



Fuel Market in Georgia

September 2015

თბილისი / Tbilisi

რუსთაველის გამზ. 26, III სართ. , 0108
ტელ.: +(995 32)292 14 03
ფაქსი: +(995 32) 292 02 51
ელ-ფოსტა: info@transparency.ge

26 Rustaveli Ave.III floor, 0108
Tel: +(995 32)292 14 03
Fax: +(995 32) 292 02 51
E-mail: info@transparency.ge

ბათუმი / Batumi

26 მაისის ქ. 36/ჯინჯარაძის 10, 6010
ტელ./ფაქსი: +(995 422) 29 44 88
ელ-ფოსტა: info@transparency.ge

36, 26 May Str./10 Jincharadze str. 6010
Tel./Fax: + (995 422) 29 44 88
E-mail: info@transparency.ge

ზუგდიდი / Zugdidi

ცოტნე დადიანის ქ. 3, 2100,
ტელ./ფაქსი: +(995 415) 22 37 20
ელ-ფოსტა: info@transparency.ge

3 Tsothe Dadiani Str., 2100
Tel./Fax.: +(995 415) 22 37 20
E-mail: info@transparency.ge

ქუთაისი / Kutaisi

9 აპრილის ქ. 10, 4600
ტელ./ფაქსი: +(995 431) 29 26 54
ელ-ფოსტა: info@transparency.ge

10, 9 April Str, 4600
Tel./Fax.: +(995 431) 29 26 54
E-mail: info@transparency.ge

Co-author and Research Supervisor: Levan Natroshvili

Author: Mariam Chachua

Transparency International Georgia

Address: 26 Rustaveli Avenue, Tbilisi 0108

Telephone: (+995 32) 292 14 03

E-mail: info@transparency.ge

Web page: <http://transparency.ge>



SWEDEN

The report was prepared with the financial support of the Swedish International Development Cooperation Agency (Sida). All opinions expressed herein belong to Transparency International Georgia and may not express the views of the donor.

Contents

Chapter I. Executive Summary.....	3
Chapter II. Introduction	5
Chapter III. Regulation of the Georgian Fuel Market	6
1. Legislative Framework.....	6
2. Market Supervision	7
2.1. Supervise Competition.....	7
2.2. Observing Quality Norms of Products.....	8
Chapter IV. Georgian Fuel Market Characteristics	10
1. Market Structure.....	10
2. Key Market Players.....	15
2.1. JSC Wissol Petroleum Georgia.....	16
2.2. Sun Petroleum Georgia LLC (Gulf).....	18
2.3. Rompetrol Georgia LLC.....	19
2.4. Socar Georgia Petroleum LLC	20
2.5. Lukoil Georgia LLC	21
3. Public Survey Results.....	22
4. The Dynamics of Fuel Prices.....	25
Chapter V. Conclusion and Recommendations	27

Chapter I. Executive Summary

Transparency International Georgia published its first study on the Georgian fuel market in 2012, covering major trends and problems in this sector up to 2012 and offering recommendations to resolve them. The reporting period of the present study spans 2010-2015. This second study has led to the following key findings:

Market Regulation

- Until 2014, the state enjoyed a rather limited capacity to observe competition. This situation changed considerably on 14 April 2014, when the Competition Agency with increased powers was set up pursuant to the new Law of Georgia on Competition;
- Due to high public interest, on 12 November 2014, the Competition Agency launched an inquiry into the fuel market aimed at finding abuses of market power. In July 2015 the agency completed the study and fined eight companies for breaching competition legislation 55 million GEL in total;
- As for the fuel quality control, legislation of Georgia sets standards that the oil products and natural gas sold on the Georgian market must meet. Nevertheless, there is no quality control mechanism for these products in the country. Further, no adequate sanctions exist for violating the quality controls;
- All fuel in Georgia is imported, which means that quality control starts from the moment it crosses the customs border. Yet, a state quality control mechanism for fuel supplied to wholesale and retail networks is absent, which is a serious gap;
- According to the Levan Samkharauli Forensics Bureau, oil products were examined based on requests of interested parties only. In 2010-2015, 489 samples (petrol and diesel) were examined, 38% (187 samples) of which failed to meet quality norms set by the legislation.

Market Characteristics

- Motor fuel consumed in Georgia is entirely imported and in 2014 was the largest imported good in Georgia in terms of cost. In 2014, 903.2 thousand tons of motor fuel worth 1.415 billion GEL were imported to Georgia;
- In its first study, Transparency International Georgia noted that by 2012, a clear oligopolistic structure had been formed in the fuel market of Georgia. Five companies dominated the market in imports of fuel as well as wholesale and retail trade. Statistical indicators measuring competition confirm these conclusions;
- Given this background, a close eye has been kept on changes in this trend since 2013, particularly when the new government came to power, since ensuring markets are more competitive was one of the promises given by the Georgian Dream Coalition. Statistical data illustrates that competition in this market in 2013-2014 grew slightly, while the market structure is still far from perfect. In 2013 the market share of large enterprises reduced by 2% compared to the previous year, constituting 93%;
- As for other indicators, the number of companies importing motor fuel increased several times in 2013-2014, but is still considerably smaller compared to the years prior to 2008;
- In 2013-2014, the Herfindahl-Hirschman Index declined by approximately 1000 points, compared to 2012. This is progress, but still insufficient. Interestingly, the trend of a declining level of concentration in the fuel market in 2013 did not continued in 2014, resulting in a reduced number of fuel-importing companies and an increase in the Herfindahl-Hirschman Index. Although small-scale, these changes still pose a risk that an oligopoly of this market will persist in the future.

Prices

- Prices in the Georgian fuel market have always drawn public attention and suspicion was voiced concerning a collusive agreement on prices among companies in this sector;

- Because only imported fuel is consumed in Georgia, local prices should be closely linked to the global price of oil. Several conclusions can be drawn by comparing the global price of oil during 2012-2015 and prices of fuel in the Georgian market:
 - Overall, the local fuel price followed the general trend of the global price of oil, but in some cases, changes in global prices were transmitted to the Georgian market several months later. This trend was especially visible during reduction of prices;
 - Prices of fuel of five key players in the Georgian market in last three years have been changing simultaneously.
- Bearing the above facts in mind, the existence of a cartel in the Georgian fuel market cannot be excluded and concerns raised by the Competition Agency towards these companies seem fair.

Public Survey

- To identify current trends in the Georgian fuel market, the Caucasus Research Resources Center (CRRC) conducted a public survey in December 2014, commissioned by Transparency International Georgia. The survey was conducted across Georgia, interviewing total of 1867 adult citizens;
- According to the survey results, 42% of respondents (himself/herself or his/her family) owned a vehicle, majority of which (71%) operated on fuel, while 27% operated on natural gas. Only 16% of respondents consumed diesel;
- Twenty-six percent of respondents purchase fuel from different companies, 20% prefer Wissol's fuel, 17% purchase fuel in Gulf's gas stations, 16% in Rompetrol and 14% in Socar. Lukoil is the least popular among five large companies - only 10% of respondents buy fuel in gas stations of this company;
- In choosing fuel, 50% of respondents give priority to the fuel quality, while 41% base their choice on the fuel price. Moreover, the price of fuel is a priority for respondents with income up to 400 GEL, while the population that has a relatively higher income (over 800 GEL) gives first priority to the quality of the fuel.

