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Logistics Processes and Motorways of the Sea II

LOGMOS Master Plan – Annex 9.1

Country Profile

GEORGIA

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TABLE OF CONTENTS

1	INTRODUCTION	4
2	NATIONAL TRANSPORT POLICY	5
3	LEGAL ENVIRONMENT IN THE FIELD OF TRANSPORT	8
4	NATIONAL POLICY AND LEGISLATION IN TRADE AND TRANSIT	11
5	INVESTMENT IN TRANSPORT AND LOGISTICS SECTOR IN GEORGIA	12
6	STRATEGIC CHALLENGES	15
6.1	MARKET CHALLENGES	15
6.1.1	<i>National Trade: Exports and Imports</i>	<i>15</i>
6.1.2	<i>Regional TRACECA Trade</i>	<i>19</i>
6.2	INTERMODAL MARITIME BASED TRANSPORT CHALLENGES	24
6.2.1	<i>Port System and Maritime Links</i>	<i>24</i>
6.2.2	<i>Inland Transport Mode: Railways</i>	<i>30</i>
6.2.3	<i>Inland Transport Mode: Roads</i>	<i>35</i>
6.3	TRADE AND TRANSIT FACILITATION	38
6.3.1	<i>General Presentation</i>	<i>38</i>
6.3.2	<i>SWOT Analysis</i>	<i>39</i>
7	PILOT PROJECTS SELECTED FOR MOS I AND ILC PROJECTS	42



LIST OF TABLES

Table 1: Bilateral Agreements with LOGMOS Beneficiary Countries.....	8
Table 2: Multilateral Agreements with LOGMOS Beneficiary Countries	10
Table 3: Tax-Preferences Regimes in Three Designated Tax-Free Zones.....	11
Table 4: IFI Supported Projects in Georgia	13
Table 5: Distribution of Georgia Potential Trade Partners	16
Table 6: Georgia Potential Trade with TRACECA Countries and Europe.....	17
Table 7: Potential Trade with TRACECA Region – Commodity Structure of Imports to Georgia	21
Table 8: Potential Trade with TRACECA Region – Commodity Structure of Exports from Georgia.....	23
Table 9: Relevant Berth Data of Poti Port.....	25
Table 10: Relevant Berth Data of Batumi Port.....	29
Table 11: Main Features of the Georgian Railway Network	31
Table 12: Containers Handled by Sea Ports and Carried by Railway and Truck.....	32
Table 13: Containers Transported by Railway to/from Poti and Batumi by Countries	32
Table 14: SWOT Analysis in Trade and Transit Facilitation Procedures.....	39
Table 15: Selected Pilot Projects in Georgia	42

LIST OF FIGURES

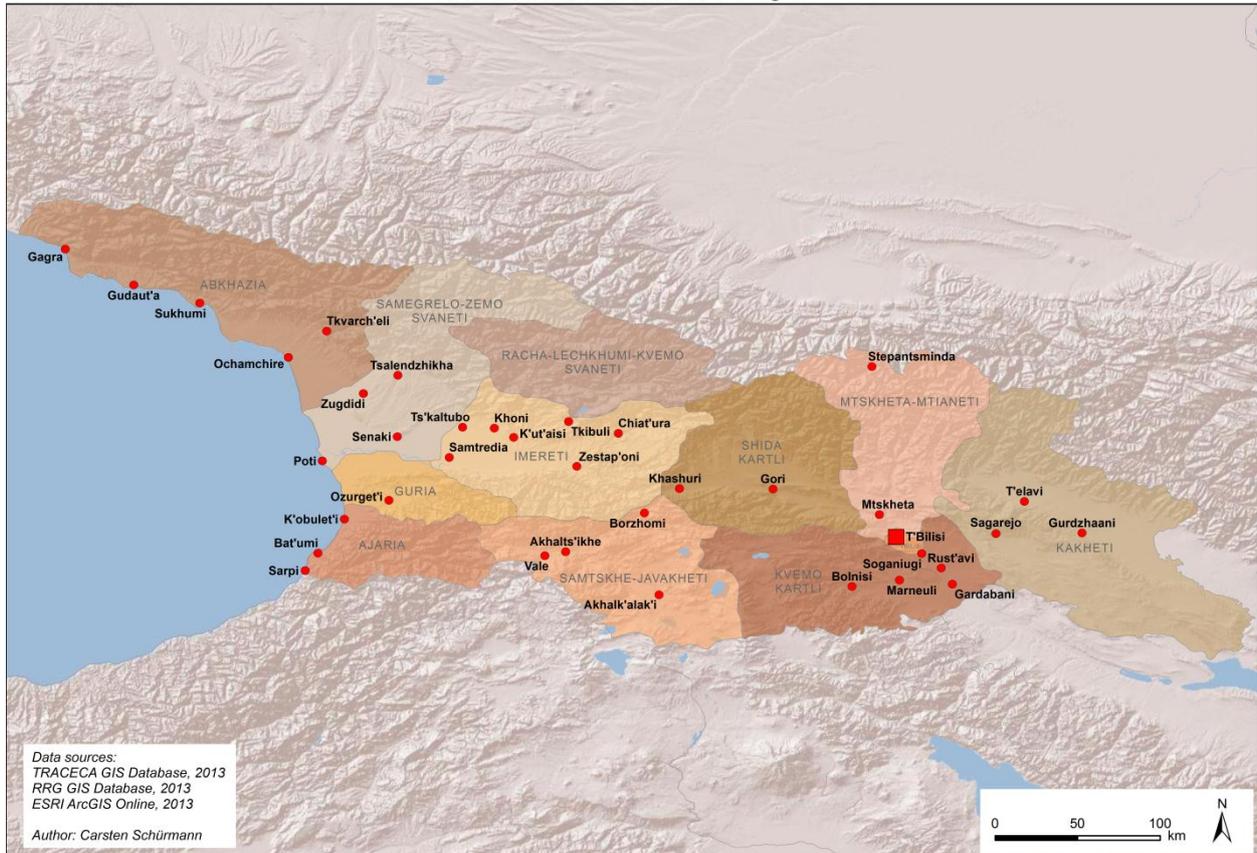
Figure 1: General Map of Georgia	3
Figure 2: Georgia Trade Partners	15
Figure 3: Georgia Trade Partners, Potential Trade	16
Figure 4: Georgia Potential Trade with TRACECA Countries and Europe.....	18
Figure 5: Potential Trade with TRACECA Region – Commodity Structure of Imports to Georgia	20
Figure 6: Potential Trade with TRACECA Region – Commodity Structure of Exports from Georgia.....	22
Figure 7: Port of Poti	25
Figure 8: Port of Batumi	27
Figure 9: Container Feeder under Operations at Batumi International Container Terminal.....	28
Figure 10: Georgia Railway Map	30
Figure 11: Baku – Tbilisi – Kars Railway Project.....	34
Figure 12: Georgia Road Map	35



Logistics Processes and Motorways of the Sea II

Figure 1: General Map of Georgia

Administrative division of Georgia



Source: TRACECA (2013)



1 INTRODUCTION

Georgia occupies a very central and strategic geographical position in the Southern Caucasus region. It constitutes the western neck of Caucasus through which cargoes are transported using the TRACECA corridor. The importance of Georgia is also reinforced by its role as the main gateway to the neighbouring and landlocked Republic of Armenia.

Georgia borders Russia in the North, Azerbaijan in the East, Armenia in the South as well as Turkey. A common maritime border is also shared with Ukraine.

Georgia's transport network has been undergoing a great development since the independence of the country. It is today composed of nearly 1,600 km of rail line and 19,800 km of road. It also possesses a number of international ports including Poti and Batumi, which serve as the European gateways for international dry-cargo trade in the whole Caucasus region and beyond.

World trade and logistics performance indicators

In 2012, Georgia is ranked 32nd out of 132 countries in the Enabling Trade Index developed by the World Economic Forum (average score of 4.7/7). It occupies, in particular, the 9th position for access to market, the 33rd position for border administration, the 66th position for transport and communications infrastructure and the 50th position for business environment. In the World Bank logistics performance index of 2012, Georgia is ranked 77th, compared to 93rd in 2010.

TRACECA Framework

Georgia has been an active member of TRACECA since the Brussels Conference in May 1993, which gave birth to the TRACECA programme.

The ten direct beneficiary countries under review by the LOGMOS Project share a globally common legal and regulatory background for the transport sector, but do have different laws and rules resulting from different contexts and policies.

International Conventions and regional or bilateral agreements complete the framework, and there are expected moves at both national and regional (TRACECA and other groups) levels.

The approach to legal issues related to the LOGMOS Project is focusing on the transport laws and regulations as well as on the afore-mentioned national, international, regional and bilateral conventions and agreements, which have a direct or indirect impact on surface transport modes with a priority for maritime and intermodal transport¹.

The TRACECA programme started in 1993 as one of the components of the intergovernmental TACIS program. The active participation of Georgia started in September 1998, when it signed without any restriction the Basic Multilateral Agreement (MLA) on the development of the transport corridor Europe – Caucasus – Asia, which was also signed by Azerbaijan, Armenia, Bulgaria, Kyrgyzstan, Kazakhstan, Moldova, Romania, Tajikistan, Turkey, Ukraine and Uzbekistan.

After the Intergovernmental Committee and Permanent Secretariat of TRACECA were established in 2000, Georgia set up a TRACECA National Commission headed by a National Secretary.

Georgian representatives take an active part in all conferences and group meetings organised by IGC TRACECA.

More detailed information can be found on the separate [legal report of the LOGMOS Master Plan](#)



2 NATIONAL TRANSPORT POLICY

Institutional reforms were implemented in 2011 to increase the efficiency of the transport sector. One of the biggest achievements was accomplished through the structural reforms that separated the policy making body from the regulatory one. The policy making function was allocated to the Transport Policy Department of the Ministry of Economy and Sustainable Development of Georgia and regulatory to the three separate and independent agencies established after the division of the United Transport Administration of the Ministry. Each agency is responsible for its own sphere and operates with its own budget.

The Transport Policy Department of the Ministry of Economy and Sustainable Development of Georgia is responsible for devising the national transport policy. The Department includes four Divisions:

- Transport Corridor Development Division
- Civil Aviation Division
- Maritime Transport Division
- Land Transport Division

Basic Functions of the Department include:

- developing the national transport policy,
- facilitating transit potential.
- improving legislative framework and harmonising the Georgian legislation with international standards,
- concluding international agreements,
- cooperating with international organisations and agencies,
- devising common safety policy in the transport sector,
- participating in the intergovernmental commissions on economic cooperation and monitoring its performance,
- supporting infrastructural projects.

Basic Functions of the Agencies include:

- developing technical regulations on transport safety and security,
- monitoring performance of the technical regulations,
- development safe, seamless, and environmentally friendly transport network,
- conducting registration of airports, aircrafts and sea vessels,
- issuing certificates for improving aviation and maritime capacity of the respective agencies;
- issuing permits in accordance with Georgian legislation,
- simplifying administrative procedures and establishing attractive environment for investors,
- ensuring passenger's rights and their interests.



The policy of Georgia targets integration into the world economy attracting international business and establishing a favourable investment environment, including legal provisions for the policy of economic liberalisation.

The main objectives of Georgian Transport Policy are as follows:

- Facilitation of competition

Georgia follows the European Union's policy in facilitating competition with the aim of creating incentives for the operator to be more efficient. Another objective is to improve technical and safety controls in order to establish confidence with regard to safety and reliability for Georgian and international operators and customers.

- Facilitation of transit

Georgia has been characterised as a 'geopolitical bridge' connecting several important economic regions. Georgia's transport policy is therefore mainly aimed at reaping all possible benefits from its role as a transit country. This will contribute to the economic efficiency of the country while harmonisation with regulations of the EU will facilitate operation of European transport companies within Georgia and the whole Caucasus region. The participation in the TRACECA Programme serves to achieve this goal.

- Implementation

The whole transport policy is based on the Partnership and Cooperation Agreement with the European Union (PCA) signed in 1996 for 10 years, but is now automatically renewed every year. The PCA Agreement lists transport as one of the ten priority sectors of economic cooperation between the EU and Georgia. Following recommendations made for harmonising Georgian Transport Law with that of the EU under the National Programme for Harmonisation of the Georgian legislation with that of the EU (NPLH), the Georgian Parliament passed several laws. The level of harmonisation differs from one sector to another.

In July 2013, the EU and Georgia completed negotiations over a Deep and Comprehensive Free Trade Agreement (DCFTA) as part of a future Association Agreement (AA) between the two which envisages implementing the EU maritime transport and land transport related directives and regulations in Georgian legislation.

More specifically, the following is worth noting in relation to the fields of the present survey. Georgia:

- has been a member of the International Maritime Organization (IMO) since 1993,
- joined 15 international IMO and UNECE conventions in 1994,
- joined 10 other transport conventions in 1994,
- adopted a Maritime Code with the assistance of IMO and EU experts (1997),
- issued the 'Law on Maritime Areas' regulating the status of maritime areas (1998),
- adopted Vessels Registration Regulations, Maritime Incidents Investigation Regulations, Maritime Mortgage Registration Regulations, Harbor Master Regulations and Pilot Service Regulations (1999),
- set up an Agency in charge of Maritime Transport that obtained a Quality Standards Certificate of ISO-9002 (1994) and is certified with ISO 2000 standard,
- issued Port regulations for navigation, port customs, and port safety rules (2002),
- was confirmed by IMO MSC in the IMO STCW 'White List', which first operated in 2001,



Logistics Processes and Motorways of the Sea II

- adopted the Law of Georgia on the Education and Certification of Seafarers (2011),
- has conducted the re-audit of the LEPL Maritime Transport Agency and the Georgian maritime training and education institutions by European Maritime Safety Agency (EMSA) (2012).

