tradition.

Nevertheless, some conflict areas are existing. Georgia has almost 18 provinces with many different religious and cultural backgrounds. Open conflicts are existing with Abkhazia and North and South Ossetia. Here UN forces are involved in order to avoid that these conflicts are becoming hot again. In the rest of the republic the situation is quiet and safe.

Figures published recently show that in 1997 the inflation rate was 6.5 %, the GIP increased by 12 % and the contribution of private enterprise to the GIP reached 80 %. Nevertheless, the Republic of Georgia is committed to the IMF (International Monetary Fund) and therefore the state is not giving sovereignty guarantees. Worldbank and European Bank for Reconstruction and Development (EBRD) have stated that they will give credits for the development projects, but only if the projects are privatised and this means in accordance to the understanding of the two banks, a minimum 51 % of the shares has to be in the hands of private companies. It is also stated, that these companies should be foreign investors and only occasionally they will accept well known Georgian Companies amongst these 51 % shares.

For the time being, especially the Port of Poti is subject to various interests and projects. Below are the projects and activities stated:

- GTZ - Project on training for the Ports of Batumi and Poti
- Tacis TRACECA project "Feasibility Study on New Terminal Facilities in the Georgian Ports"
- USAID project Privatisation of the Seaport of Poti
- SeaLand project CONTAINER terminal Poti
- Romanian Project on RAIL ferry connection Constanca and Poti including a Multi purpose Terminal in the extension Area
- Poti Port Projects for the extension area
- Project of the City of Poti for a new port (south of the existing one)
- Japan International Co-operation Agency (JICA) preliminary studies on Georgian Ports
- Rail Ferry Project Illychevsk Poti

In addition to this, many interested parties are coming up with proposals and ideas about the ports and the privatisation projects.

Within the near future the Government of Georgia will decide about the future privatisation concept for the port of Poti. The interest of the various parties in Poti port shows, that the expectations are very high; so far, only in Poti a joint venture company has been established with 50 % foreign and 50 % port shares.

This company has one berth and is handling basically scrap.

4 Creditworthiness of the two ports - results of balance sheet analysis 1996 and 1997 of Batumi and Poti Commercial Seaports

The necessary documents and information (Port Balance Sheet 1996 and 1997, source data for calculation cost/benefit, information on the condition of main property) were presented by the chief bookkeepers and chief engineers of the ports.

4.1 Initial situation

The status of the two ports are different. While the Port of Poti is in a change process from a state enterprise to a joint stock company or an other legal entity the Port of Batumi was just registered as a state enterprise (municipality port) by the registration court in Batumi (December 1st, 1997 regulation J 01/07-118). The Port belongs to the City of Batumi. Founder of the Port is the City council and the profit after taxes are to be distributed in accordance with the decision of the City Council of Batumi. The equity capital is not determined by the regulations.

The profit out of the profit and loss accounts as specified in western rules, are not specified in the Georgian legislation. Practice is that a particular form of accounting is carried out in which the different revenues /expenses of the enterprise are recorded according to the accounting year.

The analyses were based on following documents:

- Balance sheet status of Poti port of 1995 - 1997 in local currency (Annex 1)
- Balance sheet status of Batumi port of 1995-1997 in local currency (Annex 2)
- Summary table of revenue/expense of Poti port of the years 1996 - 1997 (Annex 3)
- Summary table of revenue/expense of Batumi port of the years 1996 - 1997 (Annex 4)

4.1.1 Development of economical indicators of the Port of Batumi and Poti

In 1995 balance sheet correction have been made in connection with investments which were not completed with the effect, that the own capital had to be increased. A report of the State Control Organs in the later had stated, that the revaluation were inefficient. Furthermore it was claimed, that an amount of US\$ 1.707 thousand (2.151 thousand Georgian Lari) in debt liabilities were not listed.

In 1996 the revaluation were corrected by the a Authority of the Port of Batumi . In the balance sheet it was reflected by a reduction of the private capital to US \$ 13,120 thousand (16,5331 thousand GEL). The cost of the basic property was reduced to US \$ 9,278 thousand (11,690 thousand Lari), and the amount of the equity capital was increased by US \$ 3,842 thousand (4,841 thousand). Hidden debtor liabilities were restored. On the liability side of the balance sheet reserves on doubtful debts were equally formed.

Main properties of the ports in Poti and Batumi are in bad condition and therefore require basic modernisation. (The necessity and capacity of investments for the purpose of basic modernisation of the ports was explained in detail in the Phase 2 Report of the Feasibility Study of New Container Facilities in the Georgian ports.)

According to the data of accounting, the main property of the Port of Batumi is depreciated by 46%. Especially port facilities and port fleet require financial proceedings to carry out the necessary repair-rehabilitation works due to a lack of maintenance. By November 1st, 1998, the amount of money necessary for these purposes was defined as US\$102 thousand. For analytical works we proceed from the assumption that the given amount was accumulated during the past 6 years.

As for the port of Poti, an analogous situation is observed. By January 1st, 1998 the necessary amount for these purposes was defined as US\$ 2,105 thousand. For analytical works we proceed from the assumption that the given amount was accumulated during the past 3 years.

The following table shows the debtors whose liabilities exceed 50,000 US\$ (Port of Poti by January 1st, 1998):

year of accounts presentation	1000 US\$	%
Total amount by January 1 st 1998	4,913	100.0
1992.	282	5.8
1993.	203	4.1
1994.	1,100	22.4
1995.	865	17.6
1996.	1,114	22.7
1997.	378	7.7
Total	3,942	80.2

The following table shows the total amount of debtor liabilities (Port of Batumi by January 1st, 1998).

year	1000 US \$	%
1992	113	3.8
1993	211	7.1
1994	1,143	38.3
1995	130	4.4
1996	381	12.8
1997	1,007	33.8
Total	2,984	100

83.6 % of the total costs of these debtors' liabilities are caused by 12 companies with more than US\$ 50,000 in debts.

The main property is completely covered by the own capital. So called "Gold balance rules" are performed in both ports. The situation in the port of Batumi in 1997 has improved in comparison with the year of 1996:

		Poti (%)		Batumi (%)	
Degree of paying main property		1996	1997	1996	1997
1.	degree of paying 1 st and 2 nd orders	166.7	156.1	129.8	149.8

In the structure of property a relatively low capacity of main property is observed. It is also caused by the excessive capacity of debt liabilities in the capacity of circulated property.

The Indicator "Degree of use main property" defines how many dollars of revenues are earned by one dollar of main property per year. In this respect, the condition in Poti port is more efficient than in the port of Batumi.

		Poti (%)		Batumi (%)	
Structure of property		1996	1997	1996	1997
1.	Intensity of main property	40.1	46.5	66.4	61.8
2.	share of circulated property	59.9	53.5	33.6	38.2
3.	degree of use main property	2.81	2.58	1.3	1.86
4.	share of requirement	27.0	28.9	27.0	30.1
5.	share of financing proceeds	12.5	5.1	0.1	1.9

4.3.1 Liquidity of the Ports:

		Poti (%)		Batumi (%)	
Liquidity		1996	1997	1996	1997
1.	liquidity of the 1 st degree	37.7	18.7	0.6	25.7
2.	liquidity of the 2 nd degree	119.1	124.4	215.9	459.4
3.	liquidity of the 3 rd degree	180.6	195.5	242.3	512.8

4.3.2 Circulation of debt liabilities.

(The Situation has improved from 1996 to 1997)

			Poti (%)		Batumi (%)	
Circulation of debt liabilities			1996	1997	1996	1997
1.	average capacity of requirements	1000 \$US	5,198	4,588	2.469	2.440
2.	frequency of requirement circulation		2.89	3.60	2.44	3.37
3.	average duration of crediting	days	125	100	147	107

4.3.3 Capital circulation

			Poti (%)		Batumi (%)	
Capital circulation			1996	1997	1996	1997
1.	average capacity of own capital	1000 \$USA	6.423	6.691	6.607	5.609
2.	average capacity of joint capital	1000 \$USA	7.672	7.484	10.737	8.544
3.	frequency of duration of own capital		2.34	2.47	0.91	1.47
4.	frequency of circulation of joint capital		1.96	2.21	0.56	0.96
5.	average duration of own capital circulation	days	154	146	195	246
6.	average duration of joint capital	days	184	163	641	374

4.3.4 Profitableness

The of profitableness own and joint capital as well as the indicator of Cash Flow in general are satisfactory; for Western readers they are even very high. In this respect, the condition in Poti port in 1996 is represented better than in Batumi port. However, the positive development in the port of Batumi is noticeable - transition to profitableness.

	Profitableness / Cash Flow	e.i.	Poti (%)		Batumi (%)	
			1996	1997	1996	1997
1.	net profit	1000 \$USA	3.987	4.562	-891	1.957
2.	profitableness of own capital	%	62.1	68.2	- 13.5	34.9
3.	profitableness of joint capital	%	52.0	61.0	-8.3	22.9
4.	Cash Flow period	1000 \$ USA	4.549	5.215	462	4.880
5.	interest of earning after Cash Flow	%	30.3	31.6	7.7	59.4

Hence the potential possibilities of self-financing in both ports are presented respectively high.

4.4 Conclusions

- A positive development in both ports is observed in comparison with 1997 and 1996.
- An improvement of economic indicators can be occurred in case of increasing circulation speed of debt liabilities. For this purpose, it is necessary to increase the revenue capacity, and simultaneously to decrease the capacity of debt liabilities. It is considered that such an increase of revenues could be achieved by the means of increasing tariff rates in the ports.
- Indicators of capital circulation are low. An improvement according to the given point could be occurred by increasing revenues.
- There are capabilities of self-financing in both ports. Possible factors for improving the given indicators are represented by:
 - improvement of the results of the financial year by means of increasing revenues (see above). Improvement of the results of the financial year by means of reducing expenses.
 - important factor of self-financing in the West - self-financing by means of depreciating deduction - cannot be used in the ports the way it is used in Western enterprises.
 - An important point for improving the economical picture in both ports is representing the liquid financial assets.