Chapter II. Introduction

Fuel prices are very important for competitiveness and the overall performance of any economy. Therefore, it is important to ensure that fuel prices are not high due to anti-competitive practices of companies operating in the market. It is crucial that competition exists in the fuel market.

In August 2012, Transparency International Georgia released a study about competition in the Georgian fuel market, covering major trends and problems in this sector until 2012, and offering recommendations to resolve them. According to the report, limited competition was a major problem in the Georgian fuel market, and five companies operating in the market were most likely pursuing an agreed price policy, while the state did virtually nothing to remedy the situation. The Competition and State Procurement Agency, set up for, *inter alia*, observing competition on the markets, had extremely limited and ineffective powers.¹

Given such dynamics, a close eye has been kept on changes in this trend since 2013 along with coming of the new government in power, since ensuring markets that are more competitive was one of the promises given by the Georgian Dream Coalition.²

The main reporting period of Transparency International Georgia's second study on the Georgian fuel market spans 2010-2015,³ but some data refer to earlier and later periods as well. This period was chosen in order to compare the situation in the previous and current political leadership.

For the purposes of the study, "fuel market" mainly refers to transportation oil products. In addition, some parts of the study also cover compressed natural gas that is consumed by transportation vehicles.

The first part of the study covers regulatory issues of the fuel market in Georgia, including the legislative framework and market supervision over competition and product quality. The second part reviews and analyzes major characteristics of the Georgian fuel market: market structure, key players and the dynamics of price. Further, the results of the public survey on fuel products are also provided. The final part of the study offers specific recommendations for solving the identified problems.

¹ Transparency International Georgia, *Competition Policy in Georgia*, 3 August 2012:

<http://goo.gl/Z88bLV>

² Election bloc Bidzina Ivanishvili - Georgian Dream, *Election Programme*, 12 February 2012:

<http://www.ivot.ge/images/doc/pdfs/ocnebis%20saarchevno%20programa.pdf>

³ Mainly through the first quarter of 2015.

Chapter III. Regulation of the Georgian Fuel Market

1. Legislative Framework

The legislative framework of the Georgian fuel market includes the following statutory acts:

- **The Law of Georgia "on Oil and Gas"**, which has been in effect since 1999 and regulates processing and transporting operations of oil, gas, and oil products in Georgia;
- **The Law of Georgia "on Licenses and Permits"**, which defines the types of licenses required for launching activities in the oil and gas market.

Pursuant to the Law of Georgia "on Licenses and Permits", the following licenses are required for launching operations in the Georgian fuel market:

- Oil processing license;
- Oil transportation license.

The following are required for launching operations in the natural gas market:

- Natural gas distribution license;
- Natural gas transportation license;
- Natural gas processing license.

The Law of Georgia "on Licenses and Permits" sets the following types of licenses to use for using oil and gas resources:

- Special license for exploration of oil and gas;
- Special license for extraction of oil and gas.

The Georgian transport fuel market consists entirely of imported products, the importation of which does not require licensing. Hence, one could conclude that there are no considerable legislative barriers to entering the fuel market.

Under the Tax Code of Georgia, oil products and natural gas are in the excise goods category, and the import of these goods is subject to an excise tax. The amount payable for the import of oil products and natural gas is determined by its weight or volume, and is taxed at different rates.

Name of Fuel	Size Unit	Excise Rate (GEL)
Petrol	1 ton	250
Diesel	1 ton	200
Natural gas (liquefied)	1 000 m ³	80
Natural gas	1 000 m ³	120

The quality of fuel sold in Georgia is among the regulated sectors of the market. Specifically, the ecological characteristics of petrol's quality are regulated by the 31 December 2004 Resolution N124 of the Government of Georgia "on the Quality Norms of Petrol", while the ecological characteristics of diesel's quality are regulated by the 28 December 2005 Resolution N238 of the Government of Georgia "on the Norms of Composition of Diesel Fuel, Methods of Analysis and Implementation Measures". On 1 January 2007, the following types of petrol were established in the country, according to the octane number determined through testing: regular – with an octane number of no less than 91; premium – with an octane number of no less than 95; super – with an octane number of

no less than 98. As for natural gas, its quality is determined by the interstate standard ГOCT 5542-87.⁴

2. Market Supervision

A state usually supervises oil products and natural gas market in two ways: (1) ensure competition in the market; and (2) ensure quality norms of products.

2.1. Supervise Competition

In the first study on fuel products released in 2012, Transparency International Georgia noted there were signs of an oligopolistic structure in this sector in Georgia; therefore, intervention by a competition regulatory authority and an inquiry was necessary.⁵ Because the relevant institutional regulatory framework of competition was annulled in Georgia in 2005 and the competition's regulatory authority in fact did not function, free and fair competition in the market and transparent and non-discriminatory conditions for accessing the market were not secure.

The situation in 2014 changed radically in this respect. Pursuant to the new Law of Georgia "on Competition", the Competition Agency with increased powers was set up on 14 April 2014, replacing the Competition and State Procurement Agency established by Presidential Decree in 2012. Transparency International Georgia was actively involved in the development of these amendments.⁶ The new model is based on practices applied in several European states, such as Germany (Bundeskartellamt), France (Autorite de la Concurrence), Italy (Autorita Garante della Concorrenza e del Mercato), Poland (Urząd Ochrony Konkurencji i Konsumentów), *etc.*

Given the high public interest, on 12 November 2014 the Competition Agency started studying the fuel market in order to establish abuse by firms in dominant positions in the market. The Agency has studied relevant markets based on 2004-2015 data, while examining the processes developing in 2008-2014 in more detail. The 14 July 2015 Order №81 of the Competition Agency's Chairman completed the inquiry into the motor fuel market.⁷

According to the Agency, the inquiry identified breaches of Sub-Paragraphs a, b and c of Article 7.1 of the Law of Georgia "on Competition", because of which relevant economic agents - Lukoil Georgia LLC, JSC Wissol Petroleum Georgia, Rompetrol Georgia LLC, Socar Georgia Petroleum LLC, Sun Petroleum Georgia LLC, Binuli 1 LLC, ETI LLC and L Oil LLC - were fined 55 million GEL in total in view of Article 33 of this Law. Further, 200 GEL fines were imposed on 23 economic agents operating with Lukoil Georgia LLC and Rompetrol Georgia LLC based on franchise/sub-license agreements for the breach of Sub-Paragraph a of Article 7.1 of the Law of Georgia "on Competition".⁸

Respective sub-paragraphs of above-mentioned Article 7.1 refer to the following breaches:

- a) Direct or indirect establishment (fixing) of purchase or sale prices or other trading terms;
- b) Limitation of production, markets, technological development or investments;
- c) Distribution of markets or sources of supply by customers, territorial or some other feature.