The Maritime Transport Agency cooperates with a number of international organisations:

- IMO since 1993
- BS MoU since 2000
- NATO PBOS (Civil Shipping-Experts Group)
- BASPA since 1999
- Istanbul Commission (Advisory Group)
- International Hydrographic Organization (not a member, communication only)
- ITU (communication with Maritime Communication Division)
- BIMCO (communication only)
- INMARSAT (communication only)
- IACS (communication only)
- COSPAS-SARSAT (communication only)
- National Maritime Authority's (communication and cooperation).

Port Public Private Partnerships were concluded in 2007 - 2008 as follows:

- In early 2008, a 51% stake of Poti Port area were sold to the Investment Authority of UAE's Ras Al Khaimah Emirate (RAKIA) to develop a Free Economic Zone (FEZ) in a 49-year management concession, and to manage a new Port Terminal. Later in 2008, RAKIA bought the remaining 49% shares for USA 65 M. In April 2011, 80% stake of Poti Port was sold by RAKIA to Danish APM Group (Maersk), a subsidiary of APM Terminals.
- The Batumi Port is managed, under a 49-year concession contract, by Batumi Industrial Holdings Ltd, a subsidiary of KazTransOil. The Batumi International Container Terminal (BICT) is operated, under a 49-year concession signed with Batumi Industrial Holdings, by Manila-based International Container Terminal Services (ICTS).



3 LEGAL ENVIRONMENT IN THE FIELD OF TRANSPORT

The main legal instruments regulating the transport industry are:

- New Tax Code including the Customs Code (01.01.2011)
- Law ‘On Automobile Roads’ (11.11.1994)
- Maritime Code (15.05.1997)
- Air Code (29.10.1996)
- Law N3701 ‘On Customs Taxes and Fees’ (12.10.2010)
- Railway Transport Code (28.12.2002)
- Law ‘On Transport Sphere Management and Regulation’ (30.03.2007)
- Law ‘On Electronic Signature and Electronic Document’ (14.03.2008)
- Law ‘On Road Transport’ (04.04.1995)
- Law ‘On Licences and Permits’ (24.06.2005).

Georgia also has a well-established bilateral (see Table 1, below) and multilateral relations (see Table 2) with LOGMOS beneficiary countries in road, rail and maritime transport, and has also developed a strong cooperation in the Customs field.

Table 1: Bilateral Agreements with LOGMOS Beneficiary Countries

Countries	Transport issues				Customs
	Maritime	Road	Railway	General	
Armenia		On international road transport 25.04.2006	On cooperation in railway transport 19.05.1993	On general principles in the field of transit transportation 19.05.1993	On general principles in the field of customs 24.06.1993 On cooperation and mutual assistance in customs issues 15.10.2007
Azerbaijan	On trading navigation 08.03.1996	On international road transport 03.02.1993	On cooperation in the field of railway transport 14.06.2004		On general principles in the field of customs 03.02.1993
Bulgaria	On trading navigation 18.07.1995	On international road transport 19.01.1995		On international carriage of goods and passengers 06.06.1996	
Kazakhstan		On international	On cooperation in the field of	On order of transit	On general principles in





Logistics Processes and Motorways of the Sea II

		road transport 06.03.2007	railway transport 01.06.1993	17.09.1996	the field of customs 01.06.1993
Kyrgyzstan		On international road transport 04.1997			
Moldova		On international road transport 11.07.2012	On cooperation in the field of railway transport 26.12.1997		
Romania	On trading navigation 05.08.1997	On international road transport 26.03.1996		On international combined transport 27.06.1997	
Tajikistan					
Turkey	On trading navigation 30.05.1995	On international road transport 30.07.1992			
Turkmenistan		On international road transport 17.08.1993 (not ratified)			
Ukraine		On international road transport 13.04.1993	On activities of railway transport 21.10.1993		On cooperation on customs issues 14.02.1997
Uzbekistan		On international road transport 04.09.1995			



Table 2: Multilateral Agreements with LOGMOS Beneficiary Countries

Signatory countries	Title of the agreement	Place and date of signature
Azerbaijan, Georgia, Turkmenistan, Uzbekistan	On Coordination of the Activity of Railway Transport	Sarakhs, 13.05.1996
Azerbaijan, Georgia, Turkmenistan, Uzbekistan	On Cooperation in the Area of Transit Transportation	Sarakhs, 13.05.1996
Azerbaijan, Georgia, Turkey	On Coordination of the Activity for the realisation of the Railway Connection Baku – Tbilisi – Kars	Tbilisi, 07.02.2007

Ferry connections are governed by specific agreements:

- Agreement between Ministries of Transport of Georgia and Ukraine on the joint operation and organisation of Ro-Ro Transport between Poti (Georgia) and Ilylichevsk (Ukraine) (1996).
- Trilateral agreement between Georgia, Bulgaria and Ukraine on the joint operation of Ferry services between Varna (Bulgaria), Poti/Batumi (Georgia) and Illichevsk (Ukraine) (1999 rev. 2001).
- Agreement between Ukraine and Georgia on the organisation of direct International Ferry Traffic between Kerch (Ukraine) and Poti/Batumi (Georgia) (2007).
- Memorandum on coordination on the sphere of maritime services between the Ministry of Transport and Sustainable Development of Georgia and the Ministry of Transport of Romania.

Agreement between the Government of the Republic of Turkey and the Government of Georgia on the Organisation of Direct International Railway Ferry Communications through Ports of Poti/Batumi (Georgia) and Samsun/Derince (Turkey). The Agreement is undergoing state internal procedures.

With the assistance of the LOGMOS project, Azerbaijan, Georgia, Kazakhstan and Turkey signed, in Izmir on November 28th 2012, a 'Memorandum of Understanding on the principles of joint activity on the development of transport networks and organization of cargo transportation'.

The MoU paves the way for the signature of an Intergovernmental Agreement on the Silk-Wind block train project and set the legal basis for its technical implementation.

The Silk Wind project aims to enhance the attractiveness and the transit function of the TRACECA transport corridor by creating a smooth and reliable transport corridor from Western China to Europe. It includes along the corridor new infrastructure projects (construction of Beyneu - Zhezkazgan railway line in Kazakhstan, Baku - Tbilisi - Kars railway line, the New Port of Baku at Alyat and the Marmara railway tunnel in Istanbul) and simplification of customs and border crossings with a preliminary information exchange system between customs authorities and railway operators².

² For a more detailed description of the Silk Wind Project, please refer to the [Annex 4 on MCA Project Fiches of the LOGMOS Progress Report III](#)





4 NATIONAL POLICY AND LEGISLATION IN TRADE AND TRANSIT

The government policy of Georgia is directed towards ensuring harmonisation and improving its transit framework and customs procedures, which will guarantee the sustainability of Georgia’s transit system and transport services. Over the last few decades, several legal frameworks were developed:

- In 1994, Georgia Free Trade Agreement (FTA) with CIS countries, which includes an exemption of goods and services from import customs duties in the bilateral trade with CIS countries.
- Georgia has been a member of World Trade Organization (WTO) since 2000.
- In 2008, Georgia also signed a FTA with Turkey, which also includes exemption of goods and services from import customs duties except certain agricultural products.
- Georgia benefits from Generalized System of Preferences (GSP) in trade with USA, Canada, Switzerland, Japan and Norway.
- GSP status with EU allows to export 7200 products to the EU market duty free.
- Georgia is actively working with the EU and the USA to encourage free trade negotiations.
- Georgia has low import tariffs (90% of goods free from import tariff).
- Georgia dramatically reduced a number of necessary export/import licenses and permits.
- No quantitative restrictions on import and export, no customs tariff on export and re-export.
- No VAT on export.
- In July 2013, the EU and Georgia completed negotiations over a Deep and Comprehensive Free Trade Agreement (DCFTA).

The Georgian government implemented the following three types of zones where tax preferences regime are implemented:

Table 3: Tax-Preferences Regimes in Three Designated Tax-Free Zones

Taxes	Free Industrial Zone	Free Warehouse Enterprise	International Financial Company
Corporate Income Tax	0%	0%	0%
Carry Forward	0%	0%	0%
Customs Tax	0%	0%	0-12%
Property Tax	0%	1%	1%
Personal Income Tax	20%	20%	20%
Net Operating Losses			
Carry Back	0%	0%	0%



5 INVESTMENT IN TRANSPORT AND LOGISTICS SECTOR IN GEORGIA

IGC TRACECA actively supports the ongoing infrastructure projects in Georgia. Since 1993, Georgia has been involved in 43 different TACIS projects of technical assistance, dealing with infrastructure, trade and border crossing facilitation, as well as institutional improvement, legal instruments and training courses.

Through the instrumentality of TRACECA investment projects, Georgia received financial support to a total sum in excess of EUR 13 M, thanks to which, the following projects were completed:

- Rehabilitation of the Caucasian Railways, 1995-1996.
- Rehabilitation of Red Bridge and construction of the TRACECA bridge, 1997-1998.
- Design and construction of Rail Ferry Facilities in the Port of Poti, Georgia, 1998-1999.
- Establishment of a Ferry Cargo Movement Computer System and Supply and Installation of Computers and Communication Equipment for the Ports of Ilychevsk (Ukraine) and Poti (Georgia), 1998-2000.
- Equipment for cargo handling and container logistics centre for the export of cotton near Bukhara (Uzbekistan), as well as sea ports of Baku (Azerbaijan) and Turkmenbashi (Turkmenistan), Poti (Georgia) and Illichivsk (Ukraine), 1998-2000.
- Supply of an Optical Cable System for Communication and Signalling to the Railways of Armenia, Azerbaijan and Georgia, 2000-2002.

Other major investments in the transport and logistics sector in Georgia were possible thanks to the funding of IFIs such as the European Bank for Reconstruction and Development (EBRD), the World Bank (WB), the Asian Development bank (ADB), the Japanese International Cooperation Agency (JICA), the European Investment Bank (EIB) and the European Union through the NIF.

The new USD 75 M for the East-West Highway, 4th project, has four components. The first component is improvement and asset management of the East-West highway. It has the following five sub-components: (i) upgrading of existing East-West highway through the construction of a 2-lane dual carriageway from Agara to Zemo Osiauri; (ii) maintenance of the E60 2-lane dual carriageway between Natakhtari and Ruisi; (iii) civil works to improve road safety and access roads on the existing East-West highway between Natakhtari and Ruisi (67 km) and along the existing E60 alignment between Ruisi and Chumateleti (44 km); (iv) environmental improvement measures along completed sections of the E60 highway between Natakhtari and Ruisi (67 km); and (v) construction supervision and quality assurance services. The second component is institutional strengthening.

A USD 1 M TA-project of ADB will determine the feasibility of quickly improving the road subject to the budget and time available, and the socio-economic and environmental benefits of the project. The project will have three main outputs: (i) improved road from Dzirula to Chumateleti, about 50 km in length; (ii) improved access to the railway stations adjacent to the improved road; and (iii) geographic information system.



Logistics Processes and Motorways of the Sea II

This TA will enable the government to determine the most suitable method of sourcing maintenance works for the project based on this experiment's results and other ongoing activities.³

Table 4: IFI Supported Projects in Georgia

Title of project	Year of approval	Sub-sector	Total project cost	IFI funding
Fourth East-West Highway Improvement Project	2013	Road	USD 93.8 M	USD 75 M (WB)
Secondary and Local Roads Project II	2012	Road	USD 87 M	USD 70 M (WB)
Third East-West Highway Improvement project Additional financing	2012	Road	USD 53.7 M	USD 43 M (WB)
East-West Highway improvement	2012	Road	EUR 225 M	EUR 200 M (EIB) EUR 20 M (EU through NIF)
East-West Highway improvement	2011	Road	EUR 222 M	EUR 190 M (JICA)
Second East-West Highway Improvement Project Additional financing	2010	Road	USD 66.6 M	USD 20 M (WB)
First East-West Highway Improvement project Additional financing	2010	Road	USD 35 M	USD 28 M (WB)
Third East-West Highway Improvement project	2009	Road	USD 184 M	USD 147 M (WB)
Road Corridor Investment program Project 1	2009	Road	EUR 319 M	USD 258 M (ADB)
Poti Port (stage 1)	2009	Maritime transport	EUR 10.1 M	EUR 8 M (EBRD)
Kakheti Regional Improvement project	2009	Road	USD 37.5 M	USD 30 M (WB)
Secondary and Local Roads	2009	Road	USD 102 M	USD 70 M (WB)

³ Source: World Bank



Logistics Processes and Motorways of the Sea II

Project Additional Financing				
Secondary and Local Roads Project	2007	Road	USD 30 M	USD 20 M (WB)
Second East-West Highway Improvement Project	2007	Road	USD 50.4 M	USD 35 M (WB)
First East-West Highway Improvement project	2006	Road	USD 30 M	USD 19 M (WB)