5 Commercial results of the privatisation concept

5.1 Revised figures

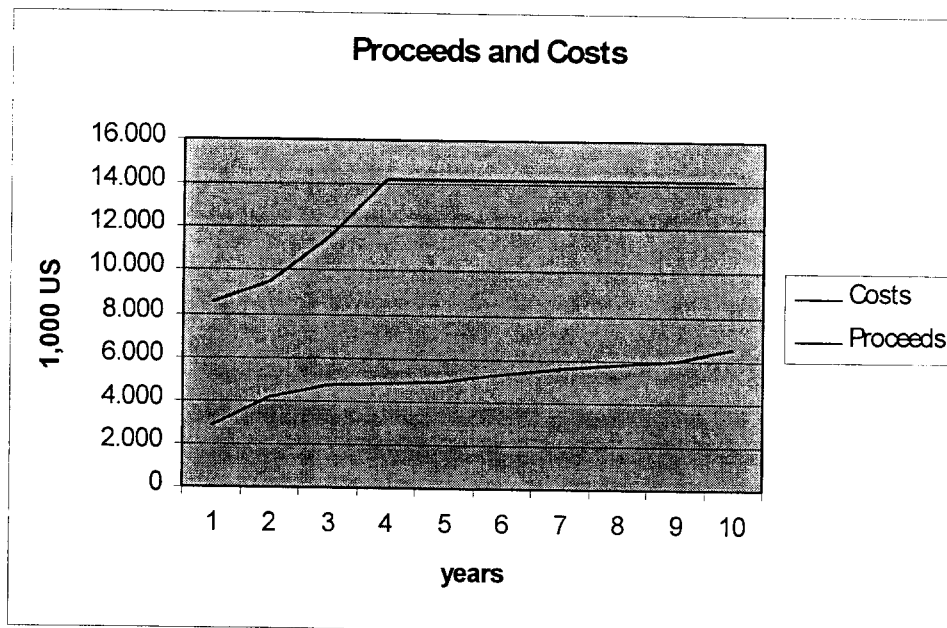
The figures of the revised Profit/Loss-Calculation for the first step of investments in the Poti Container Terminal Extension show a total investment sum of 19,840,000 USD (Phase III Volume VI table 4.3-1). There are included preparation, rehabilitation and new investments for the berths 6 and 7 with an area of 60,000 sqm and for the berths 12 to 14 with an area of 25,000 sqm.

As shown by the time axe, the main investments for berths 6 and 7 will take place in the first two years, for the berths 12 to 14 in the second and third year. According to the depreciation time some replacement investments have to be done in the 6th and 7th year. Concerning the cost elements a deviation from the figures in the financial analysis (Phase III Report Vol. VI) is made for the land lease rate: it is reduced from 4 USD to 1 USD per sqm. The costs for the Operational company is calculated with a lumpsum of 1,000,000 USD per year.

The earnings depend on the forecasted container moves. The figures are:

Year	Container	
	full	empty
1 (1998)	48,000	16,000
2 (1999)	52,940	17,500
3 (2000)	64,960	21,650
4 (2001)	79,730	26,580

The development during the first three month of 1998 confirms the forecasted container moves with 12,502 TEU. The capacity of the Extension Container Terminal will be attained in the 4th year, so that after this year the earnings will have the same amounts. The profit before the financing costs shows a sound basis between 5,2 mill. USD and 9,4 mill. USD. The following graph shows the course of the proceeds and the costs.



With the same assumptions as described in the Phase III report (Vol. VI) the calculation runs for the cash flow analysis for the container terminal extension were made.

The finance model calculates investments and the operating of the terminal for a period of ten years. Within this period, the investments shall be reduced by operational earnings (cash flow). The cash flow is the sum of earnings after interest and tax and depreciation. A calculation run were made: with a calculated interest rate of 10 % . This interest rate is not cost relevant, because the financing of the investment will be effected out of the share capital.

The total cash flow during the ten years amounts more than 60 mill. USD. After the 4th year there will be formed reserves, which sum up to 35 mill. USD in the 10th year. This amount can be used to invest e.g. in the new container terminal.

The operational turnover will increase from 8.6 mill. USD in the first year to 14.2 mill. USD in the 4th and the following years by reasons of capacity restriction (the max. possible container moves are 80,000 TEU)

Poti Container Terminal Extension: Cash flow analysis, real case, interest

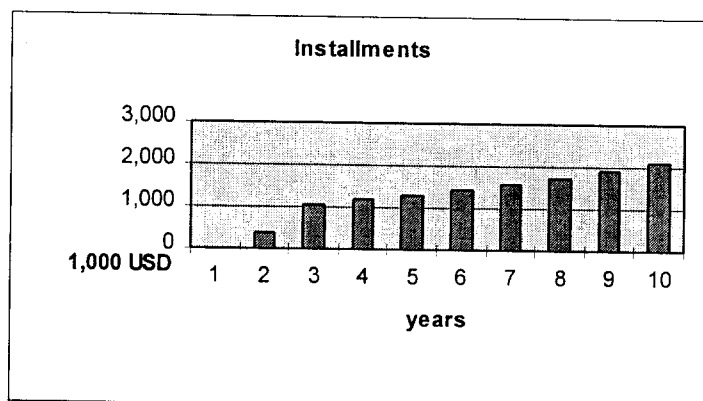
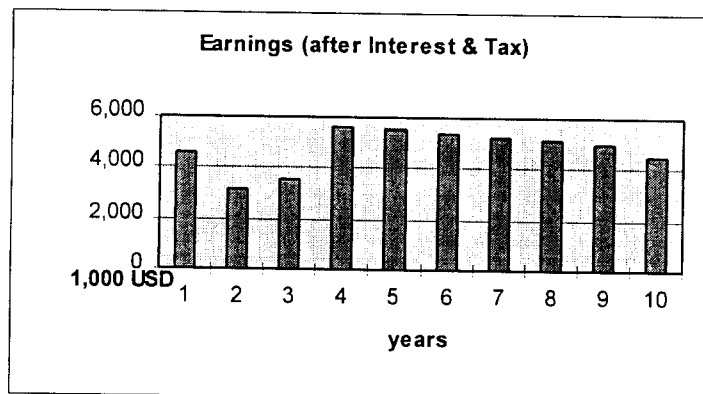
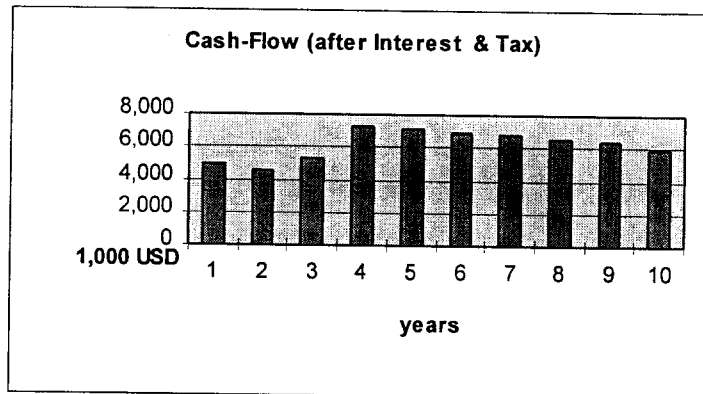
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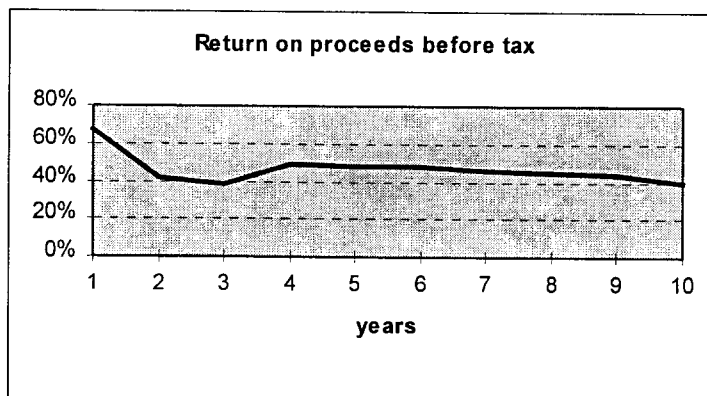
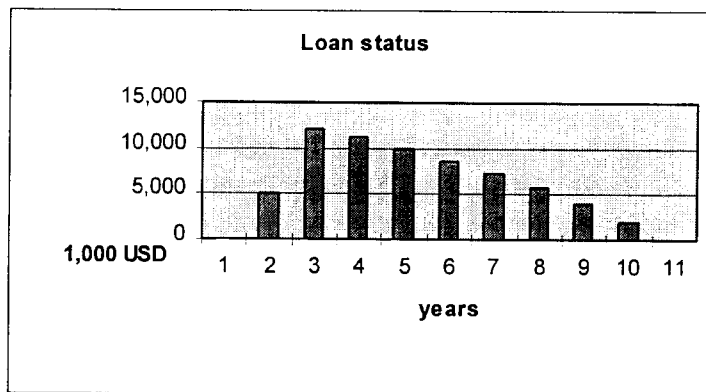
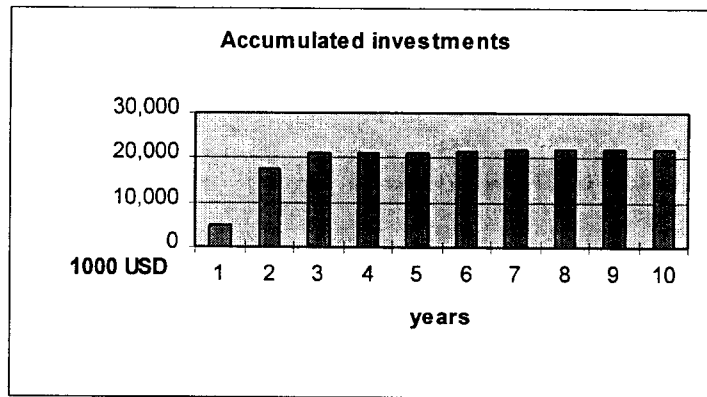
Year	1	2	3	4	5	6	7	8	9	10
Investment	5,033,152	12,468,939	3,637,174	0	0	285,000	400,000	0	0	0
Investment berth 6+7										
Investment berth 12-14										
Incidental expenses										
Investments total (per year)	5,033	12,469	3,637	0	0	285	400	0	0	0
present value of investment	5,033	11,642	3,171	0	0	202	265	0	0	0
net total accumulated	5,033	17,502	16,228	11,593	6,460	-505	-7,252	-14,127	-20,843	-27,416
financed per Earnings incl. Deprec.	0	-4,911	-4,535	-5,233	-7,250	-7,148	-6,875	-6,716	-6,574	-6,413
present value of cash flow	0	-4,585	-3,954	-4,260	-5,510	-5,072	-4,555	-4,155	-3,798	-3,230
total accumulated	5,033	12,591	11,693	6,460	-790	-7,652	-14,127	-20,843	-27,416	-33,829
Proceeds										
Handling	8,559	9,430	11,572	14,203	14,203	14,203	14,203	14,203	14,203	14,203
Storage	8,559	9,430	11,572	14,203	14,203	14,203	14,203	14,203	14,203	14,203
Other										
Proceeds total	8,559	9,430	11,572	14,203	14,203	14,203	14,203	14,203	14,203	14,203
Total costs (with depreciation)	2,562	4,259	4,795	4,904	5,032	5,160	5,359	5,536	5,737	6,316
Costs (without depreciation)	2,247	2,859	3,151	3,261	3,389	3,687	3,886	4,063	4,264	4,843
EBITDA (Cash Flow)	6,312	6,571	8,421	10,942	10,814	10,516	10,317	10,140	9,939	9,360
Depreciation	314	1,400	1,644	1,644	1,644	1,473	1,473	1,473	1,473	1,473
EBIT	5,997	5,171	6,777	9,299	9,171	9,043	8,844	8,667	8,466	7,887
Accumulated Capital Requirements	252	1,252	2,291	2,291	2,291	2,291	2,291	2,291	2,291	2,291
Earnings before Tax	5,746	3,919	4,487	7,008	6,880	6,752	6,553	6,376	6,175	5,596
Tax	1,149	784	897	1,402	1,376	1,350	1,311	1,275	1,235	1,119
Earnings (after Interest & Tax)	4,597	3,135	3,589	5,606	5,504	5,402	5,243	5,101	4,940	4,477
Cash-Flow (after Interest & Tax)	4911	4535	5233	7250	7148	6875	6716	6574	6413	5950
Loan status	0	5,033	12,221	11,152	9,977	8,683	7,261	5,697	3,976	2,082

