



**TRANSPARENCY  
INTERNATIONAL**  
GEORGIA

# **WHO OWNED GEORGIA**

2003-2012

By Paul Rimple



OPEN SOCIETY GEORGIA FOUNDATION  
ფონდი ღია საზოგადოება საქართველო



This book is about the businessmen and the companies who own significant shares in broadcasting, telecommunications, advertisement, oil import and distribution, pharmaceutical, privatisation and mining sectors. Furthermore, It describes the relationship and connections between the businessmen and companies with the government. Included is the information about the connections of these businessmen and companies with the government. The book encompasses the time period between 2003-2012.

At the time of the writing of the book significant changes have taken place with regards to property rights in Georgia. As a result of 2012 Parliamentary elections the ruling party has lost the majority resulting in significant changes in the business ownership structure in Georgia. Those changes are included in the last chapter of this book.

The project has been initiated by Transparency International Georgia. The author of the book is journalist Paul Rimple. He has been assisted by analyst Giorgi Chanturia from Transparency International Georgia.

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Transparency International Georgia

2012

## INTRODUCTION

One day shopping with my friend at a local supermarket, I noticed some bars of chocolate next to the check-out line that were made in Georgia - Barambo. Because I've always felt the best way to support the local economy is to buy locally, I snatched a couple bars. My friend, who is Georgian, remarked, "Oh, Kezerashvili chocolate."

"What?"

"Dato Kezerashvili. The former Minister of Defense," he said. "That's his company. He owns everything."

My first instinct was to put the bars back. Why should I support one of the country's richest men? Sometime later, another friend told me it was "Vano chocolate," in reference to Vano Merabishvili, the former Minister of Internal Affairs and ex-Prime Minister. That's when I realized that politics have become so deeply entrenched into the daily lives of Georgians that even buying a bar of chocolate is a politically motivated decision, irrespective of who the real owner may be.

Georgia is a tiny country of some 4.5 million people that is socially sustained on a fervent rumor mill where the more outlandish the canard, the more tenable it is. Some subscribers to Silk TV, one of the country's largest telecommunications providers, would unplug their televisions when they talked politics because they believed

Vano Merabishvili was the owner and that he could eavesdrop through their TV sets.

People in post-Soviet countries have always been more likely to trust their neighbors than the authorities, but in Georgia's case, people are encouraged to put their trust in gossip because 20 years after the collapse of the USSR, there is still an absence of reliable sources of information. Until recently, the two main television broadcasters were owned by people close to the ruling party, which had a monopoly of power in the government, while the third major TV station is state owned.

When I arrived in Georgia in 2001, authorities and businessmen were pillaging the country's resources silly. The entire country was on the take, like a huge 1930's Chicago on overdrive. The police protected nobody but themselves as they extorted money from random citizens to make their daily wages. The Ministry of Energy sold off what little energy assets there were and kept the nation in the dark and frozen in the winter. Everybody knew who the criminals were because they flaunted their nepotism with pride. Nobody got rich legitimately in Georgia.

It was only a matter of time before this system imploded. In November 2003, widespread parliamentary election fraud ignited a mass movement led by a coalition of three opposition leaders: Mikheil Saakashvili, Zurab Zhvania and Nino Burjanadze. The protest began with a demand for repeat elections and ended up

peacefully toppling the corrupt regime of Eduard Shevardnadze. In January 2004, Saakashvili was elected president with 97% of the vote. His party won a clear majority in parliamentary elections two months later, which essentially gave Georgia a one-party government.

The Saakashvili administration zealously went to work to turn a failed state into a functional, modernized country. Saakashvili's successes in battling corruption and instituting economic reforms have been lauded around the world, although locally, the means to achieve many these achievements often raised questions of the ruling party's – United National Movement's integrity. To what extent have the authorities respected the rule of law and how far are they willing to adhere to the democratic principles they espouse?

Most people acquainted with Georgia are familiar with the story of how in one day, President Saakashvili fired the country's police force in one bold swipe and turned Georgia's most nefarious institution into one of its most respected. What they don't know much about is that part of the revolutionary government's anti-corruption campaign also singled out businesses and politicians closely affiliated to Eduard Shevardnadze for retribution. Many people were jailed and/or paid enormous fines to be released before going to court, in a method authorities first called "bail" and later instituted as plea bargaining, although it more resembled extortion. One such case involved Gia Jokhtaberidze, Eduard Shevardnadze's son-in-law and owner of MagtiCom, the largest telecommunications

company at the time. He was charged with evading 700,000 GEL (\$318,000) in taxes and agreed to pay \$15.5 million to the state budget to have the charges dropped.<sup>1</sup>

At first, few protested the heavy-handed, quasi-legal actions against people who were guilty in the eyes of the public, but the Saakashvili regime became bolder as it re-privatized property that had been registered under the Shevardnadze government. The new government, its friends and their relatives became owners of newly emerging companies built on the ashes of the old.

Since 2004, laws have sometimes been quickly passed that just so happen to accommodate friendly business owners. One example is a 2012 law which lifted the ban of hunting endangered animals.<sup>2</sup> This law was passed before anybody could do an adequate population count of the endangered species and before any means to enforce hunting laws was established. But it's a good law for Saba Kiknadze, the former Head of the Tourism Department, who is now the CEO of several tourism-related businesses, including the high-end hunting

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<sup>1</sup> Georgian NGOs: Cash Trail for Detainee Fines Tricky to Track. Eurasia.net <http://www.eurasianet.org/departments/insight/articles/eav011106.shtml> Accessed on 13/12/2012

<sup>2</sup> Georgia allows hunting of endangered species. Mari Nikuradze. Democracy and Freedom Watch. <http://dfwatch.net/georgia-allows-hunting-of-endangered-species-57870> Accessed on 13/12/2012

outfitter Caucasian Safari,<sup>3</sup> which provides guides for the hunting of endangered species.

It's hard to prove any actual wrongdoing is taking place. Sometimes the person best suited for a particular contract just happens to be a minister's friend, cousin, or brother-in-law; after all, this is a small country. This is precisely why transparency is so important. The public deserves the right to know the officials they elected are aboveboard. Although the government has done a lot to improve the transparency of contracts and ownership, much is still hidden behind a miasma of spin, legal distortion and shell companies.

This little book takes a look at the most talked about private sectors in Georgia in an attempt to untangle a very intricate plate of organizational spaghetti, in order to dispel rumors of ownership and collusion, or in some cases, substantiate them. It is mostly based on research carried out by Transparency International Georgia (TI Georgia), The Georgian Young Lawyers Association (GYLA), and Studio Monitor, a Georgian investigative documentary producer, as well as the annual Ombudsman Report on Conditions on Human Rights in Georgia and the reports by the local NGO, Human Rights

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<sup>3</sup> Why is the hunting on Red List animals extended. Elene Khachapuridze. Netgazeti.ge <http://netgazeti.ge/GE/92/Life/8214/> Accessed on 13/12/2012

Center. Consider this a travel guide into the amorphous labyrinth of who owned Georgia.

## WHO OWNED TELEVISION?

*“If it weren’t for the Georgian press and media, there would have been no revolution. If not for media, Georgia would not have become independent<sup>4</sup>.”* - Mikheil Saakashvili.

Few things rile President Mikheil Saakashvili more than criticism from the media. Unlike neighboring countries, Georgia has a pluralistic media with opposition newspapers and television stations, however, journalistic standards remain low, despite numerous western sponsored training programs, because editorial conditions are determined by political and private influence.

A 2011 survey carried out by Caucasus Research Resource Center revealed television is the main source of news to 89% of the population <sup>5</sup>, yet only three main TV station provide news programming on a national level: Rustavi 2, Imedi and the Georgian Public Broadcaster (GPB) Channel 1. Rustavi 2 and Imedi reach

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<sup>4</sup> Media Before the “Rose Revolution” MediaHouse Georgia  
<http://mediahousegeorgia.org/?lang=1&menuid=15&id=4> Accessed on 18/09/2012

<sup>5</sup> The Caucasus Research Resource Centers Website.  
<http://www.crrc.ge/oda/> accessed on 18/09/2012

about 96% of all Georgians, while Channel 1 reaches 82%. General audience market shares for the first 6 months of 2012 indicate Rustavi 2 and Imedi account for 60% of the Georgian TV audience market<sup>6</sup>. In other words, 60 out of 100 minutes of viewing time in Georgia, is spent on these two stations<sup>7</sup>.

Two stations, Kavkasia and Maestro, have news programming but broadcasted only to mainly a Tbilisi audience (the 9th channel began broadcasting in the spring of 2012). State TV Adjara provides news to the Autonomous Republic of Ajaria, as well as to many parts of the country. There are 26 other regional TV stations, but for the most part, they are not original news providers.

The Georgian government argued that independently owned television stations were free to broadcast what they want, but after the Rose Revolution, the country's two major television networks became owned and operated by former high-ranking government

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<sup>6</sup> Ibid

<sup>7</sup> These audience shares are based on a representative sample of the urban population older than 18 years. Market shares for specific target audiences and peak times might significantly differ from these numbers. TI Georgia would like to thank TV MR Georgia, Nielsen Television Audience Measurement's local license holder, for providing this data. More information about the sample size and methodology is available on the company's website, <http://agbnielsen.com/whereweare/georgia.asp>.

officials or people close to the administration.<sup>8</sup> The potential for a conflict of interest threatened the development of Georgia's media sector, as a free media is a foundation of a democratic society. Ideally, the government should have been promoting this concept, but there were indications that it was doing otherwise.

In 2003, the country held parliamentary elections which were an insult to the concept of democracy. Tens of thousands of names were missing from voter lists - including whole neighborhoods. Voters were coached, intimidated and beaten. Ballot boxes were openly stuffed as police officers stood by and watched. People tuned into one channel on their TV sets and realized these abuses weren't isolated to their precincts but were happening throughout the country. The nation was incensed. Mikheil Saakashvili, Zurab Zhvania and Nino Burjanadze were able to exploit this rage and organize the masses to overthrow the government by utilizing Rustavi 2 TV, the one television station that had been the voice of dissent long before the revolution was even planned.

Families used to gather around their televisions to watch Rustavi 2's Dardubala, an animated parody of Shevardnadze and his government; 60 Minutes, which, based on the American program, investigated corruption; and Night Courier, a political talk show. The

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<sup>8</sup> Media After Rose Revolution Studio Monitor

<https://www.youtube.com/watch?v=d-vefDcvLZY> Accessed on 05/12/2012

format all changed after the Rose Revolution when Rustavi 2 switched from being a government watchdog into the government's PR machine. According to its former owners, it wasn't an entirely voluntary transformation.

Rustavi 2 was established in 1996 and owned by Erosi Kitsmarishvili, David Dvali and Jarji Akimidze.<sup>9</sup> Kitsmarishvili, the station's director, considers himself part of the Rose Revolution team and according to Nino Zuriashvili, a former investigative reporter for Rustavi 2, the government took a more active role in his business affairs shortly after the Rose Revolution. Meanwhile, Kitsmarishvili, who owned one-third of Rustavi 2's shares, was trying to negotiate terms to buy out his partners, Jarji Akimidze and Davit Dvali, who owned the controlling block of shares and refused to sell. On June 11th, 2004, Kitsmarishvili publicly announced bankruptcy, claiming the station was 9.2 million GEL in debt, including 4.6 million owed to the state. The news took Akimidze and Dvali by surprise.<sup>10</sup>

“The debt didn't exist two months before bankruptcy,” Akimidze said.

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<sup>9</sup> Public Registry. Ministry of Justice of Georgia Page 9  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=76221](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=76221)  
Accessed on 05/12/2012

<sup>10</sup> Media after the Rose Revolution. Studio Monitor Investigation.  
<https://www.youtube.com/watch?v=d-vefDcvLZY> Shortened written version  
available at <http://shokoladi.ge/content/54-nabijit-ukan> Accessed on 05/12/2012

Kitsmarishvili now admits that he had inflated the debt so he could file for bankruptcy. Georgian law states that owners of a company lose their rights to make business decisions after bankruptcy proceedings have started. In this case, the owners of Rustavi 2 would not have been able to run their company and faced the risk of losing their other business, internet provider “Georgia Online,” as well as their homes, which were registered on Rustavi 2 property.<sup>11</sup>

“From the moment I applied, their situation was very difficult. In fact, it depended on the good will of the authorities. If the authorities had wanted, they (Akimidze and Dvali) could have lost everything,” Kitsmarishvili said.<sup>12</sup>

Akimidze believes the authorities wanted him and Davit Dvali to hand over their controlling block of shares. “These negotiations (to buy our shares in Rustavi 2) ended when Erosi Kitsmarishvili declared the station bankrupt. We were obliged to give up our 60% controlling block of shares and register them to Kibar Khalvashi, who we first met at Ginturi’s Bureau, to sign the agreement (to buy the shares)<sup>13</sup>.”

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<sup>11</sup> Ibid

<sup>12</sup> Ibid

<sup>13</sup> Ibid

Kitsmarishvili, however, claims he had been cooking the books and the authorities at the time offered him a way out of his legal difficulties by arranging a settlement that would have benefited Zurab Adeishvili, the Minister of State Security at that time, Irakli Chubinishvili, Chief of Administration at that time, and Saakashvili, who was looking for a government friendly television station.<sup>14</sup>

Responding to these allegations in a story in the New Yorker, Saakashvili said curtly, “Money is the main thing for Erosi.”<sup>15</sup>

Kitsmarashvili, Dvali and Akimidze sold their shares to Khalvashi in July, 2004. Nika Tabatidze, who had become the Deputy Foreign Minister, still held the remaining 10%.<sup>16</sup>

Khalvashi had close ties to Irakli Okruashvili, who was Defense Minister. In an interview with Nino Zuriashvili, Khalvashi stated, “I found myself in the media business because the authorities thought that media was necessary to control to impose its power. Government representatives contacted me and asked if I was interested in getting involved in this business. I considered that proposal, with its positive and negative sides and decided to get

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<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> Ibid

involved. I didn't know why those people sold their shares and why they got rid of their business; I just bought out their shares.<sup>17</sup>

From this moment, Rustavi 2 began to lose its reputation as the “winning people’s television.” The 60 Minutes investigative news program was cancelled after Khalvashi’s arrival. He explained that he instructed his staff to ease up on negative reports regarding the authorities and present them in a better light, but this wasn’t enough. “Sometimes the president’s administration would directly get involved in the station’s activities<sup>18</sup>,” he added.

When a group of wrestlers clashed with police in 2005 during a protest against the detention of Georgian judo champion, Giorgi Revazishvili, and the Georgian Wrestling Federation President, Aleko Davitashvili and his brother David, Rustavi 2 was there to cover it live. Khalvashi claims he got calls from the president’s administration complaining of his negative coverage. Saakashvili, he says, called him an “enemy of the country.”<sup>19</sup>

Nevertheless, Khalvashi remained at Rustavi 2 until his friend Irakli Okruashvili was removed from the post of Minister of Defense, declined the mercy offering of Minister of Economy and Sustainable

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<sup>17</sup> Ibid

<sup>18</sup> Ibid

<sup>19</sup> Ibid

Development and turned against the government. Khalvashi said that Giorgi Arveladze, who was part of Saakashvili's cabinet, told him that it had been decided that he and parliamentarian David Bezhuashvili and "another person" were going to be the owners of Rustavi 2, Mze TV and 1st Stereo TV.<sup>20</sup>

"After this, I was bluntly advised that if I gave up my shares of the TV stations, I would be supported by the authorities," recalls Khalvashi.<sup>21</sup>

Tbilisi Mayor Gigi Ugulava, who was the Chief of the President's Administration at the time, categorically denied Kitsmarishvili's and Khalvashi's charges that authorities interfered in the activities of the television stations.

On November 17th, 2006, the transport company, "Geo-Trans," took over Khalvashi's shares and a month later, 45% of Rustavi 2 became the property of MP David Bezhuashvili's company, the Georgian Industrial Group (GIG).<sup>22</sup> David's brother Gela was Foreign Minister. The remaining 55% went to the firm "Delgado Resources,"

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<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> Public Registry. Ministry of Justice of Georgia Page 99  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=76222](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=76222)  
Accessed on 05/12/2012

which was registered in the Virgin Islands.<sup>23</sup> Two months later, “Geomedia Group,” which was registered on the Marshall Islands, became the owner of 55% of Rustavi 2.<sup>24</sup>

By mid 2007, 40% of the shares were owned by Geomedia Group, 30% by Irakli Chikhovani, the General Director of the station, and 30% by Bezhuashvili’s company, GIG<sup>25</sup>. By November 29th, 2011, 70% of the TV company was owned by Dexon Ltd., registered on the Virgin Islands with Giorgi Gegeshidze as the country representative. 30% belonged to Chemexim International, registered on the Marshall Islands, with Ramaz Beridze as the representative.<sup>26</sup> Both companies also owned Mze TV.<sup>27</sup>

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<sup>23</sup> Public Registry. Ministry of Justice of Georgia Page 110  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=76222](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=76222)  
Accessed on 05/12/2012

<sup>24</sup> Public Registry. Ministry of Justice of Georgia Page 133  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=76222](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=76222)  
Accessed on 05/12/2012

<sup>25</sup> Media after the Rose Revolution. Studio Monitor Investigation.  
<https://www.youtube.com/watch?v=d-vefDcvLZY> Shortened written version  
available at <http://shokoladi.ge/content/54-nabijit-ukan> Accessed on 05/12/2012

<sup>26</sup> Public Registry. Ministry of Justice of Georgia 29/11/2011  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=346853&app\\_id=399438](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=346853&app_id=399438) Accessed on 05/12/2012

<sup>27</sup> Public Registry. Ministry of Justice of Georgia 29/11/2011  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=346844&app\\_id=399441](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=346844&app_id=399441) Accessed on 13/12/2012

Amendments to the Georgian Law on Broadcasting in April 2011 restricted companies registered offshore from owning a broadcaster. License holders were obliged to submit compliance declarations to the Georgian National Communications Commission (GNCC) no later than January 1, 2012. Before Georgia's parliamentary elections in October 2012, Levan Karamanishvili owned 90% of Rustavi 2 and Mze TV, while Giorgi Gegeshidze, Rustavi 2's Director General, owned the remaining 10% of both<sup>28</sup> (the post-election changed will be looked at in the final chapter). Karamanishvili is a businessman who founded the mobile phone operator Beeline/Mobitel Georgia<sup>29</sup> and is involved in the internet provider, Caucasus Online <sup>30</sup> . In both companies, Levan Karamanishvili represents opaque shareholders who hide behind offshore shell companies.<sup>31</sup>

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<sup>28</sup> Public Registry. Ministry of Justice of Georgia 08/08/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=447100&app\\_id=520160](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=447100&app_id=520160) Accessed on 13/12/2012

<sup>29</sup> Public Registry. Ministry of Justice of Georgia p.10  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=82829](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=82829)  
Accessed 13/12/2012

<sup>30</sup> Rustavi 2 and Mze - the property of Saakashvili's frind's family. Maya Metskhvarishvili. Netgazeti.ge <http://netgazeti.ge/GE/86/News/7650/> Accessed 13/12/2011

<sup>31</sup> After elections, TV stations reposition themselves and change ownership. Transparency International <http://transparency.ge/en/blog/after-elections-tv-stations-reposition-themselves> Accessed on 05/12/2012

Although not an opposition station, privately owned Mze TV was a popular channel whose history mimics Rustavi 2's. It was founded in 2002 by Zurab Zedginidze, Levan Kubaneishvili, Kakhi Beqauri and Eldar Mdinaradze.<sup>32</sup> The next year, Vano Chkhartishvili, a millionaire and former parliamentarian who was Shevardnadze's economy minister at the time, reportedly bought 10%<sup>33</sup>, but in a secret recording with Erekle Kodua, the late billionaire Badri Patarkatsishvili, who was Chkhartishvili 's friend, said he owned Mze.<sup>34</sup>

The newspaper, Rezonansi, reported in July 2004, that Chkhartishvili sold his Mze shares to David Bezhuashvili because the former minister had fallen out of favor with the government and faced arrest for financial crimes<sup>35</sup>. Whatever the case, Bezhuashvili ended up with 50% of Mze's shares. In 2005, Kibar Khalvashi owned

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<sup>32</sup> Public Registry. Ministry of Justice of Georgia. Page 10  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=111963](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=111963)  
Accessed on 05/12/2012

<sup>33</sup> Public Registry. Ministry of Justice of Georgia. Page 124  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=111963](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=111963)  
Accessed on 05/12/2012

<sup>34</sup> Media after the Rose Revolution. Studio Monitor Report.  
<https://www.youtube.com/watch?v=d-vefDcvLZY> Shortened written version available at <http://shokoladi.ge/content/54-nabijit-ukan> Accessed on 05/12/2012

<sup>35</sup> Ibid

78% of its shares and Bezhuashvili had 22%.<sup>36</sup> Mze TV cancelled its news programming in June 2008. Like Rustavi 2, the ownership would change after October's parliamentary elections.

Since his fall from the graces of the United National Movement, Khalvashi says he was pressured into getting involved with Mze. "Rustavi 2 was an unprofitable business and I didn't want another burden - another TV station," he said.<sup>37</sup>

By the summer of 2005, only one station, TV 202, continued to broadcast daily political talk shows and investigative news stories. Shalva Ramishvili and Davit Kokhreidze established TV 202 in 2003, which broadcast on the TV-33 frequency. Ramishvili, who had produced the animated parody Dardubala on Rustavi 2, also supported Mikheil Saakashvili until becoming disillusioned with the movement. Broadcast only in Tbilisi, the station aired unlicensed Hollywood films, low budget comedy shows, reruns of Dardubala and a political talk-show "Debates," which proved popular for its heated discussions on corruption in the media and within the ruling party. TV 202 also aired two packages by "Reporter," a Soros funded

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<sup>36</sup> Public Registry. Ministry of Justice of Georgia. Page 142

[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=111965](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=111965)  
Accessed on 05/12/2012

<sup>37</sup> Media after the Rose Revolution. Studio Monitor Investigation.

<https://www.youtube.com/watch?v=d-vefDcvLZY> Shortened written version  
available at <http://shokoladi.ge/content/54-nabijit-ukan> Accessed on 05/12/2012

independent investigative journalism media organization. One story cast doubts about the official version of the death of Prime Minister Zurab Zhvania, who reportedly asphyxiated from a gas leak in a private apartment. The other story questioned facts regarding the arrest of Marek Dudaev, who authorities described as a South Ossetian warlord and criminal kingpin.

TV 202's demise occurred on August 27, 2005 when Ramishvili and Kokhreidze were arrested for extortion. Ruling party MP, Koba Bekauri, claimed Ramishvili had been blackmailing him for three months; in exchange for \$100,000, TV 202 would not air footage that implicated Bekauri's involvement with illegal activities at the Opiza customs terminal.<sup>38</sup> Utilizing a 60 Minutes tactic, Bekauri filmed the transaction with a hidden camera. Ramishvili maintained he had been setting Bekauri up for his own investigation, but the courts, with a 99.7% conviction rate, sided with Bekauri and sentenced Ramishvili to 4 years imprisonment and Kokhreidze to 3.

The owner of the TV33 frequency, Vazha Kiladze, sold his share to Hans von Sachsen-Altenburg, who was planning to start the regular broadcasting<sup>39</sup> but sold the frequency two weeks later<sup>40</sup>.

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<sup>38</sup> Media.ge Detained Shalva Ramishvili is in the Center of Media Attention August 29, 2005 <http://www.media.ge/en/node/12346> Accessed on 05/12/2012

<sup>39</sup> TV33 is going to start broadcasting on 29<sup>th</sup> of December. Media.ge 25/12/2006 <http://www.media.ge/en/node/22457> Accessed on 13/12/2012

TV33 became Sakartvelo TV, changed owners several times until Giorgi Gegeshidze, co-founder of the development company Magi Style, became the owner on February 2, 2008.<sup>41</sup> Sakartvelo TV is purely an entertainment TV channel, broadcasting mostly Hollywood action films.

If there had been any doubts as to government coercion in the operations of independent media in the first few post Rose Revolution years, there weren't after November 7, 2007 when riot police stormed Imedi TV station during its evening news broadcast and shut it down, plundering much of the station's equipment in the process.<sup>42</sup>

Imedi began broadcasting on March 15th 2003 and was owned by billionaire Badri Patarkatsishvili, whose station had become increasingly critical of the Saakashvili government, particularly in its coverage of the brutal murder of Georgian banker Sandro Girgvliani, who was beaten to death by interior ministry officers in January

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<sup>40</sup> Media after the Rose Revolution. Studio Monitor Investigation.