6 STRATEGIC CHALLENGES

6.1 Market Challenges

6.1.1 National Trade: Exports and Imports

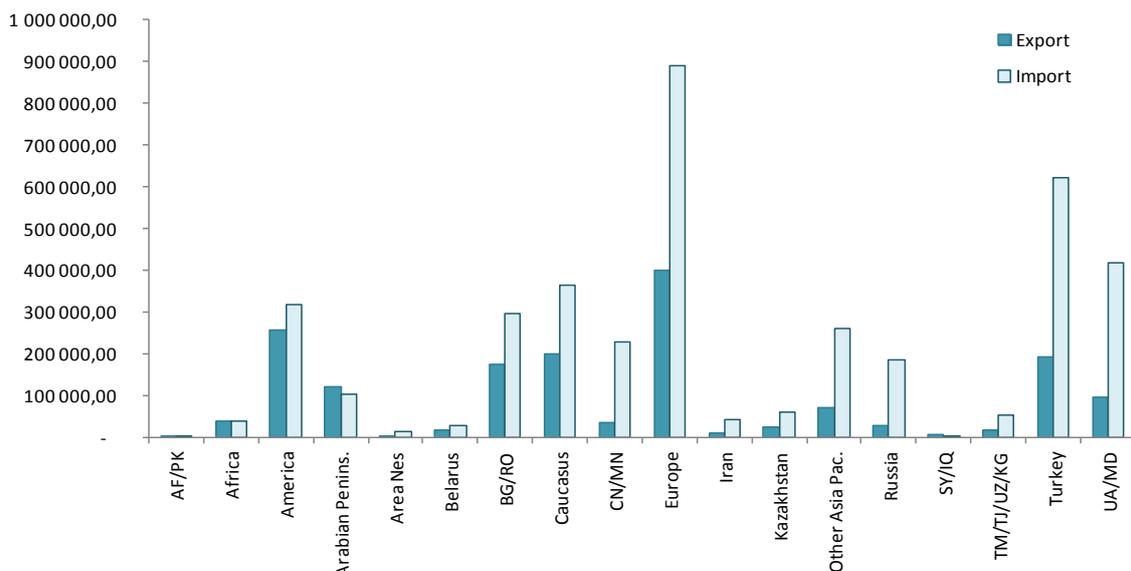
World Trade Partners

Thanks to its location in the heart of TRACECA main corridor, Georgia is a key transit state for trade among TRACECA states, and more broadly East-West trade all the way from Europe to China. Besides from being a vital TRACECA market, the strategic importance of Georgia is reinforced by the fact that the majority of all land trade to and from Armenia passes through Georgia. In 2010, exports to Georgia amounted to EUR 1,695 M while imports reached EUR 3,935 M.

Analysing the 2010 trade partners of Georgia (Figure 2 and Table 5), the following observations can be made:

- Georgia is a net importer. Imports dominate exports with every partner except those at destinations in the Arabian Peninsula.
- Imports to Georgia come from Europe (22.63%), Turkey (15.85%), Caucasus (9.28%) and America (8.12%), and therefore mostly uses western TRACECA commercial routes.
- Georgian export also occurs mainly in a westbound direction. Export destinations include Europe (23.68%), America (15.14%), Caucasus (11.87%) and Turkey (11.28%).
- Trade with TRACECA countries account for less than half of Georgia's global trade flow (46.14% of total imports and 41.64% of total exports). Among these countries, the main partners are Turkey (14.47%), Caucasus (10.06%) and Ukraine/Moldova (9.12%). Trade with Central Asian countries (Kazakhstan + TRACECA South-East countries) is estimated at only 2.81%.

Figure 2: Georgia Trade Partners, 2010, th EUR



Source: Computation based on Eurostat and UN Comtrade databases



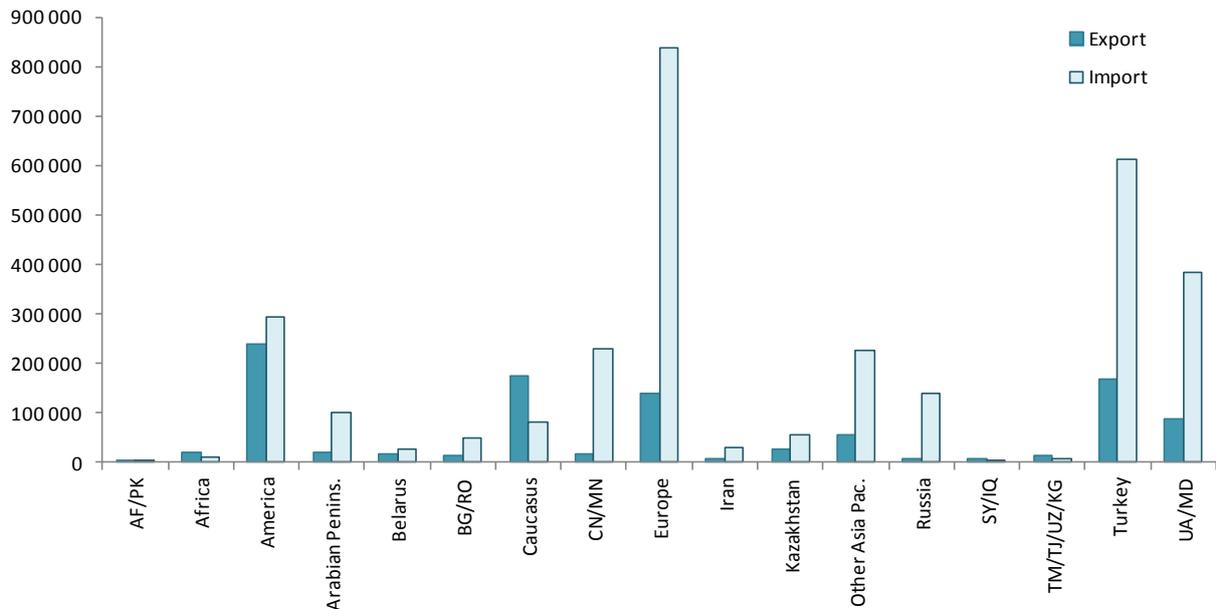
Logistics Processes and Motorways of the Sea II

Bulk commodities aside, the analysis of containerizable goods (Figure 3 and Table 5) reveals:

- Georgia is still a net importer. With the exception of the Caucasus countries, the rest of Georgia’s non-bulk trade resulted in a negative merchandise trade balance. Armenia is the explanation for such a result, as the majority of land trade to and from this landlocked country passes through Georgia.
- Bulk goods aside, imports are three times more important than exports.
- Bulk products constitute an important part of Georgia’s exports (40.05%).
- In regards to containerisable goods, imports to Georgia come from Europe (27.14%), Turkey (19.77%), Ukraine/Moldova (12.43%) and America (9.52%).
- Export destinations include America (23.52%), Caucasus (17.25%), Turkey (16.62%) and Europe (13.67%).

As could be seen from Figure 2 and Table 5, an important part of Georgia is targeted to North-West TRACECA, Turkey and Caucasus neighbouring states.

Figure 3: Georgia Trade Partners, Potential Trade, 2010, th EUR



Source: Computation based on Eurostat and UN Comtrade databases

Table 5: Distribution of Georgia Potential Trade Partners, 2010, % in Trade Value

Zones	All products		Total all products	No min. fuel & ores		Total no min. fuel & ores
	Import	Export		Import	Export	
Afghanistan-Pakistan	0.06%	0.02%	0.05%	0.08%	0.02%	0.07%
Africa	1.02%	2.36%	1.43%	0.33%	2.11%	0.77%
America	8.12%	15.14%	10.23%	9.52%	23.52%	12.98%
Arabian Peninsula	2.66%	7.18%	4.02%	3.31%	1.96%	2.98%
Area Nes	0.34%	0.15%	0.28%	0.00%	0.00%	0.00%
Belarus	0.76%	1.01%	0.83%	0.91%	1.63%	1.09%





Logistics Processes and Motorways of the Sea II

Bulgaria-Romania	7.51%	10.23%	8.33%	1.60%	1.37%	1.54%
Caucasus	9.28%	11.87%	10.06%	2.61%	17.25%	6.23%
China-Mongolia	5.84%	2.02%	4.69%	7.42%	1.66%	6.00%
Europe	22.63%	23.68%	22.95%	27.14%	13.67%	23.81%
Iran	1.11%	0.62%	0.96%	0.94%	0.74%	0.89%
Kazakhstan	1.53%	1.55%	1.54%	1.83%	2.58%	2.02%
KY-TJ-TM-UZ	1.35%	1.08%	1.27%	0.28%	1.38%	0.55%
Other Asia Pacific	6.59%	4.17%	5.86%	7.27%	5.44%	6.82%
Russia	4.70%	1.61%	3.77%	4.50%	0.68%	3.55%
Syria-Iraq	0.03%	0.39%	0.14%	0.04%	0.62%	0.19%
Turkey	15.85%	11.28%	14.47%	19.77%	16.62%	18.99%
Ukraine-Moldova	10.62%	5.63%	9.12%	12.43%	8.77%	11.52%
Total	100%	100%	100%	100%	100%	100%

Source: Computation based on Eurostat and UN Comtrade databases

Further analysis of the tonnage of imported and exported goods from/to Georgia (see Table 6) reveals that:

- The weight of goods traded with Turkey significantly dominates imports and exports (35.06%/38.45%).
- Other significant trade, in terms of tonnage, occurs with Ukraine/Moldova, Europe and Caucasus.
- Import is twice as important as export in terms of tonnage.

As demonstrated in Figure 4, there is an imbalance between eastbound and westbound trade flows to and from Georgia. The former constitutes almost 70% of the total trade.

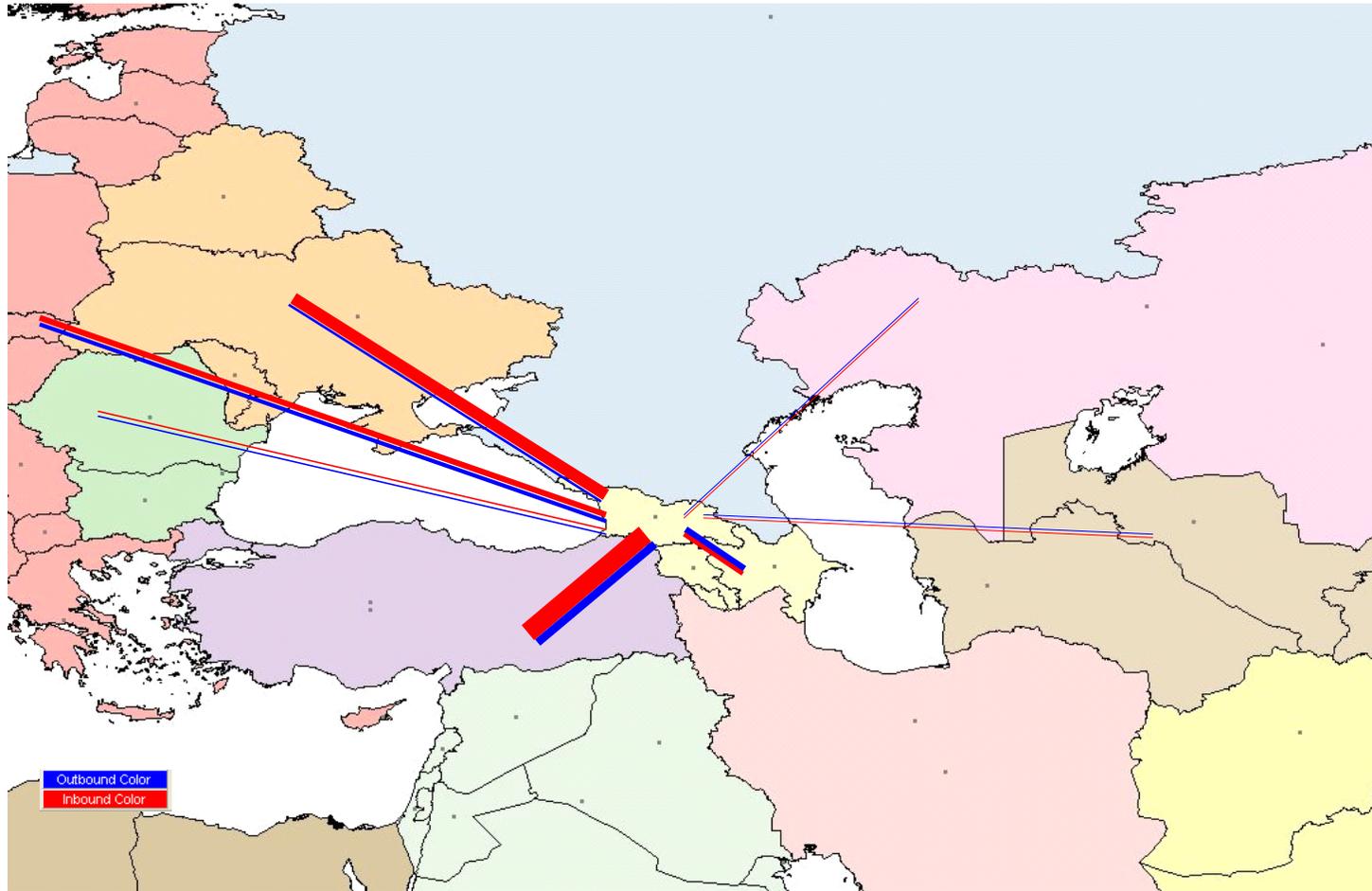
Table 6: Georgia Potential Trade with TRACECA Countries and Europe, 2010, in Tonnes and %

Zones	Tonnage		Share in trade with TRACECA countries and Europe	
	Export	Import	Export	Import
Bulgaria-Romania	59,220.1	61,410.8	6.43%	3.08%
Caucasus	256,836.9	175,716.3	27.87%	8.81%
Europe	159,450.9	234,329.3	17.30%	11.75%
Kazakhstan	15,812.0	261,955.3	1.72%	13.14%
KY-TJ-TM-UZ	6,421.8	20,974.9	0.70%	1.05%
Turkey	323,062.0	766,562.0	35.06%	38.45%
Ukraine-Moldova	100,724.2	472,768.5	10.93%	23.71%
Total	921,527.9	1,993,717.1	100%	100%

Source: Computation based on Eurostat and UN Comtrade databases



Figure 4: Georgia Potential Trade with TRACECA Countries and Europe, 2010, in Tonnes



Source: Computation based on Eurostat and UN Comtrade databases





6.1.2 Regional TRACECA Trade

In regards to imports from Europe and TRACECA countries, it should be noted that:

- 'Mineral products' and 'vegetal products' are, on average, the most important commodities in terms of tonnage.
- 'Mineral products' come mainly from the Caucasus and Turkey and as they comprise mostly construction material, they could be partially containerised.
- 'Vegetal products' account for more than half the import tonnage from Kazakhstan and TRACECA South East countries. They mostly consist of cereal and could also be partly containerised.
- The commodity structure of imports from Europe is dominated by 'Land, Air and Maritime vehicles'. These imports could also be transported in containers.