Revised Profit/Loss Calculation for the First Step Investments Poti Container Terminal Extension

Investments for Berth 6 -7	2,894,045	3,926,295	1,904,760	0	0	0	0	0	0	0	0	0
Site Preparation												
Environmental												
Civil Works												
Buildings												
Utilities								R)				
Cargo handling Equipment	1,705,000	5,035,000						R)				
Investment for Berth 12-14	0	2,538,000	1,258,000					285,000	400,000			
Incidental expenses (without equipment)	434,107	969,644	474,414	0	0	0	0	0	0	0	0	0
Investment total	5,033,152	12,468,939	3,637,174	0	0	285,000	400,000	400,000	400,000	0	0	0
in 1,000 US\$	5,033	12,469	3,637	0	0	285	400	400	400	0	0	0
Depreciation												
As per specification	314,200	1,400,200	1,643,500	1,643,500	1,643,500	1,473,000	1,473,000	1,473,000	1,473,000	1,473,000	1,473,000	1,473,000
in 1,000 US\$	314	1,400	1,644	1,644	1,644	1,473	1,473	1,473	1,473	1,473	1,473	1,473
Land Lease												
85000 sqm a US\$ 1,-	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000	85,000
Operation Cost												
As per specification	1,162,357	1,774,077	2,066,255	2,175,734	2,303,643	2,602,350	2,800,899	2,978,211	3,179,267	3,179,267	3,179,267	3,758,200
Cost for Operational Company	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Cost	2,561,557	4,259,277	4,794,755	4,904,234	5,032,143	5,160,350	5,358,899	5,536,211	5,737,267	5,737,267	5,737,267	#####
in 1,000 US\$	2,562	4,259	4,795	4,904	5,032	5,160	5,359	5,536	5,737	5,737	5,737	6,316
without depreciation (in 1,000 US\$)	2,247	2,859	3,151	3,261	3,389	3,687	3,886	4,063	4,264	4,264	4,264	4,843
Proceeds												
Handling	8,559,000	9,430,000	11,572,000	14,203,000	14,203,000	14,203,000	14,203,000	14,203,000	14,203,000	14,203,000	14,203,000	14,203,000
in 1,000 US\$	8,559	9,430	11,572	14,203	14,203	14,203	14,203	14,203	14,203	14,203	14,203	14,203
Profit before costs of finance	5,997,443	5,170,723	6,777,245	9,298,766	9,170,857	9,042,650	8,844,101	8,666,789	8,465,733	8,465,733	8,465,733	7,886,800
in 1,000 US\$	5,997	5,171	6,777	9,299	9,171	9,043	8,844	8,667	8,466	8,466	8,466	7,887

R) Replacement





6 Project financing

The project should be financed out of the shares coming in from private Georgian and Foreign Shareholders.

The Port of Poti will claim 48 % of the shares with an equity of 18 Million US\$.

The remaining 52 % will have an value of 19.5 Million US\$.

The total share capital of the Operation JS Company will be US\$ 37,500,000.00

With the US\$ 19,500,000 the whole investment plans of the first 3 years can be financed.

Remark: The Port of Poti equity of US\$ 18,000,000 are including the existing cranes at berth 7, the rail ferry ramp under construction as well as the new equipment delivered by the European Union and the "Goodwill" out of the existing business (Container handling, RoRo and forthcoming Rail-Ferry Operations).

7 How to attract investors

It is a decisive target of the suggested privatisation to exclude demands of the public budget for investment measures or trading losses of the port (res. the privatised part of the port, these are first of all the Poti Container Terminal and the Batumi Multi-Purpose-Terminal) widely. Therefore, the enterprise's continuous strengthening, the fulfilment of port-specific functions, and securing the country's transport market aims have to be the long-term objectives. The step-by-step privatisation of the further terminal areas of the port is included here.

Following basic variants of the investor's interests can be described:

- A) Drawing in private capital (without specific business interest), e.g. from banks, financial institutions, and trading companies;
- B) Enlisting operators of the transport chain (transport enterprises, shipping companies, operators);
- C) Enlisting users and architects of the transport chain (shipping agents, integrators);
- D) Enlisting of supplementary service enterprises (depository operators, repair shops, hiring services).

The impact that each of these variants may have on the ports' res. the terminal areas development in terms of business is clarified by their different objectives.

Variant A:

The capital provider is orientated towards a return that lies above average and is risk less, or else promises a significant appreciation in connection with company shares. Normally he does not have an entrepreneurial interest.

Variant B:

The private transport chain operators expect effects of synergy, influence on further market shares, and a strengthening and stabilisation of their main business.

Variant C:

Users and organisers of the transport chains expect an increase in service performance, security of handling, and a strengthening of their market position. Know-how-transfer and a reasonable return could be an incentive to invest.

Variant D:

The supplementary service enterprises expect an expansion of their business activities, securing of new sites, entering new market segments as well as a reasonable return, at least in a long term view.

A qualitative evaluation of the variants' positive (+) and negative (-) effects on the entrepreneurial development of the ports reveals the following picture:

- | | | |
|------------|---|--|
| Variant A: | + | no ability to influence the company policy, if a reasonable return will be obtained |
| | - | sale/reversion of shares under misfortunate business development |
| Variant B: | + | Securing the expected development of volume, additional volume is to be expected |
| | - | Preferential treatment compared to other operators could lead to volume decrease |
| Variant C: | + | The port sites are secured within the transport networks |
| | - | Dependence on the disposal norms of the major forwarders and integrators |
| Variant D: | + | Spreading of the entrepreneurial risk, specific know-how increase and transfer |
| | - | Dependence on business development, bad risk, often weak capital foundation of the enterprises |

A weighing up of advantages and disadvantages by the prospective customers/investor groups can lead us to the recommendation to strive for a mixture of investors as broad as possible. The canvassing of investors should be laid out accordingly.

The complexity of the matter demonstrates that a general tendering for investors does not seem to recommend itself here. Rather than that the investors should be addressed directly, so each interest situation can be sounded out and frame conditions can be discussed about in individual preliminary meetings.

Thus the investor groups described above are to the fore of attention.

Conversations with investors res. potential shareholders were held. These conversations had an informal character.

In all conversations was made clear:

- A clear concept for the development of the ports exists.
- The financial involvement is required to be able to manage the rehabilitation and extension.
- The step-by-step proceeding and a broad investor basis lessen the risk and limit the financial involvement.
- The real development of port sites and the region as well as Georgia's transit function can be observed along with simultaneous limited involvement.
- The investors are partners from the very beginning and thus are able to secure a good market position.

8 Potential investors

Conversations with immediately interested companies are to be continued. For this it recommends itself to outline an information memorandum, in which the most important information is concealed. The existing feasibility study is going to be the source from which the fundamental aspects will be gathered.

List of companies interested in a participation as shareholder of the Port Operation JSC:

B.Dettmer, Berlin, Germany
Barwil, Georgia
Barwil, Norway
Betz, Willy, Germany
Calbertson, France
Catoni & Co., Istanbul, Turkey
Ceres
Danzas Holding, Germany
Deugro, France
Dr. Lassmann, Austria
EBRD, London
GTE Georgian Trans-Expedition, Georgia
GTG, Georgia
Hamburger Hafen u. Lagerhaus AG, Hamburg
Johann Birkart, Germany
Kavtrex, Georgia
Ketner Spedition, Germany
Kuehne & Nagel, Switzerland
Maersk, Danmark
Militzer & Muench, Switzerland
MSC, USA
Murphys International, Great Britain
Neshtrans, Georgia
P & O, Nedlloyd, Great Britain
P & O Ports., Great Britain
Panalpina, Germany
Schenker - Rhenbus AG, Germany
Sealand, USA
Voucher Leader Invest, Georgia
W.Willemsen, Norway

This list is not complete, because there are ongoing discussions in Western Europe about other interested companies. Instead of an investors' meeting, the consultants decided to have private meetings with potential investors in Western Europe, Georgia and Azerbaijan. The outcome of those meetings were that the companies not only showed interest but also declared their willingness to take part in a joint venture, running the

Container and RoRo activities of the port. In all cases, the main question was in which way the Georgian Authorities will decide the questions of privatisation. Does Georgia prefer the American proposal about selling/lease out the port by 51 % to unknown investors with unknown development plans or does Georgia prefer the Development Plans with step by step privatisation as described within this concept.?

Without clear statements and decisions none of the potential investors will invest in the port or the port related industries.

9 Consequences of privatisation

The suggestions for the step-by-step privatisation of the ports have to orient themselves according to the targets of the leading participants.

From the port administration's perspective following targets come to the fore:

- The rescue operation of the port plants via the rehabilitation of the suitable plant parts;
- Substitute investment for obsolete machinery and property;
- Rationalisation of procedures through training and further qualification of the required staff as well as the use of modern equipment;
- And so safeguarding of the required jobs;
- Possibility to develop a social plan for the necessary socially justifiable job cuts (e.g. the retrenchment of 100 employees is going to require annual funds of approx. US\$ 100,000);
- Know-how-transfer via integration of Western enterprises and experts into the port activities;
- Creating the prerequisites to increase and ensure the competitiveness and attractiveness of the ports within an international competition;
- Fund influx from the private capital market as a supplement to the public national and international funds;
- Strengthening of the port's independence against political influences.