<https://www.youtube.com/watch?v=d-vefDcvLZY> Shortened written version available at <http://shokoladi.ge/content/54-nabijit-ukan> Accessed on 05/12/2012

<sup>41</sup> Public Registry. Ministry of Justice of Georgia. Page 192

[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=39357](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=39357) Accessed on 05/12/2012

<sup>42</sup> Emergency Rule in Georgia, News Coverage Curtailed. Civil.ge November 8, 2007 <http://www.civil.ge/eng/article.php?id=16234> Accessed on 05/12/2012

2006<sup>43</sup>. Later, in the fall of 2007, a series of anti-government demonstrations, which were bankrolled by Patarkatsishvili, brought tens of thousands of people to the streets on November 2. Although the protest had petered out considerably by November 7th, riot police aggressively dispersed a handful of peaceful protesters in front of the parliament building and ignited an intense confrontation with demonstrators who had seen the event on Imedi TV and returned to fight back. The clash continued into the night, culminating in the seizure of Imedi TV and a 15 day State of Emergency.<sup>44</sup>

Saakashvili said the move was necessary to prevent Patarkatsishvili from plotting a Russian backed coup d'état, but it tarnished the President's international reputation, particularly since he had come to power through peaceful demonstrations.

When Patarkatsishvili died of heart failure February 12th, 2008, the ownership of Imedi controversially changed. Giorgi Jaoshvili had been the owner of 70% of JMG consulting group<sup>45</sup>, a

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<sup>43</sup> European Court of Human Rights Judgement. HUDOC <http://goo.gl/SgaTR>  
Accessed on 05/12/2012

<sup>44</sup> Riot Police Disperse Protesters. Civil.ge November 7, 2007  
<http://www.civil.ge/eng/article.php?id=16218> Accessed on 05/12/2012

<sup>45</sup> Public Registry. Ministry of Justice of Georgia. Page 31  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=36791](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=36791)  
Accessed on 05/12/2012

company with a 65% stake in I-Media<sup>46</sup>. He was also a chairman of I-Media's board of supervisors. Jaoshvili said that he was forced to sell his shares to Joseph Kay (aka Soso Kakishvili), a distant relative to the billionaire. Kay, a driving instructor in the USA claimed he was the executor of the will<sup>47</sup>. After reviewing the documents, Joashvili accompanied Kay to the notary, which Joashvili stated at a press conference, was surrounded by representatives of the law enforcement agencies.

“I explained to them that I had no right to sell or hand over my shares without agreement from other co-owners,” Jaoshvili said. “The representatives from the law enforcement agencies, which were present there, told me that there would be no problems with other co-owners. Then I explained that Imedi's assets were frozen [Patarkatsishvili assets were frozen in January in connection with criminal charges against him involving conspiracy to overthrow the government]... In two hours, however, they brought court papers saying that the assets were unfrozen. After that I signed a sale-purchase agreement.”<sup>48</sup>

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<sup>46</sup> Ex-Formal Owner Claims Pressure over Imedi TV December 10, 2008  
<http://www.civil.ge/eng/article.php?id=20110> Accessed on 05/12/2012

<sup>47</sup> Ibid

<sup>48</sup> Ibid

He went on to say that later that day, the Financial Police demanded he “voluntarily resign” as chairman of the supervisory board of I-Media.<sup>49</sup>

While the Patarkatsishvili family was fighting a court battle with their relative Kay, said he sold 90% of his shares for an undisclosed price to RAK Georgia Holding, supposedly a subsidiary of Ras Al Khaimah Investment Authority - RAKIA - the same real estate investment company which in purchased the port of Poti in 2008 to develop an industrial free zone.<sup>50</sup> However, United Arab Emirates’ RAKIA denied having anything to do with this investment, stating that somebody had registered the company under it’s name in Georgia.<sup>51</sup>

Before Georgia’s parliamentary elections in October 2012, Giorgi Arveladze was the largest shareholder in Georgian Media Production Group with 45%<sup>52</sup> and GMP Group owned Telemedi<sup>53</sup>.

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<sup>49</sup> Ibid

<sup>50</sup> Imedi TV changes hands. Civil.ge February 25, 2009  
<http://www.civil.ge/eng/article.php?id=20475> Accessed on 05/12/2012

<sup>51</sup> UAE’s RAKIA Denies Owning Imedi TV. February 4, 2010  
<http://www.civil.ge/eng/article.php?id=21950> Accessed on 05/12/2012

<sup>52</sup> Public Registry. Ministry of Justice of Georgia 23/02/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=385934&app\\_id=446179](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=385934&app_id=446179) Accessed on 12/12/2012

Later ownership was transferred to RAAK Georgia, a Panamanian offshore entity that held 90% of the Georgian Media Production Group<sup>54</sup>. 30% of Imedi's shares belonged to Giorgi Kokharishvili<sup>55</sup>, a businessman with shares in a number of medium-sized businesses, including A Gas, Geo Snack Services, Georgian Investment Holding, Ltd. Geo Kiri, Geo Construction, Meskhuri Sakhli, Shatili, and Kolmeurne.<sup>56</sup> 15% of of Imedi shares were held by Giorgi Mikeladze,

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<sup>53</sup> Public Registry. Ministry of Justice of Georgia 23/02/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=385952&app\\_id=446192](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=385952&app_id=446192) Accessed on 13/12/2012

<sup>54</sup> Public Registry. Ministry of Justice of Georgia 16/03/2010

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=34548&app\\_id=40392](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=34548&app_id=40392) Accessed on 12/12/2012

<sup>55</sup> Ibid

<sup>56</sup> Public Registry. Ministry of Justice of Georgia  
26/09/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=459624&app\\_id=534661](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=459624&app_id=534661) Accessed 12/12/2012

03/05/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=412967&app\\_id=482329](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=412967&app_id=482329) Accessed 12/12/2012

20/08/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=450004&app\\_id=523388](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=450004&app_id=523388) Accessed 12/12/2012

05/02/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=412605&app\\_id=481354](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=412605&app_id=481354) Accessed 12/12/2012

26/12/2011

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_)

who holds 80% in Benett and Benett Capital<sup>57</sup>, a real estate development company active in Tbilisi.<sup>58</sup> Joseph Kay had 10% of Imedi's shares.

It's worth noting that Giorgi Arveladze's political career goes back to the 1990s, when he worked in the Ministry of Justice while Saakashvili was the justice minister. He was part of Saakashvili's inner team during the Rose Revolution, was elected to parliament where he became head of the Presidential administration and served as secretary general of the United National Movement. When Irakli Okruashvili resigned from his post of minister of economic development ten days after being appointed, Arveladze stepped into the slot until quitting politics to go into business in January 2008. He gained notoriety, however, on March 13th, 2010, ( two months before local elections ), when as the head of Imedi TV, he aired a fake report on a renewed war with Russia, which sent the nation

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id=360747&app\_id=416219 Accessed 12/12/2012  
26/08/2011

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=306635&app\\_id=352918](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=306635&app_id=352918) Accessed 12/12/2012

<sup>57</sup> Public Registry. Ministry of Justice of Georgia 20/06/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=430677&app\\_id=501851](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=430677&app_id=501851) Accessed 12/12/2012

<sup>58</sup> New Owners of Imedi TV. Media.ge

[http://www.media.ge/en/content/new\\_owners\\_of\\_imedi\\_tv](http://www.media.ge/en/content/new_owners_of_imedi_tv) Accessed on 05/12/2012

into a panic and was a blow to the credibility of Georgia's independent media.<sup>59</sup>

TV Alania started broadcasting in 2005 without a broadcasting license and apparently, without the knowledge of GNCC Chairperson, Giorgi Arveladze.<sup>60</sup> In 2007 he was asked what frequency Alania was using for broadcasting and he replied he wasn't aware of such a station<sup>61</sup>. His friend Mikheil Saakashvili, however, was aware of this station and announced to a group of journalists that he watched Alania programs in the evenings.<sup>62</sup>

Alania, as an Ltd. was established in July, 2007, 7 months after the President's statement.<sup>63</sup> It received its license on 16 May 2008. In the three years it had been broadcasting illegally, Alania was watched throughout Georgia, including the Tskhinvali region of South Ossetia - it's target audience - but the GNCC claimed it knew nothing of its existence, despite the fact that TV Alania published its

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<sup>59</sup> Imedi TV Chief Defends Fake Report. Civil.ge  
<http://www.civil.ge/eng/article.php?id=22083> Accessed on 19/11/2012

<sup>60</sup> Media after the Rose Revolution. Studio Monitor Investigation.  
<https://www.youtube.com/watch?v=d-vefDcvLZY> Shortened written version available at <http://shokoladi.ge/content/54-nabijit-ukan> Accessed on 19/11/2012

<sup>61</sup> Ibid

<sup>62</sup> Ibid

<sup>63</sup> Ibid

weekly schedule in “TV Program” newspaper<sup>64</sup>. The Commission explained they never monitored Alania’s TV signals because no one had instructed them to.<sup>65</sup>

In an interview with Radio Utsnobi, the Head of the GNCC Legal Department, Kakhi Kurashvili, said Alania broadcasted through the cable network.

“Ayety and Global 1 and many others operate on a cable network, but they weren’t considered to be broadcasters. This is a significant legal peculiarity of this situation. As the Head of the Legal Department, I have not received a single document claiming Alania was illegally using any resources of any radio frequencies,” he said.<sup>66</sup>

Yet by law, a studio still needs a license even if it broadcasts through the cable network. Moreover, in 2007 Saakashvili claimed that 95% of the Tskhinvali population watched Alania and South Ossetian authorities jammed its signals, although cable TV wasn’t available in Tskhinvali.<sup>67</sup>

The truth is that Alania was a “secret” state-backed station designed to broadcast to the Tskhinvali region in South Ossetia as part

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<sup>64</sup> Ibid

<sup>65</sup> Ibid

<sup>66</sup> Ibid

<sup>67</sup> Ibid

of an engagement policy with the breakaway territory. It was using the former frequency of TV company Obieqtivi.<sup>68</sup>

“Obieqtivi TV” was established in 2001 and owned by Ketevan Asatiani<sup>69</sup>. In 2004, her representative and technical director, Misha Agladze, was summoned to the GNCC. He says that GCNN Chairman, Dimitry Kitoshvili, told him the company may have problems and lose its license.<sup>70</sup> Soon, Kitoshvili’s neighbor, a dentist named David Kakauridze, contacted Agladze and said he could make the problems “go away” for a 50% share in the company. Kakauridze agreed to pay 10,000 GEL in addition to a yearly payment of 4000 GEL to the GNCC for the license. He then demanded an extra 1% and became the controlling partner.<sup>71</sup>

When Kakauidrdze failed to pay, “Obieqt TV” sued. Ketevan Asatiani requested her agreement to relinquish 51% of her shares to Davit Kakauridze be annulled, as it had been signed under duress and was illegal. While the case was pending, Kitoshvili, who had become the President’s spokesman and parliamentary secretary, was arrested for extortion in conjunction with the Irakli Okruashvili case in

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<sup>68</sup> Ibid

<sup>69</sup> Ibid

<sup>70</sup> Ibid

<sup>71</sup> Ibid

September 2007.<sup>72</sup> Attorney Tamar Kodzaia says that this was illegal, because according to the existing regulations, a partner must own 60% before he can hand over shares. Charkhalashvili sold his shares to someone named “Kvirikashvili,” who approached authorities with a request for the frequency license for Obieqtivi. However, Kakauridze and Asatiani’s legal dispute over the annulment of their transaction, which began in 2004, had not been resolved. In order to ensure the claim, Asatiani’s representative requested to seize the license, but was rejected by the court. This license had been given to TV Alania.<sup>73</sup>

The owner of 100% of Alania’s shares turned out to be Mamuka Tatoshvili, a former Rustavi 2 cameraman and childhood friend of Prime Minister, Vano Merabishvili, who had been the Minister of Interior at the time.<sup>74</sup>

While TV Alania had been broadcasting without any hindrance for three years on a channel obtained illegally, the TV company Evropa (Europe), became the target of a special operation and then disappeared because it illegally broadcasted for two days.<sup>75</sup>

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<sup>72</sup> Ibid

<sup>73</sup> Ibid

<sup>74</sup> Ibid

<sup>75</sup> Ibid

TV Evropa was created in Tbilisi in 2004. Its principal shareholder was Teimuraz Shengelia, a Moscow businessman. Evropa had agreed to broadcast “Euronews” while it prepared its own news program. On August 12 2004, TV Evropa officially informed the GNCC that it intended to broadcast on the 38th channel, but the next day, the GNCC started proceedings to cancel Evropa’s license and annulled it a month later on the grounds that on the 18 and 19 of August, “Evropa discontinued its activities envisaged by the license and failed to broadcast.”<sup>76</sup>

TV Evropa says technical difficulties had prevented the station from operating, a claim substantiated by the “Georgian Tele-Radio Centre.” TV Evropa sued for an annulment of GNCC’s decision. Both the civil and appeals courts ruled in favor of the Commission, but the Supreme Court reversed the decision and sent the case back to the civil court for review. This decision did not give TV Evropa the right to renew broadcasting, but station managers believed they could translate Euronews and broadcast it, which they did on November 28 and 29. The GNCC reminded them that the Supreme Court’s decision did not allow them to continue broadcasting, so TV Evropa stopped broadcasting immediately.<sup>77</sup>

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<sup>76</sup> Ibid

<sup>77</sup> Ibid

On November 30th, GNCC lawyer, Kakhi Kurashvili, testified that the Commission incurred losses of up to 50 000 GEL due to Evropa’s illegal broadcast.<sup>78</sup>

“The damage was calculated by an investigation that revealed TV company Evropa illegally used frequencies without a license... it was calculated and determined proportionally to the fee of the license... Otherwise, if this frequency should be bid on, what would its price be on a competitive basis?” Kurashvili attested.<sup>79</sup>

TV Evropa had agreed to pay 3,500 GEL annually for a 10 year, 35,000 lari license, which made Kurashvili’s sum seem pretty random, yet after his testimony, the Organized Crime Department (OCD) began legal proceedings against the owners of the TV station.<sup>80</sup>

“About 15 people came in, all dressed in OCD uniforms, only three of them were dressed as civilians,” said technician Irakli Sharashidze. “They arrested our (executive) director Loid Jikaridze and started gathering equipment from all the rooms, including the roof. There were two big trucks waiting for them in the street. They took transmitters, relays... dismantled everything. Those in civilian

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<sup>78</sup> Ibid

<sup>79</sup> Ibid

<sup>80</sup> Ibid

clothes were more active, choosing what to leave and what to take – starting with TV sets, recorders, modulators, transmitters... everything. They'd call someone (by telephone) named Aleko and say, "they've got this – shall we take it?" "Pack" was the response, and they took different equipment totaling sixty thousand dollars in value..."<sup>81</sup>

The officers also took about 50 or 60 licensed films belonging to the TV station. In January, 2006, Sharashidze said he saw those films shown on TV Alania and claims their equipment was also found at Alania. Alania managers denied the allegations.<sup>82</sup>

Kavkasia was one of Tbilisi's two TV stations considered "opposition," although owner and station manager Nino Jangirashvili didn't like that tag, as it implied her station was under the influence of opposition politicians. She maintains her station is "independent." After the November 7<sup>th</sup> raid on Imedi TV, Jangirashvili claims she was approached by a "businessman" with ties to the government who threatened she too would be shut down unless Kavkasia altered their

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<sup>81</sup> Ibid

<sup>82</sup> Ibid

programming or sold the channel<sup>83</sup>. Kavkasia held its ground and despite a decline in advertisers, is still on the air.

Maestro TV, established in 1995, was Tbilisi's other opposition station. 25% is owned by Giorgi Gachecheladze, aka "Utsnobi" (the Unknown), a local musician, outspoken critic of the Saakashvili government and brother of Levan Gachecheladze, who ran against Saakashvili in the snap 2008 presidential elections and lost. Maka Asatiani, a fashion designer and former president of Airzena airlines, also owns 25%. Her husband, Kote Gogelia, is a wealthy businessman and former leader of the opposition Georgia Party. Mamuka Glonti, one of Maestro's founders, holds 15 % of the shares, while Levan Chikvaidze and Giorgi Ebralidze each hold 15% and Ekaterine Akobia has 5%.<sup>84</sup>

In February, 2012, the Georgian Supreme Court put a lien on Asatiani's 20% shares in Mercedes Georgia, which she claims was retaliation for her support of Maestro, as she pays the station's

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<sup>83</sup> Kavkasia TV and the End of Independent Media. The Messenger Online. [http://www.messenger.com.ge/issues/1651\\_july\\_18\\_2008/1651\\_kavkasia.html](http://www.messenger.com.ge/issues/1651_july_18_2008/1651_kavkasia.html) Accessed on 05/12/2012

<sup>84</sup> Public Registry. Ministry of Justice of Georgia. 12/03/2012 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=391748&app\\_id=451889](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=391748&app_id=451889) Accessed on 05/12/2012

journalists and has invested in new equipment.<sup>85</sup> In a July interview with newspaper "Kviris Palitra," she said authorities offered to drop her Mercedes - Georgia case if she would leave Maestro.<sup>86</sup>

Late in 2011, Maestro made headlines over a dispute between the company's owners and Erosi Kitsmarishvili, who had bought controlling rights for 3 years in 2009.<sup>87</sup> Kitsmarishvili earned the nickname Spiderman for scaling the 3 meter high Maestro wall and breaking into the studios in an effort to hijack the broadcasting, but the Maestro staff had joined Glonti in the Utsnobi radio station where they continued guerrilla TV broadcasting.<sup>88</sup> Today, Maestro broadcasts normally in its regular studio, while Kitsmarishvili has been relieved of his duties as director..

Maestro again made headlines in July 2012, when the Georgian government impounded thousands of satellite dishes it claimed were part of an investigation into a vote-buying scheme orchestrated by

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<sup>85</sup> Dimitri Gabunia – Lien has been Imposed on Maka Asatiani's Property because of Maestro. Media.ge. [http://www.media.ge/en/stories/dimitri\\_gabunia\\_lien\\_has](http://www.media.ge/en/stories/dimitri_gabunia_lien_has) Accessed 14/11/2012

<sup>86</sup> I shall not swap Maestro for Mercedes or any other assets! – Maka Asatiani. Media.ge <http://www.media.ge/en/stories/ishallnotswapmaestrofor> Accessed 14/11/2012

<sup>87</sup> Vaulted into an Imedi scandal. Democracy and Freedom Watch. <http://dfwatch.net/vaulted-into-an-imeri-scandal-95700> Accessed 14/11/2012

<sup>88</sup> TV staff jailed in Tbilisi. Democracy and Freedom Watch. <http://dfwatch.net/tv-staff-jailed-in-tbilisi-60010> Accessed 14/11/2012

billionaire opposition leader, Bidzina Ivanishvili. Maestro contends the dishes were part of its campaign “Maestro in Every Family,” and was in no part connected to Ivanishvili.<sup>89</sup>

TV9 (Channel 9 Ltd) is fully owned by Accept LLC<sup>90</sup>. Ekaterine Ivanishvili, the wife of Prime Minister Bidzina Ivanishvili, owns 80% of its shares. The remaining 20% of shares are held by Kakha Kobiashvili<sup>91</sup>, who is a cousin of Bidzina Ivanishvili and has managed several companies affiliated with the billionaire, including Georgian Holding<sup>92</sup> and Holding Twenty First<sup>93</sup>. The station does not have a license for terrestrial broadcasting and is broadcast via

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<sup>89</sup> More Satellite Dishes, Imported by Maestro TV Impounded. Civil.ge  
<http://www.civil.ge/eng/article.php?id=25037> Accessed 14/11/2012

<sup>90</sup> Public Registry. Ministry of Justice of Georgia. 24/05/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=421345&app\\_id=490972](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=421345&app_id=490972) Accessed on 05/12/2012

<sup>91</sup> Public Registry. Ministry of Justice of Georgia 16/01/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=369086&app\\_id=425615](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=369086&app_id=425615) Accessed on 05/12/2012

<sup>92</sup> Public Registry. Ministry of Justice of Georgia 19/03/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=36655&app\\_id=44502](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=36655&app_id=44502) Accessed on 12/12/2012

<sup>93</sup> Public Registry. Ministry of Justice of Georgia 18/03/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=36068&app\\_id=44491](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=36068&app_id=44491) Accessed on 12/12/2012

satellite by Global TV<sup>94</sup>. Ivanishvili's brother, Alexander, owns 66.8% Global TV's shares<sup>95</sup>.

Scandals have dogged the station even before its launch in April, 2012. In February, Ivanishvili charged that his satellite van for live broadcasts, worth 450,000 Euro, had been purposely damaged at customs clearance, along with other shipments belonging to Ivanishvili companies.<sup>96</sup> Then in June, the Georgian prosecutor's office seized thousands of satellite dishes Global TV was handing out to subscribers as part of a promotional deal. The prosecutor's office believes the dishes were being used to bribe voters, as Global TV was the sole broadcaster of Ivanishvili's TV9. The State Audit Agency fined Ivanishvili 63.1 million GEL.<sup>97</sup>

Some television station owners complain the government interferes with their licensing procedures through the Georgian

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<sup>94</sup> Ivanishvil's TV Channel Launched. Civil.ge  
<http://www.civil.ge/eng/article.php?id=24711> Accessed on 14/11/2012

<sup>95</sup> Public Registry. Ministry of Justice of Georgia. 06/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=470746&app\\_id=546176](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=470746&app_id=546176) Accessed on 05/12/2012

<sup>96</sup> Satellite Van for Ivanishvili's Planned TV Channel 'Damaged'. Civil.ge  
<http://www.civil.ge/eng/article.php?id=24445> Accessed on 14/11/2012

<sup>97</sup> Global TV's Satellite Dish Antennas Seized. Civil.ge  
<http://www.civil.ge/eng/article.php?id=24908> Accessed on 14/11/2012

National Communications Commission (GNCC). The GNCC<sup>98</sup> was established in 2000 as an independent regulatory body to license and oversee the operations of Georgian telecommunication and broadcasting companies. It monitors and regulates electronic communications, including the compliance of license holders to laws on advertising. The President of Georgia appoints the 5-member board, by approval of parliament, and is supposed to be fully independent and not subordinate to any state bodies. As noted, sometimes the GNCC works zealously to regulate communications, while other times it doesn't work at all. That's because "independent" is a highly subjective concept in Georgia.

Before Irakli Chikovani became Chairperson of the Georgian National Communications Commission (GNCC) in the summer of 2009, he was the director<sup>99</sup> and co-owner of Rustavi 2<sup>100</sup>. In his first year as Chair, he continued to co-own MediaHouse, one of the country's two major media sales houses, which sold advertising time

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<sup>98</sup> Georgian National Communication Commission  
[http://www.gncc.ge/?lang\\_id=ENG](http://www.gncc.ge/?lang_id=ENG) Accessed on 05/12/2012

<sup>99</sup> Public Registry. Ministry of Justice of Georgia Page 149  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=76222](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=76222)  
Accessed on 05/12/2012

<sup>100</sup>Changes Among Rustavi 2 TV Shareholders. Civil.ge  
<http://www.civil.ge/eng/article.php?id=19944> Accessed on 14/11/2012

on Rustavi 2, Mze and several other channels.<sup>101</sup> In 2010, Chikovani sold MediaHouse and its clients to General Media the new, number one media sales company.<sup>102</sup>

In the meantime, Chikovani has remained a shareholder in the the Meno International, Bedegi<sup>103</sup> and Magi Style<sup>104</sup> construction companies, all of which he co-owns with Giorgi Gegeshidze, director of Rustavi 2, which is subject to GNCC regulations. Magi Style was involved in constructing the new parliament building in Kutaisi. Chikovani also co-owns Magi Style Media<sup>105</sup>, an advertising agency that, among other services, offers outdoor advertising, broadcast design and television advertisement production. The head of the GNCC legal department has declared that in no way do Chikovani's activities violate conflict of interest rules and that these issues were

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<sup>101</sup> General Media and Outdoor.ge - Two Monopolists of Advertising Business  
<http://netgazeti.ge/GE/84/business/7414/> Accessed 05/12/2012

<sup>102</sup> Ibid

<sup>103</sup> Public Registry. Ministry of Justice of Georgia 27/01/2011  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=210203&app\\_id=238950](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=210203&app_id=238950) Accessed on 05/12/2012

<sup>104</sup> Public Registry. Ministry of Justice of Georgia 15/02/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=20168&app\\_id=27763](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=20168&app_id=27763) Accessed on 05/12/2012

<sup>105</sup> Public Registry. Ministry of Justice of Georgia 22/02/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=24179&app\\_id=32134](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=24179&app_id=32134) Accessed on 05/12/2012

“explored” before his appointment<sup>106</sup>. However, on November 6th, 2012, Maestro TV aired a secretly recorded conversation between Chikovani and a representative of Caucasus Online. The tape allegedly reveals that Chikovani had been covering up Caucasus Online’s transmission of TV channels without a contract for nearly one year.<sup>107</sup> When the recording was made, Rustavi 2 was headed by Gegeshidze, who had 10% of Rustavi 2’s shares. The remaining 90% were owned by Levan Karamanishvili, who represents Nelgado Limited, an opaque British Virgin Islands shell company that owns 50% of Caucasus Online (via International Online Networks, BVI)<sup>108</sup>. If Chikovani’s activities are not a conflict of interest with his role at the GNCC, they have at least made him a very wealthy man.