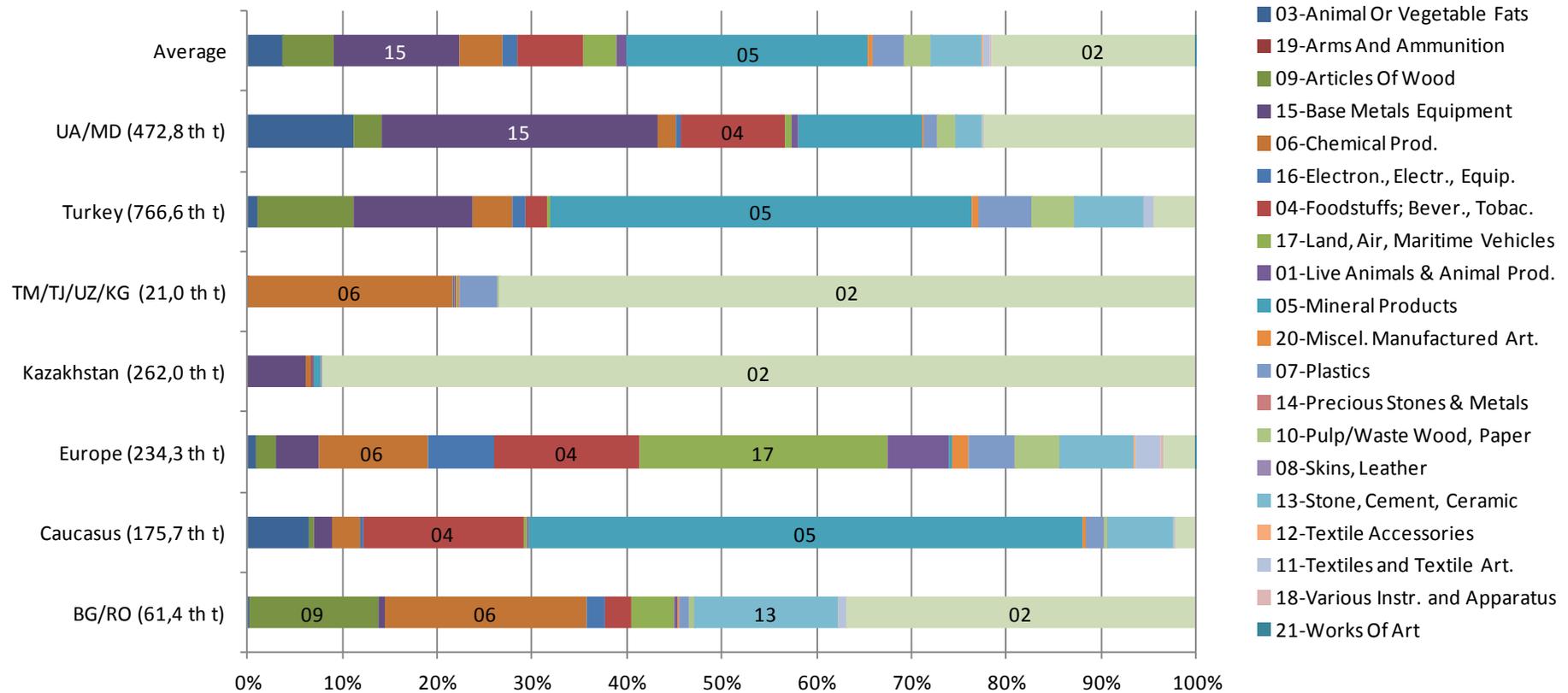
Regarding exports from Georgia, the following points are noteworthy:

- The commodities that make up the majority of Georgia's export trade are 'base metal equipment', 'chemical products' and 'foodstuffs, beverage, tobacco'.
- 'Base metal equipment' is mostly exported to Ukraine and Turkey and mainly consists of iron and steel products, which is only partly containerizable.
- 'Chemical products', including containerizable goods, is mainly exported to Europe, Turkey and Bulgaria/Romania. This category constitutes 99.50% of all exports to Bulgaria/Romania.
- 'Foodstuffs, beverage, tobacco', exported mainly to Europe, Ukraine, Kazakhstan and the TRACECA South-East countries, also represent a potential for containerisation.



Logistics Processes and Motorways of the Sea II

Figure 5: Potential Trade with TRACECA Region – Commodity Structure of Imports to Georgia, 2010, in Tonnes and %



Source: Computation based on Eurostat and UN Comtrade databases





Logistics Processes and Motorways of the Sea II

Table 7: Potential Trade with TRACECA Region – Commodity Structure of Imports to Georgia, 2010, in Tonnes

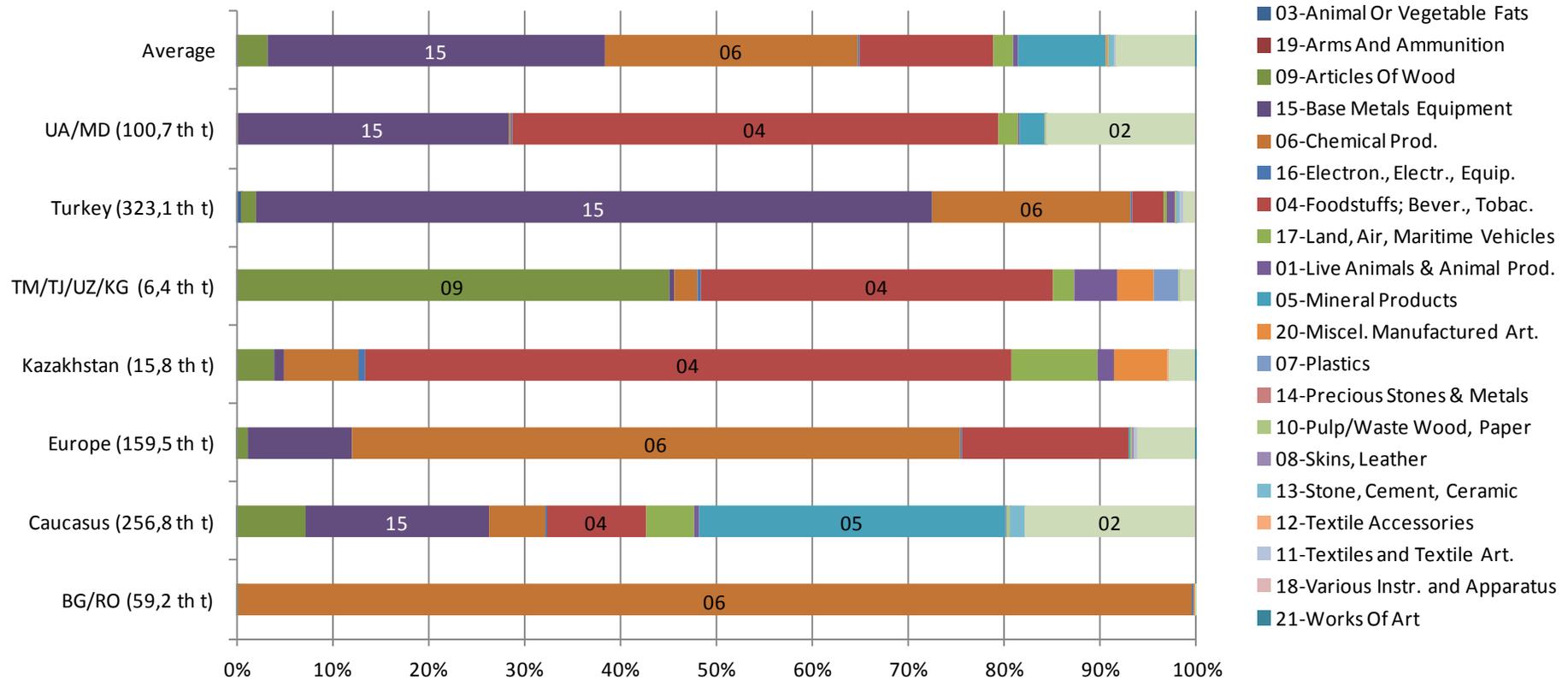
Commodity Groups	Bulgaria-Romania	Caucasus	Europe	Kazakhstan	KY-TJ-TM-UZ	Turkey	Ukraine-Moldova
Animal Or Vegetable Fats	64.70	11,503.86	2,097.30	n/a	n/a	7,726.77	53,066.76
Arms And Ammunition	n/a	n/a	85.60	n/a	n/a	35.14	n/a
Articles Of Wood	8,380.50	785.39	4,760.06	0.13	0.14	78,314.91	13,922.32
Base Metals Equipment	486.60	3,493.97	10,529.75	16,219.75	0.50	96,200.09	137,112.88
Chemical Prod.	13,003.90	4,936.03	26,909.26	1,148.44	4,538.96	32,110.00	9,270.47
Electron., Electr., Equip.	1,151.60	640.76	16,678.39	1.03	41.92	10,113.91	2,895.78
Foodstuffs; Bever., Tobac.	1,767.80	29,914.73	35,832.69	640.98	11.55	18,111.15	51,983.95
Land, Air, Maritime Vehicles	2,759.70	553.86	61,169.83	15.76	68.49	2,149.47	2,945.62
Live Animals & Animal Prod.	181.60	192.32	15,108.10	191.16	2.40	543.85	3,647.00
Mineral Products	0.00	102,865.83	995.50	2,099.96	n/a	340,337.15	61,229.19
Miscel. Manufactured Art.	153.70	381.04	4,086.87	5.96	6.69	4,759.94	1,460.39
Plastics	688.60	3,419.00	11,249.29	363.93	838.26	43,591.10	6,471.49
Precious Stones & Metals	n/a	0.34	5.10	0.00	0.00	4.51	0.90
Pulp/Waste Wood, Paper	300.90	653.60	11,116.90	0.66	58.39	34,650.40	9,147.78
Skins, Leather	1.90	25.38	38.95	0.01	0.00	165.15	15.14
Stone, Cement, Ceramic	9,269.10	12,126.14	18,500.36	21.11	0.68	55,664.13	12,659.01
Textile Accessories	4.90	36.78	186.16	0.05	0.00	424.43	17.48
Textiles and Textile Art.	517.30	370.85	6,214.61	1.18	5.28	7,659.59	923.98
Various Instr. and Apparatus	4.90	7.82	939.73	0.13	0.00	54.62	50.50
Vegetable Products	22,673.10	3,808.62	7,800.00	241,245.09	15,401.64	33,945.61	105,947.83
Works Of Art	n/a	0.01	24.80	0.00	n/a	0.05	0.00
Total imports	61,410.80	175,716.32	234,329.27	261,955.33	20,974.90	766,561.97	472,768.48

Source: Computation based on Eurostat and UN Comtrade databases



Logistics Processes and Motorways of the Sea II

Figure 6: Potential Trade with TRACECA Region – Commodity Structure of Exports from Georgia, 2010, in Tonnes and %



Source: Computation based on Eurostat and UN Comtrade databases





Table 8: Potential Trade with TRACECA Region – Commodity Structure of Exports from Georgia, 2010, in Tonnes

Commodity Groups	Bulgaria-Romania	Caucasus	Europe	Kazakhstan	KY-TJ-TM-UZ	Turkey	Ukraine-Moldova
Animal Or Vegetable Fats	n/a	135.09	47.90	n/a	n/a	1,337.58	n/a
Arms And Ammunition	n/a	n/a	0.00	n/a	n/a	2.53	n/a
Articles Of Wood	71.40	18,570.75	1,826.25	617.93	2,899.48	5,046.68	106.67
Base Metals Equipment	28.40	48,979.97	17,394.30	175.97	33.52	228,084.77	28,501.79
Chemical Prod.	58,921.30	15,049.15	101,042.01	1,209.57	153.08	66,885.29	209.91
Electron., Electr., Equip.	8.20	482.44	151.92	124.29	24.53	166.17	63.23
Foodstuffs; Bever., Tobac.	55.20	26,504.93	27,860.72	10,644.23	2,355.10	10,913.65	51,167.41
Land, Air, Maritime Vehicles	9.30	12,832.58	70.16	1,420.38	148.62	1,029.95	1,986.44
Live Animals & Animal Prod.	n/a	1,431.82	0.00	263.58	280.73	2,545.70	276.79
Mineral Products	0.60	81,725.34	198.70	n/a	n/a	6.69	2,531.15
Miscel. Manufactured Art.	37.70	96.45	54.96	876.30	240.26	14.39	0.39
Plastics	2.10	293.67	36.83	0.19	175.42	74.93	1.40
Precious Stones & Metals	n/a	0.17	23.50	n/a	n/a	0.44	0.00
Pulp/Waste Wood, Paper	0.60	1,053.45	97.30	0.06	2.45	473.84	108.23
Skins, Leather	n/a	15.25	391.32	0.51	n/a	268.21	0.01
Stone, Cement, Ceramic	18.00	3,767.30	69.49	17.21	n/a	963.18	1.00
Textile Accessories	0.00	6.32	1.26	1.01	0.04	4.81	0.02
Textiles and Textile Art.	17.20	53.26	500.11	8.98	0.10	894.69	3.74
Various Instr. and Apparatus	0.00	16.29	10.98	0.03	1.35	1.70	0.70
Vegetable Products	5010	45,822.72	9,672.73	451.78	107.11	4,346.86	15,765.30
Works Of Art	n/a	0.00	0.40	0.01	n/a	n/a	0.00
Total exports	59,220.10	256,836.94	159,450.85	15,812.03	6,421.80	323,062.04	100,724.18

Source: Computation based on Eurostat and UN Comtrade databases



6.2 Intermodal Maritime Based Transport Challenges

LOGMOS aims to develop seamless door-to-door intermodal services, where all components of the transport chain may be considered as possible segments of LOGMOS projects, depending on their relevance for potential LOGMOS trade flows.