The interests of the mortmain res. the government tally in some points with those of the port. Beyond this the state and government see the following effects and uses:

- Stabilisation of the port's activities;
- Economic development for towns and regions;
- Strengthening of Georgia's international position;
- Safeguarding of jobs through sound jobs with a guaranteed future;
- Effects on the job market situation through enterprises and businesses linked to the transport industry (multiplier effect);
- Security and increase of tax revenues;
- Reducing of public funds for the ports through increased use of private capital;
- And so release public budgets from investments and from trading losses;
- Improvement of traffic infrastructure as an important over-all economic task.

The hopes for benefits for the private sector have already been mentioned; to summarise:

- Priority berthing or priority handling of container, trailer within the Terminals
- Long-term return for the used capital;

- Improvement of the competition situation within the Trans-Caucasian and Central Asian transport and trading market;
- Securing and stabilisation of logistic chains;
- Forming of strategic advances for the firms;
- A right to a say in terminal-relevant matters.

10 Next Steps

The President of Georgia has implemented a commission which should work out proposals with the best solution for Georgia and their Partner countries. If the decision will be in line with the European proposals, the Government of Georgia can use the following prepared documents:

- Draft Tender Documents for the procurement of equipment including all technical specifications (delivered to the organisations in charge in May, 1998)
- Draft Tender Documents for the civil construction work for the extension of the container facilities in the Port of Poti and the Multi Purpose Terminal of the Port of Batumi. This Draft Tender Documents include the Tender, the Contracts and the Employers Requirements with design requirements, drawings and technical specifications. (Attached to this Report)
- Draft of a Shareholder contract in accordance to the Georgian Laws for the Joint Stock Company to be established
- Draft of a Lease Contract for the Container and RoRo activities in the Port of Poti
- Draft of a Management Contract for the operation of the Container and RoRo activities
- Draft of the Charter of the Joint Stock Company

With these documents and the proposals are made in regard of the restructuring of the Maritime Administration next steps should be:

- Decision of the Government
- Development the legal status of the Port of Poti
- Receive the proxy of all authorities involved
- Decide to let the Port of Poti to take over for an interim period the tasks and duties of the Port Administration and to implement the Georgian Port Administration (Authority) as per Georgian Maritime Code situated in Poti after this interim period.
- Conclusion of an agreement about berth number 6
- Mobilisation of the potential investors and publication of this brochure to help in the decision making process
- Selection of the potential investors who have the largest advantage for the port
- Organisation of a meeting of the future shareholder to agree on or to alter the presented contracts
- Start of the registration process
- Development of necessary documents as stated in the contract
- Election of the Supervisory Board
- Nomination of the Boards of Directors
- Entitlement of the Management Company

11 List of Attachments

- Task, Duties and Responsibilities of the Georgian Maritime Administration (GMA and the Georgian Port Administration / Authority Update of GTZ/HPC report dated February, 13th, 1997
- General Remarks on Development of a Maritime Administration (Takis TRACECA Phase 1 Report Feasibility Study of New Terminal Facilities in the Georgian Ports, Vol. III Annex 3)
- Preliminary privatisation concept (short form) presentation to the President of Georgia May, 16th, 1998
- Annexes 1- 8 to the Creditworthiness evaluation

In a separate Folder attached hereto the following attachments

- Draft Shareholder Agreement for the first privatisation (Container and RoRo activities)*
- Draft Charter for the first joint stock company*
- Draft Lease / Sublease contract for the berths 2, 6, 7, 12, 13 and 14*
- Draft Management contract for the management of the first joint stock company*

* These contracts have not yet been discussed with any parties potentially involved.

Task, Duties and Responsibilities of the Georgian Maritime Administration (GMA and the Georgian Port Administration / Authority Update of GTZ/HPC report dated February 13th, 1997)

**Tasks, Duties and Responsibilities of the Georgian Maritime
Administration (GMA)
and the Georgian Port Administration / Authority (GPA)**
Update of GTZ/HPC report dated 13.02.97

The consultants presented on various occasions their ideas regarding the future position of the Georgian Maritime Administration (GMA) and the Georgian Port Administration/ Authority (GPA). The tasks, duties and responsibilities of the future and the differentiation to those of the commercialised port operation companies have been discussed in detail with all parties involved. The proposals presented have been accepted and the results will be summarised below.

a. Tasks and Duties of the GMA

The GMA will be responsible for all maritime and port safety related matters in Georgia. Their main task can be described as **setting and controlling of safety standard**. As this project deals the restructuring of the ports, the aspects of ships and shipping not directly related to port operation will be described in general/short only. This task description is fully in line with the *General Remarks on Development of a Maritime Administration*, see TACIS Feasibility Study of New Terminal Facilities in the Georgian Ports, Phase 1 Report, Volume III, Annex 3

a.1 General

- Elaboration of proposals for laws and regulations for the safety of all port and shipping matters in Georgia. These proposals must pass all legislative steps before coming into force.
All these safety rules and regulations should be made according to international standards. Any Georgian deviation from the established international safety level should only be realised after careful consideration.
- Control of keeping the a.m. safety regulations by the Georgian flag vessels, all vessels calling Georgian waters and ports, all organisations/institutions being active in the Georgian ports.
- The GMA will be responsible for setting of safety standards and controlling of safety only. The installation and maintenance of all safety devices in the port area and its approaches will be with the respective operation companies or other institutions especially appointed. That means, all buoys and other aids to navigation necessary for safe traffic in the port and its approaches will be controlled by the GMA. The GMA will not have and not provide any kind of technical service like workshops etc.

The idea behind is, to keep the state activities to the lowest possible level, as the

experience in similar countries shows, that very often the governmental institutions have no funds to provide and install the required technical devices and they often are not able to fulfil their own safety requirements.

a.2 Maritime safety

- transmission of international conventions into Georgian law
- traffic regulation within Georgian waters and approaches to the port
- registration of Georgian vessels
- checking of vessel's documents (class, registration, manning, insurance etc.)
- execution of port state control according to Paris Memorandum
- elaboration of qualification, education and training requirements for vessel's personnel
- issue of licences/seamen books to Georgian captains, officers and crew members
- safety of Georgian ships according to international (IMO, Solas) and national regulations
- environmental protection related to vessels operation in port and at sea
- investigations on maritime accidents on Georgian flag vessels and foreign flag vessels within Georgian ports and waters
- etc.

a.3 Harbour master (HM) and Port safety

Besides the aforementioned marine affairs controlled by the harbour master, this office is responsible for safety in the port. This includes the following activities:

Port operation

- Elaboration of safety working rules for port operation
 - wearing of protection clothes
 - fire protection
 - fire fighting installations
 - pollution prevention
 - pollution fighting
 - technical installations for accident prevention
 - etc.

- Elaboration of rules for handling of dangerous goods
- Controlling of safety in the according to the a.m. rules
- Elaboration of a fine catalogue for all cases of violation against the safety rules
- Elaboration of qualification requirements for pilots and tug boat masters
- Issue of licences for pilots and tug masters
- Establishing of rules for safe traffic in the port and approaches
- Control of performance of pilots and tug masters

Remark:

It is of utmost importance, that the Harbour Master gets the legal power for the execution and realisation of the fines, stated in the fine catalogue, in case of any violation of the rules. Without obtaining this authority, clearly backed by law, the position of the Harbour Master will be nearly useless.

b. Tasks and Duties of the Georgian Port Administration/Authority (GPA)**b.1 General**

According to the Georgian Maritime Code, Chapter IV, Seaport, (*remark: as there is no official English version available, this chapter was translated by the project into English language*) the Georgian seaports have an administration, which is subordinated to the GMA, that means it forms a department/division within the GMA and therefore part of the Georgian Ministry of Transport (MoT). We propose to establish the GPA at Poti, as Poti is the most important Georgian port and to spread the activities of the GMA to the different port the GMA/GPA is responsible for.

b.2 Land-Ownership

As all port areas will remain in hands of the government and leased by the port users only governmental institution must act as the landlord/lessor. It was confirmed by the MoT, that they have received the authority from the Ministry of State Property Fund (which is the official owner of all governmental owned land and properties) to act as a landlord for port areas.

This landlord function includes:

- Elaboration of standard leasing contract stipulations
If these standard stipulations once are established and in general agreed by the parties involved, only little work is left for the entire landlord function of the GPA.
- Calculation and determination of the leasing fee under due consideration of all factors of impact like general economic development in the country, necessities of port development and modernisation etc. Some important principles for the lease of land and determination of the fee are stated in the GTZ/HPC-Report dated April 96. It must be stressed, that the GPA should act as a non - profit institution. It can not be the intention to maximise the revenue of the government.
- Modification and updating of the leasing fee in regular intervals according to the contract terms.
- Elaboration and signing of individual leasing contracts between port users and the GMA, based on the standard contract conditions.

b.3 Port construction

- Controlling of all port constructions regarding safety aspects. Prior to commencement of work, the plans must be confirmed by the GMA/GPA/HM. This applies especially to all cargo handling plants like oil handling devices, warehouses for dangerous cargoes etc.
- Supervision of construction and final approval of the completed plant.
- Determination of maintenance intervals and checking of maintenance performance

b.4 Strategic Port Planning

As long as **only one port operation company** is active in the port, the port planning activities of the GPA are very limited, as the port operator will be responsible for the planning of the leased area. In this case the duties of the GPA include:

- Controlling of all construction activities of the operator in case the outline of the leased area will be changed; e.g. new quay wall construction which changes the present design of the harbour basins. In such case, all technical proposals must be approved by the GPA.
- Planning of new access roads and railway lines to/from the port.
- Planning of new supply lines for electricity, gas, water, sewage water to/from the port.
- Long term planning of port extension
- Co-ordination of port planning and town planning
- Co-ordination of all activities, interests and institutions which may affect the port and the surrounding areas

In case **more than port operator** is busy, the GPA will be additionally responsible for all areas not directly dedicated to one operator.

- Planning of roads and railway lines within the port area but outside the commercialised terminals.
- Similar applies to the a.m. supply lines
- Organisation and supervising of maintenance of mentioned roads, rails and supply lines.

b.5 Remarks to the Georgian Maritime Code, article 76

In this article the duties of the GMA/GPA/HM regarding safety of navigation and order in the port are specified. According to our proposal the task of the GMA/GPA/HM shall be restricted elaboration of rules and regulations and to the supervision of these activities. The practical work - e.g. installation, maintenance and repair of navigational aids, execution of different tasks should be done by the port operators or other service companies. The respective dues will be collected by the executing party and only a supervision/ administration fee will be transferred to the GMA/GPA/HM.

b.6 Remark to the position of the GPA

According to the law the GPA is part of the GMA/MoT. This is very well known to all parties involved and is based on an order by the President of the Republic of Georgia. For the time being, the GPA is not really implemented due to different political interests in Georgia. In our opinion it is most practical, absolutely logical and by far the best solution to subordinate the GPA to the GMA. But in case no political consensus to this proposal can be achieved a different position of the GPA could be acceptable, see attached diagram.

c. Port Matters, GMA/GPA not responsible for

As mentioned above, the NMA shall be responsible for setting and controlling of safety in the port. They are not responsible for all commercial and operational activities. This is the duty and responsibility of the port operation company(ies) only.