According to his tax declarations, Chikovani earned 1,134,543 GEL (\$692, 943) in 2010 from these businesses. As the head of the GNCC, Irakli Chikovani earned an additional 241, 200.88 GEL in

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<sup>106</sup> Conflict of Interest in GNCC. Media.ge  
[http://www.media.ge/content/interestha\\_konphliqti](http://www.media.ge/content/interestha_konphliqti) Accessed on 14/11/2012

<sup>107</sup> Maestro Circulates Materials Compromising Irakli Chikovani. Media.ge.  
6/11/2012 <http://www.media.ge/en/stories/maestrocirculatesmateria> Accessed on 13/12/2012

<sup>108</sup> Audio recording highlights conflict of interest of top media and telecoms regulator. Transparency International <http://transparency.ge/en/node/2508> Accessed 05/12/2012

2010 (\$147, 318)<sup>109</sup>, which is not bad for a government position. In comparison, President Mikheil Saakashvili's 2010 salary was GEL 56,640, according to his income declaration.<sup>110</sup>

Until the end of 2010, two media houses dominated the Georgian television market: Touch Media and Media House. These served as the intermediaries between advertising agencies (and media planners) and media outlets. Media House, which was co-owned by Chikovani<sup>111</sup>, sold advertisements to Rustavi 2, Mze and 1 Stereo. Touch Media sold advertising slots for Imedi TV and was part of Imedi's holding company, the Georgian Media Production Group, which in December 2011, was owned by Giorgi Arveladze (45%), Giorgi Korakhashvili (30%) , Giorgi Mikhekadze (15%) and Joseph Kay (10%).<sup>112</sup> Georgian Media Production group is presently owned

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<sup>109</sup> Irakli Chikovani's Declaration for year 2010, filed in 2011. Page 8-9 Asset Declarations of Georgian Senior Officials  
<http://www.declaration.ge/csb/report/report.seam?id=4945> Accessed 05/12/2012

<sup>110</sup> Mikheil Saakashvili's Declaration for year 2010, filed in 2011. Page 8 Asset Declarations of Georgian Senior Officials  
<http://www.declaration.ge/csb/report/report.seam?id=4675&lang=2> Accessed 05/12/2012

<sup>111</sup> Public Registry. Ministry of Justice of Georgia 01/03/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=27690&app\\_id=35542](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=27690&app_id=35542) Accessed 12/12/2012

<sup>112</sup> Public Registry. Ministry of Justice of Georgia 27/12/2011  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=362538&app\\_id=418411](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=362538&app_id=418411) Accessed 12/12/2012

completely by Badri Patarkatsiashvili's widow, Ina Gudavadze, and directed by Liana Jhmotova, both Russian citizens.<sup>113</sup>

General Media arrived in early 2011. Although Touch Media and Media House both still exist as legal entities, General Media was the result of their de-facto merger.<sup>114</sup> Representatives of Imedi and Rustavi 2 told Transparency International Georgia (TI Georgia) that competition between the two channels had led to unsustainably low ad-prices, so the two channels decided to stop competing against each other and decided to work with the same advertising sales house – General Media.<sup>115</sup> It's a good gig. In an interview with TI Georgia, Zurab Gumbaridze, General Media's Executive Director said, "One of the reasons why General Media was created is to increase prices and to grow the market."<sup>116</sup>

General Media has the exclusive rights to sell slots on Imedi, Rustavi 2, Sakartvelo, Mze, Real TV and I Stereo, giving it a virtual

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<sup>113</sup> Public Registry. Ministry of Justice of Georgia 05/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=470351&app\\_id=546155](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=470351&app_id=546155) Accessed 12/12/2012

<sup>114</sup> State Money Lets TV Screen Shine. Media.ge  
<http://www.media.ge/en/node/40136> Accessed 14/11/2012

<sup>115</sup> The Georgian Advertising Market. Page 20 Transparency International Georgia. December 13, 2011  
[http://transparency.ge/sites/default/files/post\\_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market_0.pdf) Accessed 05/12/2012

<sup>116</sup> Ibid

monopoly on the market, as whoever wants to place an advertisement on national TV has to work with this company. It is estimated that General Media now controls about two-thirds of all advertising flows.

## WHO OWNED TELECOMMUNICATIONS?

Walk down Tbilisi's main streets today and you'll be hard pressed to find an internet cafe. The hole-in-the-wall sanctums to the world wide web are becoming dusty memories of a bygone era as today's Tbilisi is a modernizing capital with no shortage of WiFi access, at least in the center of the city.

In a 2011 media survey, the Caucasus Research Resource Center (CRRC) found that 23 percent of Georgian adults use the internet every day; a 10% increase from 2009. We'd see more people online if their economic situation was better, as 40% noted access was too expensive; nevertheless, by 2011<sup>117</sup>, the number of internet subscribers in Georgia increased by 49%, to 1,637,905, according to the Georgian National Communications Commission (GNCC).<sup>118</sup> The use of mobile phones, however, is much higher as 55% of Georgians use a mobile phone several times a day, according to a 2010 CRRC survey. As these figures increase so does the market demand for providing these services.

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<sup>117</sup> CRCC Online Research Resource Centers <http://crcc.ge/oda/> Accessed 05/12/2012

<sup>118</sup> GNCC Yearly Report 2011 in Georgian. p.49  
[http://www.gncc.ge/files/3100\\_2949\\_314871\\_1.pdf](http://www.gncc.ge/files/3100_2949_314871_1.pdf) Accessed 05/12/2012

Since moving to Georgia, I have subscribed to probably every internet provider there was. I have found that the rates, internet speed, reliability and quality of service is about the same at each company. If you ask which provider is the best, I say take your pick; just please don't ask me who owns them.

Georgia's internet market is dominated by two providers. Silknet is a Joint Stock Company (JSC) that showed up in Georgia just a couple of years ago and has managed to become one of the main market players with the highest share of DSL subscribers (76%) in the country. Caucasus Online is the result of the 2006 merger of the Caucasus Network, Georgia Online and SaNet. It has the highest shares of the optical fiber market (76%<sup>119</sup>).

Georgia's total revenues from the internet in 2010 was 80.2 million GEL. Of this, Silknet earned 25.9 million GEL in the 10 months it operated 2010, according to the GNCC<sup>120</sup>. Caucasus Online earned 32.1 million GEL for the full year. The remaining revenues were divided between 28 smaller providers. The GNCC's 2011 report

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<sup>119</sup> GNCC Yearly Report 2011 in Georgian, p. 51  
[http://www.gncc.ge/files/3100\\_2949\\_314871\\_1.pdf](http://www.gncc.ge/files/3100_2949_314871_1.pdf) Accessed 05/12/2012

<sup>120</sup> GNCC Yearly Report 2011 in Georgian, p. 47  
[http://www.gncc.ge/files/3100\\_2949\\_473760\\_Annual%20report%202010.pdf](http://www.gncc.ge/files/3100_2949_473760_Annual%20report%202010.pdf)  
Accessed 05/12/2012

does not include a separate breakdown of retail revenues by each provider.<sup>121</sup>

As for Georgia's mobile telecommunications market, it is largely shared by three companies. According to 2011 data from the GNCC, Geocell is the current market leader with 41.7% of the market shares (1,765,000 subscribers), then Magticom with 37.9% (1,604,000 subscribers) and Mobitel with 20.4% (611,000 subscribers). Silknet entered the mobile telecommunications market in December, 2011 and managed to register 1,782 subscribers by the end of the year.<sup>122</sup>

Georgia's total retail revenues from mobile networks actually went down from 532 million GEL in 2010 to 441 million GEL in 2011 (excluding value added tax and excise tax). According to GNCC's 2010 data, Geocell's retail revenues amounted to 245.2 million GEL, while Magticom's total retail revenues in 2010 stood at 227.6 million GEL and Mobitel's was 58.8 million GEL.<sup>123</sup>

It is relatively easy to get general information and statistics about Georgia's major internet and mobile telecommunications companies, however, it's quite tricky to obtain data on who their real

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<sup>121</sup> Ibid

<sup>122</sup> Ibid

<sup>123</sup> Ibid

and/or beneficial owners are. For example, the public registry has no information about Silknet's current owners. Data from 24 May 2010 indicates that Silknet was fully owned by Ravenscar Investments Limited, a company registered in the British Virgin Islands (BVI)<sup>124</sup> which is an offshore haven for tax evasion and corporate anonymity. On 2 June 2010, Silknet reorganized and changed its status from a limited liability company to a joint stock company (JSC), which means it doesn't have to reveal its shareholders. So if somebody says, "Vano (ex-Prime Minister Merabishvili) owns Silknet," they could actually be right.

What we do know about Silknet is that the Silk Road Group (SRG) is a shareholder,<sup>125</sup> although because Silknet is a JSC, we don't know how much they own. We know the Silk Road Group is mainly Giorgi Ramishvili<sup>126</sup>, Alexei Topuria and a German named David Franz Forger, who has been a member of Silknet's supervisory board since 2010. Ramishvili (aka "Zarala") is perhaps best known for his recent collaboration with Donald Trump. In 2010, the two signed a

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<sup>124</sup> Public Registry. Ministry of Justice of Georgia. 20/05/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=61473&app\\_id=70695](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=61473&app_id=70695) Accessed on 05/12/2012

<sup>125</sup> Silk Road Group S.A website <http://www.silkroadgroup.net/other.php?lang=en>  
Accessed 12/09/2012

<sup>126</sup> President cut the ribbon at Radisson Blu Hotel, Batumi  
<http://www.silkroadgroup.net/news.php?lang=en&content=30> Accessed  
05/12/2012

deal to establish a Trump Tower in Batumi<sup>127</sup>. Topuria is a board member of the SRG and responsible for its transportation business.<sup>128</sup>

The Silk Road Group goes back to the turbulent 1990s, where following the collapse of the Soviet Union, Giorgi Ramishvili set up a little company to transport goods across the region. While we don't know exactly what kinds of goods they transported, we do know that today the Silk Road Group is the leading oil, fuel transport and trading operator in Central Asia, with businesses interests in trading, real estate, banking and telecommunications.

In cases when the owner of a business is a foreign company registered in the offshore zone, the public registry does not provide additional information about beneficial owners. A case in point is Caucasus Online. The public registry reveals that it is fully owned by International Online Networks, a BVI limited partnership whose owners are not officially disclosed.<sup>129</sup> According to some reports<sup>130131</sup>,

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<sup>127</sup> Silk Road Group Announces Visit from Donald Trump  
<http://www.silkroadgroup.net/news.php?lang=en&content=38> Accessed 05/12/2012

<sup>128</sup> SRG helps moving containers from Iraq to Afghanistan  
<http://www.silkroadgroup.net/news.php?lang=&content=21> Accessed 05/12/2012

<sup>129</sup> Public Registry. Ministry of Justice of Georgia. 08/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=471443&app\\_id=546985](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=471443&app_id=546985) Accessed 05/12/2012

<sup>130</sup> Characteristics of Georgian E-Market. Thea Topuria Media.ge 02/02/2011  
<http://www.media.ge/en/node/40134> Accessed 13/12/2012

International Online Networks is owned by two foreign companies: Nelgado Limited, which owns 50% of shares and Growth Master Holding IC, which owns 19.94%. Mamia Sanadiradze, the founder and former director general of Caucasus Online owns 30.06%.<sup>132</sup> However, there is no information whatsoever about the owners of Nelgado Limited and Growth Master Holding IC. Moreover, the names of the real owners of Caucasus Online are concealed under the guise of different shell companies and/or subsidiaries, which presents a long and complicated chain of ownership.

The ownership structure of mobile telecommunications companies in Georgia are no less opaque. The country's three major providers are owned by foreign companies whose ownership information is rather ambiguous.

We do know that Geocell is fully owned by the Turkish company, Gürtel Telekomünikasyon Yatirimve Dis Ticaret A.S.<sup>133</sup> This in turn is owned by Fintur Holdings B.V., which is owned

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<sup>131</sup> Caucasus Online Investing 10-15 Million USD in Underground Fibre Optic Infrastructure. Ketik Chkhikvadze. The Financial September 27, 2010. [http://www.finchannel.com/Main\\_News/Tech/71570\\_Caucasus\\_Online\\_Investing\\_10-15\\_Million\\_USD\\_in\\_Underground\\_Fibre\\_Optic\\_Infrastructure/](http://www.finchannel.com/Main_News/Tech/71570_Caucasus_Online_Investing_10-15_Million_USD_in_Underground_Fibre_Optic_Infrastructure/) Accessed 13/12/2012

<sup>132</sup> Ibid

<sup>133</sup> Public Registry. Ministry of Justice of Georgia 29/11/2012 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=477704&app\\_id=544594](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=477704&app_id=544594) Accessed on 05/12/2012

mostly by the Nordic telecom giant, TeliaSonera, (58.55% shares) and claims to own 74.3% of shares in Geocell.<sup>134</sup> Turkcell owns the remaining shares of Fintur Holdings B.V.

Magticom, Georgia's second largest provider of mobile telecommunications is officially owned by two American companies - International Telcell Celular LLC (ITCL), which owns 51% of the shares and Telcell Wireless LLC, which has the remaining 49%<sup>135</sup>. TI Georgia found that, as of August 26 2010, Telcell Wireless is a wholly owned subsidiary of ITCL. In addition, Gia Jokhtaberidze, the founder of Magticom and the son-in-law of former president Eduard Shevardnadze, has 51% of ITCL's shares while his affiliate company, Gemstone Partners, also has minor shares (3%) of ITCL<sup>136</sup>. On February 20, 2004, police boarded a scheduled Tbilisi-Paris flight at the Tbilisi airport and arrested Jokhtaberidze for tax evasion. His family claimed the arrest was political persecution. In April, Jokhtaberidze paid \$15.5 million to the state to have charges he evaded paying 700,000 GEL dropped.

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<sup>134</sup> TeliaSonera Website <http://www.teliasonera.com/en/about-us/markets-and-brands/georgia/> Accessed 12/09/2012

<sup>135</sup> Public Registry. Ministry of Justice of Georgia. 01/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=469258&app\\_id=544491](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=469258&app_id=544491) Accessed on 05/12/2012

<sup>136</sup> Disclosure Statement With Respect to the Chapter 11 Plan of Reorganization for MIG, Inc. [http://bankrupt.com/misc/MetroMediaIntl\\_DisclosureStatement.pdf](http://bankrupt.com/misc/MetroMediaIntl_DisclosureStatement.pdf) Accessed 12/09/2012

Mobitel, which was established in 2003,<sup>137</sup> is another cell phone operator with a rather opaque ownership structure, although when you connect most of the dots, they lead to the Sharangia brothers. According to the public registry, the company has three official owners: LLC Watertrail Industries, with 51% of the shares, LLC Delgado Resources with 32% of the shares and LLC Investico Alliance with 17% of shares<sup>138</sup>. All three are registered in the BVI. Delgado is owned by Levan Karamanishvili (18%), Teimuraz Aronia (18%), Revaz Sharangia 18% Revaz Eliava (18%), Khvicha Makhatsaria (18%), and Giorgi Bajakzuiani (10%). Investico Alliance is owned by the Eleganza group (100%), which is owned by Teimuraz Aronia (75%) and Levan Karamanishvili (25%).<sup>139</sup>

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<sup>137</sup> VimpelCom buys controlling stake in Georgia's Mobitel  
<http://en.rian.ru/business/20060712/51261837.html> Accessed 12/09/2012

<sup>138</sup> Public Registry. Ministry of Justice of Georgia, 14/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=473095&app\\_id=548479](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=473095&app_id=548479) Accessed on 05/12/2012

<sup>139</sup> Decision about the authorization of the selling of the 20% share from the 32% share owned by Delgado Resources LLC in Mobitel LLC and the buying thereof by Miren Invest and the 12% from the 32% Delgado Resource LLC share by Action Direct Holding B.V. and also about the transfer of 17% share owned of Investico Alliance to Action Direct holding B.V. 19/10/2012  
[http://www.gncc.ge/index.php?lang\\_id=GEO&sec\\_id=7070&info\\_id=113256](http://www.gncc.ge/index.php?lang_id=GEO&sec_id=7070&info_id=113256)  
Accessed on 13/12/2012

LLC Watertrail Industries is a subsidiary of VimpelCom<sup>140</sup>, one of the world's largest telecommunications service providers. VimpelCom's principal owners are Telenor Group with 39.51% of shares<sup>141</sup> and Altimo Holdings and Investments Limited with 31.7% of shares.<sup>142</sup> The controlling stake of the Telenor Group is owned by the Norwegian government (53.97%)<sup>143</sup> while the controlling stake of Investments Limited (72.77% of shares) are owned by three Russian billionaires: Mikhail Fridman, German Khan, and Alexei Kuzmichov.<sup>144</sup> VimpelCom is also the owner of the Beeline wireless

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<sup>140</sup> U.S. Securities and Exchange Commission.

<http://www.sec.gov/Archives/edgar/data/1023977/000119312509111289/dex8.htm>  
Accessed 12/09/2012

<sup>141</sup> VimpelCom is one of the world's largest telecommunications service operators, providing voice and data services through a range of traditional and broadband mobile and fixed technologies. Telenor Group's website

<http://www.telenor.com/investor-relations/company-facts/business-description/vimpelcom/> Accessed 12/09/2012

<sup>142</sup> Vimpelcom supervisory board approves new terms for combination with wind telecom S.p.A. (formerly weather investments S.p.A.) January 17, 2011

Vimpelcom's website <http://www.vimpelcom.com/pr/pr.wbp?id=aa13f2da-1729-425d-8afc-cb1bc8978c65> Accessed 12/09/2012

<sup>143</sup> Report on Corporate Governance - Telenor ASA . 2011 <http://telenor.com/wp-content/uploads/2012/04/Report-On-Telenor-corporate-governance-ENG.pdf>  
Accessed 05/12/2012

<sup>144</sup> Alfagroup's website <http://www.alfagroup.org/about-us/structure/printable.php?print=1> Accessed 12/09/2012

brand, which Revaz Sharangia's brother, Merab, is a shareholder of.<sup>145</sup>

Revaz Sharangia, the founder of the GMC Group (see the Development chapter) a member of the oversight board, along with Levan Karamanishvili. Sharangia and Karamanishvili are also Delgado Resources' representatives in Georgia.<sup>146</sup>

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<sup>145</sup> Scheme of Monopolist winner of Mini-Bus Tender. Humanrights.ge  
<http://www.humanrights.ge/index.php?a=main&pid=13011&lang=eng> March 4, 2011 Accessed 05/12/2012

<sup>146</sup> Public Registry. Ministry of Justice of Georgia p.10  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=82829](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=82829)  
Accessed 05/12/2012

## WHO OWNED OUTDOOR ADVERTISING?

When Charbel Aoun was kidnapped in 2001, his employer, Lebanese businessman, Fadi Asly, hired 50 billboards throughout Tbilisi advertising Aoun's kidnapping in an effort to pressure authorities to secure his release. It was widely believed that interior and security ministry officials at that time used to moonlight as kidnapers.<sup>147</sup> Thankfully, those days are far behind us. Government officials, their friends and family members no longer resort to such boorish means to earn a profit.

If Charbel Aoun were kidnapped by ministry officials today, Asly would have to hire billboards from Outdoor.ge or Smod, which are the two largest providers of outdoor advertising in the country or the only provider, depending on how you look at it. And considering how close their links were to the Saakashvili government, he might actually have found it more constructive to pay the ransomers instead.

In 2009, the City of Tbilisi auctioned off two permits to manage outdoor advertising sights for a period of 12 years. Outdoor.ge got the area on the right side of the Mtkvari River, while billboards on

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<sup>147</sup> Fady Asly: Doing Business in Georgia Under Attack. December 24, 2012 Radio Free Europe. Radio Liberty. <http://www.rferl.org/content/article/1341597.html>  
Accessed on 05/12/2012

the left side of the river were rewarded to Magi Style Media, Irakli Chikovani's (of the GNCC) and Giorgi Gegeshidze's (director/co-owner Rustavi 2) company.<sup>148</sup> In 2011, Smod Advertising LLC took over the Magi Style Media permit<sup>149</sup>. You won't find Smod online or listed in the phone-directory (yell.ge), but it is owned by Smod Equities Corp<sup>150</sup>, a Panamanian shell company<sup>151</sup>. Its official representative in Georgia is Alexandre Gogokhia, who according to a 2008 media report, served as Outdoor.ge's Chief Financial Officer<sup>152</sup>. He is also a member of the Board of the Georgian Lottery Company (GLC).<sup>153</sup>

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<sup>148</sup> Public Registry. Ministry of Justice of Georgia, 18/10/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=465376&app\\_id=540650](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=465376&app_id=540650) Accessed on 05/12/2012

<sup>149</sup> Procurement Agency's (Tbilisi City Hall) response to a freedom of information request by TI Georgia (07/129614-8), received October 19, 2011.

<sup>150</sup> Public Registry. Ministry of Justice of Georgia, 23/08/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=338787&app\\_id=390097](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=338787&app_id=390097) Accessed on 05/12/2012

<sup>151</sup> Registro Público de Panamá, <https://www.registro-publico.gob.pa/scripts/nwwisapi.dll/conweb/MESAMENU?TODO=SHOW&ID=643043> Accessed 28/10/2011.

<sup>152</sup> Pirweli.com.ge (2008): Advertising company Outdoor.ge presents new services. [http://pirweli.com.ge/index.php?option=com\\_content&task=view&id=15590&Itemid=9999999](http://pirweli.com.ge/index.php?option=com_content&task=view&id=15590&Itemid=9999999) Accessed 28/10/2011. Currently unavailable (01/10/2013)

<sup>153</sup> Transparency International Georgia's report on Georgian Advertising Market p.27. December 2011

The GLC won a tender for a 15 year license for all lottery games in Georgia on July 1st, 2009. In August 2011, it gave 70% of its shares to the state-owned Georgian Post office<sup>154</sup>, with a 5 year hold on its management rights. Former finance minister, Kakha Baindurashvili now serves as both GLC's board chair and head of the post office's supervisory board.<sup>155</sup>

The remaining 30% of GLC's shares are owned by Lexor Capital Corp, a shell company located in the British Virgin Islands. It is represented in Georgia by Dimitri Chikovani, who is the brother-in-law of former Defense Minister Davit Kezerashvili<sup>156</sup> and until September 2011, served as the CEO of Outdoor.ge.<sup>157</sup>

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[http://transparency.ge/sites/default/files/post\\_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market_0.pdf) Accessed 05/12/2012.

<sup>154</sup> Public Registry. Ministry of Justice of Georgia, 11/08/2011

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=300109&app\\_id=345398](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=300109&app_id=345398) Accessed on 13/12/2012

<sup>155</sup> Lottery nationalized and put under management of Georgian Post.

Transparency International Georgia. 03 September 2011

<http://transparency.ge/en/blog/lottery-nationalized-and-put-under-management-georgian-post> Accessed 05/12/2012.

<sup>156</sup> The Georgian Advertising Market. p.11. Transparency International Georgia. December, 2011

[http://transparency.ge/sites/default/files/post\\_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market_0.pdf) Accessed 05/12/2012.

<sup>157</sup> Ibid

The latest Civil registry entry has Outdoor.ge registered to "Geo Tek" Ltd (10%) "Samkutxedi" Ltd (20%), and JSC Adproject (70%)<sup>158</sup>. In July 2011, Geo Tek was directed and fully owned by Kakhaber Ninua.<sup>159</sup> Ninua is an old friend of Kezerashvili and was the best man at his wedding<sup>160</sup>. He has also founded the TV broadcasting company Sakartvelo, which was financed from Ministry of Defense budget when Kezerashvili was its minister.