Port interfaces for operations, services, procedures etc. between land and sea are among the most critical points.

6.2.1 Port System and Maritime Links⁴

The Georgian port system comprises two medium-sized bulk, general cargo and container ports, Poti and Batumi, plus oil terminals at Supsa and Kulevi.

Poti and Batumi are the Eastern Black Sea intermodal gateways westbound to Black Sea, Turkey and Europe and eastbound to the Caucasus and Asia.

Both ports are served by regular rail-ferry and container services linking them with other Black Sea ports and Mediterranean ports.

They are geographically close and handle both containers but different types of non-containerised cargo (Batumi being more specialised in liquid and solid bulk and Poti in solid bulk and general cargo).

Poti has an advantage in terms of being a shorter rail route to Tbilisi and Baku, whereas the rail link between Batumi via Poti has restricted train lengths.

Batumi, on the other hand, has greater depths and does not need permanent dredging like Poti, where the Rioni river washes sediment into the port aquatorium.

Port of Poti

The port of Poti is the largest commercial (predominantly non oil and gas) port on the Black Sea of Georgia.

In April 2008 the port was privatised. RAKIA (Ras Al Khaimah Investment Authority) purchased a 51% stake of the Poti port. Rakia Georgia Free Industrial Zone LLC (Subsidiary of RAKIA) signed a 49-year concession contract to operate the port and develop a Free Economic Zone. In 2009, RAKIA acquired the remaining 49% stake of the port.

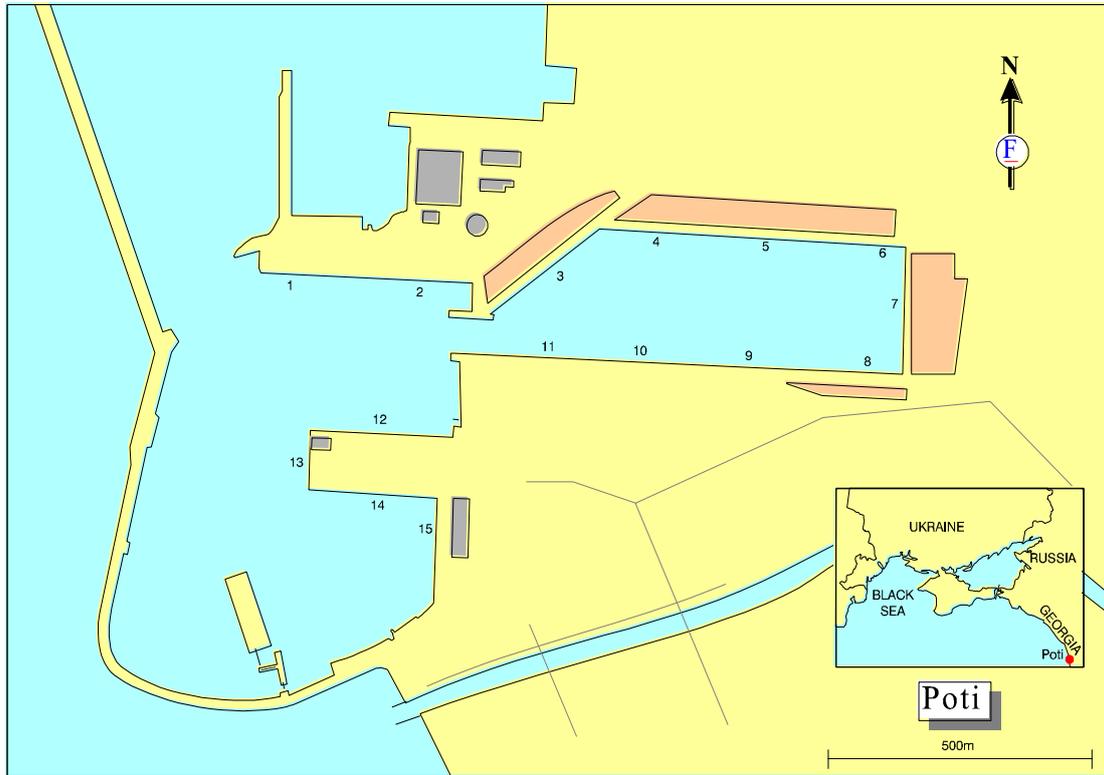
In April 2011, RAKIA sold 80% of its shares to the global container terminal operator AP Moeller Terminals, a sister-company of Maersk Line.

RAKIA continues to operate the Poti Free Industrial Zone (FIZ), which occupies about 100 hectares adjacent to the port. RAKIA hopes to develop it into a major logistics and industrial centre, pledging a USD 200 M investment. Tax exemptions from profit and property, as well as VAT and exemption of customs duties for exports or national sales, are granted to companies settling there.

⁴ More information and data concerning the national port system (including port maps and technical descriptions as well as the regular maritime services operated can be found in the separate [maritime report of the LOGMOS Master Plan](#).



Figure 7: Port of Poti



The port has 15 berths, with a total berth length of 2900 m and more than 20 quay cranes.

Rail-ferries have been accommodated since 1999 at berth number 2. This berth cost EUR 3.4 M and was funded under the TRACECA programme. The ramp has a 1,520 mm Russian gauge. The complex includes a 10,000 sq m lorry park. The nominal cargo throughput is estimated at 700,000 T.

Container vessels are berthed at pier number 7 and pier 14, which was rehabilitated in 2009, thanks to EBRD funding, to accommodate 1,000 TEU feeder vessels.

Limited storage facilities in the port area compel the stevedore to evacuate discharged containers to 8 off-dock private terminals where empty containers are stored and full and empty export boxes are brought for loading upon vessels' calls.

In an initial effort to integrate activities, a storage area in the port was completed in 2010 to handle the second-hand car containerised traffic.

APM is planning a USD 110 M investment, including a new comprehensive container terminal, which is to be built on a 100 ha site adjacent to the existing port. Extending the breakwater and dredging at 17m water depth will allow the receipt of container vessels up to 5,000 TEUs.

Poti is directly linked to the Georgian railway network. A block container train runs every other day to Tbilisi's Georgian Railway Eastern Terminal.

Table 9: Relevant Berth Data of Poti Port

Berth number		Berth length (m)	Depth (m)	Handling capacity
2	Rail ferry (Russian gauge)	183	12.5	
7	Container terminal	221	8.2	200,000 TEU/Year



Logistics Processes and Motorways of the Sea II

13	Ro-Ro and passenger	97	6.5	
14	Multifunctional container terminal	253	8.4	250,000 TEU/Year

Throughput	2007	2008	2009	2010	2011	2012
Containers TEU	184,792	209,614	172,800	209,797	254,000	284,559
Capacity						
Containers TEU			100,000 Additional capacity in RAKIA new terminal			

Maritime Services

Regular services calling at Poti include the following:

Rail-ferry

- UkrFerry-NaviBulgar runs a weekly joint service to/from Kerch
- UkrFerry-NAviBulgar runs three times a week joint service to/from Illychevsk
- UkrFerry-NaviBulgar runs fortnightly joint service to/from Derince
- BMF, a subsidiary of RZD (the Russian Railways), has a weekly service from/to Port-Kavkaz

Cargoes carried in wagons by these lines are mainly destined for Georgia and Armenia (especially Armenia for BMF since the (Armenian) South Caucasus Railways are also a subsidiary of RZD) and to a smaller extent, Azerbaijan. There is practically no transit cargo to/from Central Asia.

UkrFerry-NaviBulgar plan to include Constanta in the service to/from Derince as from mid-October 2013.

Containers

- CMA-CGM feeder to other Black Sea ports, Mediterranean
- Maersk feeder to other Black Sea ports
- MSC feeder to Romania and Turkey
- UFS-Arkas feeder to other Black Sea ports

Due to port features, only container feeders call at Poti and relay boxes from/to main hubs in the Black Sea (Constanza, Istanbul) or the Mediterranean (Malta, Port Said). The lines are run with vessels of up to 1,200 TEU maximum capacity. The world's three leading ocean carriers, Maersk, CMA-CGM and MSC, dominate the container market in Poti with a market share in excess of 80%. MSC holds the lion's share with over 50% of the market both import and export.

Although trucking remains the dominant inland carriage mode, import containers into Georgia are increasingly railed owing to the implementation of drastically reduced tariffs and the improvements in the service offered by Georgian Railway. In particular, this relates to the launching of a fixed-day block-train service every other day to/from Tbilisi (June 2011). This, in turn, has had a positive effect on the containerisation of exports which, thus far, were performed in break-bulk in closed wagons for further stuffing at Poti.





Logistics Processes and Motorways of the Sea II

Containers to/from Armenia are partly railed on the regular Block Container Train from Poti to Yerevan and partly carried by truck.

Owing to the non-competitiveness of rail tariffs, insufficient quality of service, trucking to Azerbaijan, either in containers or after unstuffing at Poti, is by far the preferred mode of transport, except for heavy loads moving in, mainly, 20' containers.

Port of Batumi

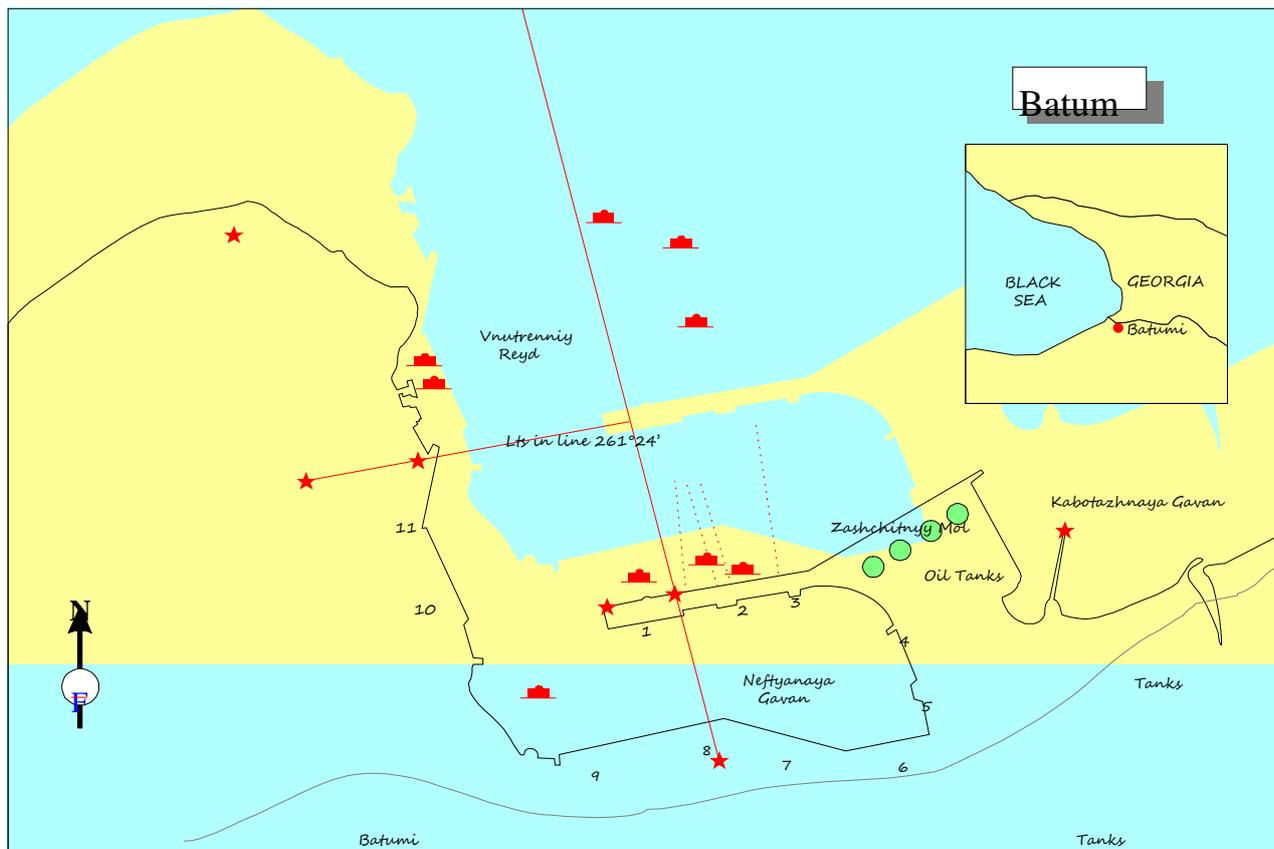
In February 2008, KazTransOil, the main transportation operator of Kazakh oil, for both the export and domestic market, and a member company of the Kazmunaygaz Group, acquired the exclusive management rights to Batumi port.