Some of fined companies have appealed against sanctions imposed by the Competition Agency and these proceedings are still pending.

⁴ The Georgian National Energy and Water Supply Regulatory Commission, *2014 Report*, pg. 80, 2015: <http://goo.gl/nEbwuX>
Interstate standard ГOCT 5542-87:

http://tech-prom.net/download/GOST_5542-87.pdf

⁵ Transparency International Georgia, *Competition Policy in Georgia*, 3 August 2012:

<http://goo.gl/Z88bLV>

⁶ Transparency International Georgia, *Parliament of Georgia Adopts Anti-Monopoly Reform Bill*, 7 April 2014:

<http://goo.gl/liM4Pg>

⁷ Competition Agency of Georgia, *Information on Results of Inquiry into Motor Fuel (Petrol, Diesel) Product Market*, 28 July 2015:

<http://competition.ge/ge/page4.php?b=283>

⁸ *Ibid.*

2.2. Observing Quality Norms of Products

As noted, Georgian legislation sets standards that oil products and natural gas sold in the Georgian market must meet. Nevertheless, there is no quality control mechanism for these products in the country. Further, no adequate sanctions exist for violating these quality norms. For instance, under Georgian legislation, the concentration of lead in petrol must not exceed 0.005 grams per liter, but a sanction for violating this standard does not exist. A sanction is applied only if the concentration of lead in imported or sold petrol exceeds 0.013 g/l, and pursuant to Article 91² of the Code of Administrative Offences of Georgia, this offence is punishable by a fine ranging from 400 up to 4000 GEL. Due to the fact that violation of the quality norms of petrol not only hampers proper functioning of a vehicle, but also substantially harms the environment and public health, and because of a weak control mechanism, a violation of quality norms has high costs. One can conclude that the described sanction is too low.

Fuel in Georgia is entirely imported, which means that quality control starts from the moment it crosses the customs border. When crossing the customs territory, control of fuel starts by selecting the risk profile using an electronic system,⁹ and then fuel is checked according to the risk profile criteria. If the "Yellow Corridor" is flagged, the quality of fuel is checked based on the quality compliance certificate issued by the exporter country, while in case the "Red Corridor" is flagged, the Customs Department of the Revenue Service takes a sample of the imported fuel products to determine the fuel quality. During fuel imports, the octane number of fuel products, and concentration of benzene, lead and sulphur is checked. Fuel quality norms are not checked if Green or Blue Corridors are flagged.¹⁰

Yet, a state control mechanism for the quality of fuel supplied to wholesale and retail networks is absent, which is a serious gap. Each import company checks the quality individually.

According to the Levan Samkharauli Forensics Bureau, oil products are examined based on requests by interested parties only. In 2010-2015, total of 489 samples (petrol and diesel) were examined, 38% (187 samples) of which failed to meet quality norms set by legislation.

⁹ Under the Revenue Service data, the following risk profile is determined when crossing a customs border:

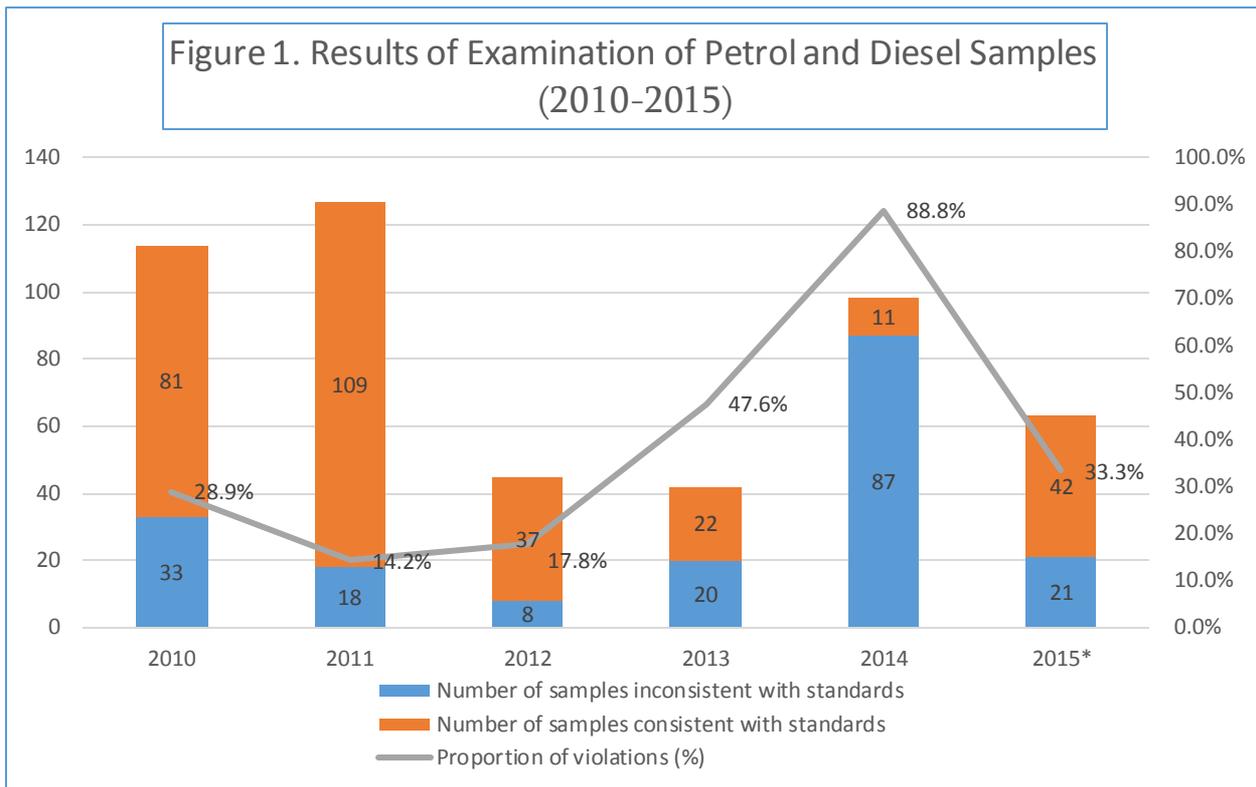
Green Corridor - goods clearance without checking documents and goods inspection;

Blue Corridor - goods clearance without checking documents and goods inspection, with the condition of verifying the value of goods and accuracy of charged taxes after the goods are cleared;

Yellow Corridor - goods clearance by checking documents, without goods inspection;

Red Corridor - goods clearance by checking documents and goods inspection.

¹⁰ Source: the Revenue Service.