In April 2010, Giorgi Gegeshidze was the 100% shareholder of Samkutxedi, while his director was Dimitry Chikovani<sup>161</sup>. What Samkutxedi actually does, however, is a mystery. JSC Adprojects Inc.

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<sup>158</sup> Public Registry. Ministry of Justice of Georgia, 05/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=470313&app\\_id=546113](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=470313&app_id=546113) Accessed on 05/12/2012

<sup>159</sup> Public Registry. Ministry of Justice of Georgia, 05/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=470308&app\\_id=546162](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=470308&app_id=546162) Accessed on 05/12/2012

<sup>160</sup> Studio GNS's Weekly Report 18/03/2012. The original statement belongs to the member of "Free Democrats" Levan Izoria. The statement is further bolstered by the family and friends photos presented in the report.  
[http://www.youtube.com/watch?feature=player\\_embedded&v=gcshjgZ\\_6nY](http://www.youtube.com/watch?feature=player_embedded&v=gcshjgZ_6nY)  
Accessed 05/12/2012.

<sup>161</sup> Public Registry. Ministry of Justice of Georgia, 15/04/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=47949&app\\_id=56934](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=47949&app_id=56934) Accessed on 05/12/2012

was registered in the British Virgin Islands and is represented in Georgia by none other than, Dimitri Chikovani.<sup>162</sup>

It is worth mentioning Vellagio, the new kid on the billboard block. This is a subsidiary of Wissol and operates advertising sights at Wissol gas stations and at the Tbilisi and Batumi airports. According to Civil Registry data of August 8<sup>th</sup> 2012, Vellagio is owned by Telmar Finance LLC, which is registered in Seychelles Islands.<sup>163</sup>

In addition to the billboard business, Dimitri Chikovani has also become quite a kiosk impresario. In 2009, Tbilisi City Hall rewarded a newly created company built by the GLC, Wide Distribution, with permission to erect newspaper kiosks in several large cities.<sup>164</sup> These also sell lottery tickets and offer their facades as advertising space. The process was non-competitive<sup>165</sup> and triggered concerns among

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<sup>162</sup> The Georgian Advertising Market. p.28. Transparency International Georgia. December, 2011

[http://transparency.ge/sites/default/files/post\\_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market_0.pdf) Accessed 05/12/2012

<sup>163</sup> Public Registry. Ministry of Justice of Georgia, 26/06/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=432865&app\\_id=504404](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=432865&app_id=504404) Accessed on 05/12/2012

<sup>164</sup> The Georgian Advertising Market. p.28. Transparency International Georgia. December, 2011

[http://transparency.ge/sites/default/files/post\\_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market_0.pdf) Accessed 05/12/2012

<sup>165</sup> Transparency International Georgia (2011): TI Georgia calls on Mayor's Office to act more transparently. 18 March, 2010.

publishers who feared a government takeover of the press distribution system through the 185 booths Wide Distribution had set up in the capital.<sup>166</sup> 70% of Wide Distribution's shares were owned by Blackstyle Management, which was registered in the British Virgin Islands.<sup>167</sup> Chikovani was its representative in Georgia. The remaining 30% was owned by several people, including Kezerashvili's friend<sup>168</sup>, Nodar Charkhalashvili, whose wife, Sofi Britanchuk, is on the board of the GNCC<sup>169</sup>. This is also the same Nodar Charkhalashvili who, Studio Monitor reports, was involved in the Obieqtivi TV controversy<sup>170</sup>. In May, 2011, Wide Distribution was renamed LCC Express.

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<http://www.transparency.ge/en/post/press-release/ti-georgia-urges-mayors-office-act-more-transparently> Accessed 11/09/2012

<sup>166</sup> Georgia: Opposition Media, Government Battle over Tbilisi's Newsstands, 11 March, 2009. Eurasianet (2009)

<http://www.eurasianet.org/departments/news/articles/eav031209e.shtml> Accessed 11/09/2012

<sup>167</sup> Public Registry. Ministry of Justice of Georgia, 06/05/2011

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=257513&app\\_id=294534](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=257513&app_id=294534) Accessed on 05/12/2012

<sup>168</sup> Anonymous source

<sup>169</sup> Georgian National Communication Commission's Website

[http://www.gncc.ge/index.php?lang\\_id=ENG&sec\\_id=3400](http://www.gncc.ge/index.php?lang_id=ENG&sec_id=3400) Accessed 05/12/2012

<sup>170</sup> Journalists Union Objective Demands GNCC Members to be Held Responsible Dec 2, 2009 <http://www.media.ge/node/26919> Accessed 05/12/2012

On September 12, 2011, JSC Adprojects took over all of LLC Express shares<sup>171</sup> and on September 28, gave 70% of them to the Ministry of Economy and Sustainable Development, which in turn, awarded the management rights for the kiosks to the Georgian Post the next day<sup>172</sup>. JSC Adprojects remains a 30% minority shareholder<sup>173</sup>.

This doesn't mean, however, that the State has a monopoly on newsstand kiosks. The Georgian Young Lawyers Association (GYLA) reports that Outdoor.ge (Chikovani) owns 38 additional booths, while Studio Monitor reports that Magi Style has 50 licenses for newspaper kiosks and that other booths are owned by "Ori Tsuti Ltd.," which was owned by Giorgi Rurua<sup>174</sup>, brother to Nika, the ex-Minister of Culture and Monument Protection; Holding.ge, owned by Andro Gegenava, whose brother Archil is a UNM

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<sup>171</sup> Public Registry. Ministry of Justice of Georgia, 12/09/2011  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=313519&app\\_id=360758](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=313519&app_id=360758) Accessed on 05/12/2012

<sup>172</sup> Public Registry. Ministry of Justice of Georgia, Accessed 05/10/2011

<sup>173</sup> Public Registry. Ministry of Justice of Georgia, 30/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=478065&app\\_id=553472](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=478065&app_id=553472) Accessed on 05/12/2012

<sup>174</sup> Public Registry. Ministry of Justice of Georgia  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=75239](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=75239)  
Accessed on 05/12/2012

parliamentarian; and Eat and Go,<sup>175</sup> for 32% of which Tbilisi City Council members Irakli Shikhiashvili and Mikheil Qavtaradze paid 32 GEL<sup>176</sup>. A number of newspaper kiosks are also owned by several independent publishers and small distributors, including the independent multi-media company, Kviris Paltra.

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<sup>175</sup> The Privileged Owners of Kiosks. Studio Monitor Report. September 29, 2011. <https://www.youtube.com/watch?v=AWffHeiZLro> Accessed on 11/09/2012.

<sup>176</sup> Ibid

## A GEORGIAN GASOLINE CARTEL

I pull into the gas station and tell a guy in a blue uniform to fill it up with premium, which will cost about 100 lari. The station is clean and tidy and I can pay with my bank card, even in the west Georgian town of Samtredia. As he fills my tank, I recall the private village “gas stations” of yestermoth across Georgia, where you’d find plastic Borjomi bottles full of petrol on a rickety table in front of a random house. That, I always maintained, represented the essence of a truly free market.

Before the Rose Revolution, dozens of companies operated in the retail fuel market. We could buy decent gas, bad gas and black market gas. After the Rose Revolution, the government effectively eliminated the black market retailers as new companies emerged and began to consolidate their presence. One by one, independent gas stations were swallowed up by bigger fish. Now, only 5 suppliers operate on the Georgian market. For liberal economists this is a textbook example of how a free market and open competition is supposed to work. The problem is that the fewer players there are in the market and the higher degree of market concentration there is, the higher the likelihood of cartel-type agreements and concerted

practice there is.<sup>177</sup> If one liter of gasoline is 2.50 GEL at Gulf, you can bet it will pretty much be the same price at Wissol, Lukoil, Rompetrol, Gulf and Socar.

We live in a bubble here in Georgia. We grumble about the rising prices of gasoline and suppose that it's the way of the world, but we are only partly correct. The Georgian gas market imitates the western market when prices increase, but when prices go down in the west, they stay up in Georgia.<sup>178</sup> We take it for granted that regardless of where we fill our tanks, the price is the same across the board. When all the market players have analogous gas prices and

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<sup>177</sup> Limited number of economic agents operating on the relevant market increases the likelihood of anti-competitive behavior – collusive (cartel) agreements and concerted practice – due to the following reasons:

1. Limited number of economic agents makes it relatively easy to reach an agreement on the terms of a collusive agreement;
2. Limited number of the participants of a collusive agreement makes it easier to monitor the terms of the agreement;
3. When the number of economic agents increases, each of them gets a smaller share of the market. This increases the possibility of violating the terms of the collusive agreement and getting a benefit, which makes it more difficult to fulfill the terms of the collusive agreement.

Tirole J.; *The Theory of Industrial Organization*, 1988, MIT Press, MA.

<sup>178</sup> *The Dynamics of Petrol (Regular) and Platts Prices*. TI Report on Competition Policy in Georgia p.30

[http://transparency.ge/sites/default/files/post\\_attachments/Report%20-%20Competition%20Policy%20in%20Georgia.pdf](http://transparency.ge/sites/default/files/post_attachments/Report%20-%20Competition%20Policy%20in%20Georgia.pdf) Accessed 05/12/2012

the industry characteristics <sup>179</sup> are conducive to successful coordination, it's hard to say collusive agreements aren't being made to control the market. Such a condition leads economic experts<sup>180</sup> to believe there is a coordinated effort by the country's main gasoline companies to control the market by keeping prices inflated and preventing private competition. Oil and oil products are the largest group of imported commodities in Georgia. In 2011, their imports amounted to USD 894 million, or 13% of total imports<sup>181</sup>. The lack of a genuinely competitive market structure is no good for an economy that badly needs invigoration. Those rusty Russian tankers selling syphoned gas on the side of roads have been replaced by an oligopolistic fuel market.

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<sup>179</sup> Product homogeneity, readily observed price adjustments, formal and/or informal entry barriers, high concentration, stable and inelastic demand and, moreover, no effective state supervision of competition is done over the last 7 years.

<sup>180</sup> Interview with Dr. Nodar khaduri, TSU Professor and Minister of Finance, September 2012;

Interview with Dr. David Narmania, Minister of Regional Development and Infrastructure, September, 2012; Transparency International Goeriga Report on Competition Policy in Georgia, August, 2012, p.30, <http://www.transparency.ge/en/post/report/tig-publishes-report-on-competition-in-georgia> Accessed 05/12/2012

<sup>181</sup> Source: The National Statistics Office of Georgia, [http://www.geostat.ge/cms/site\\_images/\\_files/georgian/bop/External%20Trade%20of%20Georgia%20in%202011-Geo.pdf](http://www.geostat.ge/cms/site_images/_files/georgian/bop/External%20Trade%20of%20Georgia%20in%202011-Geo.pdf). Accessed 05/12/2012

Lukoil Georgia arrived in Georgia in March 2002 and is a Russian owned company registered in the Netherlands as Lukoil Europe Holdings B.V<sup>182</sup>. It has 60 gas stations throughout Georgia and imports fuel from processing plants in Bulgaria. Its marketing campaign and exclusive distribution services are provided by Unigroup LLC, whose partners TI Georgia reported were Giorgi Pirveli (50%) and David Kezerashvili (50%)<sup>183</sup> before the 2012 parliamentary elections. After the elections, Kezerashvili's shares became the property of NowLine United Ltd., which is registered in the Seychelles.<sup>184</sup>

David Kezerashvili is an enterprising young man. The 34-year-old was born in Tbilisi, moved to Israel, and returned to Georgia in the mid-90s to study on the faculty of international relations in Tbilisi State University. He became Saakashvili's assistant in the Ministry of Justice before the Rose Revolution and later developed a controversial reputation as the heavy-handed chief of the financial

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<sup>182</sup> Public Registry. Ministry of Justice of Georgia 16/08/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=449225&app\\_id=522898](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=449225&app_id=522898) Accessed on 05/12/2012

<sup>183</sup> Report on Competition Policy in Georgia p.28 Transparency International Georgia <http://www.transparency.ge/en/post/report/tig-publishes-report-on-competition-in-georgia> Accessed 05/12/2012

<sup>184</sup> Public Registry. Ministry of Justice of Georgia 02/10/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=460730&app\\_id=536028](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=460730&app_id=536028) Accessed 13/12/2012

police, which was set up after the revolution to fight “economic crimes,” including smuggling.

“This was where he learned to squeeze businesses,” one Tbilisi businessman said on condition of anonymity.

In April 2005, Conservative party leaders had a taped phone conversation they claimed to be Kezerashvili making deals to illegally buy cars for the financial police.<sup>185</sup> In June, 2005 he had to explain why dozens of his masked financial police, brandishing Kalashnikovs, simultaneously raided two fast-food restaurants to confiscate documents as customers were dining.<sup>186</sup> In August 2005, Kezerashvili’s agency was accused of illegally taxing imported goods by their volume instead of by their value, as stipulated by law<sup>187</sup>. Yet, Kezerashvili, one of the United National Movement’s founding fathers, shrugged the allegations off and became Minister of Defense when Irakli Okruashvili was demoted and subsequently arrested. After the disastrous war with Russia in August 2008, Kezerashvili

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<sup>185</sup> Chief of Financial Police Accused of Illegal Deals. Civil Georgia, Tbilisi. 04/04/2005 <http://www.civil.ge/eng/article.php?id=9509> Accessed 05/12/2012

<sup>186</sup> The “Logic of Financial Police”: If There Is A Special Operations Squad Available, You Have To Use It. Zaza Gachechiladze. Radio Free Europe. Radio Liberty. June 19, 2005 <http://www.radiotavisupleba.ge/content/article/1541845.html> Accessed 05/12/2012

<sup>187</sup> Customs, Financial Police Accused of Illegal Taxation of Importers. Civil Georgia 16/08/2005 <http://www.civil.ge/eng/article.php?id=10563> Accessed 13/12/2012

was politely dismissed on December 5<sup>th</sup> that year, vanished from the political scene and entered the private sector, very successfully.

Today, David Kezerashvili is making more than the 25, 181 GEL he made annually as head of the Financial Police. We just don't know how much, as he has mostly disappeared into the ambiguous warren of Georgian shell corporations. His brother-in-law, Dmitri Chikovani, was awarded the Georgian lottery monopoly and is connected to an array of businesses, including the advertising market (see advertising chapter). What we do know about Kezerashvili is that he is not only the distributor of Lukoil gas, but is also the owner of LLC Sun Petroleum<sup>188</sup>, which operates Gulf gas stations in Georgia. It was incorporated in November 2010 and registered in Delaware, USA. The Director of the company is Yaniv Adam, an Israeli citizen, and its vice-President is Otar Katamadze<sup>189</sup>, whose father is the Director of Lukoil Georgia LLC, Zaza Katamadze.<sup>190</sup> Sun Petroleum imports fuel for its 130 stations from Bulgaria, Romania, Greece and Azerbaijan.

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<sup>188</sup> Former Defense Minister Confirms That He's "Gulf" Shareholder. <http://www.commersant.ge/eng/?id=628> Accessed 05/12/2012

<sup>189</sup> Public Registry. Ministry of Justice of Georgia 23/08/2012 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=451024&app\\_id=524919](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=451024&app_id=524919) Accessed on 05/12/2012

<sup>190</sup> Public Registry. Ministry of Justice of Georgia 16/08/2012 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=449225&app\\_id=522898](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=449225&app_id=522898) Accessed on 05/12/2012

Socar Georgia Petroleum was founded by Socar Energy Georgia LLC in September 2006 and is a main importer of oil products from Azerbaijan and Central Asia. Socar Energy Georgia owns a 100-percent share of the company<sup>191</sup> and is a subsidiary of the State Oil Company of Azerbaijan Republic (Socar). Socar started as a wholesaler but entered the retail fuel market in 2007 and has 92 gas stations throughout Georgia. Davit Zubitashvili is the company's director.

Rompetrol Georgia, which has 41 gas stations across the country, was founded in December 2005. Its partners are Rompetrol Group NV, from the Netherlands, and ALG International S.A., registered in Panama, but is fully owned by Kazakh national energy company, KazTransGas, which also owns the Tbilisi natural gas provider, KazTransGas-Tbilisi. Nurken Murzagaliev, of Kazakhstan, is Rompetrol's general director<sup>192</sup>.

The company that is now called Wissol Petroleum Georgia was founded in April 2000 as Canargo Standard Oil. The founding partners were Canargo Petroleum Product with 50% share, Standard

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<sup>191</sup> Public Registry. Ministry of Justice of Georgia 10/12/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=481129&app\\_id=557412](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=481129&app_id=557412) Accessed on 05/12/2012

<sup>192</sup> Transparency International Georgia's Report on Competition Policy in Georgia p.24 <http://www.transparency.ge/en/post/report/tig-publishes-report-on-competition-in-georgia> Accessed 05/12/2012

Oil Product with 41.65% and Levan Phahakadze with 8.35% share<sup>193</sup>. Now, however, it is impossible to know who the owners are since it is a JSC now. Wissol also owns the new expanding supermarket chain, Smart, Auto Express, Laguna, Delta Holding, the football (soccer) club, FC Torpedo Kutaisi, and the advertising company Vellagio, as well as a fitness center and hotel in Akhaltsikhe<sup>194</sup>, in southern Georgia. Talks are underway about Wissol operating the US fast food franchise, Wendy's. Vasil Khorava is the company's general director.<sup>195</sup>

In addition to the parallelism in prices of these five suppliers, there are noted discrepancies between the amount of fuel imported to Georgia and the amount registered by the Revenue Service of Georgia. In 2009, the Italian Customs Service registered 40.7 mln litres of gasoline (A-95) imported to Georgia, while the Revenue Service of Georgia registered only 19.74 mln litres imported from Italy. The next year, 37.85 mln litres of Italian gasoline (A-95) was imported to Georgia, while Georgia registered only 20.13 mln litres.

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<sup>193</sup> Public Registry. Ministry of Justice of Georgia  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=75859](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=75859) p.292  
Accessed on 12/12/2012

<sup>194</sup> Wissol Petroleum Georgia's website  
<http://www.wissol.ge/index.php?geo&cat=6&type=1> Accessed on 15/10/2012

<sup>195</sup> Public Registry. Ministry of Justice of Georgia  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=480489&app\\_id=556750](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=480489&app_id=556750) Accessed on 12/12/2012

In 2011, 36.07 mln litres (A-95) were imported and 23.61 mln litres were registered.<sup>196</sup> A comparable discrepancy is observed in the gasoline import data by the Bulgarian Customs Service and the Georgian Revenue Service.<sup>197</sup>

We don't know where that gas went nor do we really know what we're being sold, in some cases. Wissol Petroleum Georgia is supposedly importing fuel from Falconara Marittima in Italy and its stations sell three types of fuel, including Api Super (98 octane). But both the Customs Service of Italy and the Revenue Service of Georgia have no records of Api Super coming to Georgia from 2009-2011<sup>198</sup>, which indicates that Wissol was not selling the fuel it was advertising. This is not only a violation of consumer laws and an illegal use of a trademark, but may explain why my mechanic found water damage in my gas tank last year.

Laws regulating competition in Georgia were repealed in 2005. Since then, there has been no control over the protection of competition rules and principles to ensure free and fair competition and transparent and non-discriminatory access to the market. Because the Saa-

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<sup>196</sup> The Customs Service of Italy and the Revenue Service of Georgia. Transparency International Georgia's Report on Competition Policy in Georgia p.28  
<http://www.transparency.ge/en/post/report/tig-publishes-report-on-competition-in-georgia> Accessed 05/12/2012

<sup>197</sup> *ibid* p.29

<sup>198</sup> *Ibid*

kashvili government made European integration and modernization a national priority and anti-corruption a paradigm of its identity, we expected that it would have followed western examples of competition regulation and investigate whether companies are operating beyond competition, why there are discrepancies with the numbers registered with the Revenue Service of Georgia between imported fuel from Italy and Bulgaria, and why gas stations may be selling product they aren't advertising.

## A PHARMACEUTICAL OLIGOPOLY

“Why are there so many pharmacies in Georgia?” I asked my Georgian friend Lika, recently.

“Funny, I was thinking the same thing the other day. I don’t know. They must be really profitable or else a good way for money laundering,” she said. “I love that tendency, you know, when you can’t explain something and you think it’s a dodgy money laundering scheme,” she added.

While there is reason to suspect something dodgy is going on, it isn’t money laundering. However, Lika is right about one thing. Pharmacies are a profitable business; just not for everybody.

There are approximately 2400 retail pharmaceutical outlets in Georgia; or one pharmacy for every 1500 people. In the UK, for comparison, there are about 10,000 pharmacies, or 1 per 6264 people.<sup>199</sup>

In 2006, the turnover of retail trade was 196.6 million GEL. In 2010 it nearly tripled to 543.3 million GEL<sup>200</sup>. Between 2005 and 2010, the demand for pharmaceuticals grew at a pace of 15% a

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<sup>199</sup> UK National Statistics <http://www.statistics.gov.uk/hub/health-social-care/specialist-health-services/pharmacy-services> Accessed 05/12/2012

<sup>200</sup> Information provided by Geostat.

year.<sup>201</sup> The average household in Georgia spent 34% of its disposable income on health care in 2010, compared to 15% in 2002<sup>202</sup>. As for medical goods, the average household spent 50% of their health expenditures in 2007. That number increased to 60% in 2010<sup>203</sup>. From 2007 to 2010, the expenditures on pharmaceuticals have been increasing at a pace of 23.7% every year.<sup>204</sup>

The Health Utilization and Expenditure Survey of the World Bank attributes most of these increases on the rising costs for

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<sup>201</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011. [http://www.investingeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investingeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

<sup>202</sup> Georgia – National Health Care Strategy 2011-2015; Affordable and Quality Health Care, Ministry of Labour, Health and Social Affairs of Georgia. p. 6 [http://www.healthrights.ge/wp-content/uploads/2012/05/jandacva\\_Eng.pdf](http://www.healthrights.ge/wp-content/uploads/2012/05/jandacva_Eng.pdf) Accessed 05/12/2012

<sup>203</sup> Georgia Health Utilisation and Expenditure Survey. page 31 2010, Georgia Health and Social Projects Implementation Centre, MOLHSA National Statistics Office of Georgia, Geostat, Oxford Policy Management, Curatio International Foundation, Accessed 05/12/2012

<sup>204</sup> Georgia – National Health Care Strategy 2011-2015; page 6 Affordable and Quality Health Care, Ministry of Labour, Health and Social Affairs of Georgia. [http://www.healthrights.ge/wp-content/uploads/2012/05/jandacva\\_Eng.pdf](http://www.healthrights.ge/wp-content/uploads/2012/05/jandacva_Eng.pdf) Accessed 05/12/2012

outpatient drugs.<sup>205</sup> Georgia currently spends 4% of its GDP on pharmaceuticals, which is double that of the United States, a country known for its high expenditures on pharmaceuticals.<sup>206</sup>

There are 70 manufacturers on the Georgian market but only two companies, Aversi Rational and GMP (PSP), account for 90% of manufacturing<sup>207</sup>. They are also the largest companies in the import and distribution sector where they have a joint share of 48%. GPC and ABC Pharmacy are the next largest companies and jointly account for 23% of the import/distribution.

The largest retail chain is Aversi, with 213 pharmacies.<sup>208</sup> It was established in 1994 as an importer and distributor and expanded into the retail sector in 1998. In 2002, Aversi started to construct

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<sup>205</sup> Georgia Health Utilisation and Expenditure Survey. page VI 2010, Georgia Health and Social Projects Implementation Centre, MOLHSA National Statistics Office of Georgia, Geostat, Oxford Policy Management, Curatio International Foundation.

<sup>206</sup> Expenditure on Pharmaceuticals Per Capita 2007, OECD Ilibrary [http://www.oecd-ilibrary.org/sites/health\\_glance-2009-en/07/05/index.html?contentType=&itemId=/content/chapter/health\\_glance-2009-71-en](http://www.oecd-ilibrary.org/sites/health_glance-2009-en/07/05/index.html?contentType=&itemId=/content/chapter/health_glance-2009-71-en) Accessed 12/09/2012

<sup>207</sup> Based on the production value in USD. Invest in Georgia The Association of Young Financiers and Businessmen, (2011), The Georgian Pharmaceutical Market Conclusions and Recommendations.