By 2009, over USD 8 M had already been invested in the purchase of new equipment (such as an 18-32 T portal crane (the first bought in Georgia in over 30 years) and a new mooring tug), repair and upgrading of the existing equipment, port buildings, berths and development of modern IT systems.

Work is going on to pull down old dilapidated warehouses in order to increase the present-day 16,412 sqm open storage area capacity and to better meet the needs for the dry bulk traffics moving via Batumi.

Figure 8: Port of Batumi

Leading Lights 166°18'



Batumi is predominantly a liquid bulk terminal. Depending on the year, crude oil and oil products have represented 80-90% of the total turnover.



Logistics Processes and Motorways of the Sea II

The port consists of 5 terminals: the oil terminal (berths №1, №2, №3 and CBM-conventional Buoy mooring, which can accept four tankers simultaneously), the multi-purpose container terminal (berths №4, №5), the railway ferry terminal, the dry cargo terminal (berths №6, №7, №8, №9) and the passenger terminal (berths №10, №11). The maximum throughput is 18 Mt at the oil terminal, 2.3 Mt at the dry cargo terminal and 0.7 Mt at the rail-ferry terminal. The prospective throughput of the container terminal is 300,000 TEUs per year.

In September 2007, the container terminal (including the rail-ferry bridge and berth number 6) began to be operated by Batumi International Container Terminal, a subsidiary of ICTSI (International Container Services Inc).

ICTSI set up the Batumi International Container Terminal on a plot of 13.6 ha, investing USD 15 M. Modern container handling equipment, such as prime-movers, reach stackers and 2 x 100 Mt SWL capacity mobile harbour cranes, a customs warehouse, container freight station and other state-of-the-art facilities formed part of this investment.

The Batumi International Container Terminal plans, in its first stage, to extend the existing capacity of the container yard. The project involves several million dollars of investments in infrastructural improvements and creation of additional container handling equipment and technical bases in order to provide an enhanced quality of service for high-value goods with reduced handling times.

Figure 9: Container Feeder under Operations at Batumi International Container Terminal





Table 10: Relevant Berth Data of Batumi Port

Berth		Berth Length (m)	Depth (m)
4, 5	Container terminal	284	11.7
6	Dry cargo and rail ferry terminal (Russian gauge)	187	8

Throughput	2008	2009	2010	2011	2012
Containers TEU	44,197	8,813	16,318	45,400	73,095
Capacity					
Storage in TEU	2,500	2,500	2,500	2,500	2,500
Handling in TEU	100,000	100,000	100,000	100,000	100,000

Maritime Services

Regular services calling at Batumi include the following.

Rail-ferry

- UkrFerry-NaviBulgar weekly joint service to/from Varna and Iliychevsk

Cargoes, as in Poti, are mainly destined to Georgia and Armenia and to a smaller extent to Azerbaijan. There is practically no transit cargo to/from Central Asia.

Containers

- MSC feeder to Romania, Turkey and Ukraine

Container traffic only started in Batumi in 2008 and was severely hit by the GFC. The closeness of Poti, longer road and rail distances to Tbilisi and further on to Azerbaijan, also influence BICT's development.

Batumi port, however, offers better drafts and, in an effort to compensate for its less favourable geographical location, the port proposes more attractive tariffs than Poti (users in 2011 reported a D/A difference of up to 4,000 USD per call). Negotiations are taking place with Georgian Railway for the set-up of a block container train to Tbilisi.

Furthermore, existing and planned rail and road infrastructure projects will shorten the distances and equalise tariffs with those from/to Poti in the not too distant future.

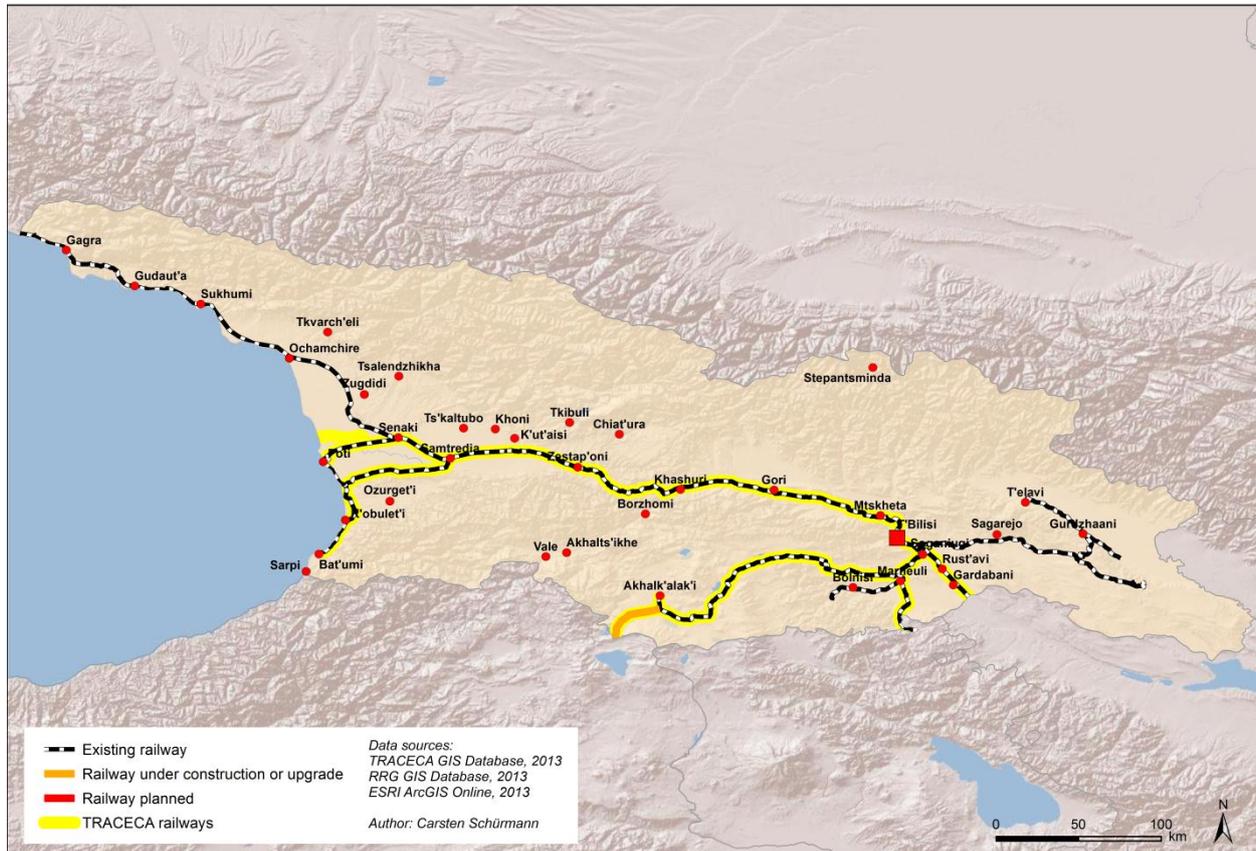
In the meantime, BICT has developed a specialty in handling second-hand car traffic, which now represents about 85% of its import flow.

As in Poti, export/import flows are heavily imbalanced.

6.2.2 Inland Transport Mode: Railways⁵

Figure 10: Georgia Railway Map

Railway network of Georgia
(main railway lines and TRACECA routes)



Source: TRACECA (2013)

Georgia is strategically placed between the Black and Caspian Seas, with Russia to the North and Turkey to the South.

Its Black Sea ports and its road and rail networks are vital TRACECA links between Europe, the other South Caucasian countries and Asia. Transit services are provided to and through Georgia's neighbours. These services include the carrying of oil and oil products via the pipelines that link Baku to the oil terminal of Supsa.

A strategic development plan initiated in 2004 led to the restructuring of Georgian Railways (GR) as a state-owned joint stock company. The 'Georgian Railway' JSC operates under the public law of the Enterprise Management Agency, part of the Ministry of Infrastructure and Regional Development of Georgia. It is in charge of both the management and maintenance of rail infrastructure, and all operations in passenger and freight services. Nevertheless GR is free to set its own tariffs and grant discounts on the basis of a commercial negotiation with the user. Over half of GR traffic and revenue is provided by oil and oil by-products in transit moving from Kazakhstan, Turkmenistan, and Azerbaijan to Batumi and Poti. This profitable traffic provides the financial backbone for all GR operations.

⁵ More detailed information on the railway sector of Georgia, figures and state of projects can be found in the separate [railway report of the LOGMOS Master Plan](#)



In an attempt to privatise GR, in 2007, the government tried to reach an agreement for a PPP with British private equity company, Parkfield. Under this agreement, Parkfield would have had the concession to operate the network, but the negotiations failed.

The Georgian Government still intends to privatise it by separating the ownership/management of infrastructure from the operation of passenger and freight services.

In 2009 GR established a subsidiary, Georgian Railway TransContainer Ltd (GRTC) to take care of container operations and, specifically, of the management of railway container terminals.

In 2011 GRTC took over all container operations from previous GR's sub-contractor InterTrans and transferred the handling of all containers incoming to/outgoing from Tbilisi by rail, from the city centre to a new 25,000 TEU capacity container terminal at Varketili, an Eastern Tbilisi suburb on the way to the airport.

The railway network consists of 1,619.7 km (not counting industrial lines), electrified on a west-east axis linking the Black Sea coast through Tbilisi to Azerbaijan and south to Armenia via no less than 1,422 bridges and 32 tunnels. Furthermore, about 80% of the network lies in mountainous terrains.

Table 11: Main Features of the Georgian Railway Network

Total route length (km)	Gauge (mm)
1,619.7	1,520
37.4	912
Electrified lines (km)	Electrification system
1,523.6	3 kV DC

The main route is the electrified double-track that travels from close to the border with Russia on the Black Sea coast via Sukhumi, Ochanchire, Samatredia, Zestafoni, Khashuri and Gori to Tbilisi, where it divides. One line runs to Baku in Azerbaijan, the other to Yerevan in Armenia. The connection with the Russian network in the northwest side was closed in the early 1990s due to political unrest in the Abkhazia region.

Two sections depart from the main line and arrive in the ports of Batumi and Poti. The terrain is usually difficult, in particular the section Zestafoni-Khashuri, which has a 2.9% gradient and tight radii (160 m). Train weight is restricted to 2,500-3,000 T with three locomotives. From Poti to Senaki the line is single-track, from Senaki to Samtredia double-track. From Batumi to Samtredia a single-track line is in place, from Samtredia to Zestaphoni, double-track. From Zestaphoni to Khachuri there is only 4 km single-track, while the remaining section is double-track.

There is a double-track from Khachuri to Tbilisi, from Tbilisi to the Azerbaijani Border (Gardobani) and from Tbilisi to the Armenian border (Sadakhlo).

The route between Poti and Batumi ports and Tbilisi carries most of the traffic (about 30 train pairs per day out of which 20 are freight trains and 10 are passenger trains).

A fixed-day block container train, departing every other day, was launched in June 2011 between Poti and Tbilisi. In May 2012, the first scheduled container trains started in Baku.