The GMA/GPA shall **not be authorised** to interfere in:

- setting of port tariff; any possible governmental control with regard to national anti-trust legislation will be executed by other state institutions, e.g. Ministry of Economy, Ministry of Justice or National Anti Trust Board
- setting of standard contract conditions between port operator and port customer
- contract negotiations with customers
- organisation of port operation companies
- selection of business fields; as long as the activities executed are in line with the stipulations of the leasing contract.
- renting of areas to subcontractors; as long as the activities executed are in line with the stipulations of the leasing contract.
- joint ventures with third parties; as long as the activities executed are in line with the stipulations of the leasing contract.
- personnel planning and staff employment
- payment of staff
- financial planning
- etc.
- port terminal planning within the premises of the port operator

Remark:

The Government of Georgia can only interfere in the operational and commercial matters of the port operation/port service company as long as they are owners of the joint stock company and are presented in the supervisory board. According to the statutes of association this board will select the managers, will determine the scope of responsibility of the manager and will state clearly, which kind of business decisions shall be the responsibility of the supervisory board.

These kinds of business related decisions shall never be delegated to another state organisation, GMA or others.

General Remarks on Development of a Maritime Administration (Tacis TRACECA Phase 1 Report Feasibility Study of New Terminal Facilities in the Georgian Ports, Vol III Annex 3)

Volume III, Annex 3

General Remarks on Development of a Maritime Administration

Contents:

1	Guiding principles	2
2	Functions of Maritime Administration	2
2.1	Legislation Functions	2
2.1.1	Indigenous National Legislation for example:	2
2.1.2	Conversion of international Conventions into National Law, like for example:	3
2.2	Supervising Functions	4
2.3	Maritime Industry Support	5
2.4	National Tasks in the Maritime Field	5
3	Organigramme of Departments in the Maritime Administration	6
3.1	Hierarchical Structure	6
4	Functions of the Departments in the Maritime Administration	7
5	Institutions attached to the Maritime Administration	17
5.1	Maritime Advisory Board	17
5.2	Communities of Interests in the Maritime Industry	17

1 Guiding principles

Under a clear separation of public and private responsibilities, the Maritime Administration must ensure:

- Safe, ecological responsible and facilitate maritime traffic
- efficient framework for the fair and equal treatment of all maritime commercial activities
- Reliability and competitiveness of maritime services

2 Functions of Maritime Administration

General tasks of a maritime administration are:

- to set up legal framework (laws, regulations, rules and guidelines) in the maritime field
 - for organisational structures and the tasks of the national maritime administration for the development of the national maritime industry
 - for the development of the maritime industry
- to supervise and inspect the maritime industry on complying with the legal framework
- to safeguard national interests
- to support the national and international maritime industry

2.1 Legislation Functions

2.1.1 Indigenous National Legislation for example:

- Organisation
 - Set up a law about the tasks of the government of Azerbaijan in the maritime field
- Manpower
 - Set up regulations about the legal status of seafarers
 - Set up rules for training and education of seafarers, according to the STCW Convention
 - Set up regulations for social safety of employees
- Safety
 - Set up regulations to ensure safety of maritime traffic in national waters and the ports area
 - Set up accident prevention regulations
 - Set up accident inquiry regulations
 - Set up a pilot law
- Commercial
 - set up a commercial maritime law, containing legal framework for:
 - ship owner, ship operator, shipping company

- . rights and obligations of a ship's master
 - . Contracts of afreightment and charter party
 - . Transportation of passengers and their luggage on board ships
 - . General average and collision
 - . Salvage and assistance
 - . Insurance
-
- set up regulations for the maritime lien and the arrest of ships
 - Set up register regulations
 - Set up facilitation regulations
 - Set up a port law

2.1.2 Conversion of international Conventions into National Law, like for example:

- Maritime Safety
 - SOLAS, International Convention for the Safety of Life at Sea, 1974, including the latest Protocols and amendments, International Safety Management Code (ISM) and International Code for High-Speed Craft (HSC)
- Cargoes
 - International Maritime Dangerous Goods Code (IMDG), incl. Emergency Procedures for Ships carrying dangerous Goods (EmS) and Medical First Aid Guide for use in Accidents involving dangerous Goods (MFAG)
 - Code of safe Practice for Solid Bulk Cargoes (BC)
 - International Code for the safe carriage of Grain in Bulk (International Grain Code)
 - Code of safe Practice for Ships carrying Timber Deck Cargoes
 - International Convention for Safe Containers (CSC)
 - Recommendations on the Safe Transport, Handling and Storage of dangerous substances in Port
 - Code of Safe Practice for Cargo Stowage and Securing
- Facilitation of Travel and Transport
 - Convention on Facilitation of international Marine Traffic (FAL)
- Legal Matters
 - International Convention relating to Intervention on the high Seas in Cases of Oil-Pollution Casualties, (Intervention)
 - International Convention on Civil Liability for oil Pollution Damage, (CLC)
 - International Convention on the Establishment of an international Fund for Compensation for Oil Pollution Damage
 - International Legal Conference on the Carriage of Passengers and their Luggage on Board Ships
 - International Conference on Limitation of Liability for maritime Claims
 - International Conference on the Suppression of unlawful Acts against the Safety of Maritime Navigation
 - International Convention on Salvage

- Marine Environment Protection
 - MARPOL, International Convention for the Prevention of Pollution from Ships, 1973 - including the latest Protocols and amendments
 - Inter-Governmental Conference on the Convention on the Dumping of Wastes at Sea
 - International Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC)
 - Ship Safety and Pollution Prevention, Ship Management and Port State Control
 - IMO Guidance on Port Reception Facilities acc. MARPOL

- Marine Technology
 - International Convention on Load Lines, 1966
 - Convention on Tonnage Measurement on Ships
 - International Conference on special Trade Passenger Ships
 - International Conference on Safety of Fishing Vessels
 - International Code for the Construction and Equipment of Ships carrying Dangerous Chemicals in Bulk, (IBC)
 - International Code for the Construction and Equipment of Ships carrying Liquefied Gases in Bulk, (IGC)
 - Code for the Construction and Equipment of Mobile Offshore Drilling Units, (MODU)

- Navigation
 - Convention on the international Regulations for Preventing Collisions at Sea, 1972 - including latest Protocols, (COLREG)
 - International Convention on Standards on Training, Certification and Watchkeeping for Seafarers, 1978 - including the latest Protocols, (STCW)
 - International Conference on the Establishment of an International Maritime Satellite System, (INMARSAT)
 - International Conference on maritime Search and Rescue (IMOSAR)
 - Global Maritime Distress and Safety System, (GMDSS)

2.2 Supervising Functions

Ensure through supervision and inspection that the maritime industry is complying with national laws and regulations and international conventions:

- ships
- port operators
- Port Infrastructure
- classification societies
- VTS, Vessel Traffic System
- pilots and other marine services
- maritime education and training centres
- ship waste reception facilities
- marine pollution emergencies
- communication facilities
- Search and Rescue facilities
- handling and stowage of dangerous cargoes
- against unlawful acts and illegal transport, drug smuggling and piracy
- hydrographic Surveys
- navigational Aids

- navigational publications
- navigational warning information system
- accident inquiry boards
- meteorological information system

2.3 Maritime Industry Support

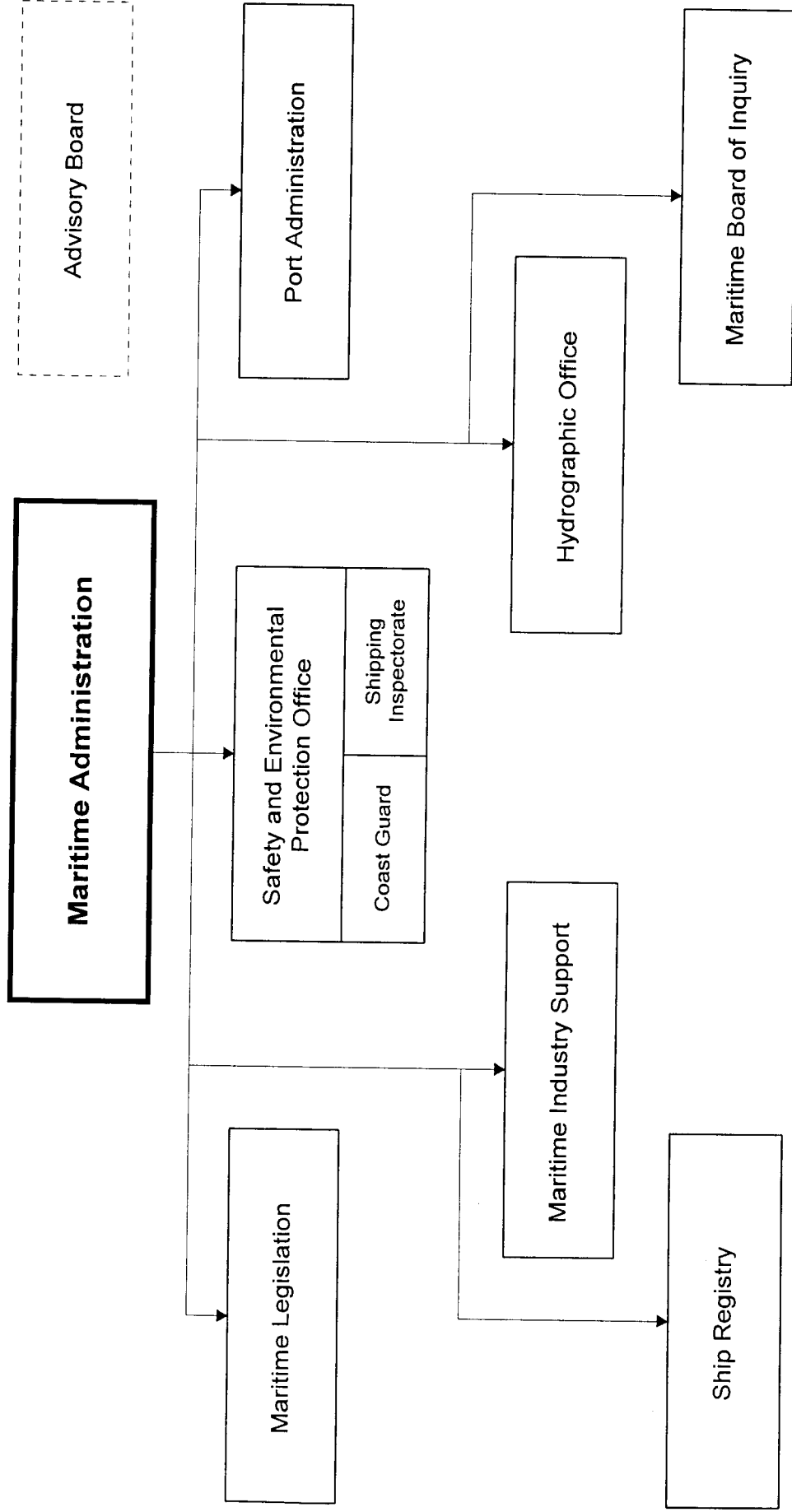
- Promoting the national flag. Supporting of the ship owners in the international competition by creating possibilities to decrease costs, by formulating adequate
 - tax- policy
 - crew- and social policy; quality, quantity
 - register policy
 - streamlined administration
 - education- and training policy
- Promoting business relating to shipping
- Promoting the "off shore" industry