2015*: Contains data through July 16

Source: Levan Samkharauli Forensics Bureau

The largest number of requests for establishing quality norms was submitted in the Forensics Bureau in 2010-2011. In addition, the share of samples inconsistent with standards discovered in 2013-2015 in the overall volume of checked fuel has grown. Especially remarkable was 2014, when 89% of the examined samples were inconsistent with standards.

According to the Revenue Service, only one violation was identified in July 2014, when diesel imported from Iraq to Georgia was inconsistent with standards set by the Government Resolution N238. Following the reported violation, the goods were returned to importing country.

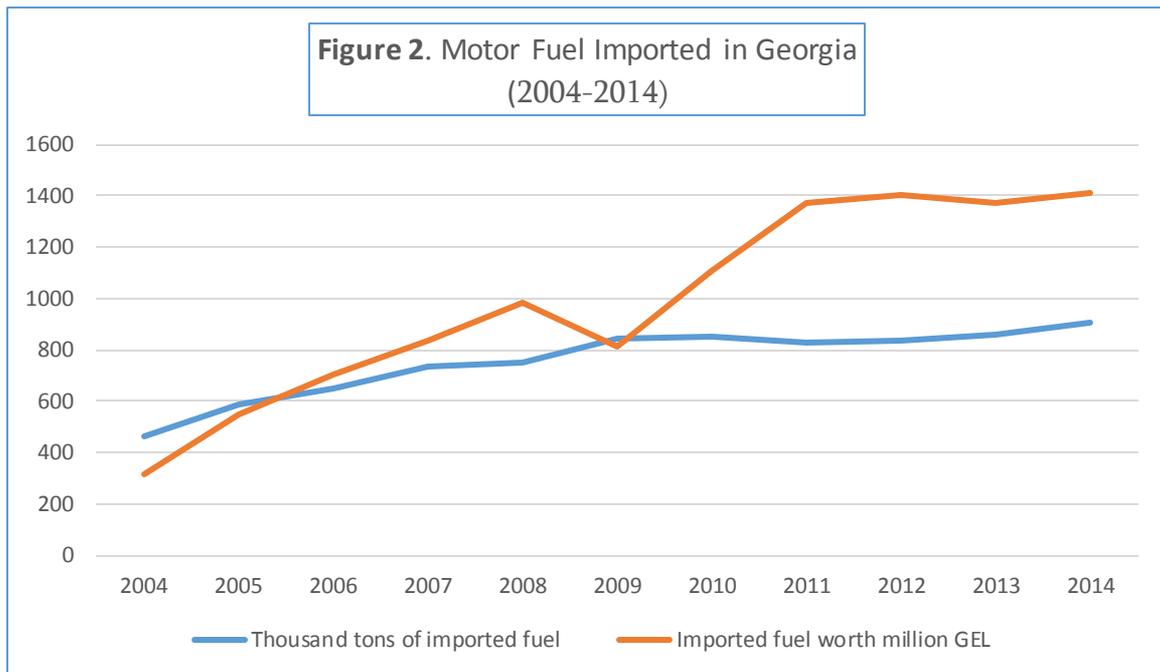
Such a drastic difference between violations identified by the Revenue Service and cases reported by the Forensics Bureau further corroborates the assumption that some portion of fuel sold in Georgia fails to meet quality norms set by legislation. Low-quality fuel harms both the means of transportation and the environment. The exhaust of low-quality fuel harms environment and may cause various diseases.

Further, due to the absence of data on the volume of fuel products sold in Georgia by type, comparing these numbers with the data on imported goods is impossible. This comparison would have made it possible to check the incidence of volume of certain types of fuel products imported and sold on the local market, thus making it clear if low-quality petrol is sold for a relatively higher standard price.

Chapter IV. Georgian Fuel Market Characteristics

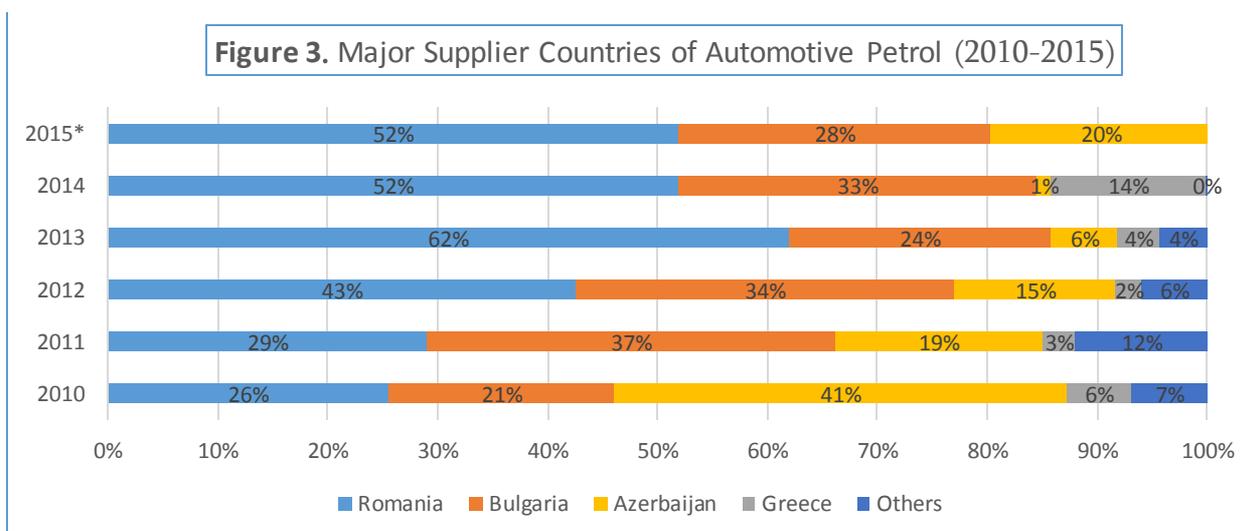
1. Market Structure

In 2014 fuel was the largest imported good in Georgia. A total of 903.2 thousand tons of motor fuel worth 1.415 billion GEL were imported in the country in 2014. As for natural gas, because the import of natural gas is not registered separately for everyday, industrial and transporting purposes, information on the volume and value of natural gas used for means of transport is absent.



Source: Competition Agency¹¹

According to the National Statistics Office of Georgia (GeoStat), in 2010-2015 Bulgaria and Romania were major suppliers of automotive petrol. In 2010-2012, major suppliers of petrol also included Azerbaijan, whose share has reduced since 2013 (see Figure 3).