<sup>208</sup> Aversi's Company Website <http://www.aversi.ge/main.php?lang=eng&id=107> Accessed 12/09/2012

manufacturing sites, and in 2005 it released its first medicines on the market under its brand, Aversi Rational.<sup>209</sup> This doesn't mean it actually produces its own medicines, it only packages pre-manufactured medical products<sup>210</sup>. Aversi is one of the largest taxpayers in Georgia and contributes tens of millions of GEL to the state budget annually<sup>211</sup>. It has seven functioning clinics in Georgia and has two more under construction. Aversi builds and manages hospitals of which some were bought from the government under the hospital privatization plan and also has its own insurance company, Alpha, which has been providing social insurance funded by the government for large parts of the country.<sup>212</sup> Aversi founder, Paata Kurtanidze, owns 67% of its shares, while the remaining 33.3% is owned by Nikoloz Kurtanidze<sup>213</sup>, a former director of an automobile factory and author.

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<sup>209</sup> Ibid

<sup>210</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011 [http://www.investinggeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investinggeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

<sup>211</sup> Ibid

<sup>212</sup> Information provided by the Ministry of Labour, Health and Social Affairs of Georgia.

<sup>213</sup> Public Registry. Ministry of Justice of Georgia, 07/11/2012 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=470812&app\\_id=546602](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=470812&app_id=546602) Accessed on 12/12/2012

PSP was founded in 1995 as an importer/distributor of medicines and expanded to the retail market in 1999. PSP's manufacturing brand, GMP, produced its first medicine in 1999.<sup>214</sup> In addition to packaging its own brand, GMP also does formulation<sup>215</sup>. For example, it makes tablets of pre-produced active substances. PSP owns a multi-profile hospital in Tbilisi, which was bought under the hospital privatization program. Like Aversi, PSP also owns an insurance company, The PSP Group. PSP Pharma, and the PSP group are fully owned by PSP founder, Kakhaber Okriashvili<sup>216</sup>, who is also a parliamentarian<sup>217</sup>.

The third largest pharmaceutical company in Georgia is GPC, which also started as an importer/distributor in 1995. GPC entered the retail market around 1999 and has roughly 40 stores in Tbilisi

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<sup>214</sup> Aversi' Company Website

[http://www.aversi.ge/main\\_racional.php?lang=eng&id=381&cat\\_id=1&type=3](http://www.aversi.ge/main_racional.php?lang=eng&id=381&cat_id=1&type=3)  
Accessed 05/12/2012

<sup>215</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011  
[http://www.investinggeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investinggeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

<sup>216</sup> Public Registry. Ministry of Justice of Georgia. 16/10/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=464472&app\\_id=539355](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=464472&app_id=539355) Accessed on 05/12/2012

<sup>217</sup> Parliament of Georgia Website  
[http://www.parliament.ge/index.php?option=com\\_k2&view=item&id=103:okriashvili-kakhaber&Itemid=129&lag=en](http://www.parliament.ge/index.php?option=com_k2&view=item&id=103:okriashvili-kakhaber&Itemid=129&lag=en) Accessed 12/09/2012

and another 10 in the regions. GPC recently started a new franchise network under the name Red A<sup>218</sup>. Although it is unclear who exactly owns the company because it is a JSC, there is evidence that suggests the largest share of GPC is owned by its founder and director David Kiladze.<sup>219</sup>

In 1999, ABC Pharmacia Ltd. arrived on the scene as an importer/distributor of niche products. The company benefited from the expanded import opportunities created by the new legislation introduced in 2009. Its import shares rose from 4% to 12% between 2004 and 2012, and it is currently the fourth largest company on the market. In 2009, ABC opened PharmaDepot retail outlets, which offered competitive prices on prescription medicines, prompting competitors to lower their prices too<sup>220</sup>. Thanks to a loan of the European Bank for Reconstruction and Development (EBRD), ABC

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<sup>218</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011. [http://www.investingeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investingeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

<sup>219</sup> Report on Pharmaceutical Market in Georgia. Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

<sup>220</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011. [http://www.investingeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investingeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

Pharmacy is currently expanding its network throughout the country. There are about 55 PharmaDepot pharmacies nationwide. Enrico Beridze owns 81.6% of ABC Pharmacy and Mikheil Abramidze 14.4%. Four other people own 1% each.<sup>221</sup>

The pharmaceutical sector is like many others in the country where there appears to be a rather casual but close affiliation between the government and the biggest pharmaceutical chains. PSP's owner, Kakhaber Okriashvili, has been a Member of Parliament for the ruling United National Movement since April 2004 till 1<sup>st</sup> of October 2012<sup>222</sup>. He has also been a member of the Committee on Health Care and Social Issues, and a member of the Committee of Economy and Economic Policy<sup>223</sup>. After the 2012 parliamentary elections Kakhaber Okriashvili has left United National Movement and currently is a member of a coalition "Non-party, Independent Majoritarians."<sup>224</sup> Aversi Pharma, PSP Pharma and GPC are among the largest contributors to the ruling party's political campaigns. Aversi Pharma donated 200,000 GEL between

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<sup>221</sup> Public Registry. Ministry of Justice of Georgia. 10/12/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=480872&app\\_id=556736](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=480872&app_id=556736) Accessed on 12/12/2012

<sup>222</sup> <http://goo.gl/jhSEz>

<sup>223</sup> Ibid

<sup>224</sup> Webpage of the Parliament of Georgia  
[http://www.parliament.ge/index.php?option=com\\_k2&view=item&id=103:okriashvili-kakhaber&Itemid=129&lang=ge](http://www.parliament.ge/index.php?option=com_k2&view=item&id=103:okriashvili-kakhaber&Itemid=129&lang=ge)

2007 and 2010, and won public procurement contracts worth a total of 823,997 GEL. PSP Pharma also donated 200,000 GEL and won public procurement contracts worth 141,044 GEL. GPC has donated 175,000 GEL and won public procurement contracts worth 618,347 between 2007-2010<sup>225</sup>. However, Fady Asly, Chairman of the International Chamber of Commerce, points out that there is nothing unusual about a company contributing to a political party and in Georgia's case it is much easier to fork over money willingly than to get an unwanted visit from the tax police, which was not uncommon<sup>226</sup>.

To understand just how these three companies became the market leaders in Georgia, we have to go back to the turbulent post-Soviet era, when the centralized market disappeared and there was no system or vision for market development and no policy framework. Whatever rules had existed were not enforced<sup>227</sup>. Pharmaceuticals were sold on rickety tables at the bazaar or through

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<sup>225</sup> Transparency International Georgia (2011) Political Finance Report. <http://transparency.ge/en/post/report/finances-political-parties-year-2011> Accessed 05/12/2012

<sup>226</sup> Authors interview with Fady Asly, Chairman of International Chamber of Commerce. conducted on 10/11/2012

<sup>227</sup> Report on Pharmaceutical Market in Georgia. p.10 Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf)

windows of makeshift pharmacies in private homes. Savvy entrepreneurs were able to exploit the opportunities from the emerging market as foreign products became available while regulation was absent.

One way they were able to do this was by securing agreements with foreign producers for exclusive distribution of particular medicines in Georgia; thus becoming the sole local agent of that product <sup>228</sup>.

This Asly says, is perfectly normal practice, as there are only a handful of major pharmaceutical producers and and local agents have to bear heavy distribution and development costs; this is how they get their products distributed to small markets like Georgia. <sup>229</sup> Nevertheless, Valeri Kvaratskhelia, owner of People's Pharmacy, a small pharmaceutical chain, complains that it is impossible to stock as much as he needs without having to deal with the three

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<sup>228</sup> Interview Irakli Margvelashvili; Executive Director Association of pharmaceutical companies representatives in Georgia. Report on Pharmaceutical Market in Georgia. Pages 14-15 Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

<sup>229</sup> Author's interview with Fady Asly, Chairman of International Chamber of Commerce. conducted on 10/11/2012

importers.<sup>230</sup> With the three major companies controlling most of the imported medical products, many suspect they have collaborated to fix the prices.

Studio Monitor mentions this in an investigative report on Georgia's pharmaceutical companies; "The three main players (PSP, Aversi, GPC) on the Georgian pharmaceutical market have an agreement between each other to cooperate with different suppliers. If one of them works with Richter, the other two do not meddle. If you tell Richter you're a new organization and you want to cooperate with them, they tell you, "I already have a partner in Georgia and don't need another."<sup>231</sup>

Kvaratskhelia explains, "It's like this: one company imports drugs X and another imports drugs Y and they share these drugs together. They managed to create an oligopoly by sharing the import between their companies and sell the shared imported drugs to pharmacies at a fixed price. Being the major importers and having

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<sup>230</sup> Interview Valeri Kvaratskhelia General Director People's Pharmacy, and respondent who prefers to stay anonymous. Report on Pharmaceutical Market in Georgia. Pages 14-15 Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

<sup>231</sup> Darkside of the Georgian Pharmacy. Studio Monitor report. 2009 <http://ick.ge/ka/jinvestigation/322-2010-02-17-09-21-51.html> Accessed 05/12/2012

exclusive contracts with manufacturers, they acquired a position in which pharmacies have become dependent on their supply. No other importer is able to sign a contract with them (the manufacturers). Through this control of the import market and the sharing of exclusive pharmaceuticals, every pharmacy is dependent on them, if it wants to sell foreign drugs.”<sup>232</sup>

Another pharmaceutical professional, speaking to TI Georgia on condition of anonymity, said that by selling these shared drugs at prices 10% below the retail value, the companies are able to put smaller competitors out of business.<sup>233</sup> However, Gocha Gogilashvili, General Director of PSP, stated that a fixed margin is normal market practice and is how a company makes a profit on its distribution of medicines they don't sell in their own pharmacies.<sup>234</sup> But what isn't

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<sup>232</sup> Interview Valeri Kvaratskhelia General Director People's Pharmacy, and respondent who prefers to stay anonymous. Report on Pharmaceutical Market in Georgia. Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

<sup>233</sup> Interview with respondent who refers to stay anonymous on 3 October. 2011 Report on Pharmaceutical Market in Georgia. Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

<sup>234</sup> Interview Gocha Gogilashvili, General Director PSP. Report on Pharmaceutical Market in Georgia. Page 18 Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

normal is that the largest importer/distributor is also the largest retailer. There's nothing technically wrong with being a distributor/retailer, it's just that in this case, the large companies use their dominant position as a distributor to strengthen their position on the retail level.

In 2009, the government stepped in to adopt new amendments to increase market competition. Importers now have the possibility to select the cheapest version of a certain medicine in a particular country and to look for new medicines that had not been allowed in Georgia or were very difficult to distribute on the Georgian market.<sup>235</sup> Companies have more opportunities to import a medical product through different channels. While the changes are welcomed, they have little effect on the current situation, as the main players still dominate the market.<sup>236</sup>

Because they are the largest distributors on the market, Aversi, PSP and GPC benefit from the small, fragmented retail outlet market that cannot afford to import their own medicines. Even the investment guide for the pharmaceutical market states the large

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<sup>235</sup> Ibid p. 15

<sup>236</sup> Ibid p. 29

import/distributors and retailers benefit from the nearly 2000 individually owned outlets that cannot import for themselves<sup>237</sup>.

When ABC Pharmacy's, PharmDepo, arrived on the retail market in 2009, it created a general price decrease because it was able to offer lower prices as a result of its high import shares. Nevertheless, the nearly 2000 pharmacies still depend on the "Big 3" for over 60% of their stock.<sup>238</sup>

PharmDepo pharmacies were welcomed with an aggressive campaign that would make a robber baron grin. No sooner did they open their doors, than Orange Pharmacenter pharmacies began to appear nearby, also selling medicines at a 20-25% discount. In early 2010, the registered director of Orange Pharmacenter was Kakhaber Panchulidze<sup>239</sup>. He is also the registered director of PSP<sup>240</sup> and was a

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<sup>237</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011. [http://www.investingeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investingeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

<sup>238</sup> Report on Pharmaceutical Market in Georgia. p. 17 Transparency International Georgia [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

<sup>239</sup> Public Registry. Ministry of Justice of Georgia, 22/03/2010 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=37286&app\\_id=45535](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=37286&app_id=45535) Accessed on 05/12/2012

parliamentarian for the ruling party until 2012. Orange Pharmacenter’s legal address had been Ingorka St. #1, which is now the address of a PSP pharmacy<sup>241</sup>.

Stephanie Komsa, the founder and director of Komsa International, a Georgian-based investment consultancy, believes the pharmaceutical market is ripe for investment and points to that fact that Georgia has no pricing controls on pharmaceuticals and no VAT is charged on pharmaceuticals and pharmaceutical inputs.

“Until now, the pharmaceutical retail market has long been perceived to operate with high pricing margins and with domination by a small handful of players,” she wrote in an article for Investor.ge, the magazine of the American Chamber of Commerce. “... some data has shown as much as 25% decreases in pharmaceutical prices as a result of increased competition,<sup>242</sup>” she adds, but this figure is misleading.

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<sup>240</sup> Report on Pharmaceutical Market in Georgia. p. 18 Transparency International Georgia

[http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 12/12/2012

<sup>241</sup> Yellow pages. Yell.ge

[http://yell.ge/srch\\_adv.php?lan=2&name=&city\\_id=0&address=1+Ingorkva+&key words=&phone=&Submit.x=26&Submit.y=1](http://yell.ge/srch_adv.php?lan=2&name=&city_id=0&address=1+Ingorkva+&key words=&phone=&Submit.x=26&Submit.y=1) Accessed 05/12/2012

<sup>242</sup> Investor.ge Issue 2, 2012. April-May

[http://www.investor.ge/article\\_2012\\_2.php?art=5](http://www.investor.ge/article_2012_2.php?art=5) Accessed 05/12/2012

The median unit price of medicines did decrease between 2009 and 2011, especially for original brands, however, this decrease occurred only for 27% of the original brands and 21% for the lowest price generics. The rest of the medicines actually increased in price. In other words, three-fourths of the medicines on the market have become more expensive<sup>243</sup>. One explanation for this could be that some groups of medicines are more preferred, as a result of the increasing import opportunities. Another explanation is that the major distributors might have purposely pushed a group of medicines down to stimulate a positive image of market development.

A study by Curatio International Foundation (CIF) revealed that Aversi, PSP and GPC have the highest decrease on original brands and the highest increase of lowest price generics. CIF says that the decrease could be their short-term strategy to push new competitors out of the market.<sup>244</sup>

When it comes to pharmaceutical manufacturing, of the 70 producers in Georgia, GMP (PSP) and Aversi Rational represent

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<sup>243</sup> Rationalization of Pharmaceutical Expenditures in Georgia, Partnership for Social Initiatives. p.3 GotsadzeT. (2011)  
<http://www.psidiscourse.ge/files/files/pdfs/Rationalization%20of%20the%20Pharmaceutical%20Expenditures%20in%20Georgia.pdf> Accessed 05/12/2012

<sup>244</sup> Report on Pharmaceutical Market in Georgia. p. 25 Transparency International Georgia  
[http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

nearly 90% of the share.<sup>245</sup> Local manufacturing has been rapidly growing at a rate of 46% per year from 2004 to 2010<sup>246</sup>. The value of local production was \$90.2 million in 2010 compared to \$22.1 million in 2006.<sup>247</sup> The local sales of medicines produced in Georgia are growing at the rapid rate of 38% per year. 60% of Georgian produced medicines are exported and the top 3 recipients are Azerbaijan, Armenia and Uzbekistan<sup>248</sup>.

Aversi and GPC advertise that their manufacturing is Good Manufacturing Practice (GMP) certified and complies with all the internationally recognized quality standard for medicines. However, no certified agency has ever awarded Aversi Rational or GPC a GMP

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<sup>245</sup> Based on the production value in USD, the shares are confirmed by The Association of Young Financiers and Businessmen, (2011), The Georgian Pharmaceutical Market Conclusions and Recommendations, and Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011. [http://www.investinggeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investinggeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

<sup>246</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011. [http://www.investinggeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investinggeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

<sup>247</sup> Information provided by Geostat.

<sup>248</sup> Darkside of the Georgian pharmacy. Studio Monitor Investigation (2009) <http://ick.ge/ka/jinvestigation/322-2010-02-17-09-21-51.html> Accessed 05/12/2012

certificate. <sup>249</sup>The GMP certificates that Aversi Rational and GPC hold were given to them by private auditing companies, not by recognized GMP certified agencies.<sup>250</sup> The company GPC is currently in the process of obtaining a GMP certification from France, which will allow them to export their products to countries that recognize the EU-GMP. Georgian companies only engage in the final steps of the manufacturing process, which are formulating (making tablets) and packaging. The active substances are made elsewhere.<sup>251</sup>

Quality control and consumer rights are issues that have not yet been adequately addressed in Georgian legislature. The law

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<sup>249</sup> Report on Pharmaceutical Market in Georgia. p. 24 Transparency International Georgia

[http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 12/12/2012

<sup>250</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, Dec. 2011, [http://www.investingeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investingeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

and The Financial

:[http://www.finchannel.com/Main\\_News/Geo/102226\\_Doubts\\_over\\_Indian\\_Medicines\\_Sold\\_in\\_Georgia/](http://www.finchannel.com/Main_News/Geo/102226_Doubts_over_Indian_Medicines_Sold_in_Georgia/) Accessed 05/12/2012

<sup>251</sup> Komsa International (2011) Investment Guide; Opportunities in Georgia's Pharmaceutical Sector, in cooperation with the government of Georgia, p.23 Dec. 2011, [http://www.investingeorgia.org/upload/file/Opportunities\\_in\\_Georgias\\_Pharmaceutical\\_Sector.pdf](http://www.investingeorgia.org/upload/file/Opportunities_in_Georgias_Pharmaceutical_Sector.pdf) Accessed 05/12/2012

recognizes the manufacturer of a drug as the company that packages it. The producer of the active substance, or the company that did the formulation, doesn't have to be identified on the label or leaflet and there is no database where such information can be made available. We don't know who formulated the drug or where it was processed; instead Aversi and PSP lead us to believe the whole production process of the drug was done by a GMP certified Georgian producer, as they present it like this. In fact, the active substance might have been produced somewhere in India or Egypt by a company we don't know. The only production in the end was the packaging of the finished drug with a convincing Georgian label.<sup>252</sup>

For example, some medicines sold under the Aversi Rational brand have no reference to the original manufacturer, like Kvadimax, Enozid H, Musitroli, Amtas and Calcitron, which are imported unpackaged medicines from India. This is even more worrisome as The Agency for State Regulation of Medical Activities, which operates under the Ministry of Labour, Health, Social Affairs and is responsible for checking the quality of medicines, lacks the

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<sup>252</sup> The Georgian Pharmaceutical Market. Transparency International Georgia Report. p.27

[http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

expertise as well as the financial and technical resources to be effective.<sup>253</sup>

“According to the information we have, the drug agency never found any counterfeit products, but how is this possible when there is a \$200-million market of fake medicines that occur particularly in low income countries such as Georgia?” says Irakli Margvelashvili, executive director of the Association of Pharmaceutical Companies’ Representatives in Georgia. “ This should be checked and for that you need a good system; with technical expertise, financial resources and so on. But you don’t have this now. This system does not currently exist in Georgia,” he adds.<sup>254</sup>

What this all comes down to is that two major companies dominate Georgia’s pharmaceutical market with the largest shares on distribution, retail and manufacturing. The fact that the vast majority of “competitors” are dependent on these companies makes the system look like an oligopoly, or vertical monopoly. However, even if these companies do not have a monopoly, they have become active in the insurance and hospital market, which has been recently

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<sup>253</sup> Ibid p.27

<sup>254</sup> Interview Irakli Margvelashvili; Executive Director Association of Pharmaceutical Companies’ Representatives in Georgia; in Report on Pharmaceutical Market in Georgia, Transparency International Georgia. [http://transparency.ge/sites/default/files/post\\_attachments/The%20Pharmaceutical%20Market%20in%20Georgia\\_June%202012\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/The%20Pharmaceutical%20Market%20in%20Georgia_June%202012_0.pdf) Accessed 05/12/2012

privatized. These pharmacies own clinics.<sup>255</sup> Vertically integrated pharmaceutical companies that also operate in the greater health care sector create conflicts of interest on various levels that do not necessarily benefit the consumer in regards to affordability and quality. These large pharmaceutical companies play an important role in the development of medicine production in Georgia, yet are left unchecked to sell us what they want at prices they can manipulate. It's arrangement that suits the major pharmaceutical companies best of all.

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<sup>255</sup> Aversi's Company Website

<http://www.aversi.com/main.php?lang=eng&id=68&type=4> PSP website

<http://www.psp.ge/?mid=60> Accessed 05/12/2012

## IT'S CALLED DEVELOPMENT

In 2002 I moved into an apartment next to the Marjanishvili Theater in the Tbilisi neighborhood of Plekhanov. The stretch between my flat and the metro was a wall to wall shanty town of kiosks that sold everything from contraband cigarettes to shoe repair to instant passport photos. People also sold trinkets, books and produce along the sidewalks or from the trunks of their jalopies. The locality was a bustling little bazaar. Then one day in 2004, most all the kiosks disappeared. More soon followed, diluting Plekhanov's chaotic atmosphere, although the neighborhood still retained its Asiatic flavor. But in 2011, the city began a sudden, massive renovation process along the main stretch of Agmashenebli. Today, the stretch looks like another city entirely.

The phenomenal amount of development in Georgia in the past several years is nothing short of mind blowing. The checklist of accomplishments is impressive: the make-overs of Signahgi, Mestia and Batumi and improvements in Tbilisi, Zugdidi, Telavi and Kutaisi; resurfaced streets and a new highway in-the-making; new airports in Tbilisi, Batumi and Mestia - the list goes on. The ruling party modestly said that the nation was responsible, but everybody knows

that what we see is a result of the work the United National Movement put into the county. But what we don't see is just how the government was able to produce these achievements. Much of the improvements we see today has come at the expense of private owners, who have had to relinquish their properties in the name of progress. In this regard, the nation has been responsible for these changes

The process of property redistribution started in the Shida Kartli region of Georgia when Irakli Okruashvili was appointed its governor <sup>256</sup> . Although President Saakashvili had promised to strengthen the inviolability of private property in his pre-election campaign, the most significant enterprises in Shida Kartli were given to the local government. In reality, the state was confiscating property, but since no formal law on de-privatization existed, the state could do this as long as the property in question was “a gift.”

A classic example of this is the story of Jemal Tsiklauri, who owned Liakhvi Market in Gori, the regional seat of Shida Kartli. A local man complained he had been cheated by a butcher who had charged him for 10 kilos of meat, but had given him 9. The Deputy Governor, Mikheil Tsiklauri, showed up and confiscated the scale and demanded on television that criminal charges should be filed

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<sup>256</sup> „People's” Market Is Being Sold out. <http://www.humanrights.ge/>  
<http://www.humanrights.ge/index.php?a=main&pid=6722&lang=eng> Accessed 14/11/2012

against Tsiklauri. Then the regional tax office slapped a charge on Tsiklauri for evading 287,120 GEL of taxes between 2002- 2004.<sup>257</sup> Tsiklauri was jailed in March 2004.

Although an investigation by the Ministry of Justice found Tsiklauri had evaded 37,000 GEL, not the 287,120 GEL Gori authorities charged, he says he paid the Gori Prosecutor Office 58,000 GEL, yet he remained in jail.<sup>258</sup> His lawyer, Vakhtang Tskhomelidze, claims that Kareli, who by this time was governor, visited Tsiklauri in jail and demanded he hand over his business, which was valued at 228,000 GEL. In September, 2004, Tsiklauri pleaded guilty and agreed to transfer his property and paid a 2,000 GEL penalty fee in addition to the 58,000 he had already paid.<sup>259</sup>

Similar cases were reported regarding Gorkoni Ltd., which gave 22% of its shares to the regional authorities<sup>260</sup> as did the Gori central stadium, which was valued at 56,425 GEL. Perhaps the less subtle example of “re-privatization” reportedly happened to Nodar Maisuradze, a history professor at Tskhinvali State University. He

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<sup>257</sup> Jemal Tsiklauri case. Public Defender of Georgia  
<http://www.ombudsman.ge/index.php?page=1001&lang=1&id=808> Accessed 14/11/2012

<sup>258</sup> Ibid

<sup>259</sup> Ibid

<sup>260</sup> Minister’s Friend - A Studio Monitor Investigation. Available at  
<http://www.youtube.com/watch?v=8xDdy5M2WrI> Accessed 05/12/2012

leased 230 hectares of land and grew wheat with 27 other families. Right before harvest, Giorgi Kereselidze, a ruling party leader in the region warned, “If you don’t give us your harvest voluntarily, we’ll take it away.”<sup>261</sup> According to the Public Defender, Maisuradze was arrested illegally with the purpose to deprive him of his property. Local authorities yielded 72 tons of wheat for themselves <sup>262</sup> . Although the wheat was later returned, nobody was held accountable for the theft. 500 tons were subsequently stolen, provoking a confrontation between Maisuradze and Saltvisi-2, the company whose combines had come to haul the wheat away. Police arrived but did not intervene, stating they were ordered not to.<sup>263</sup>

One asset of particular interest to the former government was Gori’s Mill Combine, officially Forte Ltd, which was valued at approximately 500,000 GEL making it one of the largest enterprises in the region. But unlike other valuable properties, Forte didn’t end up in the hands of the state. On December 15, 2004, Forte’s four owners, Mirian Okroshvili, Giorgi Ortanezashvili, Vasil Khitiashvili and Merab Datviashvili, transferred their shares to

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<sup>261</sup> Ombudsman about Nodar Maisuradze's Case

<http://www.ombudsman.ge/index.php?page=1001&lang=0&id=293> Accessed 05/12/2012

<sup>262</sup> Ibid

<sup>263</sup> Minister’s Friend - A Studio Monitor Investigation. Available at

<http://www.youtube.com/watch?v=8xDdy5M2WrI> Accessed 05/12/2012

Lemise Company Ltd., a private company that had been established 13 days prior to the handover.<sup>264</sup>

The story of Lemise is a post Rose Revolution example of how a company appears out of nowhere, gobbles up state property for cheap, turns over for sizable profits, grows, and goes on to provide lucrative services for the government.