2.4 National Tasks in the Maritime Field

- Environmental protection
- Responsible use of national resources, like:
 - mineral resources in national waters
 - biological resources for example fish
 - economical and ecological resources
- Measures to be taken in case of non-compliance with national laws, regulations and rules
- Appropriation of maritime industry resources in case of emergencies or national defence

3 Organigramme of Departments in the Maritime Administration

3.1 Hierarchical Structure



4 Functions of the Departments in the Maritime Administration

Name of Department:	Maritime Administration
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Function of Department:

- Co-ordination of all activities in the field of maritime administration
- execution of legal tasks

Superior Institution:

Government

Subordinate Division:

- Maritime Legislation
- Maritime industry promotion
- Port Administration
- Maritime Board of Inquiry
- Safety and maritime environment protection department
- Hydrographic Office
- Ship Registry

Providing Service for:

- all other departments
- Government

Receiving Service from:

- all other departments

Name of Department:	Maritime Legislation
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Function of Department:

- submission of law bills to the parliament as described in Chapter 2.2
- establishing of decrees
- transformation of international Conventions into national law
- participating in international committees

Superior Institution:

Maritime Administration

Subordinate Division:

International Policy

Providing Service for:

- all other departments
advises in legal questions

Receiving Service from:

- Safety and Maritime Environment Protection Department
- Maritime Industry Support
- Maritime Board of Inquiry
- Port Administration
- Hydrographic Office

Name of Department: Port Administration
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Function of Department:

- Administrations of the ports
- Landlord in the port area
- Determination and collecting harbour dues
- Planning, construction and maintenance of port infrastructure
- Promotion of commercial port activities
- publishing of port statistics

Superior Institution:

- Maritime Administration

Subordinate Division:

Providing Service for:

- Port Industry
 support in all questions

Receiving Service from:

- Hydrographic Office
- Shipping Inspectorate
- Coast Guard

Name of Department:	Hydrographic Office
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Function of Department:

- Hydrographic Surveys
- Publication of Navigational information
- Establishing of Navigational Aids

Superior Institution:

- Maritime Administration

Subordinate Division:

Providing Service for:

- maritime industry,
 Providing Maritime Industry with Navigational Aids
 publishing of hydrographic survey results, Navigational Charts and Publications,
 providing with expert opinions, concerning hydrographic matters

Receiving Service from:

- Coast Guard

Name of Department:	Ship Registry
---------------------	----------------------

Function of Department:

- Managing and administrating of the Ship Register
- publishing of national fleet statistics

Superior Institution:

- Maritime Administration

Subordinate Division:

Providing Service for:

- all civil and private institutions
providing with information, including statistics about national vessels

Receiving Service from:

- Shipping Inspectorate

Name of Department:	Safety and Maritime Environmental Protection Department
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Function of Department:

- Co-ordinating all activities concerning safety and maritime environmental protection matters
- Supervision of classification societies
- Supervision of all other private institutions acting on behalf of national authorities

Superior Institution:

- Maritime Administration

Subordinate Division:

- Shipping Inspectorate
- Coast Guard

Providing Service for:

- all other departments
advises in all questions concerning Safety and Marine Environmental Protection matters

Receiving Service from:

Name of Department: **Coast Guard**

Function of Department:

- Operating of VTS
- Ensure safe maritime traffic in national waters and in the port area
- Operating of Communication Centre, including broadcasting of Weather and Navigational Warning messages
- Operating of SAR Centre
- Operating of Marine Disaster fighting Centre
- Operating of all Navigational Aids
- Factual finding in marine accidents
- Protection of national sea border
- Protection of national marine biological, mineral and economic resources

Superior Institution:

- Safety and Maritime Environmental Protection Department

Subordinate Division:

Providing Service for:

- Port Administration
 - ensure safe vessel traffic
 - supervision of pilots
 - ensure communication between vessel and Port Administration
- Maritime Board of Inquiry
 - Factual finding in marine accidents
- Hydrographic Office
 - operating of Navigational Aids
 - publishing of Navigational Warnings
- Meteorological Office
 - publishing of weather information
- Customs, Police and all other Authorities
 - Protection of the national sea border and of national resources

Receiving Service from:

- Hydrographic Office
- Meteorological Office
- Customs, Police and all other authorities

Name of Department: **Shipping Inspectorate**

Function of Department:

- Performing flag State control
- Performing port state control
- Port Operators inspection
- Supervision of maritime education and training
- Certification of seafarers education and issuing of seafarers certificates
- Supervision of port facilities, like pilots, tugs, etc.
- Issuing of all necessary documents
- fact finding in marine accidents
- Tonnage measurement surveys

Superior Institution:

- Safety and Maritime Environmental Protection Department

Subordinate Division:

Providing Service for:

- Port Administration
 - Safety Inspections on Maritime Industries equipment
- Shipping Register
 - Tonnage measurement of national flag ships
- Accident Inspection Board
 - Factual finding in case of accidents

Receiving Service from:

- Coast Guard
- Maritime Legislation

Name of Department: **Maritime Board of Inquiry**

Function of Department:

- Investigation of accidents
- draw up of evidences

Superior Institution:

- Maritime Administration

Subordinate Division:

Providing Service for:

- Maritime Legislation
advises for the adaptation of laws, regulations and rules to the latest development in accidents
- Courts
providing with evidences

Receiving Service from:

- Coast Guard
- Shipping Inspectorate
- Police
- Maritime Legislation
- Hydrographic Office

Name of Department:	Maritime Industry Support
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Function of Department:

- Support of the maritime Industry as described in Chapter 2.1

Superior Institution:

- Maritime Administration

Subordinate Division:

Providing Service for:

- Maritime Legislation
exercise an influence on Maritime Legislation to support Maritime Industry

Receiving Service from:

- Advising Board

5 Institutions attached to the Maritime Administration

5.1 Maritime Advisory Board

The advisory board is advising the Maritime Legislation in their functions. Members of the board are:

- ship owners association
- port operators association
- port workers union
- seaman's union
- and more associations interested in Maritime industry

The advisory board should be heard from the Maritime Administration before setting up or changing of the legal framework., but has no direct influence on Maritime Administration decisions. The Maritime Administration has to consider the arguments of the board benevolent.

5.2 Communities of Interests in the Maritime Industry

All parties which are working in the maritime field like f.e.:

- ship owners
- ship managers
- seaman
- port operators
- port workers
- administration staff
- pilots
- shipping agents
- shipping insurers
- fishing industry
- and many more

may set up their own community of interest. They are invited to participate in the advisory board.

These organisations are independent from the Maritime Administration, their tasks and the internal structure of the organisation is laid down in statutes, which are set up by the members of the organisation themselves.

Preliminary Privatisation Concept (short form) presentation to the President of Georgia
May 16th, 1998

Preliminary privatisation concept (Short form)

**Presentation to the President of Georgia in Poti
May 16th, 1998**

**by Bodo Roessig, HPTI Hamburg
Teamleader Tacis TRACECA Project “Feasibility Study
of New Terminal Facilities for the Georgian Ports”**

Status of the Project

- The Eu Tacis TRACECA team is in line with the terms of references and the time schedule.
- The privatisation concept will be ready by end of June 1998 the whole study by mid of July 1998.
- to day statement's are preliminary but the philosophy to privatise step by step to have feasible projects, easier to privatise and better to co-ordinate will stay.

Principle Remarks

- The Georgian Ports have to be restructured and privatised to meet the requirements of the future.
- International Development Banks are not financing projects in Georgia if the majority shares are in the hands of state owned organisations. Source: World Bank , EBRD.
- Privatisation projects have to be profitable and in the position to return the investments and to generate the Interests.
- From the 100 largest Ports in the World, 80 Ports are operated in a combination of the Public as Landowners and Private Companies as Operators.

Restructuring and Privatisation

- The extreme high growing rate in containerised and RoRo traffics (the most modern transport forms) makes it necessary to rehabilitate and to restructure the necessary port handling facilities. Therefor it is intended to reconstruct 6 berthes (2,6,7,12,13,14) and to invest in the necessary equipment.
- An operation company should be established with the participation of the port, a qualified management and International Transport Companies (Forwarder, Shipowner, Container Operators)
- The remaining part of the Port has to be restructured into Profit and service centres until the operation company of the first project is working. Directly after this, the next privatisation project should start.

Structure of the future Port

- The future Port of Poti will have two major functions:
 - Land owner of quay walls and areas as well as infrastructure within the port
 - Active shareholder in the future joint venture companies, which are Operating Companies

European and American Model

“Units of the Port and Value”

- EU-Tacis TRACECA
 - USAID
- Unit to be privatised
 - To privatise logical units(units with same type of operation) of the port with the priority of most urgent needs
- To generate feasible and profitable privatisation projects.
- First the Container and RoRo unit
- Value
 - for 6 berthes US\$ 18 Million
- Value
 - For the whole Port US\$ 26 Million

European and American Model

“Shareholder and share capital”

- EU Tacis TRACECA
- Shareholder
 - 51 % of the Operation Company should be in Georgian hands (private and state)
 - 49 % in the hands of Foreigners
- USAID
- Shareholder
 - 51 % in the hands of Foreigners
 - 49 % in Georgian hands
- Sharecapital
 - 26 Million US\$ share capital in equity (no own capital for investment) for the whole port.
- Sharecapital 37.5 Million US\$ share capital (19.5 Million own capital for investment, 18 Million equity) for 6 berthes
- The EBRD had announced, that they are interested to take part.