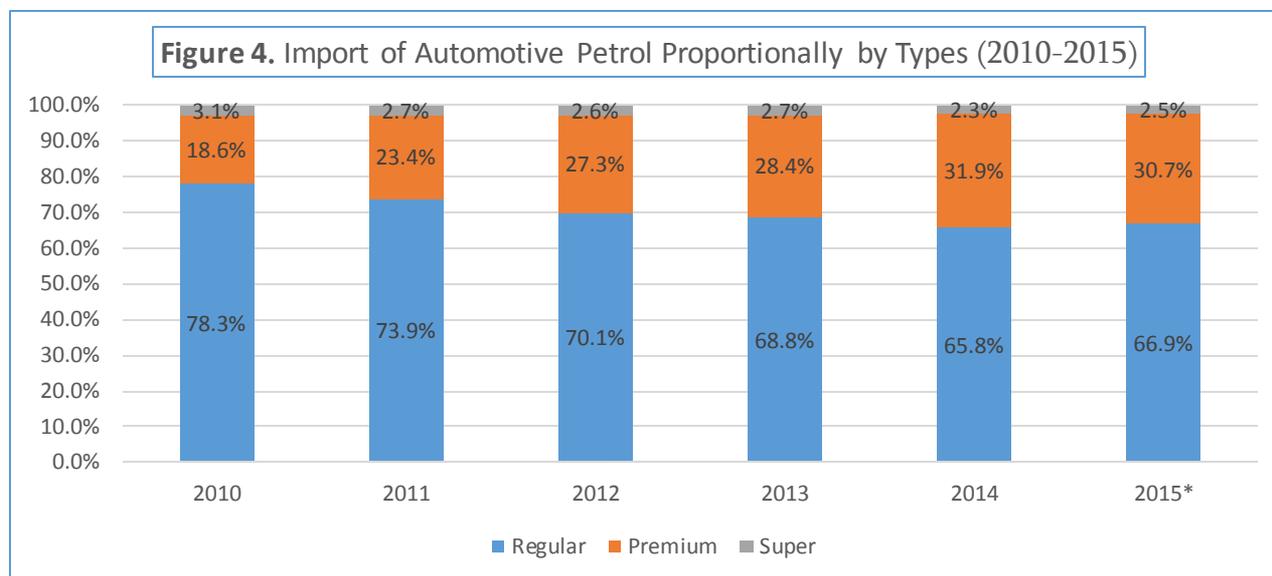


¹¹ Competition Agency of Georgia, *Information on Results of Inquiry into Motor Fuel (Petrol, Diesel) Product Market*, 28 July 2015: <http://competition.ge/ge/page4.php?b=283>

2015*: Contains data of the first quarter

Source: GeoStat

In terms of types of petrol, Figure 4 illustrates that the largest share of imported petrol is the regular type of fuel, however, the graph shows that its share in last five years has decreased by approximately 10%.



2015*: Contains data of the first quarter

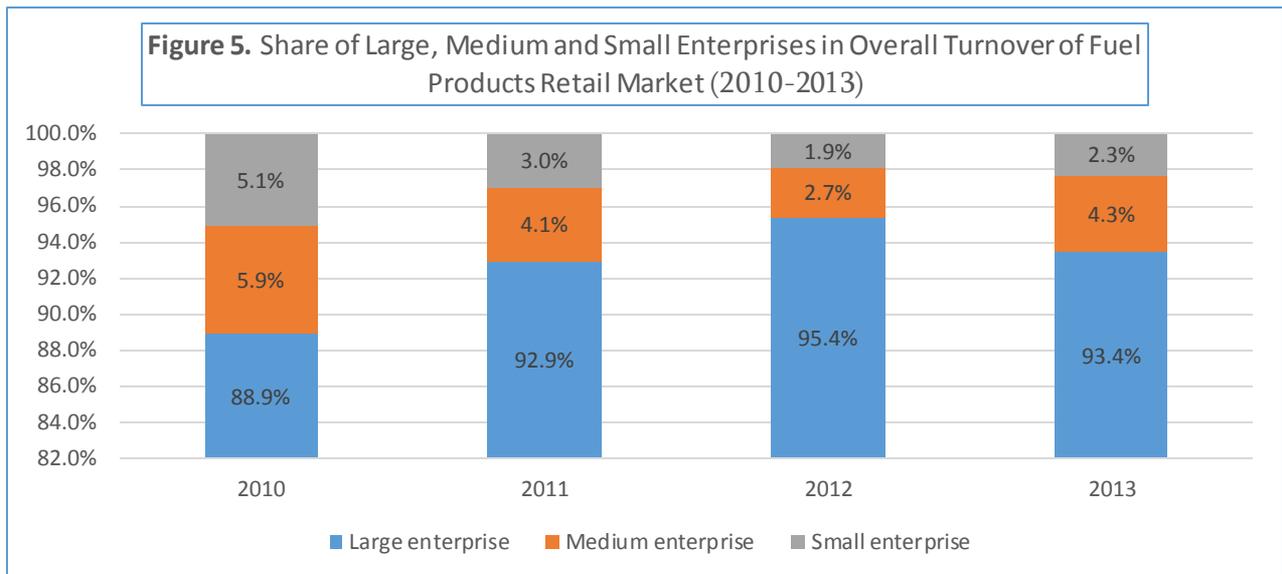
Source: GeoStat

Azerbaijan still remains the major supplier of diesel fuel (but not petrol); according to January-March 2015 data, 50% of diesel transported to the country was imported from Azerbaijan.

In the first study on the fuel market, Transparency International Georgia noted that a few years after the Rose Revolution (2006-2011), the role of large players in this market has increased considerably and competition has decreased. By 2011, five companies dominated the retail and wholesale markets as well as in imports, and 93% of total turnover in this business was done by large companies.¹² The same trend prevailed in 2012, and this indicator even exceeded 95% (see Figure 5).