Lemise was officially established with a total charter capital of a mere 2000 GEL by Sergi Kakalashvili, Giorgi Kapanadze and Giorgi Okroshvili<sup>265</sup>, however, Kapanadze is owner by name only; his son Levan (Lukhum) really runs the business.<sup>266</sup> The father-son connection switches with the Okroshvili's. Giorgi is the son of Mirian, who had been the main shareholder of Forte and still retained 5%<sup>267</sup>, while Giorgi had 25% of Lemise.<sup>268</sup> This explains the name: Le (Levan) - Mi (Miriani)- Se (Sergi).

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<sup>264</sup> Ibid

<sup>265</sup> Public Registry. Ministry of Justice of Georgia  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=32319](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=32319) p.4  
Accessed on 12/12/2012

<sup>266</sup> Minister's Friend - A Studio Monitor Investigation. Available at  
<http://www.youtube.com/watch?v=8xDdy5M2WrI> Accessed 05/12/2012

<sup>267</sup> Public Registry. Ministry of Justice of Georgia 28/12/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=188743&app\\_id=215661](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=188743&app_id=215661) Accessed 05/12/2012

Sergi Kakalashvili is a businessman from Tiumen, Russia, who also writes verse. President Saakashvili is so fond of his poetry, he quoted some at a parliamentary meeting. Kakalashvili shared a business with Lukhum Kapanadze in Tiumen named “Georgia.” Kapanadze is also a former schoolmate of ex-Prime Minister Vano Merabishvili.<sup>269</sup>

After acquiring Forte Ltd., Lemise went on a buying and selling spree, getting property for cheap, often from the state, and turning it over for considerable profits, almost as if it was an unofficial government realtor.

On Dec 15, 2005, Lemise bought Kachreti Mill Combinate for \$867, 000 from Georgian Product Ltd., which had owned the mill for 3 months. Georgian Product Ltd, was reportedly owned by Gocha Dzasokhov, a wealthy businessman from the Gori region. <sup>270</sup>After the 2008 Russia-Georgia war, Dzasokhov “set himself against the regime of Tbilisi”<sup>271</sup> and fled to Russia where he has become a member of the

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<sup>268</sup> Minister’s Friend - A Studio Monitor Investigation. Available at <http://www.youtube.com/watch?v=8xDdy5M2WrI> Accessed 05/12/2012

<sup>269</sup> Ibid

<sup>270</sup> Ibid

<sup>271</sup> Gocha Zasokhov’s Biography Page <http://www.dzasokhov.ru/en/biography/> Accessed 04/12/2012

Civic Chamber of the Russian Federation. Meanwhile, the Georgian prosecutor's office was investigating him for laundering money.<sup>272</sup>

Lemise transferred Kachreti Mill Combine to its newly established Mkatatve Ltd and sold the Mill to a company called Agrosystems for \$2,360,000.<sup>273</sup> On December 15th, 2005, Lemise bought Agrofirm Mukhrovani Ltd, for 1.150.000 GEL from Worldwide Trading, which was also reportedly owned by Gocha Dzasokhov. Agrofirm Mukhrovani had been state property on the Ministry of Internal Affairs (MIA) balance sheet before 2005 and amounted to 20 ha. of land. Worldwide Trading rented an additional 1400 ha. of land from the MIA. Lemise bought 931 ha. of this land for 349,316 GEL (\$196,532).<sup>274</sup>

Around this time the government had been wooing Arab financiers from the UAE to invest in Georgia. Most notably was Rakeen property developers, which is "backed by the royal support of His Highness Sheikh Saud Bin Saqr Al Qasimi." Among the many properties Lemise sold to Rakeen property developers was Agrofirm's

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<sup>272</sup> Gocha Dzasokhov and Leri Khabelov Have Fled From Georgia. Humanrights.ge <http://www.humanrights.ge/index.php?a=main&pid=10746&lang=eng> Accessed 14/11/2012.

<sup>273</sup> Minister's Friend - A Studio Monitor Investigation. Available at <http://www.youtube.com/watch?v=8xDdy5M2WrI> Accessed 05/12/2012

<sup>274</sup> Ibid

931 ha. of former MIA land for a hefty \$15,827,000, on March 20th, 2007.<sup>275</sup>

Meanwhile, Lemise was expanding. It bought the Kuchatni wine factory, established the pharmaceutical production company Batfarma<sup>276</sup> and sunflower oil producer Batoil and founded Caucasus Cereal Company, which it co-owned 50/50 with Giorgi Adeishvili, son-in-law to parliamentarian from UNM, Gogi Liparteliani, who reportedly owns businesses with Lukhum Kapanadze.<sup>277</sup> Lemise later bought out Adeishvili's shares. Caucasus Cereal then purchased 4 units of land that had been owned by the MIA (76.700 sq. meters) in Tbilisi's Digomi area on January 6th 2006 for \$3,451,500. This property was part of 72,836 sq. meters of land Rakeen bought for 7,283,600 for its "Rakeen Uptown" project. Caucasus Cereal Company made an easy \$3,832,100 on the deal and kept 3900 meters of land.<sup>278</sup>

For the Caucasus Cereal Company, Rakeen has been nothing less than manna from heaven. On Dec 27, 2005, the cereal company

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<sup>275</sup> Ibid

<sup>276</sup> Public Registry. Ministry of Justice of Georgia 03/02/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=12859&app\\_id=20283](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=12859&app_id=20283) Accessed 05/12/2012

<sup>277</sup> Ibid

<sup>278</sup> Minister's Friend - A Studio Monitor Investigation. Available at  
<http://www.youtube.com/watch?v=8xDdy5M2WrI> Accessed 05/12/2012

bought the Vardzia Tourist company on auction for \$141,677. This hotel in the Aspindza region, near the Vardzia monastery complex, consisted of 31,500 sq. meters of land, mineral baths and other buildings. They turned it over to Rakeen for a nifty \$2 million.<sup>279</sup>

Rakeen was not the only windfall to come from the UAE. On May 25th, 2006, the Caucasus Cereal Company bought Gonio hospital and its 3000 sq. meters of land on Adjara's Black Sea coast for \$210,000. By agreement, the Company had 24 months to invest \$2 million in the property by building an 80 room hotel complex and by also building an ambulatory on 300 sq. meters of land and equip it with modern office and medical equipment, at an estimated investment cost of \$120,000. Twenty-two months and no investments later, the Caucasus Cereal Company sold the land to the Ras al Khaima Investment Authority Georgia (RAKIA) for \$1,267,499. In this deal the company made \$48,045 a month for doing nothing.<sup>280</sup>

On Sept 3rd, 2007 the shareholders of Lemise Company Ltd decided it was time to go offshore and sold their shares to two companies registered in Panama on December 27th 2006: 60% went

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<sup>279</sup> Ibid

<sup>280</sup> Ibid

to Argilstone Investment and 40% to Remax<sup>281</sup>. The founders of both of these companies were the same people: Izeth Samudio Tabia, Ivan Antonio Molino Alvarez, Yadira Ines Moreno Morales.<sup>282</sup> They also hold shares in 100's of other companies registered in Panama.<sup>283</sup> The sale was believed to be fictitious and representatives of Batfarma, a Lemise company, maintain that "Lukhum" Kapandze still has a share in the company.<sup>284</sup>

At this time Lemise began to sell some of its holdings and use others for collateral to obtain loans from various banks, including a \$17 million loan from Cartu Bank, which was owned by billionaire Bidzina Ivanishvili.<sup>285</sup> This was before the Georgian government rewrote the nation's banking laws, in what appeared to be a clear case of targeting the assets of Cartu Bank.

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<sup>281</sup> Public Registry. Ministry of Justice of Georgia 20/01/2010  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=5241&app\\_id=11373](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=5241&app_id=11373) Accessed 05/12/2012

<sup>282</sup> ohuiginn.net <http://ohuiginn.net/panama/company/id/549412> and  
<http://ohuiginn.net/panama/company/id/549394> Accessed 05/12/2012

<sup>283</sup> ohuiginn.net  
<http://ohuiginn.net/panama/person/IZETH%20SAMUDIO%20TAPIA> Accessed 05/12/2012

<sup>284</sup> Minister's Friend - A Studio Monitor Investigation. Available at  
<http://www.youtube.com/watch?v=8xDdy5M2WrI> Accessed 05/12/2012

<sup>285</sup> Ibid

On October 28th, 2011, the Parliament of Georgia passed amendments to the tax code and law on enforcement that turned the legal banking system on its head, leaving business leader slack-jawed at the implications. Georgia's system had been like every other developed western nation where secured claims have priority over unsecured claims and the priority of liens is determined by the date of registration among secured creditors.<sup>286</sup> So if the Georgian tax authorities registered a lien on property that had been used as collateral for a loan, it ranked second in interest to the bank's prior security. With the new amendments to the law about enforcement, the tax authorities lien ranked first, even if it was not registered until a later date, and applied to all existing contracts, whenever they were concluded. This meant that if I owed the state taxes on property that I used as security for a bank loan, the state could take it away from the bank. Put another way, this law would question the priority of every secured transaction made in Georgia. What bank would make a loan with Georgian property as collateral? For a country aiming to attract foreign investment, the law was like a Foreign Direct Investment suicide letter. Fortunately for the 18 banks of Georgia, the legislation was applied exclusively to Cartu Bank. Ivanishvili claims the State stripped him of 195 assets of a

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<sup>286</sup> State official Publishing Newspaper Macne  
[https://matsne.gov.ge/index.php?option=com\\_ldmssearch&view=docView&id=1387361&lang=ge](https://matsne.gov.ge/index.php?option=com_ldmssearch&view=docView&id=1387361&lang=ge) 12/12/2012

value over \$114.6 million before it abolished the law on March 30th, 2012.<sup>287</sup>

Some of Sergei Kakalashvili's collateral at Cartu was seized and auctioned off, but since no buyers appeared at the auction, the property went to the state. Meanwhile, Kakalashvili was selling assets to companies he owned with high debts to the State, which also ended up being acquired by the State. In total, \$41,288,885.79 of his assets that belonged to Cartu Bank were seized through this law.<sup>288</sup> Ivanishvili claims that the State has sold it back to the original owners.<sup>289</sup>

Outside of Lemise, Lukhum Kapanadze has been keeping himself busy in a myriad of ventures. Together with former UNM lawmaker Devi Ovashvili, in December 2006 he founded Interplast, a maker of building materials. Then he sold his Interplast shares to offshore companies for 100 GEL. These shares changed hands several times before ending up with the governor of Mtskheta Mtianeti

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<sup>287</sup> State official Publishing Newspaper Macne  
[https://matsne.gov.ge/index.php?option=com\\_ldmssearch&view=docView&id=1672612&lang=ge](https://matsne.gov.ge/index.php?option=com_ldmssearch&view=docView&id=1672612&lang=ge) Accessed 12/12/2012

<sup>288</sup> Studio GNS Report For 5th of February 2012 Available at  
<http://www.youtube.com/watch?v=JmAv3eUk-hE> Accessed 05/12/2012

<sup>289</sup> Final Notice of Dispute (pdf), sent to the Georgian government by law firm Skadden, Arps, Slate, Meagher & Flom on behalf of Ivanishvili  
<http://www.civil.ge/files/files/2012/FinalNoticeOfDispute-IvanishviliVGeorgia.pdf>  
Accessed 05/12/2012

region, Ceasar Chocheli (13%) and his brother Iago (10%).<sup>290</sup> Like Lemise, Interplast has made great profits turning over real estate and also had property registered as State debts seized by the government from Cartu Bank.<sup>291</sup>

Before the Rose Revolution, some of the best restaurants in the city were located on the east bank of the Mtkvari River; across from Tbilisi's Old Town. The Wishing Tree, Rikhe, Ushba, Mama Zoya and others sat on prime real estate. Then one April day in 2006, the bulldozers arrived. Tsitsino Bochorishvili was one of the property owners that had a building demolished. In her case, authorities ignored administrative proceedings or any other requirements provided by law.<sup>292</sup>

Shortly after David Kezerashvili's Financial Police launched tax investigations into the restaurants and shut them down in the winter of 2005/2006, their property soon ended up in the hands of the finance ministry and then the Old City Rehabilitation and

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<sup>290</sup> Public Registry. Ministry of Justice of Georgia 03/01/2012

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=364504&app\\_id=420727](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=364504&app_id=420727) Accessed 12/12/2012

<sup>291</sup> Minister's Friend 2. Studio Monitor's Investigation

<https://www.youtube.com/watch?v=rQx5wFvAxCY> Accessed 12/12/2012

<sup>292</sup> Public Defender Report 2007 p.130

<http://www.ombudsman.ge/files/downloads/en/rcdhxltppxuyaxakjlc.pdf> Accessed 05/12/2012

Development Fund and the Tbilisi Development Fund, two slippery non-commercial legal entities established by the Tbilisi city government. They both had identical statute objectives and shared many of the same board members, most of whom were heads of executive municipal bodies and various city services. They received money from the Tbilisi City budget for various activities, but we don't know how much because the funds were set up as non-governmental organizations, this was used as an excuse to avoid disclosure rules that govern the state budget, despite the fact that the property that they were managing was delegated by the state entity for a specific purpose and thus the company should have complied to Freedom of Information requests.<sup>293</sup> The public has been kept in the dark on what, where and how this money from the central and local budget has been spent.<sup>294</sup>

On June 6th 2006, the Ministry of Economy and Sustainable Development of Georgia auctioned off 43,350 square meters of Rikhe land to LCC Akhali Rikhe (New Rikhe), for \$7 million.<sup>295</sup> Akhali Rikhe was established a few months earlier by Nikoloz

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<sup>293</sup> Beyond the Facade of Rehabilitation. Georgian young Lawyers Association Report <http://gyla.ge/geo/news> Accessed 13/12/2012

<sup>294</sup> Ibid p.6 Accessed 05/12/2012

<sup>295</sup> Ibid Page 65 Accessed 05/12/2012

Makharashvili and GMC Holding<sup>296</sup> (50/50 shares). GMC Holding is owned Newcom Association Ltd<sup>297</sup> and represented by President Saakashvili's university friend, Levan Kharamanishvili, who was also a 90% shareholder in Rustavi 2<sup>298</sup> and brother-in-law of Rezo Sharangia. On June 1st, 5 days before the auction, Makharashvili gave his 50% share to GMC Holding. Akhali Rikhe agreed to pay the \$7 million in 3 months. 8 days after the agreement, GMC Holding sold 80% of its shares to David Iakobashvili<sup>299</sup>, who Forbes rated the 3rd richest Georgian in the world in April 2012, with assets of \$950 million.

Two years passed without any serious investment on the land. Then, in December 2008, the Old City Rehabilitation and Development Fund bought the property for \$17 million.<sup>300</sup> So, what we have is the government selling Rikhe property for \$7 million to

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<sup>296</sup> Public Registry. Ministry of Justice of Georgia  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=88965](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=88965) p.23

<sup>297</sup> Public Registry. Ministry of Justice of Georgia 02/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=469610&app\\_id=545255](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=469610&app_id=545255) Accessed 12/12/2012

<sup>298</sup> Rustavi 2 and Mze TV Change Hands. Media.ge  
[http://www.media.ge/en/content/rustavi2\\_and\\_mze\\_tv](http://www.media.ge/en/content/rustavi2_and_mze_tv) Accessed 12/12/2012

<sup>299</sup> Beyond the Facade of Rehabilitation. Georgian young Lawyers Association Report p.65 <http://gyla.ge/geo/news> Accessed 05/12/2012

<sup>300</sup> Ibid Page 65

what is essentially the friendly GMC Group, and then buying it back from that group a couple years later for \$17 million.

When following Georgia's money trail, you'll continuously bump into signposts that point to "The GMC Group," perhaps best known for its corporate brand of quality restaurants. One of the five founders of this company is Revaz Sharangia<sup>301</sup> (they each subsequently sold their shares for the symbolic price of 6,740 GEL to GMC Holding, which is registered offshore)<sup>302</sup>.

The Sharangia family is like a Georgian Carrington clan from the 80s American soap opera, *Dynasty*. Lorenzo Sharangia, from Ochamchire in Abkhazia, made his fortune in Russia. He sired four sons. Revaz is the founder of GMC Group, Shota reportedly worked in law enforcement in Ajara at the time<sup>303</sup>, Merab is a shareholder in

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<sup>301</sup> Public Registry. Ministry of Justice of Georgia  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=75574](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=75574)  
Accessed 12/12/2012

<sup>302</sup> Kaladze has sold his shares to Sharangias. Eliso Janashia, Tspress.ge November 5, 2011 <http://tspress.ge/ka/site/articles/13246/> Accessed 05/12/2012

<sup>303</sup> Tina Khidasheli's report. Republicans.ge  
<http://www.republicans.ge/index.php?module=News&func=display&sid=2337&lang=ka> Accessed 05/12/2012

Beeline, a wireless telecommunications company operating in Georgia<sup>304</sup>, and Levan is a businessman in Russia<sup>305</sup>.

As the Rikhe story reveals, progress is unforgiving to people who own businesses on valuable real estate. Rikhe is now a modern-landscaped park and site of the \$12 million dollar Freedom Bridge, designed by Italian architect Michelle de Lucchi and financed from the city budget. But progress is non-discriminatory. As Kezerashvili's financial police were targeting businesses accused of tax crimes, the Tbilisi municipality was evicting homeowners from buildings that stood in the way of development.

One summer day in 2006, police arrived to evict 24 residents from an apartment block behind the former Tbilisi Institute of Marxism and Leninism on the pretense that the building had been built illegally and was dangerous<sup>306</sup>, despite the fact the city is full of dangerously built structures and there are no standards that regulate reconstruction on buildings nor evaluations of seismic resistance on

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<sup>304</sup> Scheme of Monopolist winner of Mini-Bus Tender. Humanrights.ge  
<http://www.humanrights.ge/index.php?a=main&pid=13011&lang=eng> Accessed 05/12/2012

<sup>305</sup> Ibid

<sup>306</sup> Property Rights Controversy Dogs Georgia's Privatization Campaign. Eurasianet.org  
<http://www.eurasianet.org/departments/insight/articles/eav082207a.shtml>  
Accessed 15/11/2012

existing buildings. <sup>307</sup> But this dangerous building was on property slated for a Kempinski hotel.

Giorgi Seturidze, the chief executive officer of the Abu Dhabi Group in Georgia, which took over the hotel project, insists the building was in fact dangerous, as the foundation was not designed to hold the extra five stories that were built on it.

“The problem wasn’t that they were evicted - the building would have collapsed - and they were well compensated.” Seturidze says. “The problem was how they were evicted.”<sup>308</sup>

Attorney’s for the residents said that the owners never received an invitation to a hearing about the dispute<sup>309</sup> and they weren’t given their legal right to appeal their evictions.

Ironically, the Kempinski project has stalled, the result Seturidze says, of government interference in Abu Dhabi Group investments. Abu Dhabi Group is a United Arab Emirates (UAE)

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<sup>307</sup> Experience of Reconstruction and Rehabilitation of Historical Buildings in the Downtown of Tbilisi. 12th World Conference on Earthquake Engineering <http://www.iitk.ac.in/nicee/wcee/article/2375.pdf> Accessed 15/11/2012

<sup>308</sup> Author’s interview with Giorgi Seturidze. 11/11/2012.

<sup>309</sup> Property Rights Controversy Dogs Georgia's Privatization Campaign. Eurasianet.org <http://www.eurasianet.org/departments/insight/articles/eav082207a.shtml> Accessed 15/11/2012

private equity company owned by Sheikh Nahayan Mubarak Al Nahayan, member of the Abu Dhabi Royal Family<sup>310</sup>. Seturidze and his consulting group brought Abu Dhabi to Georgia in 2007 and they agreed to invest in telecommunications, banking and the Kempinski hotel project. At that time, the Kempinski project belonged to Kapital Vostok, a Swiss company owned by George Machutadze. Kapital Vostok failed to fulfill its liabilities and sold 80% of its Kempinski shares to Abu Dhabi. Machutadze kept the remaining 20%, which he eventually gave up for 1\$ million - or about 1/4th their value.<sup>311</sup>

Seturidze claims that the government at the time forced him out of his directing role in the Kempinski project to take control of the project. A man named Samy Edwards somehow managed to obtain a document from the Public Registry authorizing him to replace Seturidze's as Dhabi Groups' Executive Director without an approval letter from the Dhabi Group's Board of Directors.

“The government stepped in and illegally replaced me - there wasn't even a shareholder's decision... and the new guy destroyed the whole structure,” Seturidze says.

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<sup>310</sup> PearlInitiative.com <http://www.pearlinitiative.org/sheikh-nahyan-bin-mubarak-al-nahyan.html> Accessed 12/12/2012

<sup>311</sup> Author's interview with Giorgi Seturidze. 11/11/2012.

Wherever you see major development in Georgia, there are stories of how people were forced to officially abandon their property or to directly sign a contract to give their property to the state as a gift. Verifying these stories, however, is difficult because these people don't go to the press or the police to report the events, which either means that there is nothing unusual in giving property worth thousands of dollars away or that these people are afraid.

For example, in the Bakhmaro resort region, 79 cases of abandonment of property were reported between January 13-25, 2011<sup>312</sup>.

Most of these people relinquished the only property they owned to the state.