Transport modes for the inland dispatch of the container traffic are as follows:



Table 12: Containers Handled by Sea Ports and Carried by Railway and Truck

Poti Sea Port	2013 I-VI	2012	2011	2010	2009	2008	2007
Total handled containers by Poti Sea Port	154,827	284,559	254,022	209,797	172,800	209,614	184,792
Transported by truck		N/A	N/A	91,944	84,056	77,310	62,690
'Backing'		N/A	N/A	71,976	59,098	98,120	86,230
Transported by railway	24,088	53,513	43,831	45,877	29,646	34,184	35,872
Batumi Sea Port	I-VI 2013	I-XII' 2012	I-XII 2011	I- XII'2010	I- XII'2009	I- XII'2008	
Total handled containers by Batumi Sea port	37,982	73,095	45,442	16,318	8,813	44,197	
Transported by truck	N/A	N/A	N/A	2,776	1,742	12,830	
'Backing'	N/A	N/A	N/A	13,496	5,990	25,434	
Transported by railway	284	2,285	26	46	1,081	5,933	

Table 13: Containers Transported by Railway to/from Poti and Batumi by Countries (TEU)

From Poti Sea Port/To Poti Sea Port					
Years	Georgia	Armenia	Azerbaijan	Central Asian Countries	Afghanistan
I-VI 2013	8,651	9,799	2,857	2,410	371
2012	21,354	18,597	7,754	3,707	2,101
2011	13,100	17,135	8,443	1,823	3,330
2010	12,872	16,487	8,736	717	7,065
2009	11,120	10,880	5,699	437	1,510
2008	14,444	15,086	4,092	562	0
2007	16,080	15,156	4,048	588	2
From Batumi Sea Port/To Batumi Sea Port					
Years	Georgia	Armenia	Azerbaijan	Central Asian Countries	Other countries
I-VI 2013	272	1	10	1	0
2012	1,328	395	521	25	16
2011	12	0	14	0	0
2010	38	0	0	0	8
2009	284	664	107	12	14
2008	2,177	2,510	1,118	56	72

The main ongoing or planned railway projects in Georgia are as follows:

- Tbilisi bypass project

The railway section, which runs through Tbilisi, is the major thoroughfare for freight on the East-West corridor. A significant part of this traffic is crude oil and refined products from Central Asia



and Azerbaijan, i.e. hazardous cargo, moving via a densely populated area to Black Sea ports (in 2008, oil and oil-product traffic amounted to 10 Mt representing half the total GR freight traffic). Heavy railway infrastructure hampers the smooth urban development of parts of the capital.

In 2010, GR decided to construct a new railway line that bypasses the central area of Tbilisi. The total estimated cost of the project was EUR 290 M. In 2010, EBRD agreed to provide a EUR 100 M loan for the implementation of the project. However, in 2011 GR restructured the financing of the project and decided to implement the project with its own funds entirely.

In June 2010, a Georgian-Chinese joint-venture was awarded the construction contract under design-build contract conditions. Works started in July 2010 and completion period was projected for July, 2013.

According to the information from GR, the conditions of the Agreement in terms of project completion were violated by the construction company. At this time the project implementation had been put on hold. The new management of GR is negotiating with the contractor for the further terms and conditions of the agreement extension. According to GR, roughly EUR 161 M (USD 213 M) has been spent already. Approximately, EUR 104 M remains to be spent in order to complete the project. The bypass railway is 38.6 km long and runs from Zahesi Station to Tbilisi-Sortirovochny Station with a broad gauge track 1520mm and electrified with direct current of 3.3 kV.

The details of the project include:

- the construction of a new 28.73 km double-track railway Zahesi – Lilo 1,
 - the construction of 5 tunnels with a total length of 3.52 km,
 - the construction of 10 bridges at the new double-track section,
 - the construction of a new freight station Lilo 1 and Sualeduri station, Kvirike,
 - the upgrading of Zahesi station,
 - the upgrading of an existing 10 km section of Lilo I – Tbilisi Marshalling Station, which includes rehabilitation of the existing single track and construction of an additional new single track.
- Tbilisi – Poti/Batumi Modernisation Project.

The target is to upgrade the line to a speed of 120 km/h. The project is currently in its pre-feasibility stage. No opportunity for the electrification system can be foreseen. The estimated budget is USD 350 M. Negotiations with the WB and the ADB will start off the financing.

The critical section of the line is Zestaphoni - Khachuri, which has very small radii of curves (200 m) and high gradients (up to 2.9%) in the mountain section.

Furthermore, in connection with the Poti Industrial Free Zone project, the railway line from Senaki to the junction Poti/Kulevi should have a second track.

- Kars-Tbilisi-Baku Project

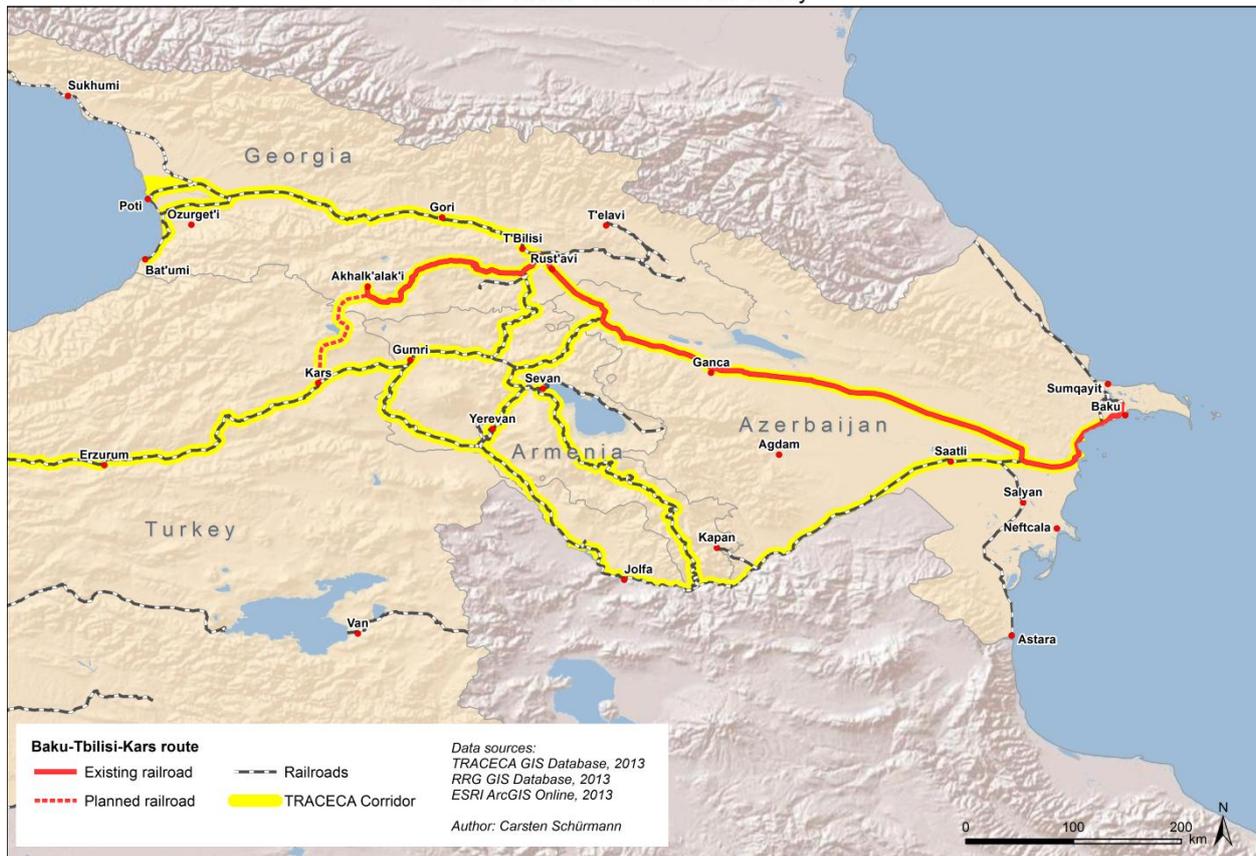
The Project is a result of a multilateral agreement signed in January 2005 between Azerbaijan, Georgia and Turkey. Technical agreements on the construction of the Baku - Tbilisi – Kars new Railway Connection were signed on 7th of February 2007. At this point, Azerbaijan provided a USD 200 M loan to Georgia then an additional one of USD 575 M, repayable over 25 years with an annual interest rate of 1% for the construction of the railroad on the Georgian territory. The project is due to be completed in 2014. The governments of the Republic of Turkey, Georgia and the Republic of Azerbaijan will sign the Agreement for Establishing the Connection of Railway Freight and Passenger Transportation. The Agreement will regulate cargo and passenger



transportation, transportation tariffs and define railway border stations. The Agreement is undergoing internal state procedures.

Figure 11: Baku – Tbilisi – Kars Railway Project

Baku - Tbilisi - Kars railroute outlay



The total length will be 826 km, allowing the transport of 1 M passengers and 6.5 Mt of freight in the beginning. At a later stage, by 2030, the capacity should reach 3 M passengers and 17 M T freight.

Construction of 25 km of new track and rehabilitation of further 160 km of existing track (as part of the modernisation of the whole section from Akhalkalaki – Marabda and Tbilisi – Baku) are planned in Georgia.

Due to the different rail gauge standards between Turkey, on the one hand, and Georgia and Azerbaijan, on the other, a bogie exchange and cargo transshipment point is under construction at Akhalkalaki (Georgia) railway station.

As an alternative to the Trans-Siberian railway, BTK will diminish the dependence of European countries on Russia and will further contribute to the development of a transit corridor between Azerbaijan, Georgia and Turkey, thus strengthening the economic and political ties among these countries. The promoters of the Baku – Tbilisi – Kars Railway projects see it as part of a bigger project that foresees the connection of the South Caspian railroads to Europe through the Republic of Turkey via the 'Marmaray' tunnel under the Bosphorus Channel.

- Rehabilitation of Tbilisi-Yerevan

In 2008-2009 the EU, within the TRACECA framework, financed a project that aimed to assess the possibility of rehabilitating the railway line between Tbilisi and Yerevan in accordance with international standards of safety for the carriage of passengers and goods.



Logistics Processes and Motorways of the Sea II

The line suffers from a severe backlog of maintenance and modernisation resulting in speed restrictions due to insufficient track quality.

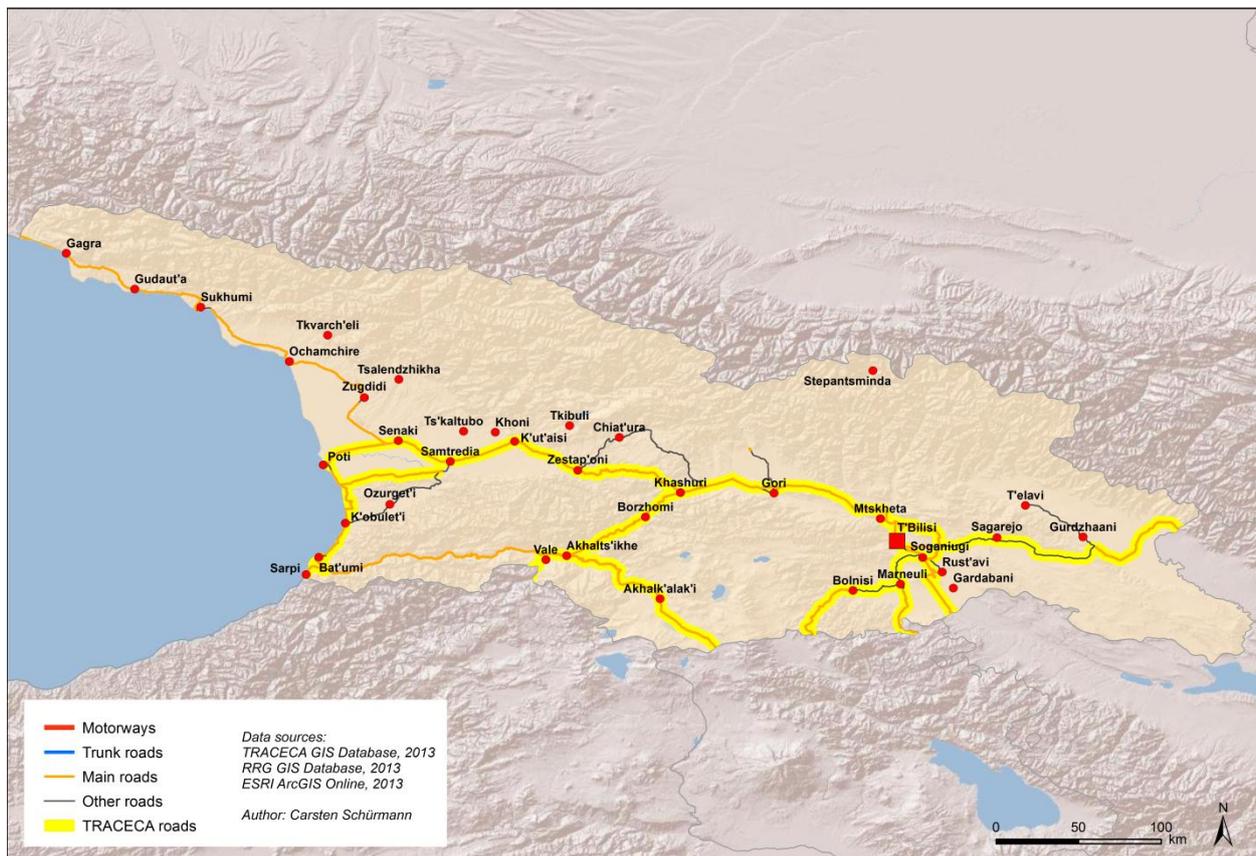
Feasibility studies have been completed (apart from the Georgian section where rehabilitation relates to the signalling system only) including for a new link, which would shorten the current route by some 100 km.

The railway link to Russia through Abkhazia might reopen in a near future. Soon after the parliamentary election in 2012 Georgia's new government started studying the issue of reconstructing and reopening the former railway communication link with Russia through Abkhazia, which was interrupted as a result of the Georgian–Abkhaz war in 1993. The initiative is part of a broader Georgian foreign policy strategy aimed at re-establishing political and economic relations with Russia.

6.2.3 Inland Transport Mode: Roads⁶

Figure 12: Georgia Road Map

Road network of Georgia
(highways, main roads and TRACECA routes)



Source: TRACECA (2013)

⁶ More detailed information on the road sector of Georgia, figures and state of projects can be found in the separate [road report of the LOGMOS Master Plan](#)



The road network consists of 19,800 km of roads, including 1,530 km of main or international highways in good to fair condition, out of which 68 km has concrete pavement and 1,444 km is asphalted; 5,307 km of secondary roads, of which only 132 km has concrete pavements and 3,406 km has asphalt and 13,000 km of local roads.