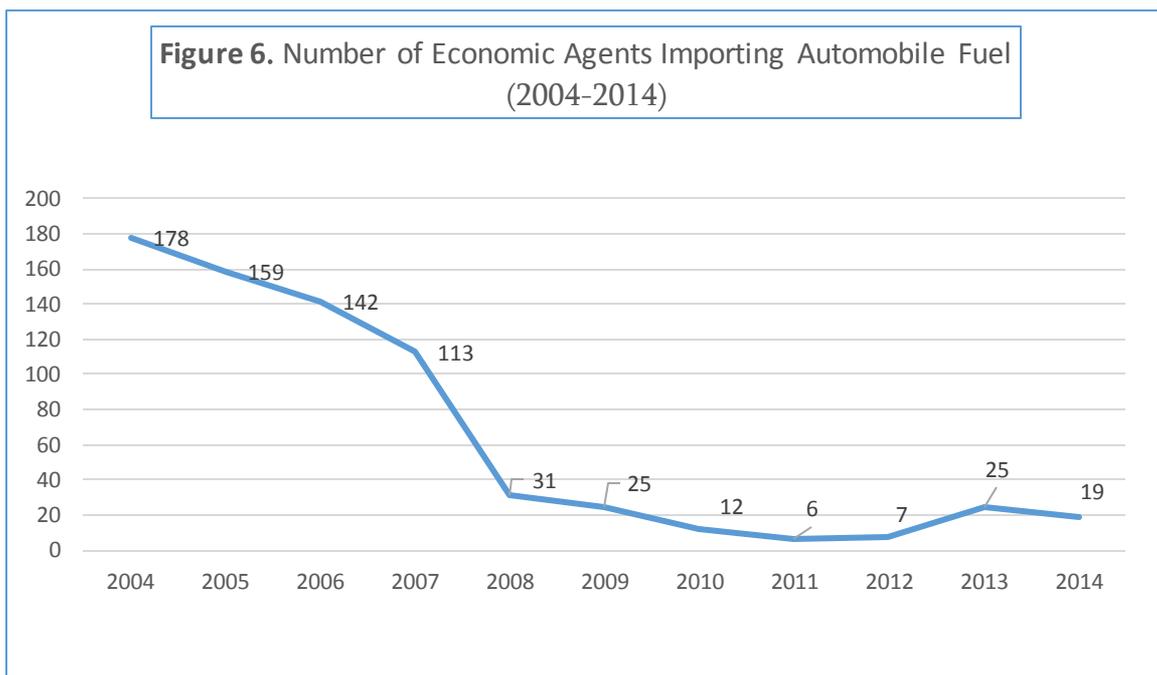
Under the Law of Georgia "on Competition", if the joint share of five key economic agents in a market exceeds 50%, and at the same time each of their shares is not less than 15%, such companies are deemed to be in a dominant position in the market. Because imported goods are consumed in Georgia and the five largest firms are importing over 90% of the fuel, we can assume that an oligopolistic structure has formed in the fuel market. Importantly, the dominant position of oligopolists on the market is a breach of law only when such a position is being abused.

¹² Transparency International Georgia, *Competition Policy in Georgia*, 3 August 2012: <http://goo.gl/Z88bLV>



Source: GeoStat

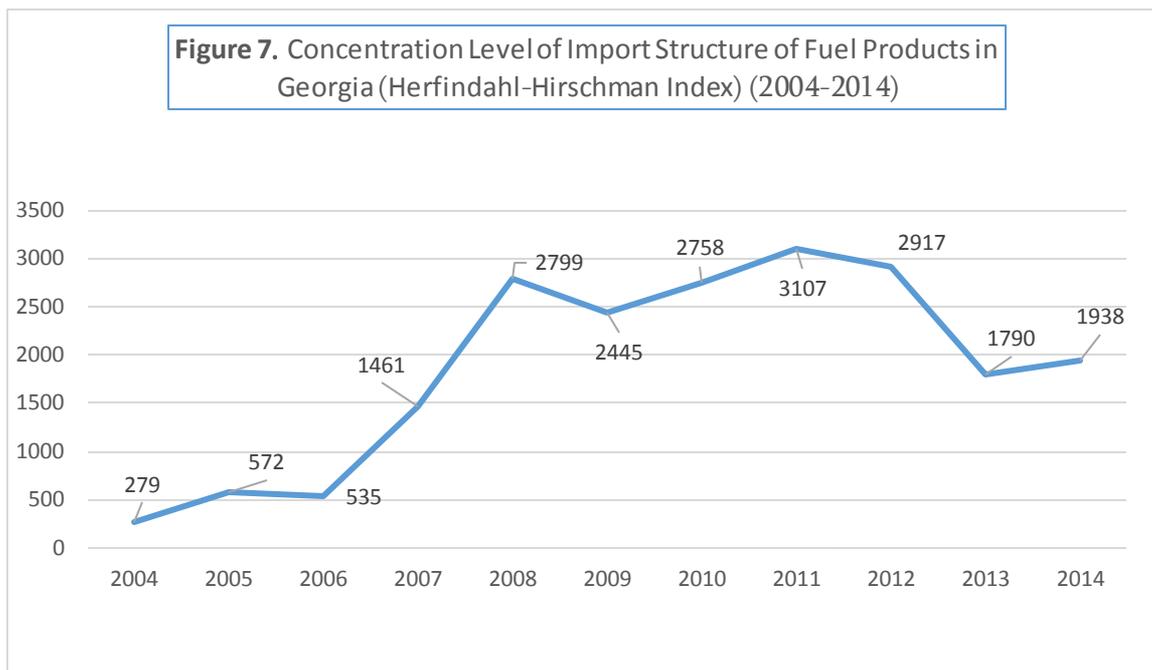
Other indicators measuring competition in the market attest to the same situation. While there were 178 economic agents importing fuel products in the country in 2004, by 2012 there were only seven such agents (see Figure 6).



Source: Competition Agency of Georgia

In addition, the Herfindahl-Hirschman Index¹³ is used to measure concentration in the market, which has increased sharply since 2007, thus limiting competition. Competition in the Georgian market of fuel products was quite high in 2004, attested to by the low Herfindahl-Hirschman Index - 279. In 6-7 years, these data have increased tenfold and the fuel market has become (see Figure 7) highly concentrated (low competition).

¹³ Online dictionary Investopedia: <http://www.investopedia.com/terms/h/hhi.asp?version=v1>



Source: Competition Agency of Georgia

Herfindahl-Hirschman Index	Market Concentration Level
Up to 1500	Low concentration (non-concentrated)
From 1500 up to 2500	Average concentration
Over 2500	High concentration

Source: US Department of Justice¹⁴

Given the background of such negative dynamics, a close eye has been kept on changes in this trend since 2013, particularly with the change in governance, because ensuring more competitive markets was one of the promises made by the "Georgian Dream" Coalition.¹⁵

The statistical data illustrate that competition in this market during 2013-2014 grew slightly, but the market structure is still far from perfect. As demonstrated in Figure 5, the share of large enterprises in total turnover in 2013 declined by 2% compared to the previous year, constituting 93%. The 2014 data are not yet known.

In respect to other indicators, in 2013-2014, the number of companies importing motor fuel increased several times compared to 2012, but was still considerably smaller than before 2008 (see Figure 6).

In 2013-2014, the Herfindahl-Hirschman Index decreased by approximately 1000 points compared to 2012. This is progress, but still insufficient (see Figure 7). Interestingly, the tendency of reduced levels of concentration in the fuel market in 2013 did not continue in 2014, resulting in a reduced number of fuel-importing companies and the growth of the Herfindahl-Hirschman Index. Although small-scale, these changes still pose a risk that an oligopoly of the market will continue into the future.

