

## Georgia's Modern Decisions and Threats of Expansion of Russian Presence in the Caucasus

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*Georgia's flag. Photo by Frank Miller, Wikipedia Commons.*

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Soon after 2016 parliamentary elections, the government of the party of the Georgian Dream (GD), which won the elections, started discussions and implemented some actions, both of which create new threats for the country's economic and energy independence.

### Sale of Georgia's Strategic Assets

To build trust within the parliament, in his address, Prime Minister Giorgi Kvirikashvili stated that the government would consider the Initial Public Offering (IPO) of 25% of the state-owned Georgian Railway and the Georgian Oil and Gas Corporation stakes.

The disposal of Georgia's strategic assets is in no way a novel concept as the United National Movement (UNM) government (being in a power in 2003-2012) did not recognize the existence of such assets and considered that selling them to Russia harbored no security threats for Georgia. All the more, this took place in light of Moscow's public announcement of its intention to establish a "liberal empire;"

(<http://www.eurasianet.org/departments/insight/articles/eav102703.shtml>) in other words, secure influence over the post-Soviet space (and beyond) by applying economic mechanisms (<https://www.project-syndicate.org/commentary/russia-s-economic-imperialism?barrier=accessreg>).

Given that gas pipelines and railways in Armenia are owned by Russian state companies (gas pipelines are owned by Gazprom while the railway is administered by the Russian Railways, company which went so far as to rename the state-owned Armenian Railways the South Caucasus Railways that constitutes an overt acknowledgement of Moscow's intentions to establish control over the Georgian and, ultimately, Azerbaijani railways) it is evident that if even 25% of the Georgian Railway and Georgian Oil and Gas Corporation shares are put up for sale, Russian companies will be the primary stakeholders.

Due to the Armenian-Azerbaijani conflict, Azerbaijani companies may also emerge as buyers of Georgian assets as Baku seeks to acquire new economic mechanisms to exert pressure on Yerevan. In this case, Tbilisi will certainly be embroiled into the Armenia-Azerbaijan confrontation which is definitely not within Georgia's interests.

It is unfortunate that the GD continues to pursue the same policies threatening Georgian national interests as the UNM government had throughout the nine years of their tenure.

## Russian Gas Transit Fees to Armenia

Already during Eduard Shevardnadze's presidency, Tbilisi and Moscow signed an agreement which authorized Georgia to retain – as a transit fee – 10% of the gas transported by Gazprom via the pipeline through Georgia into Armenia.

In January 2016, Gazprom initiated talks with the Georgian Ministry of Energy, seeking to replace the transit fee disbursement in the form of natural gas with cash amounting to 10% of the value of the transported commodity.

Gazprom's proposition is undoubtedly economically unprofitable for Georgia. To expound, we should recall that in 2006, Gazprom announced that as of 2007 it would supply gas to both Georgia and Armenia at higher rates – USD 230 per 1,000 m<sup>3</sup> instead of USD 110. Moreover, Gazprom would agree to uphold the previous tariff provided it would gain ownership of gas distribution facilities, the cumulative value of which would be equal to the difference between the new and old tariffs multiplied by the amount of gas consumed. Unlike Georgia, Armenia agreed to this proposition, effectively transferring the ownership of its gas distribution systems to Gazprom.

Subsequently, against the background of Armenia's rapprochement with Russia, the price of gas supplied by Gazprom to Armenia experienced a decline.

It is evident that due to the price differences, Georgia will be unable to purchase the same amount of gas with the monetized payment that it would have received in the form of natural gas for supporting transit to Armenia.

The impression that the Georgian government would concede to Gazprom's amendments to the payment method for gas transit fees was followed by sharply critical assessments and protest rallies. As a result, the Minister of Energy managed to reach an agreement with Gazprom according to which, existing transit terms; namely, the commodity-based payment scheme, would be retained throughout 2016 (for one year).

By 2017, talks between Gazprom and the Ministry of Energy on the gas transit fee payment method resumed and, unfortunately, the Energy Minister agreed to Gazprom's proposal.

Perhaps, the Georgian government managed to preserve the transit fee payment terms in 2016 on account of Tbilisi's explanation to Moscow that due to the upcoming parliamentary elections, it would have been highly unlucrative for the incumbent GD government and parliamentary majority to introduce amendments to gas transit terms. Thus, a one-year postponement was requested.

It is noteworthy that already in November 2016, Armenia announced that the price of gas for local consumers would decrease as, starting in 2017, Gazprom would reduce gas transit fees for Georgia by monetizing the commodity payments (<http://www.naturalgasworld.com/armenia-cuts-gas-price-again-34312>). Evidently, this information (the fact that Gazprom expected concessions on Tbilisi's part in terms of amendments to the transit fee payment method and reductions in the amount of gas thus available to Georgia whereby Yerevan made its assurances regarding consumer tariff cuts) should have been available to the Georgian government.

If the Georgian side was still obliged to cut transit fees, it would have been more prudent to retain the commodity payment scheme and agree to a smaller share instead of the 10% of transported gas.

It is imperative to consider that Georgia is located between two member states of the newly-established Eurasian Economic Union (EAEU); thus, the threat that Georgia will be compelled to join the Union is substantial. Moreover, this time, Tbilisi has handed over its energy leverage to Moscow since Gazprom can now also make concessions by allowing Georgia to purchase 10% of the gas transported to Armenia (previously retained as transit payment) using the cash obtained as the current transit fee if Georgia becomes an EAEU member. It should be emphasized that the economic basis for the existence of the EAEU is underpinned by the redistribution mechanism for revenues generated by energy resources.

Georgian MPs have assessed this harmful decision as “optimal” and “maximal” and that they have attributed the economic losses resulting from their weakness (at best) to the “market principle.”

## Conclusion

The main root cause for Georgia’s modern government’s such type of steps at best lies in unprofessionalism and the denial of the universally recognized knowledge of economics, contemporary geopolitics and geoeconomics.

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