European and American Model

“Investment volume”

- EU Tacis TRACECA • USAID
- 116 Million US\$ within 15 Years and a return of investment in same period of time. Plus a part of appr. 40 Million for the necessary new infrastructure. (breakwater, rail, road)
- 140 million US\$ within 30 Years without new infrastructure (breakwater, rail, road) with unspecified return of investment

European and American Model “Employment”

- EU Tacis TRACECA • USAID
- The Joint stock operational companies have to take over the required personnel from the port. A special fund has to be established to ensure, that living wages are available for pensioners of the port.
- Almost same position

Annexes 1 – 8 to the Creditworthiness Evaluation

Poti Commercial Seaport

Annex 1

Balance status for December 31 (unit Lari)

	1.995	1.996	1.997	
Assets				
A. Main property				
I. Buildings and constructions		3.508	3.539	17,0%
Buildings and constructions on other area		27	27	0,1%
Technics, equipment and transp facilities		3.150	4.469	21,5%
operational and administrative equipment and etc.		19	22	0,1%
Other main proceeds		3	3	0,0%
Main procees	7.805	(6.707)		
Capital investments-unfinished		29	245	1,2%
Total to point I.	7.805	6.736	8.305	39,9%
II. Financial investments		297	391	1,9%
Total to point II.	0	297	391	1,9%
Main property, total	7.805	7.033	8.696	41,8%
B. Main property, total				
I. Reserves				
a) raw material, production and auxiliary materials				
b) n/vc economical products, cattle				
Total to point I.	3.392	3.577	3.631	17,5%
II. Requirements and other subjects of property				
a) advance payment	85	443	0	0,0%
b) requirements for goods, works and services	7.557	5.542	6.387	30,7%
c) Payments with budget, n/vc economical products	0	0	292	1,4%
d) other debtors	1.712	0	0	0,0%
Total to point II.	9.354	5.985	6.679	32,1%
III. Financial proceeds				
a) cash-box	0	0	0	0,0%
b) money proceeds on account of payment	1	0	14	0,1%
c)account of currency	27	135	20	0,1%
d) other circulating assets	0	2.057	921	4,4%
Total to point III.	28	2.192	955	4,6%
Circulating property, total	13.424	12.338	12.101	58,2%
Assets	21.229	19.371	20.797	100,0%

Liabilities

A. Own capital

I. Equity capital	1	0,0%	4.370	22,6%	4.370	21,0%
Profits of the accounting year		0,0%	11.021	56,9%	9.985	48,0%
Use of the profit		0,0%	-11.021	-56,9%	-9.985	-48,0%
II. Reserves	14.126	66,5%	9.179	47,4%	11.319	54,4%
Own capital, total	14.127	66,5%	13.549	69,9%	15.689	75,4%

B. Payments in reserve fund

reserves on doubtful requirements	0	0,0%		0,0%		0,0%
Total, Payments	0	0,0%	0	0,0%	0	0,0%

C. Obligations

a) bank obligations, short-term	176	0,8%	369	1,9%	137	0,7%
b) goods obligations	4.291	20,2%	1.389	7,2%	1.843	8,9%
c) other creditors	934	4,4%		0,0%		0,0%
d) other obligations	1.701	8,0%	4.064	21,0%	3.128	15,0%
Obligations, total	7.102	33,5%	5.822	30,1%	5.108	24,6%

Liabilities

	21.229	100,0%	19.371	100,0%	20.797	100,0%
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Batumi Commercial SeaPort

Balance Status for December 31 (Lari)

1995 g.

1996 g.

1997 g.

Assets

A. Main property

I. Buildings and constructions			1.402.174	13,1%	1.465.356	12,8%
Buildings and constructions on other area			4.178	0,0%	4.034	0,0%
Technics, equipment and transp.facilities operational and administrative equipment and etc.			2.116.402	19,7%	1.949.277	17,0%
Other main proceeds			49.214	0,5%	76.379	0,7%
Main procees			254.446	2,4%	151.469	1,3%
Capital investments-unfinished	3.371.140	17,2%	(3.826.414)			
	13.133.029	67,2%	2.013.184	18,7%	2.088.217	18,2%
Total to point I.	16.504.169	84,4%	5.839.598	54,4%	5.734.732	50,0%
II. Financial invesments	143.681	0,7%	274.607	2,6%	411.801	3,6%
Total to point II.	143.681	0,7%	274.607	2,6%	411.801	3,6%
Main property, total	16.647.850	85,2%	6.114.205	56,9%	6.146.533	53,6%

B. Circulating property

I. Reserves						
a) raw material, production and auxliary materialsy	548.725	2,8%	579.528	5,4%	587.756	5,1%
b) n/vc economical products	420.682	2,2%	362.120	3,4%	347.575	3,0%
c) goods	99.821	0,5%	25.139	0,2%	29.110	0,3%
Total to point I.	1.069.228	5,5%	966.787	9,0%	964.441	8,4%
II. Requirements and other subjects of property						
a) requirements for goods, works and services	985.818	5,0%	3.085.276	28,7%	3.257.578	28,4%
b) Payments with budget	17.104	0,1%	0	0,0%	295.299	2,6%
c) other debtors	789.310	4,0%	563.727	5,3%	622.167	5,4%
Total to point II.	1.792.232	9,2%	3.649.003	34,0%	4.175.044	36,4%
III. Financial proceeds						
a) cash-box	1.229	0,0%	6.247	0,1%	13.404	0,1%
b) money proceeds on account of payment	145	0,0%	361	0,0%	20.729	0,2%
c) account of currency	34.468	0,2%	731	0,0%	156.922	1,4%
Total to point III.	35.842	0,2%	7.339	0,1%	191.055	1,7%
Circulating property, total	2.897.302	14,8%	4.623.129	43,1%	5.330.540	46,4%

Assets	19.545.152	100,0%	10.737.334	100,0%	11.477.073	100,0%
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Liabilities

A. Own capital

I. Equity capital	329	0,0%	4.841.428	45,1%	4.841.428	42,2%
Profits of the accounting year			5.153.000	48,0%	2.095.861	18,3%
Use of the profit			-5.153.000	-48,0%	-2.095.861	-18,3%
II. Reserves	18.377.069	93,6%	1.766.000	16,4%	3.135.395	27,3%
Own capital, total	18.377.398	93,6%	6.607.428	61,5%	7.976.823	69,5%

B. Payments in reserve fund

reserves on doubtful requirements	0	0,0%	2.151.218	20,0%	2.058.132	17,9%
reserves on expected expenses and payments	0	0,0%	0	0,0%	0	0,0%
Ot+isleni<, wsego	0	0,0%	2.151.218	20,0%	2.058.132	17,9%

C. Obligations

a) bank obligations, long-term	90.000	0,5%	0	0,0%	0	0,0%
b) bank obligations, short-term	90.000	0,5%	0	0,0%	0	0,0%
c) goods obligations	44.472	0,2%	1.524.981	14,2%	1.083.536	9,4%
d) other creditors	0	0,0%	0	0,0%	0	0,0%
e) other obligations	1.033.282	5,3%	453.707	4,2%	358.582	3,1%
Obligations, total	1.257.754	6,4%	1.978.688	18,4%	1.442.118	12,6%

Liabilities	19.635.152	100,0%	10.737.334	100,0%	11.477.073	100,0%
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Poti Commercial Seaport

Annex 3

Summary table of profit and losses (unit thousand lari)

	Whole port		among them operational units		among them other subunits	
	1996 g.	1997 g.	1996 g.	1997 g.	1996 g.	1997 g.
Revenues						
Loading and unloading works	12.150	14.169	12.150	14.169		
The auxiliary local fleet	1.139	1.115	1.139	1.115		
Port and other dues, plant services	5.307	5.781			5.307	5.781
Auxiliary production and economy	238	356			238	356
Other revenues	65	42			65	42
Revenues total	18.899	21.463	13.289	15.284	5.610	6.179
	100,0%	100,0%	70,3%	71,2%	29,7%	28,8%
Expenditures						
Salary	2.574	3.143	2.184	2.789	390	353
Social insurance charges	824	923	698	819	125	104
Ration of the collective nutrition	5	0	5	0	0	0
Fuel and electric power	706	930	560	897	146	33
Materials and depreciation / n/v, depreciated inventory	353	384	260	259	93	125
Depreciation	418	431	237	250	182	181
Repair (Charges to the repairer fund)	1.223	3.471	717	867	506	2.604
Maintenance cost of administration	847	577	715	513	132	65
Total operational expenditures	220	456	191	403	29	54
Other expenditures	709	1.163	592	487	117	676
Expenditures total	7.878	11.478	6.158	7.283	1.720	4.195
	100,0%	100,0%	78,2%	63,5%	21,8%	36,5%
Profit before taxation	11.021	9.985	7.131	8.001	3.890	1.984
	100,0%	100,0%	64,7%	80,1%	35,3%	19,9%
Profit before taxation (1000 \$ USA)	8.747	7.681	5.660	6.155	3.087	1.526
	100,0%	100,0%	64,7%	80,1%	35,3%	19,9%

Profit and loss account (unit lari)

Batumi Commercial Seaport

	Whole port		among them operational units		among them other subunits	
	1996 g.	1997 g.	1996 g.	1997 g.	1996 g.	1997 g.
Revenues						
Loading and unloading works	2.904	4.853	2.904	4.853		
The auxiliary local fleet	647	1.646	647	1.646		
Port and other dues, plant services	2.021	3.029	2.021	3.029		
Auxiliary production and economy	210	366			210	366
Other revenues	1.815	794			1.815	794
Revenues total	7.597	10.688	5.572	9.528	2.025	1.160
Expenditures						
Salary	1.089	1.608	860	1.363	229	245
Social insurance charges	297	485	252	415	45	70
Ration of the collective nutrition	31	43	31	43	0	0
Fuel and electric power	143	310	57	227	86	83
Materials and depreciation / n/v, depreciated inventory	379	513	291	180	88	333
Depreciation	264	240	151	167	113	73
Repair (charges to the repairer fund)	1.892	764	1.521	275	371	489
Maintenance cost of administration	281	265	238	237	43	28
Total operational expenditures	377	549	321	496	56	53
Other expenditures	748	758	289	209	459	549
Expenditures total	5.501	5.535	4.011	3.612	1.490	1.923
Profit before taxation	2.096	5.153	1.561	5.916	535	-763

Poti Commercial Sea Port

Annex 5

Balance Status for December 31(thousands \$ USA)