As for other statistical data unrelated to competition, since 2010 the fuel market grew rather rapidly. In 2011, the turnover of the retail market grew by approximately 48%, while the number of employees grew by 50%. The number of firms operating in the Georgian fuel market declined in 2012, and the market turnover increased by only 1.3% compared to the previous year. Since 2013, the market

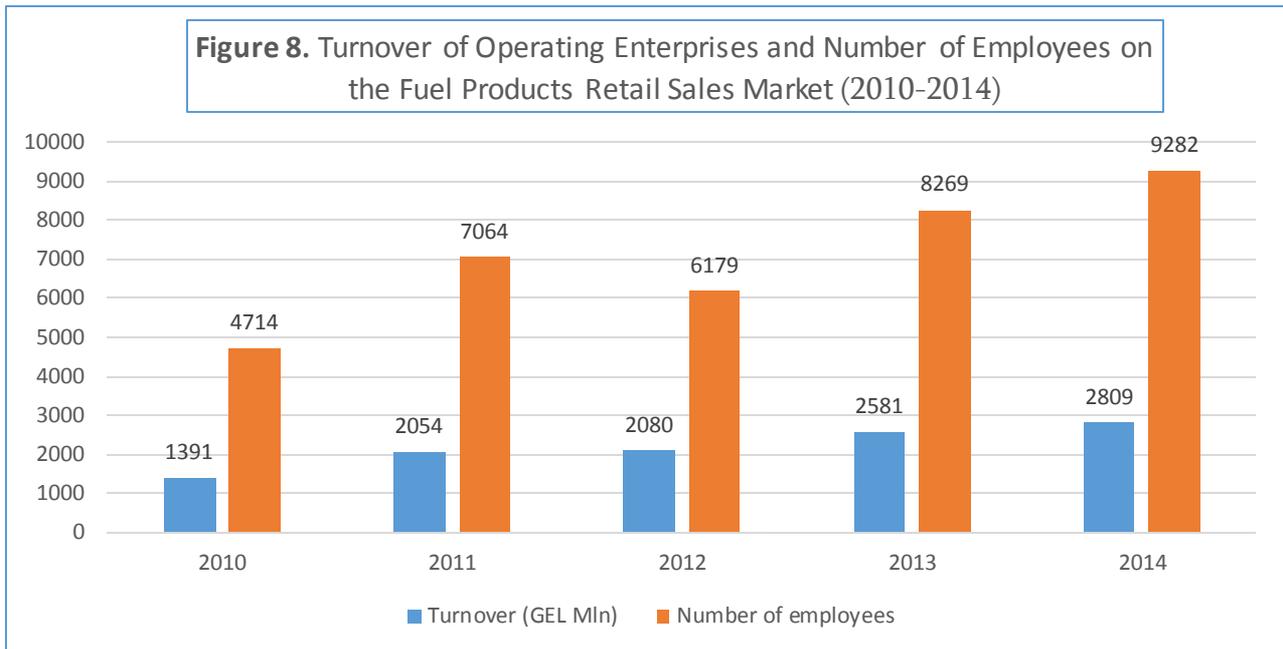
¹⁴ US Department of Justice, *Horizontal Merger Guidelines*, 19 August 2010:

www.justice.gov/atr/horizontal-merger-guidelines-08192010#5c

¹⁵ Election bloc Bidzina Ivanishvili - Georgian Dream, *Election Agenda*, 12 February 2012:

<http://www.ivote.ge/images/doc/pdfs/ocnebis%20saarchevno%20programa.pdf>

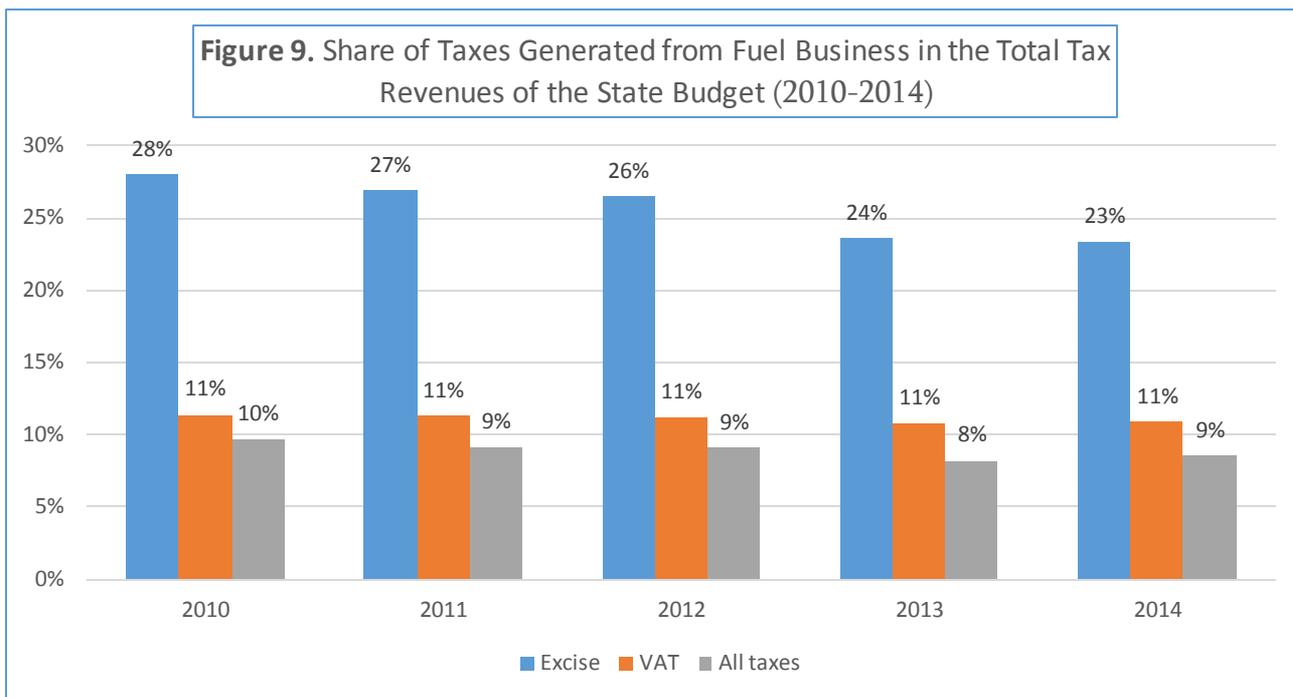
has once again witnessed the growth, and in 2014 the overall turnover of firms operating on the fuel retail sales market constituted 2809 million GEL, and the number of employees was 9282.



Source: Competition Agency of Georgia

Revenue generated from the fuel business and its share of the total tax revenue are also points of interest. The total volume of taxes paid by firms operating in the fuel market in the state budget in 2014 accounted for 8.5% of budgetary tax revenues, equaling 584 million GEL. Notably, the excise tax and VAT are the major taxes paid by the fuel business. In 2014, the excise tax accounted for 32% (189 million GEL) of taxes paid by the fuel business, while VAT accounted for 61% (358 million GEL) of taxes paid by the fuel business in the budget.

Further, excise taxes paid by the fuel business in the budget constituted a considerable portion of general excise tax paid, yet this share has been declining during 2010-2014. In 2010 this indicator equaled 28%, while in 2014 it was 23.3%. Remarkably, in 2010-2014 not only the share of excise tax paid by the fuel market has declined (from 9.7% to 8.5%), but the share of general taxes paid by the fuel business in the budgetary tax revenues as well. The nominal value of taxes generated from the fuel market in 2010-2012 and 2014 was greater, and therefore the reduction of their proportion of general tax revenue is a result of increased taxes generated from other sectors.