Soso Akubardia owned 47.92 ha. of land in Anaklia, a Black Sea village near the administrative border of Abkhazia. On September 8, 2009, President Saakashvili declared Anaklia would be a new center for tourism on the Black Sea and he contracted Spanish architects to draw up a development plan. Akubardia's property, which he had owned since 2007, was one of 150 plots of land that suddenly ended up registered to the state on December 6, 2009. Essentially, the

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<sup>312</sup> Stripped Property Rights in Georgia. Third Report. p. 6 Georgian young Lawyers Association, Transparency International - Georgia, Georgian Regional Media Association, Association Green Alternative.  
[http://transparency.ge/sites/default/files/post\\_attachments/StrippedPropertyRights\\_April2012\\_Eng\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/StrippedPropertyRights_April2012_Eng_0.pdf) Accessed 05/12/2012

Ministry of Economic Development requested the land and the regional authorities, the Zugdidi Registration Office of the Public Registry, satisfied this request. In Akubardia's case, the cadaster number of his registered plot had been changed in the public registry, leaving him with 1.5 ha of land. He filed for the restoration of his original title, which the court rejected. His land had by this time become the property of Anaklia-Port.<sup>313</sup>

On October 20th, 2009, Anaklia-Port was awarded the contract to construct a regional transport hub that would include a port, cargo airport, infrastructure for rail and roadways and a power and engineering services for the new settlement. Anaklia-Port agreed to invest \$5 billion in these facilities before 2013. In return, it received about 2,113 ha. of land, or 298 individual plots, for 6,340,445 GEL (USD 3,830,656).<sup>314</sup>

On June 10th, 2010, Karchava sold Anaklia Port LLC and its multi-million dollar property to Olimp Management Ltd, registered in the British Virgin Islands (BVI) for a mere 2000 GEL (\$1,210). On September 27, Olimp's sole director, Ria Klein, appointed Karchava the director and Chairman of the Board of Directors of Anaklia Port LLC.<sup>315</sup>

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<sup>313</sup> Ibid Page 9

<sup>314</sup> Ibid Page 10

<sup>315</sup> Ibid Page 11

In The summer of 2012, the government sequestered the property, claiming the company did not meet the construction deadline. Karchava argues that the government cancelled the deal after Saakashvili had announced his plans to build Lazika, a fantasy settlement just south of Anaklia with the aim of being west Georgia's economic center and second largest city in the country. Karchava says the ministry of economy confiscated his company's property without notice and sued it for nearly \$100 million in penalties.<sup>316</sup>

By law, when registering your title to property you can submit of a paper (hard) version, or an electronic version of cadastre drawings. However, the Public Registry does not have the means to compare these two drawings. As of February, 2010, the state registers its title to the property via electronic versions even if this property has already been registered on paper to a private person; so you may wake up one day to find your property registered to somebody else and that somebody else just might be the state.<sup>317</sup>

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<sup>316</sup> Anaklia-Port – The Century Project. Besik pipia. Georgia and the World <http://www.geworld.ge/View.php?ArtId=2134&lang=en&Title=%E2%80%9CAnaklia-Port%E2%80%9D-%E2%80%93-The-Century-Project> Accessed 15/11/2012

<sup>317</sup> Stripped Property Rights in Georgia. Third Report. p. 9 Georgian young Lawyers Association, Transparency International - Georgia, Georgian Regional Media Association, Association Green Alternative. [http://transparency.ge/sites/default/files/post\\_attachments/StrippedPropertyRights\\_April2012\\_Eng\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/StrippedPropertyRights_April2012_Eng_0.pdf) Accessed 05/12/2012

On August 8, 2011, Marina Mekvabishvili submitted electronic cadastre drawings of her land to the Lanchkhuti Public Registry to specify its boundaries, as she had heard the state was registering private property to its title. She owned a 1,500 square meter plot in the village of Grigoleti on the Black Sea, which was registered in 2004 with a hard cadastre copy. On August 12, the Public Registry informed her that this property was actually overlapping state land. Mekvabishvili's property happens to be where a 6-harbor port is planned to be built by Black Sea Products, a company which acquired 35,000 square meters of land from the state without auction.<sup>318</sup>

The founders of Black Sea Products are Khvicha Makataria and Nodar Gigineishvili, who also owns the Capital Group, which along with 3 other companies, won tenders to provide minibus transportation in Tbilisi. They all registered at the public registry with a capital charter of 100 GEL within 5 minute intervals.<sup>319</sup>

Moreover, the addresses of these companies all share addresses of restaurants owned by GMC Group, which is owned by the Sharangia brothers, the same ones who were involved in Akhali Rikhe case (page 106). Makataria is also a partner of Gain Oil, a

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<sup>318</sup> Ibid Page 12

<sup>319</sup> Scheme of Monopolist winner of Mini-Bus Tender Humanrights.ge  
<http://www.humanrights.ge/index.php?a=main&pid=13011&lang=eng> Accessed 15/11/2012

Russian oil business the Sharangia brothers are shareholders in<sup>320</sup>. Black Sea Product's registered address is the same as the "GMC Group's (Sanapiro St.3, Tbilisi, GE).<sup>321</sup>In 2010 "Black Sea Products" sold itself to "MT Black Sea Holding," for 100 GEL. This company is registered in Cyprus. Among its representatives in Georgia are Khvicha Makataria and Nodar Gigineishvili.<sup>322</sup>

One area you won't find traces of the GMC Group, yet, is the balneal resort of Sairme, nestled in the forested mountains of the Imereti region in west Georgia. Built by German and Romanian prisoners of WWII, Sairme fell to ruin like the rest of the Soviet Union and remained largely forgotten until the Georgian government decided to revitalize the resort area. One small problem, though, was that people owned property slated for development.

Between December 13-23, 2010, twenty people living in one specific geographic area gave their property to the state as a gift and two cases of abandonment of property were registered in Sairme. In most cases, this property was the only land these people owned and

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<sup>320</sup> Ibid

<sup>321</sup> Ibid

<sup>322</sup> Stripped Property Rights in Georgia. Third Report. Page 12 by GYLA, TI Georgia, Georgian Regional Media Association, Association Green Alternative. [http://transparency.ge/sites/default/files/post\\_attachments/StrippedPropertyRights\\_April2012\\_Eng\\_0.pdf](http://transparency.ge/sites/default/files/post_attachments/StrippedPropertyRights_April2012_Eng_0.pdf) Accessed 15/11/2012

had they wanted to sell it, they could have made quite a profit, as Sairme is in a touristic zone; but they chose to give it away.<sup>323</sup>

Resort Sairme LLC was the state-owned company that took over their property and on Sept. 18, 2011, it transferred the company to the Sairme Development Company LCC, <sup>324</sup>which was owned completely by Temur Kokhodze, who was a parliamentarian for the ruling United National Movement party. Kokhodze was also a member of the Legal Affairs Committee and of the Committee for Field Economy and Economic Policy. <sup>325</sup> The transfer occurred without a tender. Kokhodze claims that he paid GEL 60.000 for the property. <sup>326</sup> In return, he committed to invest 10,000,000 in the complex, meteorological station, spa, accommodations and one 5 star hotel. <sup>327</sup>

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<sup>323</sup> Ibid p.5

<sup>324</sup> ibid p.6

<sup>325</sup> Sairme Resort was given to an MP from UNM for Gel 1. For.ge  
[http://www.for.ge/view.php?for\\_id=3544&f\\_cat=9&a\\_title=%60kurorti](http://www.for.ge/view.php?for_id=3544&f_cat=9&a_title=%60kurorti) Accessed 12/12/2012

<sup>326</sup> Studio GNS Investigation  
[http://www.youtube.com/watch?feature=player\\_embedded&v=lyorc2kGISI](http://www.youtube.com/watch?feature=player_embedded&v=lyorc2kGISI)  
Accessed 13/12/2012

<sup>327</sup> Sairme Resoft was given to an MP from UNM for Gel 1. For.ge  
[http://www.for.ge/view.php?for\\_id=3544&f\\_cat=9&a\\_title=%60kurorti](http://www.for.ge/view.php?for_id=3544&f_cat=9&a_title=%60kurorti) Accessed 12/12/2012

Before Kokhodze became a parliamentarian in 2008, he was establishing his automobile parts and service empire, Tegeta Motors<sup>328</sup>. Because Georgian law forbids MPs to hold any kind of executive, oversight, controlling, revision, or consultative business functions and to profit from any kind of commercial action, Kokhodze gave up his spot as general director of Tegeta to become a parliamentarian. Georgian law, however, doesn't say he can't profit from his shares in businesses.

For a parliamentarian, Kokhodze does alright. His Tegeta Motors shares brought him 505,449.75 GEL in 2012. He is also a partner in the Transcaucasus Distribution Company and its daughter companies. On May 17th, 2011, Kokhodze reported 1,600,000 GEL cash on hand, although he had indicated having only 7,000 GEL a year before. No income was declared from his companies. In 2011, he declared an income of 1,140,987 GEL.<sup>329</sup>

Kokhodze denies any misconduct took place in Sairme. After the October 2012 elections the owners have come forward and stated

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<sup>328</sup> Sairme is a property of the MP from United National Movement. Netgazeti.ge <http://netgazeti.ge/GE/47/News/4706/> Accessed 15/11/2012

<sup>329</sup> Asset declaration of Temur Kokhodze for the year 2011. Civil Service Bureau. <http://www.declaration.ge/csb/report/report.seam?id=4614&lang=2> Accessed 15/11/2012

that they were pressured from the Kutaisi Prosecutor's Office during 2009-2010 in order to concede their land properties to the state.<sup>330</sup>

Meanwhile, back in Tbilisi, my old neighborhood of Plekhanov has been getting a total facelift. The towering eucalyptus trees that provided us with shade along Aghmashenebeli Ave. were yanked out of the ground, replaced by more subtle saplings. The crumbling facades of the street's 19th century buildings were resurfaced and painted in unobtrusive pastel tones so that they all uniformly resemble each other. New, level sidewalks were laid. President Saakashvili said the street looks like "Paris." The renovation was massive, yet peek down the side streets or into the courtyards of these newly refurbished buildings and you'll see that the old Tbilisi magic hasn't been entirely erased.

The project began in 2010, when President Saakashvili and Tbilisi Mayor, Gigi Ugulava, announced the plan to rehabilitate Aghmashenebeli St. No tender was held for the work.<sup>331</sup> Mayor Ugulava and Tbilisi Development Funds Director, Giorgi Sabanadze, stated that none was needed because the funds behind the work were issued from the non-profit/non-entrepreneurial entities, the

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<sup>330</sup> Property Seizure by Prosecutor's Office in Sairme. Transparency International Georgia. 31/10/2012 <http://transparency.ge/en/blog/property-seizure-prosecutor-s-office-sairme> Accessed 15/11/2012

<sup>331</sup> Nontransparent Rehabilitation. Studio Monitor Report <http://www.youtube.com/watch?v=YNzxVWoL0Jw> Accessed 15/11/2012

Old City Development and Reconstruction Fund, and the Tbilisi Development Fund, therefore, the law on state purchases did not apply.<sup>332</sup>

Attorney Lia Mukhashavria, Executive Director of Human Rights Priority, claims this is absurd, since no matter what the formal status of the fund is, if it uses the state budget for its actions, the state purchases legislation should be applicable. “The source of the funds is important; not who is using them, especially ones (funds) that are established by Tbilisi City Hall,” she says. Sulkhan Saladze, a lawyer at the Georgian Young Lawyers Association (GYLA) estimates that these Funds take about 15-20% of Tbilisi’s annual budget<sup>333</sup>

Several high ranking Tbilisi City Hall officials have been board members of these Funds, including former vice Mayor Mamuka Akhvlediani; Head of the Georgian Cultural Heritage Foundation and vice Mayor David Ninidze; Old Tbilisi Administrator, David Avaliani; and his deputy, Giorgi Sabanadze, who was the Head of the Tbilisi Development Foundation.<sup>334</sup>

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<sup>332</sup> Ibid

<sup>333</sup> Ibid

<sup>334</sup> Ibid

While the quasi-legal status of these Funds is being challenged in court, the city has continued to funnel property to the Tbilisi Development Fund (Old City Development and Reconstruction Fund was liquidated), which was very busy turning that property over for very random prices. On April 19th 2011, Tbilisi City Hall transferred some 57 units of property as a gift to the Tbilisi Development Fund, including a historical building on Aghmashenebeli 150.<sup>335</sup> One month later, the Fund sold 200 square meters of this property for \$200,000 to “Real Invest,” whose founder was the offshore “Oldington Invest Corp.”<sup>336</sup> The representative of “Oldington Invest Corp” is Giorgi Ghoniashvili, whose sister-in-law is Lela Kiladze, Mayor Ugulava’s wife.<sup>337</sup>

August 8th, 2011 was a busy day in the neighborhood. The city also gave 2457 sq. meters of Aghmashenebeli St. 103 to the Fund, which sold 523 sq. meters of it to “Wetzel Plaza” for \$ 832,000.<sup>338</sup> The founders of “Wetzel Plaza” are “Real Invest” and “Privatbank,”

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<sup>335</sup> Ibid

<sup>336</sup> Public Registry. Ministry of Justice of Georgia p.10  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=82255](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=82255)  
Accessed 05/12/2012

<sup>337</sup> Nontransparent Rehabilitation. Studio Monitor Report  
<http://www.youtube.com/watch?v=YNzxVWoL0Jw> Accessed 15/11/2012

<sup>338</sup> Ibid

from Ukraine.<sup>339</sup> A few blocks away, the Fund also sold 444 sq. meters of Aghmashenebeli property that day to the Balavari Group. This had been a public square before rehabilitation. The Balavari Group was established by Giorgi Tavdishvili, who is also a co-founder of the GT Group<sup>340</sup>, a holding company involved in sales and imports of automobiles and parts, foods, construction materials, agricultural machinery and helicopter services.

Journalists investigating the process discovered a note about the property on the Tbilisi City Hall's registry website, which was apparently not supposed to be published, as it stated, "D. Ninidze said register it (the plot) on local and afterwards somebody wants it for a parking lot and a building - Not for sale."<sup>341</sup> The journalists couldn't identify who the note was intended for. Vice Mayor Ninidze, who is also a board member of the Fund, signed the City Hall decree that transferred the 444 meter property to the Fund.

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<sup>339</sup> Public Registry. Ministry of Justice of Georgia 05/07/2011  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=283225&app\\_id=313186](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=283225&app_id=313186) Accessed 15/11/2012

<sup>340</sup> Public Registry. Ministry of Justice of Georgia. p.1 26/06/2008  
[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=32805](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=32805)  
Accessed 15/11/2012

<sup>341</sup> Nontransparent Rehabilitation. Studio Monitor Report  
<http://www.youtube.com/watch?v=YNzxVWoL0Jw> Accessed 15/11/2012

On August 8th, the Fund also sold 78 sq. meters of land on Chaxradze St. to “Balavari Ltd.” for 536,450 GEL. On December 27, the Balavari Group bought an additional 136 sq. meters of land from the Fund along Aghmashenebeli St.140 for 66,565 GEL.<sup>342</sup>

Part of the Aghmashenebeli rehabilitation process included the demolition of buildings to make way for new construction. On April 13th, 2011, Nino Berishvili bought one of these plots for only 30,000 GEL, or only 330 GEL a sq. meter, which is quite a deal considering City Council decision N1-5 of January 28, 2011 set the the price for Aghmashenebeli Ave. land at 1998 GEL per sq. meter.<sup>343</sup>

Shortly after the 2012 Parliamentary elections, Tbilisi City Hall decided to start liquidating the Tbilisi Development Fund. Transparency International Georgia and other NGO’s have called upon city hall to conduct the process in an open manner and to provide information about the assets and liabilities of the fund.<sup>344</sup>

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<sup>342</sup> Ibid

<sup>343</sup> Ibid

<sup>344</sup> Liquidation of the Tbilisi Development Fund Must Be Transparent. Transparency International Georgia. 17/10/2012  
<http://transparency.ge/en/post/general-announcement/liquidation-tbilisi-deve>  
Accessed 13/12/2012

## BATTLE FOR THE MINING INDUSTRY

During the Soviet period, a wide range of minerals were mined in Georgia, including copper, coal and high-grade manganese ore. When the Soviet Union collapsed, so did Georgia's mineral production. Today there are basically three mining enterprises in Georgia - Chiaturmanganese for ore, Madneuli for gold and copper, and the Tkhibuli coal mines. In 2004, the reform government of Mikheil Saakashvili launched a new wave of privatizing state property, which it announced would be "maximally impartial and transparent," unlike the the previous administration's. However, in the mining sector, "maximally" did not prove to be the case.

Manganese was first extracted from Chiatura in 1879. The growth of world demand for the metal was a boon for local producers, who managed to fend off foreign companies in the early years of production. But by the turn of the century, French, British and German companies dominated the Chiatura mines, with the Germans in firm control of operations until the outbreak of WWI, when German companies were banned from Chiatura. When the Soviets arrived, Chiatura was an essential contributor to the

steelwork of the Soviet Union.<sup>345</sup> Its deposits remain one of the largest in Europe today.

In 1993, the Georgian government established JSC Chiaturmanganese for privatization, however, attempts to successfully privatize the company failed throughout the decade. In December 2004, the Ministry of Economic Development of Georgia announced a tender for the purchase of the assets of JSC Chiaturmanganese and the hydro power plant, LLC Vartsikhe HPP Cascade. Five parties applied: Interpipe (Ukraine), Moravia-Georgia (Czech Republic), Kaz-chrome (Kazakhstan), Evrazholding (Russia) and Decometal (Austria; owner of the control stock in Zestaponi Ferroalloys Plant). The deadline for proposals was January 10, 2005.<sup>346</sup>

On December 24th, the economy ministry reported the Kazakhs were out of the picture, while on January 11th, Prime Minister Zurab Zhvania announced the Czech and Kazakh proposals had been rejected and the remaining three parties were invited for individual negotiations. Zhvania also said, “The Austrian company has even made a USD 10 million down payment in an attempt to

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<sup>345</sup> Aggressive State Property Privatization Policy. Green Alternative Report p. 23  
<http://www.greenalt.org/webmill/data/file/publications/Privatizeba-Eng4.pdf>  
Accessed on 04/12/2012

<sup>346</sup> Ibid p. 18

demonstrate its serious intentions over this deal.” The new closing date was slated for January 18th.<sup>347</sup>

The three companies initially submitted separate bids, but EvrAz Holding and "DMC Ferro" decided to re-apply with a joint bid and won the tender for \$132 million. EvrAz Holding won the bid, even though economy minister, Aleksi Alexishvili, said the Ukrainian Interpipe Corp had submitted the "better" bid. Interpipe offered \$117 million for Chiaturmanganumi/Vartsikhe and pledged to invest \$60 million into the enterprises within three years. Interpipe Corp was owned by Viktor Pinchuk, the son-in-law of former Ukrainian President, Vladimir Kuchma.<sup>348</sup>

Georgian officials, including State Minister for Economic Reform at the time, Kakha Bendukidze, a former economy minister, said they decided against Interpipe because the Ukrainian company had allegedly urged the government to also let it take control of Zestaponi Ferro-Alloy Plant, a property owned by DCM-Ferro. In response to Bendukidze's accusation of "banditry," Interpipe has

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<sup>347</sup> Ibid

<sup>348</sup> Interpipe Talks about Incorrect Privatisation. Civil Georgia. January 19, 2005  
<http://www.civil.ge/geo/article.php?id=8636>

charged that Georgia's privatization campaign is "a vague process with no rules."<sup>349</sup>

“Until 6 PM on January 18, we knew that Interpipe and Russian Evrazholding were leaders (in the bid), but a half an hour later, Prime Minister Zurab Zhvania informed the public about the submission of a new proposal. After this, we refused to participate in such a privatization process. ... Unlike other companies that only included prices in their proposals, we presented a detailed plan. We were proposing USD 117 million for Chiaturmanganese, and were ready to pay USD 20 million for Ferroalloy Plant, but our proposals were rejected,” said Interpipe’s chairman of the supervisory board, Igor Jaroslavtsev.<sup>350</sup>

David Gamkrelidze, ex-leader of the New Rights Party accused Bendukidze, an oligarch who made his fortune in Russia, of

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<sup>349</sup> Georgia Votes in New Government. John Mackedon Eurasianet  
<http://www.eurasianet.org/departments/insight/articles/eav021705.shtml> Accessed on 04/12/2012

<sup>350</sup> Aggressive State Property Privatization Policy. Green Alternative Report p.18  
<http://www.greenalt.org/webmill/data/file/publications/Privatizeba-Eng4.pdf>  
Accessed on 04/12/2012

“transferring this property to his friends and acquaintances in a hasty, illegal and non-transparent way.”<sup>351</sup>

In June 2005, one month before expiration date of the terms of the first installment payment, Evrazholding terminated the agreement, taking a loss of \$18 million. The official version was that after the company signed the contract, it studied the conditions of the installations, decided they were unprofitable and cancelled its agreement. Another version was that Evrazholding had received certain guarantees from Prime Minister Zhvania, but after his death in February 2005, the government refused to reaffirm these guarantees. Yet another account has it that Evrazholding was required to cover Chiaturmanganese’s debts, a condition that was not included into the initial agreement.<sup>352</sup>

While Interpipe and Evrazholding were competing over the tender, the Ministry of Finance of Georgia, a major creditor of Chiaturmanganese, filed for the company’s bankruptcy on January 6, 2005, making it legally impossible for Chiaturmanganese to dispose of its property. Its creditors were requested to bring their claims

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<sup>351</sup> Georgia Votes in New Government. John Mackedon Eurasianet  
<http://www.eurasianet.org/departments/insight/articles/eav021705.shtml> Accessed 04/12/2012

<sup>352</sup> Aggressive State Property Privatization Policy. Green Alternative Report p.19  
<http://www.greenalt.org/webmill/data/file/publications/Privatizeba-Eng4.pdf>  
Accessed 04/12/2012

against the enterprise to court, but for some strange reason most of the creditors never arrived at court on the the given day, leaving the NGO, Green Alternative, who has been monitoring the privatization process to believe the creditors had never been properly notified.<sup>353</sup> Some of these people went on a hunger strike in front of the State Chancellery demanding payment of their claims. Meanwhile, the President issued two loans to Chiaturmanganese. The first was on December 29, 2005, one week before the Ministry of Finance filed the bankruptcy the claim. This was for GEL 938 000 (\$556 200) on a 6-month term against an annual interest rate of 0.5%, which the president extended for an additional 4 months. Then on February 15, 2006, the bankrupt JSC Chiaturmanganese was given 2.5 million GEL (\$1,4824 million) from the Georgian Government reserve fund against annual interest rate of 6.2%.<sup>354</sup>

After the 2005 Evrazholding fiasco, the government decided to sell Vartsikhe HPPs Cascade directly to Stemcor, the world's largest independent steel trader. It soon acquired 96.3% of the shares of Zestaponi Ferroalloy Plant.<sup>355</sup> The Ministry of Environmental Protection and Natural Resources of Georgia held an auction for the natural resources and the manganese deposits of Chiatura and the company's assets. Georgian Manganese Holding Limited (Stemcor

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<sup>353</sup> Ibid p.26

<sup>354</sup> Ibid p.26

<sup>355</sup> ibid

subsidiary company), the only bidder, paid \$5.5 million for the license and \$14, 015 million for JSC Chiaturmanganese on November 11, 2006.<sup>356</sup>

## Madneuli

On the Georgian National Investment Agency website, JSC Madneuli, a gold and copper mine, is a success story example of why people should invest in Georgia. But if people knew the real story, they might think otherwise.