	1.996		1.997	
Assets				
I. Material fixed assets	5.346	38,4%	6.388	44,5%
II. Investments	236	1,7%	301	2,1%
A. Fixed Assets	5.582	40,1%	6.689	46,5%
I. Reserves	2.841	20,4%	2.795	19,4%
II. Financial facilities	3.765	27,0%	4.152	28,9%
III. Financial facilities	1.740	12,5%	735	5,1%
B. Current Assets	8.345	59,9%	7.681	53,5%
Assets	13.927	100,0%	14.371	100,0%
Liabilities				
I. Equity capital	3.468	24,9%	3.362	23,4%
II. Reserves Income and capital	5.838	41,9%	7.080	49,3%
A. Own capital	9.307	66,8%	10.441	72,7%
I. Long term reserves	0	0,0%	0	0,0%
II. Long term bank obligations	0	0,0%	0	0,0%
B Long term loan capital	0	0,0%	0	0,0%
I. Bank oblogations, short term	293	2,1%	105	0,7%
II. Other short term obligations	4.328	31,1%	3.824	26,6%
W. Short term loan capital	4.621	33,2%	3.929	27,3%
Liabilities	13.927	100,0%	14.371	100,0%

Financial indeces

1)	rate of financial independence (ownership capital / Agrigation of capital h 100)	66,8%	72,7%
2)	rate of dependence of the loan capital (loan capital / Agrigation of capital h 100)	33,2%	27,3%
3)	rate of long term loan capital (long term loan capital / Agrigation of capital h 100)	0,0%	0,0%
4)	dol< kratkosro+nogo zaemnogo kapitala (sort term loan capital/ Agrigation of capital x 100)	33,2%	27,3%
5)	rate of self-financing (reserve incomes / equity capital h 100)	168,3%	210,6%

Return rate of fixed assets

1)	Payment rate of the first order (own. capital / fixed assets h 100)	166,7%	156,1%
2)	Payment rate of the second order (long term capital / fixed assets h 100)	166,7%	156,1%

Indicators of property structure

1)	Intencivity of the main property main property / property aggregation x 100)	40,1%	46,5%
2)	Rate of the current property (current property / property aggregation x 100)	59,9%	53,5%
3)	Rate of use of the material main property (Port total capasety / material main property)	2,81	2,58
4)	Share of the reserves (reserves / property aggregation x 100)	20,4%	19,4%
5)	Share of the requirments (requierments / property aggregation x 100)	27,0%	28,9%
6)	Share of financial proceeds (Financial proceeds / property aggregation x 100)	12,5%	5,1%

Liquidity indicators

1) First degree liquidity (Financial proceeds / short-term loan capital x 100)	37,7%	18,7%
2) Second degree liquidity (Financial proceeds + reqierm. / short-term loan capital x 100)	119,1%	124,4%
3) Third degree liquidity (circulation property / short-term loan capital x 100)	180,6%	195,5%

Batumi Commercial Seaport

Balance status for December 31 (unit in 1000 \$ USA)

Assets	1996 g.	1997 g.
A. Main property		
I. Buildings and constructions	1.116,1	1.130,3
Technics, equipment and transp.facilities	1.679,7	1.499,4
operational and administrative equipment and etc.	241,0	175,3
Capital investments-unfinished	1.597,8	1.606,3
Total to point I.	4.634,6	4.411,3
II. Financial invesments	217,9	316,8
Total to point II.	217,9	316,8
Main property, total	4.852,5	4.728,1
B. Circulating property		
I. Reserves	479,9	474,5
II. Requirements and other subjects of the property	1.973,4	2.306,0
III. Financial proceeds	5,9	147,0
Circulating property, total	2.459,2	2.927,5
Assets	7.311,7	7.655,6
	100,0%	100,0%

Liabilities

I. Equity capital	3.842,4	52,6%	3.724,2	48,6%
II. Reserves of revenue and capital	2.454,5	33,6%	3.360,6	43,9%
A. Own capital	6.296,9	86,1%	7.084,8	92,5%
Long-term reserves	0,0	0,0%	0,0	0,0%
Long-term credits	0,0	0,0%	0,0	0,0%
B. Long-term loan capital	0,0	0,0%	0,0	0,0%
a) Short-term reserves	0,0	0,0%		0,0%
b) Short-term obligations	1.014,8	13,9%	570,8	7,5%
W. Short-term loan capital	1.014,8	13,9%	570,8	7,5%
Liabilities	7.311,7	100,0%	7.655,6	100,0%

Financial indicators

1) Rate of financial independence (own capital / capital aggregation h 100)	86,1%	92,5%
2) Rate of dependence on loan capital (loan capital / capital aggregation h 100)	13,9%	7,5%
3) share of long-term loan capital share of long-term loan capital/capital aggregation x 100)	0,0%	0,0%
4) share of short-term loan capital (short-term loan capital/ capital aggregation x 100)	13,9%	7,5%
5) Rate of self-financing (profit reserves / equity capital x 100)	63,9%	90,2%

Rate of cover of the main property

1) Rate of cover of the first order (own capital / main property x 100)	129,8%	149,8%
2) Rate of cover of the second order (long-term capital / main property x 100)	129,8%	149,8%

Indicators of property structure

1) Intensity of the main property main property / property aggregation x 100)	66,4%	61,8%
2) long-term investment (property circulation / property aggregation x 100)	33,6%	38,2%
3) Rate of use of the material main property (Port total capacity / material main property)	1,3	1,9
4) Share of the reserves (reserves / property aggregation x 100)	6,6%	6,2%
5) Share of the requirements (requirements / property aggregation x 100)	27,0%	30,1%
6) Share of financial proceeds (Financial proceeds / property aggregation x 100)	0,1%	1,9%

Liquidity indicators

1) First degree liquidity (Financial proceeds / short-term loan capital x 100)	0,6%	25,8%
2) Second degree liquidity (Financial proceeds + requirm. / short-term loan capital x 100)	215,9%	459,5%
3) Third degree liquidity (circulation property / short-term loan capital x 100)	242,3%	512,8%

Poti Commercial Seaport

Annex 7

Profit and loss account/Cash flow definition (in thousand laris)

	Whole port		among them		among them	
	operational units		operational units		other operational subunits	
	1996 g.	1997 g.	1996 g.	1997 g.	1996 g.	1997 g.
Revenues	14.999	16.510	10.547	11.757	4.452	4.753
Loading and unloading works	9.643	10.899	9.643	10.899		
The auxiliary local fleet	904	858	904	858		
Port and other dues, plant services	4.212	4.447			4.212	4.447
Auxiliary production and economy	189	274			189	274
Other revenues	52	32			52	32
Revenues total	14.999	16.510	10.547	11.757	4.452	4.753
Expenditures						
Salary	2.043	2.418	1.733	2.145	310	272
Social insurance charges	654	710	554	630	100	80
Ration of the collective nutrition	4	0	4	0	0	0
Fuel and electric power	560	715	444	690	116	25
Materials and depreciation / n/v, depreciated inventory	280	295	206	199	75	96
Depreciation of main property	562	652	318	378	244	274
Charges on debts	986	986	788	788	197	197
Repair (charges to the repaier fund)	971	2.670	569	667	402	2.003
Non-implemented works	672	672	537	537	134	134
Maintenance cost of administration	672	444	567	395	105	49
Total operational expenditures	175	351	152	310	23	41
Other expenditures	563	895	470	375	93	520
Expenditures total	8.141	10.807	6.343	7.115	1.798	3.692
Profit before taxation	6.858	5.703	4.204	4.642	2.654	1.061
minus 20% profit taxation	-1.372	-1.141				
Profit after taxation	5.487	4.562				

1. indicator of turnover

1.1 debt liabilities turnover

average amount of debt liabilities (1000 \$ USA):

5.198 4.588

Frequency of debt liabilities turnover:
(revenues / average amount of debt liabilities)

2,89 3,60

av. duration of crediting (days):
(360 / Frequency of debt liabilities turnover)

125 100

1.2. Capital turnover

av. amount of own capital (1000 \$ USA):

6.423 6.691

av. amount of capital totality (1000 \$ USA):

7.672 7.484

Frequency of own capital turnover
(revenues / average amount of own capital)

2,34 2,47

Frequency of totality capital turnover
(revenues / av. amount of capital totality)

1,96 2,21

av. duration of own capital turnover (days):
(360 / frequency of own capital turnover)

154 146

av. duration of totality capital turnover (days):
(360 / av. amount of capital totality)

184 163

2. Indicators of profitability

2.1. Profitability of own capital		
av. amount of own capital (1000 \$ USA):	6.423	6.691
profit after taxation (1000 \$ USA):	5.487	4.562
minus emergency revenues (inflation revenues)	-1.500	0
net profit	3.987	4.562
Profitability of own capital (net profit / own capital) h 100	62,1%	68,2%

2.2. Profitability of totality capital		
av. amount of capital totality (1000 \$ USA):	7.672	7.484
Profitability of own capital (net profit / own capital) h 100	52,0%	61,0%

3. Cash Flow Indicators

3. 1. Cash Flow Definition		
Profit after taxation	5.487	4.562
minus emergency revenues (inflation revenues)	-1.500	
plus depreciation payments	562	652
Cash Flow of the period	4.549	5.215

3. 2. Salary interest through Cash Flow		
(Cash Flow of the period / period revenues) h 100	30,3%	31,6%

Profit and loss account (unit 1000 US \$)

	Whole port		among them operational units		among them other subunits	
	1996 g.	1997 g.	1996 g.	1997 g.	1996 g.	1997 g.
Revenues						
Loading and unloading works	2.305	3.733	2.305	3.733		
The auxiliary local fleet	513	1.266	513	1.266		
Port and other dues, plant services	1.604	2.330	1.604	2.330		
Auxiliary production and economy	167	282			167	282
Other revenues	1.440	611			1.440	611
Revenues total	6.029	8.222	4.422	7.329	1.607	892
	100,0%	100,0%	73,3%	89,1%	26,7%	10,9%
Expenditures						
Salary	864	1.237	683	1.048	182	188
Social insurance charges	236	373	200	319	36	54
Ration of the collective nutrition	25	33	25	33	0	0
Fuel and electric power	113	238	45	175	68	64
Materials and depreciation / n/v, depreciated inventory	444	528	341	185	103	343
Depreciation of main property	210	185	120	128	90	56
Charges on debts	367	367	294	294	73	73
Repair (charges to the repair fund)	1.502	588	1.207	212	294	376
Non-implemented works	1.220	1.220	1.098	1.098	122	122
Maintenance cost of administration	223	204	189	182	34	22
Total operational expenditures	299	422	255	382	44	41
Other expenditures	594	583	229	161	364	422
Expenditures total	6.097	5.978	4.685	4.217	1.411	1.761
	100,0%	100,0%	76,9%	70,5%	23,1%	29,5%
Profit before taxation	-67	2.243	-263	3.112	196	-869
Plus the repair expences (repair of ship)	1.000					
minus emergency revenues (inflation revenues)	-1.000					
Loss transfer	-67	-67				
Residual profit		2.176				
Profit tax 20%		435				
Net profit / loss	-67	1.741				