The following are European road sections:

- Border of Turkey – Sarpi – Batumi – Kobuleti – Poti (E70),
- Poti – Senaki – Samtredia – Kutaisi – Khashuri – Gori – Tbilisi – Rustavi (E60), which is also known as a West-East highway,
- Stepantsminda – Mtskheta – Tbilisi – Marneuli (E117).

Restrictions on weight per axle and IMO cargoes are quite similar to the standard European limits. The permitted vehicle dimensions should not exceed 2.5m in width, 4m in height, 20m (24m for articulated vehicles with a trailer) in length for trucks and articulated vehicles, 7-10T per axle load and up to 44T in total weight. The oversized and overweight vehicle is charged upon entry into the country. The two tunnels (Rikoti and Tsipi) are operated on a pay-as-go principle at USD 3 and USD 1.5 respectively.

After a severe reduction in the resources allocated to road maintenance from the early 1990s to 2003 (from USD 59.5 M in 1988 to USD 12.4 M in 2002, in nominal terms) and following the change of government, funding provided to the sector has increased substantially while road maintenance and construction have been fully privatised. In a previous TRACECA Investment project Red Bridge was rehabilitated and a new TRACECA bridge constructed (EUR 2.5 M).

Simultaneously the WB financed a number of projects:

- a) The up-grading of the East-West highway
 - First phase: USD 19 M was approved in 2006 for upgrading the 13 km Agaiani – Igoeti section of the E60 Highway from two lanes to four lanes (completed).
 - Additional financing of USD 28 M was provided in November 2009 to focus on the original project to rehabilitate the Rikoti Tunnel (completed) and repair its bypass road (completed).
 - Second phase: USD 50 M was approved in 2007 for the upgrade of the Igoeti – Sveneti section of the E60 Highway from two lanes to four lanes (24 km section), and by rehabilitating the existing 2 lanes and building 4 bridges (completed).
 - Third phase: USD 147 M was approved in 2009 for the upgrade of a 15 km segment of the E60 East-West Highway from Sveneti – Ruisi to a dual carriageway (ongoing).
 - The third phase (additional financing) involved USD 53 M, which was approved in 2012 for the upgrade of the Ruisi – Agara section (ongoing).
 - Fourth phase: USD 75 M was approved in 2013 for the upgrade of the existing East-West highway through the construction of a 2-lane dual carriageway from Agara – Zemo Osiauri (ongoing).
 - All the above include the implementation of facilities along the E60 (ambulance services, police, first aid training, etc.), which is aimed to improve safety and reduce road congestion and travel times.
- b) The rehabilitation of secondary and local roads
 - USD 20 M was approved in 2004 for 250 km. Improvements to drainage and the provision of access to adjacent properties were also priorities (completed).



Logistics Processes and Motorways of the Sea II

- Additional financing of USD 70 M was approved in March 2009, for a further 450 km and to strengthen the capacity of local units in managing and maintaining the local and secondary road network (completed).
- SLRP II – financing of USD 70 M was approved in 2012 for a further 225 km and to strengthen the capacity of local units in managing and maintaining the local and secondary road network (ongoing, scheduled for completion in 2014).
 - c) Kakheti Regional Roads Improvement Project
- USD 30 M approved in 2009, mainly for the rehabilitation of 65 km of the Vaziani – Gombori – Telavi road (completed).
 - d) The improvement of selected municipal infrastructure (which local roads are part of) is also for the benefit of conflict-affected people following the 2008 war. It goes together with WB assistance in the improvement of the vocational education of road engineers, development of new road geometric design, implementation of road and traffic safety programmes, and in-depth amendments in the management and governance of accountable state-agencies.

In 2013, the budget allocated by the Ministry of Regional Development and Infrastructure to the improvement of roads infrastructure (management of roads programme, construction / maintenance of new roads and highways) amounted to GEL 501.740 M. The action-plan for 2013 forecasted the rehabilitation of 250 km of roads, 30 bridges, 3 tunnels and the construction of 100 km of highways, mostly, on various sections of the East-West highway (E60):

- Ruisi – Agara, (19.5 km). Work should be completed in December 2014
- Agara – Gomi (12 km)
- Zestafoni – Kutaisi (15.2 km)
- Kutaisi bypass (17.3 km)
- Kutaisi bypass – Samtredia (25.7 km). Completion date is 2014.
- Samtredia – Grigoleti.
- Kobuleti bypass (14.7 km).

Other donors include the Millennium Challenge Georgia (funded by a US-Government USD 396 M grant out of which USD 100 M is allocated for the construction and rehabilitation of local roads) and the JBIC, which funds rehabilitation, works on the E60 highway.

The European Union is also a contributor to the upgrade and improvement of the most Western part of the E60 as it is a Pan-European corridor linking the EU to Central Asia through Georgia (Samtredia – Grigoleti – Kobuleti section). The EUR 20 M grant through the NIF is associated with the EUR 200 M loan the EIB dedicated to the East-West Highway project⁷.

In December 2010, Georgia Road also received a loan of USD 500 M from ADB through a Multitranché Financing Facility to implement its part of the road corridors Development Program, which aims to rehabilitate, improve or construct several roads in the South Caucasian region. In Georgia it includes the 48.4 km Adjara bypass around Kobuleti and Batumi.

These investments, combined with the already mentioned anti-corruption policy, have brought about drastic changes in the road transport sector. The share of road mode has increased more

⁷ http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/documents/reduced_nif_five_year_report_for_web_en.pdf



than other modes, while the trucking companies (mostly small-size family businesses) have been able (until the crisis) to dramatically upgrade their fleet.

It seems reasonable to assume the recent membership of Russia in the WTO will bring about drastic changes this situation. It may, in particular, prompt a resumption of the (formerly huge) flow of Georgian exports by all three transport modes, road, rail and sea to its Northern neighbour.

6.3 Trade and Transit Facilitation

6.3.1 General Presentation

- **Procedures and formalities** are among the **main barriers** that hamper the development of Motorways of the Sea:
 - Several **border points** must be crossed, mostly in ports but also on land routes e.g. along the central land corridors: There is a minimum of two points in a single/one sea service, up to 5 points in inter-seas services that link western Black Sea countries and Eastern Caspian Sea countries, and possibly more in the case of longer multicountry transit and transshipments trades;
 - Several physical mode transfers, handling movements and intermediate storage take place along the sea-based transport chains: most commonly 3 transfers and a minimum of 6 handling plus 2 storage in the case of a single sea leg, and several more handling operations in the inter-seas services
 - Previous and ongoing experience of Motorways of the Sea in other regions as well as the global worldwide transport system of containers have demonstrated that the resolution of difficulties in this field is an essential factor in finding success.
- The procedural process in ports and at other border crossing point are **dominantly related to Trade Laws and Regulations**, but actors of the transport and transit chain are responsible for their fulfilment. A significant part of their activities is dealing with these complex issues and drawing the corresponding revenues out of their resources.
- Relationships between institutions on one side (customs first, but also other Ministries and inspection bodies) operators and users on the other, are affected by these functions, which mix with the physical transit and transport operations.
- The **impacts of administrative and regulatory barriers** are generally more important when there is a sea leg, because:
 - maritime transport and port transits require more formalities than land transport modes, including specific exchange of information, paper documentation etc., which are rightly perceived as a factor of complexity;
 - this adds to the weakness of intermodal sea based transport, particularly when compared to the most simple unimodal road transport
 - transit times are increased if and when formalities and operations are mismatched, e.g. when the transport means of one mode is not coordinated with those of the next mode, which is a frequent situation between the maritime and railways legs in the TRACECA Region;
 - costs are not only direct but also indirect, and not only formal but also informal, and unofficial transit levies and other transaction costs add to the sum of official tariffs, taxes and dues.



- **Common weaknesses/barriers** have been identified in all LOGMOS project countries to various extents and at different degrees. This diagnosis has been shared under the key word ‘Facilitation’ by country stakeholders and at bilateral and regional levels. Barriers in this field are referred to in the ‘W’ (Weaknesses) list of the various SWOT analyses summarised in the following project documents:
 - Country profiles, as synthesised hereafter
 - Presentations for workshops and meetings
- Among the **solutions** discussed in the diagnosis phase, the following is a series of common **recommendations and targets** that are partly implemented, planned, or contemplated for the future LOGMOS projects and, more generally, for the development of intermodal transport including port/border crossing points:
 - I.T. systems and solutions electronic solutions/EDI for:
 - information (for users and operators)
 - declarations
 - pre-alert (for Customs and other)
 - duties, taxes and fees
 - One stop shop scheme and extension to Single Window System (SWS)
 - Risk management system and methods
 - IT interchange solutions between MoS port/communities
 - Tracking and Tracing (in coordination with operators)
 - Upgrading/redesigning border points layouts
 - Training (management, IT organisation etc.)

6.3.2 SWOT Analysis

The following table summarises key-findings for national SWOT analysis in trade and transit facilitation procedures that have been adopted in Georgia.

Table 14: SWOT Analysis in Trade and Transit Facilitation Procedures

STRENGTHS	<ul style="list-style-type: none"> • WTO member and EU Free Trade Agreement • Trade facilitation strategy including streamlining, harmonising and improving transit frameworks, transport methods and customs procedures: UN ESCAP/ITIS Trade Facilitation Framework, electronic documentation methods, partnership between public sector and private industry • Facilitation Committee GEOPRO (since 2003) using UN-CEFACT Recommendation and having identified challenges needing attention • Since January 2011 – new and unified Tax and Customs Code • From 2011 import procedures require only 2 documents • Creation of Customs Clearance Zones Advance declaration - Advanced review and preparation of documents • Risk management system; Risk profiles; Random selection.
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Logistics Processes and Motorways of the Sea II

	<ul style="list-style-type: none"> • TRACKER 7 and integrated tariff – issuing of certificates and permits in accordance with the ‘One Stop Shop’ principle; the economic agent has the possibility to acquire information concerning all legislative requirements for export-import operations, types and rates of the taxes, permissions and licenses, prohibitions and restrictions based on an integrated law • Simplified customs procedures and target customs control and modern infrastructure • Electronic administration system has been established • ‘One Stop Shop’ border crossing point management method and Single Window System Customs administration re-structured (2007) • Customs using ASYCUDA World automated computer system. Golden List and 4 colour channels based on trust degree • 85% customs clearance within 2 hours • Reduced border crossing point transit times for trucks • Quotas eliminated and many tariffs on imports abolished • No export Customs duties • Successful implementation of single window concept in Batumi sea border crossing
WEAKNESSES (BARRIERS)	<ul style="list-style-type: none"> • Expectations with regard to the progress in implementing ISO Standards, UN Layout Key for Trade Documents initiative, single administrative document (SAD) • Modern customs administration has yet to be realised on a country-wide level • Need to implement on a country-wide level Risk Management using the new risk analysis department for selectivity and to reduce the number of physical inspections • Use of central transport corridor hampered by transit obstacles such as the use of paper documents instead of electronic documents, border crossing points along the road and rail route each with separate procedures, lack of joint customs controls at border crossing points with Azerbaijan • Pre-alert used by clients and their customs brokers but not by customs administration resulting in lack of risk management
OPPORTUNITIES	<ul style="list-style-type: none"> • Trade facilitation strategy led by one Ministry and coordinating with GEOPRO • Completing and speeding implementation of a series of planned actions such as: <ul style="list-style-type: none"> ○ UN Layout Key for Trade Documents initiative ○ Single Administrative Document (SAD) initiative ○ Risk Management using risk analysis and selectivity ○ ‘One Stop Shop’ border crossing point management





Logistics Processes and Motorways of the Sea II

	<p>method</p> <ul style="list-style-type: none">○ Electronic Single Window System (SWS)○ Electronic pre-alert export and import declaration
THREATS	<ul style="list-style-type: none">• Lack of consistent customs and other border crossing and trade facilitation procedures• Delays in implementing transit improvements on TRACECA central corridor countries



7 PILOT PROJECTS SELECTED FOR MOS I AND ILC PROJECTS

To address the existing challenges for MOS and ILC promotion, two TRACECA projects underwent a pre-screening for potential pilot projects. The pre-screening was based on the multi-criteria analysis of the proposed pilot, which helped to narrow down the pilot projects list.

The list of retained pilot included the following projects:

Table 15: Selected Pilot Projects in Georgia

Pilot project	Service proposed	Countries involved directly	Concerned TRACECA project
ILC at TAM/Veli site	International logistics centre at TAM/Veli	Georgia	ILC project
Ilychevsk - Samsun - Poti/Batumi maritime service	Maritime service involving all MoS shipping techniques (trucks and rolling cargo, railcars and wagons, containers, packed general cargo in break bulk)	Ukraine Turkey Georgia	MoS project
Varna - Ilychevsk - Poti	Improving existing rail / Ro-Ro / container intermodal transport	Bulgaria Ukraine Georgia	MoS project
Container block train Poti - Tbilisi - Baku	New container rail transport services	Georgia Azerbaijan	MoS project

As a result of the first phase of MOS I and ILC implementation, for the four above mentioned pilot projects, feasibility studies were elaborated. Short summaries of these projects can be found [here](#).