Back when the Madneuli mining and beneficiation complex was being transformed into a state-owned joint stock company (JSC) in 1994, Koba Nakopia, a small-time businessman in metals, was waxing a connection with Sergei Generalov, one of the richest men in Russia. Between 2000-2001, Nakopia was vice president of Generalov's Promishlenie Investori. In 2004 he received a phone call in Moscow from Kakha Bendukidze, who was the minister of economy then. In an interview with Liberali magazine, Nakopia says Bendukidze invited him to Georgia and offered him the directorship of Chiaturmanganese or Madneuli.<sup>357</sup>

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<sup>356</sup> Ibid p.27

<sup>357</sup> Madneuli - Cheap Treasure Liberali.ge  
<http://www.liberali.ge/ge/liberali/articles/113284/> Accessed on 04/12/2012

Nakopia became director of Madneuli in October, 2004, one year before it was privatized. Of the 21 companies initially interested in the tender, only two ended up fighting for it - Stanton Equities Corporation, which was owned by Generalov, and Energy & Investor Complex (EIC), which was owned by Badri Patarkatsishvili.<sup>358</sup> Stanton won the bid in 2005 with \$32.5million, even though it had underbid EIC by \$900,000. Stanton said it had agreed to additionally pay off Madneuli's \$16 million dollar debt, a condition that was not in the contract. However, buyers typically inherit a company's debts with a sale. The suspicious circumstances of the tender leave Georgian NGO, Green Alternative, which monitored the process, to surmise that the Ministry could have changed competition requirements after unsealing competition proposals.<sup>359</sup>

In 2007, Generalov left Madneuli and was replaced by Simon Polariovkin, who has also been a director of Promishlenie Investori. Nakopia left his director's position when he became a member of parliament in 2008, but he still kept his shares in the company. He also decided to get involved in the Hollywood film industry and reportedly bankrolled much of the \$20 million financial flop, "5 Days of War," a pro-Georgia account of the 2008 war with Russia, co-

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<sup>358</sup> Ibid

<sup>359</sup> Ibid

produced by Mirza Davitaia, who was also a UNM lawmaker.<sup>360</sup> Madneuli has also been a leading financial contributor to the UNM. In the first six months of 2012, several of its executives contributed a total of 240,000 GEL to the party.<sup>361</sup>

In 2009, Stanton was renamed GeoProMining Ltd. Its contract office was listed in Moscow. Rather than invest directly in Madneuli, the company focused more in developing its ventures in Armenia with an overall strategy to invest in the region. In the summer of 2011, the Ministry of Energy and Natural Resources revoked Madneuli's license for not meeting its contract obligations and put it up for auction. The Caucasus Mountain Group won the tender on October 3rd, 2011, bidding against the "Anglo-Georgian mining company," which would actually become the owner a year later.<sup>362</sup>

The Caucasus Mountain Group was registered on August 30th, 2011, to a geologist who worked for GeoProMining, Jondo

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<sup>360</sup> Seeking Drama In a Conflict That's Still Raw. Eric Pape. The New York Times August 12, 2011 [http://www.nytimes.com/2011/08/14/movies/5-days-of-war-renny-harlin-on-russian-georgian-conflict.html?\\_r=0](http://www.nytimes.com/2011/08/14/movies/5-days-of-war-renny-harlin-on-russian-georgian-conflict.html?_r=0) Accessed on 04/12/2012

<sup>361</sup> Political Party Donations. Civil Georgia <http://www.civil.ge/eng/article.php?id=24907> Accessed on 04/12/2012

<sup>362</sup> Studio GNS report 30/10/11. available at [http://www.youtube.com/watch?feature=player\\_embedded&v=QmSBOji20KM](http://www.youtube.com/watch?feature=player_embedded&v=QmSBOji20KM) Accessed on 04/12/2012

Shubitidze. The 100% shareholder of the Caucasus Mountain Group was Pemptilon Holdings Ltd., a company registered in Cyprus on June 6th, 2011. The registration was prepared by Cyproman, a company that specializes in registering firms off shore to owners who wish to remain anonymous.<sup>363</sup> Cyproman employees, Elena Mikhael Serdibova and Ntina Mousikou, both sat on Pemptilon's board, which appointed Shubitidze general director of Caucasus Mountain Group. Pemptilon intended to register the "Caucasus Mountain Group" on August 15th, one day before the tender was announced publicly, and they also knew the auction was planned on October 3rd, which was supposed to be confidential information.<sup>364</sup>

On June 14, 2012, Rich Metals Group (RMG), a Russian company owned by Dmitri Troitsky and Dmitri Kozhrev bought Madneuli for \$120 million. According to the Georgian registry, Troitsky, who Forbes rated the 94th richest Russian in 2011, had been a member of the Madneuli oversight board.<sup>365</sup> RMG's general director is Dima Kalandadze, who had also been general director of GeoProMining. In 2009, Kalandaze and Nakopia were involved in GeoProMining's controversial buyout of London-based Anil

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<sup>363</sup> Cyproman Services Ltd Website <http://www.cyproman.com.cy/> Accessed on 04/12/2012

<sup>364</sup> Ibid

<sup>365</sup> New Owners of Madneuli and Kvartsiti From Russia. [Netgazeti.ge](http://netgazeti.ge/GE/105/business/10373/) <http://netgazeti.ge/GE/105/business/10373/> Accessed on 12/12/2012

Agarwal, in Lake Sevan, Armenia, which had environmentalists in an uproar.<sup>366</sup>

There is reason to believe that the Caucasus Mining Group may have exclusively benefitted from another tender on February 29, 2012, when the Ministry of Energy and Natural Resources held an auction for a 27 year extraction license for gold, copper and other precious minerals. The starting price was 110 million GEL, quite a nominal sum for mining a territory that accounts for most - if not all - of Georgia's gold and copper exports (3.9 & 5% of Georgia's total exports in 2011). Georgia exported \$110 million of gold and \$85 million in copper in 2011 alone.<sup>367</sup> Yet, only one company participated in an auction that lasted one minute.<sup>368</sup> LLC Mining Investments was awarded the license for 500,000 GEL above the starting price. The company was registered just two weeks before the

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<sup>366</sup> Armenia: Trying to Find a Balance Between Economic Need and Environmental Responsibility. Gayane Abrahamyan. Eurasia.net  
<http://www.eurasianet.org/departments/insightb/articles/eav060309a.shtml>  
Accessed on 04/12/2012

<sup>367</sup> "Attend the largest mining auction in Georgian history!" Transparency International Georgia <http://transparency.ge/en/blog/attend-largest-mining-auction-georgian-history-0> Accessed on 04/12/2012

<sup>368</sup> Mining Auction Fails to Attract Major Investors Transparency International Georgia. <http://www.transparency.ge/en/blog/mining-auction-fails-attract-major-investors> Accessed on 04/12/2012

auction was announced. Alvydas Brusokas, a Lithuanian citizen, is the sole owner and director of the company. His legal address, Gudiashvili Square 4, Tbilisi, is also the address of the law firm, BLC. Transparency International Georgia, which had monitored the auction, recognized a gentleman who they believed represented LLC Mining Investments, to also be a representative of GeoProMining<sup>369</sup>.

While the privatization of Chiaturmanganese and Madneuli raise ethical questions regarding transfer of ownership, the operation of the Tkibuli coal mines concern issues of a more corporeal nature.

Tkibuli is a derelict post-Soviet industrial town that hit the skids after the fall of communism when all 9 of its mines closed. Locals claim its unemployment rate to be between 50-60%.<sup>370</sup> In 2006, Saqnakhshiri a daughter company of Georgian Industrial Group (GIG), began extracting coal from one of the mines. GIG is one of the largest holding companies in Georgia, founded by lawmaker from the UNM, Davit Bezhuashvili, whose brother, Gela, was the chief of the Georgian intelligence service.<sup>371</sup>

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<sup>369</sup> Ibid

<sup>370</sup> Tkibuli, development, hitchhiking, more. Personal Blog <http://yelenashuster.wordpress.com/2010/08/22/tkibuli-development-hitchhiking-more/> Accessed on 04/12/2012

<sup>371</sup> Draft Law Limits Offshore Ownership of Broadcasters <http://www.civil.ge/eng/article.php?id=22843> Accessed on 04/12/2012

When one miner died and three others were injured in a barrier collapse in December 2009, there was no reason to believe it was nothing more than a tragic accident typical of the coal mining profession. Work related deaths are not uncommon in Georgia. 403 people died at work and 193 were injured in 2009, while in the first four months of 2010 130 died at the workplace.<sup>372</sup> The interior ministry has since stopped publishing workplace fatality data.<sup>373</sup>

In March 2010, a methane gas explosion in the same mine killed four miners and injured one. An official investigation ruled the miners were to blame for violating safety rules, which led to their deaths. The Georgian Trade Unions Confederation, however, countered it was the operator company that should have ensured safety norms are followed and that the explosion was attributed to faulty ventilation systems, which the operator denied.<sup>374</sup>

Five months later, in August, another explosion in the same mine killed four miners and injured six others. This time, President

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<sup>372</sup> Investigation about Labor protection in Georgia Mariam Nikuradze Buka Shubladze News Agency 25/7 Friedrich ebert foundation (2010) <http://www.scribd.com/doc/54426652/Labor-Protection-in-Georgia> Accessed on 04/12/2012

<sup>373</sup> Georgia stopped publishing statistics on work place deaths. Mari Nikuradze. Democracy and Freedom Watch <http://dfwatch.net/georgia-stopped-publishing-statistics-on-work-place-deaths-34372> Accessed on 04/12/2012

<sup>374</sup> Miner's Deaths. Studio monitor Report. Available at <https://www.youtube.com/watch?v=mS9Kxn28Chg> Accessed on 05/12/2012

Saakashvili arrived to the site and told the miners that ventilation systems had been installed, but the problem was that there was an absence of discipline; that miners should be given a list of safety rules that they should "repeat like a mantra" before entering the mine. But Levan Qurcikidze, a miner who received 3rd degree burns on much of his body from the explosion said the foremen did not have the proper safety mechanisms in place.<sup>375</sup>

When another man died in an explosion in the same mine on January 21st, 2010, authorities stopped blaming the miners for their deaths. The next day, Saakashvili said that he had discovered there was evidence suggesting the previous blast was the result of "criminal wrongdoing by the coal mine's top management, who turned off ventilation system to save money at the expense of the lives of employees." On January 26th, police arrested two low level managers, Edem Sturua and Giorgi Devdariani for violating safety norms. Miners then engaged in an open-ended strike on 2 February to protest their arrest and the company's safety inadequacies.<sup>376</sup>

On September 9th, 2011, another miner died, although this was the result of a blasting operation mishap.<sup>377</sup> On November 24th,

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<sup>375</sup> Ibid

<sup>376</sup> Coal Miners on Strike in Tkibuli <http://www.civil.ge/eng/article.php?id=23105>  
Accessed on 04/12/2012

<sup>377</sup> One Dies in Mining Accident in Tkibuli Civil.ge  
<http://www.civil.ge/eng/article.php?id=23917> Accessed on 04/12/2012

2011, two men died in a shaft collapse. After the deaths of 17 miners in two years, a joint labor-management safety committee was finally established for better process control of safety and labor protection systems.<sup>378</sup>

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<sup>378</sup> Deaths Continue To Plague Georgia's Tkibuli-Mindeli Coal Mine 19 December 2011 ICEM InBrief Georgia <http://pacific.scoop.co.nz/2011/12/report-federation-of-chemical-energy-mining-and-gw-unions-2/> Accessed on 04/12/2012

## POSTSCRIPT

When Georgians went to the polls on October 1st, 2012 to elect a new parliament, nobody expected it would result in the defeat of President Mikheil Saakashvili's United National Movement party. The party's influence over the media, legislature and judiciary was extensive. The country's major television broadcasters routinely smeared opposition leader, billionaire Bidzina Ivanishvili and his Georgian Dream coalition. Laws were quickly passed so that the assets of Ivanishvili and those suspected of supporting him could be seized and stiff penalties could be applied. The UNM virtually monopolized billboard space across the country, while city buses and privately owned minibus lines exclusively displayed ruling party numbers. Yet, this all was not enough to assure victory.

One of the first things Ivanishvili did as Prime Minister was to meet with Georgian business leaders and pledge that his government would not interfere with businesses, except to provide an atmosphere to welcome small and medium-sized businesses.<sup>379</sup> He also expressed concern over "current monopolies in various sectors" particularly, the energy and pharmaceutical sectors and promised to

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<sup>379</sup> Bidzina Ivanishvili: no marriage between politics and business. Nino Edilashvili [georgiatoday.ge](http://www.georgiatoday.ge) [http://www.georgiatoday.ge/article\\_details.php?id=10522](http://www.georgiatoday.ge/article_details.php?id=10522) Accessed on 04/12/2012

institute new, “strict” anti-monopoly laws. The next day, Wissol cut its gasoline prices by 8 tetri.<sup>380</sup>

The Ivanishvili victory has also motivated people who have property claims against the government to line up at the prosecutor’s office to sue to get their property back. The problem they face now is overwhelming a court system stretched to the limits reviewing criminal cases and petitions to reopen cases as Ivanishvili’s team moves to right the wrongs of the previous administration.

Meanwhile, major changes have been happening to the television landscape. On October 3rd, Media Georgia LCC<sup>381</sup> and Georgian Media Company LCC<sup>382</sup> were registered at the public registry; both owned by David Kezerashvili. The next day, Levan Karamanishvili sold 40% of his Rustavi 2 shares to Media Georgia for \$500,000 and 40% of his Mze TV to Georgian Media Company for \$250,000. Giorgi Pruidze, head of the marketing service of Tabula magazine is the director of both companies. The editor in chief of

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<sup>380</sup> High expectations about low prices. Rusiko Machaidze. Democracy and Freedom Watch <http://dfwatch.net/high-expectations-about-low-prices-79776> Accessed on 04/12/2012

<sup>381</sup> Public Registry. Ministry of Justice of Georgia 03/10/2012 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=461345&app\\_id=536517](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=461345&app_id=536517) Accessed 12/12/2012

<sup>382</sup> Public Registry. Ministry of Justice of Georgia 03/10/2012 [https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=461349&app\\_id=536522](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=461349&app_id=536522) Accessed 12/12/2012

Tabula is Tamar Chergoleishvili, wife of Giga Bokeria, the Secretary of the National Security Council. Giorgi Gegeshidze retained his 10% shares in both<sup>383</sup>.

5 days later, Kezerashvili sold his Rustavi 2 and Mze shares to Giorgi Karamanishvili, a friend of President Saakashvili, for the same prices he had bought them for.<sup>384</sup> Giorgi Karamanishvili is also Rezo Sharangia's brother-in-law and business partner;<sup>385</sup> both are representatives and members of the board of the offshore-registered companies Watertrail Industries<sup>386</sup>, Delgado Resources<sup>387</sup> and

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<sup>383</sup> Public Registry. Ministry of Justice of Georgia 06/12/2011

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=349850&app\\_id=403819](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=349850&app_id=403819) Accessed 05/12/2012

and 06/12/2011

[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=349854&app\\_id=403823](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=349854&app_id=403823) Accessed 05/12/2012

<sup>384</sup> Kezerashvili has sold Rustavi2 and Mze shares. Netgazeti.ge

<http://netgazeti.ge/GE/105/News/13773/> Accessed on 05/12/2012

<sup>385</sup> Beyond the Facade of Rehabilitation. Georgian young Lawyers Association Report p. 65 <http://goo.gl/eWySk> Accessed on 05/12/2012

<sup>386</sup> Public Registry. Ministry of Justice of Georgia p.10

[https://enreg.reestri.gov.ge/main.php?c=app&m=view\\_doc&doc\\_id=82829](https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=82829) Accessed 05/12/2012

<sup>387</sup> Ibid

Investico Alliance, which owns Beeline (Mobitel LLC) communication company.<sup>388</sup>

While Rustavi 2 was passing through friendly hands, Davit Dvali and Jarji Akimidze, two of its founding owners who claim to have been forced to surrender control of the station, stated their intentions of suing for their original shares back.<sup>389</sup> The subsequent owner, Kibar Khalvashi, also announced his intention to retrieve the 78% of Rustavi 2's shares he says the government took from him<sup>390</sup>. Vano Chkhartishvili, a former co-owner of Mze TV is also seeking the return of control to Mze, which he says was illegally taken from him. On October 9th, the small local TV station, Guria TV, was reportedly handed to him.<sup>391</sup>

On November 15th, former Minister of Justice and Minister of Education and Science, Nika Gvaramia, became director general of

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<sup>388</sup> ibid p.4

<sup>389</sup> Rustavi 2 Former Owners to Start Legal Fight to Get TV Company Back. Media.ge <http://www.media.ge/en/stories/rustavi2formerownerstost> Accessed on 04/12/2012

<sup>390</sup> Kibar Khalvashi Hopes to Return 78% Share in "Rusatvi 2" and "Mze" TV Companies. Commersant.ge <http://www.commersant.ge/eng/?id=3272> Accessed on 04/12/2012

<sup>391</sup> After elections, TV stations reposition themselves and change ownership. Transparency International Georgia. <http://transparency.ge/en/blog/after-elections-tv-stations-reposition-themselves> Accessed on 04/12/2012

Rustavi-2, replacing Giorgi Gegeshidze,<sup>392</sup> who now owns 9% the TV channel's shares<sup>393</sup>. 91% of Rustavi 2's shares is owned, directly and indirectly, by Levan Karamanishvili and Giorgi Karamanishvili. They both own 40% of shares directly and 51% of shares through their TV Company, Sakartvelo<sup>394</sup>, an entertainment channel with ties to the Ministry of Defense.<sup>395</sup>

On October 12, the GNCC approved the transfer of Sakartvelo's broadcasting licenses to the Civic Education Foundation, publisher of Tabula.<sup>396</sup> Sakartvelo itself has not changed ownership (yet), and no information about any payments has been made public. Tamar Chergoleishvili stated that former economy minister, Kakha Bendukidze will be one of the station's founders. Chergoleishvili

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<sup>392</sup> Ex-Govt Member Becomes Head of Rustavi 2 TV  
<http://www.civil.ge/eng/article.php?id=25453> Accessed on 04/12/2012

<sup>393</sup> Public Registry. Ministry of Justice of Georgia 16/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=473933&app\\_id=549531](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=473933&app_id=549531) Accessed 05/12/2012

<sup>394</sup> Ibid

<sup>395</sup> Why Was News Program of TV-Company "Sakartvelo" Closed? Ana Sheshaberidze Humanrights.ge  
<http://www.humanrights.ge/index.php?a=main&pid=8154&lang=eng> Accessed on 04/12/2012

<sup>396</sup> License of TV Company Sakartvelo Handed Over to Civic Education Foundation  
[http://gncc.ge/index.php?lang\\_id=ENG&sec\\_id=110&info\\_id=113161](http://gncc.ge/index.php?lang_id=ENG&sec_id=110&info_id=113161) Accessed on 04/12/2012

noted, “We have a defined ideology,” in reference to the libertarian views Tabula champions.<sup>397</sup>

On October 15th, the outgoing Saakashvili administration granted a partial tax amnesty for broadcasters 27 months after writing off a 36 million GEL total debt for TV stations.<sup>398</sup> Rustavi 2 and Imedi TV would be the greatest beneficiaries of the amnesty. In July 2012, Imedi had a 13.9 million GEL tax debt and Rustavi 2 had a 3.53 million debt<sup>399</sup>. The next day, Imedi TV was transferred back to the Patarkatsishvili family.<sup>400</sup>

On October 18th, Ina Gudavadze, widow of Badri Patarkatsishvili, bought Georgian Media Production Group<sup>401</sup> from Giorgi Arveladze, Giorgi Korakhashvili and Giorgi Mikeladze for 3 GEL. Imedi announced it would change its format and become a

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<sup>397</sup> TV Sakartvelo becomes TV Tabula. Democracy and Freedom Watch.  
<http://dfwatch.net/tv-sakartvelo-becomes-tv-tabula-50376> Accessed on 05/12/2012

<sup>398</sup> New tax amnesty for TV stations. Transparency International Georgia.  
<http://transparency.ge/en/post/general-announcement/new-tax-amnesty-tv-stati>  
Accessed on 12/12/2012

<sup>399</sup> *ibid*

<sup>400</sup> Tax Amnesty for Georgian TV Channels: A Subsidy for Pro-Government Reporting? <http://transparency.ge/en/blog/ptax-amnesty-georgian-tv-channels-subsidy-pro-government-reportingp> Accessed on 05/12/2012

<sup>401</sup> Ina Gudavadze returned Imedi for GEL 3. Media.ge  
<http://www.media.ge/en/stories/inagudavadzereturnedimed> Accessed on 05/12/2012

news channel. Much of Imedi's staff were dismissed or quit. Revaz Sakevarishvili, former editor of Forbes Georgia, was appointed director of Imedi. In March 2012, Sakevarishvili resigned from Forbes in an effort to protest political pressure and censorship he encountered after publishing an interview with Bidzina Ivanishvili.<sup>402</sup>

On October 5, Maestro TV and Global TV were informed that 38,000 and 100,000 satellite dishes, which authorities had illegally seized from the two companies over vote buying and illegal party financing allegations, would be returned. The prosecutor's office lifted the seizure following a decision by the Tbilisi City Court on October 2, the day after the elections.<sup>403</sup>

On October 9th, the Georgian Public Broadcaster (GPB) Channel 1 cancelled two current affairs talk shows and fired the editorial staff. Controversy around GPB intensified after employees of Kanal PIK, the GPB's Russian language news channel, aired a silent protest in a newscast on October 15th, after the station's signal had recently been yanked off the Hotbird satellite. They demanded to know whether the station would be shut down, why they hadn't

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<sup>402</sup> Forbes editor takes over Georgian TV station. <http://dfwatch.net/forbes-editor-takes-over-georgian-tv-station-70027> Accessed on 04/12/2012

<sup>403</sup> Maestro and Global TV-owned Satellite Dish Antennas Unseized. Media.Ge <http://www.media.ge/en/stories/maestroandglobaltvowned> Accessed on 04/12/2012

been paid their salaries, why had the station's budget been spent early, and where did that money go. PIK was subsequently shut down. On November 15th, the Georgian Revenue Service launched a probe to find out why the GPB accumulated a GEL 3.8 million in unpaid taxes. Lawmakers from the UNM complained the probe was an attempt to pressure the GPB, while Georgia's finance minister stated he has a right to learn why the station has not been able to pay its debt.<sup>404</sup>

On November 26th, former UNM lawmaker, Koba Bekauri levelled serious allegations on Maestro TV that the 2005 arrest of 202 TV owner, Shalva Ramishvili, was masterminded by members of the government members in advance, including interior minister Vano Merabishvili, justice minister Zurab Adeishvili and chief of the constitutional security force, Dato Akhalaia. He stated President Saakashvili was personally interested in getting the TV company off the air.<sup>405</sup> To date, no charges have been filed.

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<sup>404</sup> Revenue Service Launches Public TV Tax Probe. Civil.ge  
<http://civil.ge/eng/article.php?id=25426> Accessed on 04/12/2012

<sup>405</sup> Koba Bekauri: Shalva Ramishvili's Case Masterminded by Adeishvili and Merabishvili. Media.ge <http://www.media.ge/en/stories/kobabekaurishalvaramishv>  
Accessed 04/12/2012

TV 9, which is essentially Prime Minister Bidzina Ivanishvili's wife's company<sup>406</sup>, started terrestrial broadcasting on October 8, 2012 on Stereo+'s frequency and technical infrastructure, even though it appears to lack the general analogue broadcasting license required for such broadcasting. This would mean it is broadcasting illegally. Earlier this year, the GNCC fined TV9 for a similar violation.<sup>407</sup> On October 16, the GNCC stated Stereo+ was facing a 10,000 GEL fine for an illegal transmission.<sup>408</sup> Georgian broadcasting regulations ban political parties and public officials from holding broadcasting licenses, but this ban does not extend to their immediate family members.

As the television landscape settles we can expect to see more of the same kind of polarized news broadcasting that defines Georgia's concept of media freedom. Rustavi-2 and Sakartvelo TV/Tabula, firmly owned by friends of Mikheil Saakashvili, will likely focus on unbalanced coverage of the Georgian Dream. Prime Time, a weekly broadsheet with ties to United National Movement officials, has said

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<sup>406</sup> Public Registry. Ministry of Justice of Georgia 16/01/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=369086&app\\_id=425615](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=369086&app_id=425615) Accessed 05/12/2012

<sup>407</sup> Stereo+ was imposed sanction. Georgian National Communication Commission  
[http://gncc.ge/index.php?lang\\_id=ENG&sec\\_id=110&info\\_id=112609](http://gncc.ge/index.php?lang_id=ENG&sec_id=110&info_id=112609) Accessed on 05/12/2012

<sup>408</sup> Stereo + to Face GEL 10,000 Penalty for Transmitting TV 9 Signal. Media.Ge  
<http://www.media.ge/en/stories/stereotofacegel10000pena> Accessed on 05/12/2012

that it plans to focus more on political coverage and will provide space for investigative reporting. Investigative reporting had been absent from pro-UNM stations under the previous administration. Meanwhile, Ivanishvili friendly stations, like his wife's TV9, will stress the excesses of the former government and successes of the new.

Much of the business community supports Ivanishvili. They see him as a self-made billionaire who understands that governments are not supposed to dictate to businesses. In this regard, they no longer fear visits from the tax police as a means for manipulation. Ivanishvili's plan to introduce anti-monopoly laws means there will be more competitive markets and further reasons why foreign investors should be attracted to Georgia. Yet, there are also concerns. The rash of arrests of members of Saakashvili's administration are considered by many to be political retribution and there is fear this will destabilize the economy and keep investors away. Ivanishvili's inability to confront a wave of nation-wide strikes after elections has also sent negative signals to the international business community. Furthermore, the government's intention to amend the labor code is considered a dangerous move, as business leaders see the relaxed code as an incentive for investment. "It's not the code

that's the problem, it's the way it was enforced that was the problem," Asly Fady says.<sup>409</sup>

The business climate is indeed changing as I type. Just how far, or how much, remains to be seen. For me, the barometer will be a couple years down the road, when we see new Georgia-made products on the shelves and we'll be able to pick them up without being reminded what minister is the real owner. And for the record, Barambo chocolate is does not belong to David Kezarishvili. Before parliamentary elections, it was owned by Nikoloz Shakharishvili, Iago Choceli and Lukhum Kapanadze,<sup>410</sup> who we have seen is close to Vano Merabishvili. After elections, it seems Iago and Lukhum were quick to pass their shares to relatives, or people who coincidentally share the same family names (Mari Choceli and Ucha Kapanadze), while Nikoloz kept his shares<sup>411</sup>. The reader may be tempted to call it "Vano chocolate," but please don't.

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<sup>409</sup> Author's interview with Fady Asly, Chairman of International Chamber of Commerce. conducted on 10/11/2012

<sup>410</sup> Public Registry. Ministry of Justice of Georgia 17/09/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=457084&app\\_id=531600](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=457084&app_id=531600) Accessed 13/12/2012

<sup>411</sup> Public Registry. Ministry of Justice of Georgia 20/11/2012  
[https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get\\_output\\_by\\_id&scandoc\\_id=474696&app\\_id=550532](https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=474696&app_id=550532) Accessed 05/12/2012