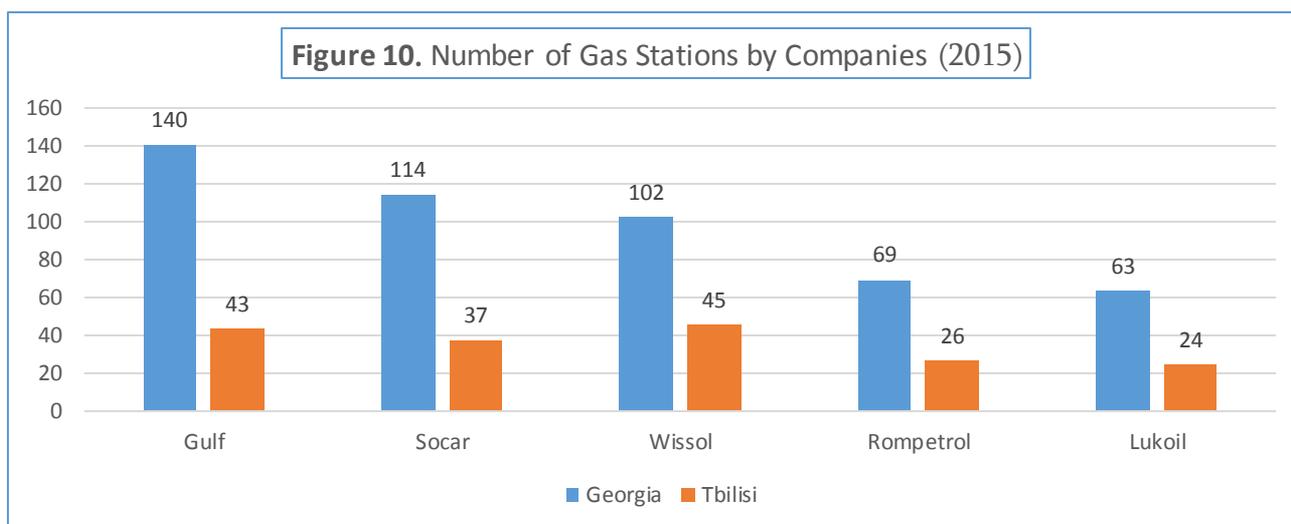


Source: Revenue Service, Ministry of Finances of Georgia

2. Key Market Players

The first study on the fuel market by Transparency International Georgia noted that five companies dominated this market by 2012.¹⁶ In 2014, the setting was the same and the largest importers of fuel products and the key players in the retail and wholesale market are the same five companies:

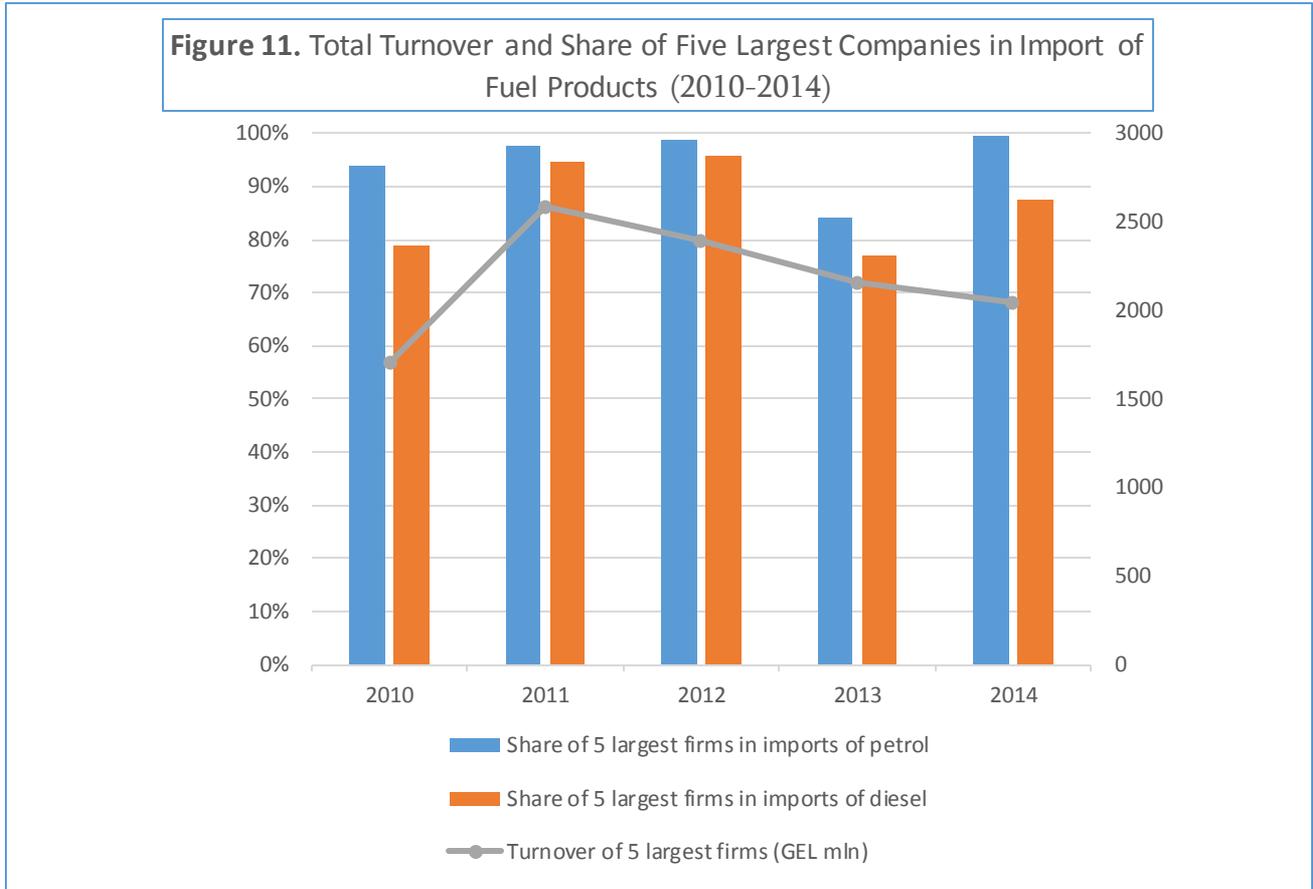
- JSC Wissol Petroleum Georgia;
- Sun Petroleum Georgia LLC;
- Rompetrol Georgia LLC;
- Socar Georgia Petroleum LLC;
- Lukoil Georgia LLC.



¹⁶ Transparency International Georgia, *Competition Policy in Georgia*, 3 August 2012: <http://www.transparency.ge/node/2247>

Source: Official web pages of the companies

Figure 10 illustrates the distribution of gas stations among companies in Tbilisi and across Georgia. These five companies own 488 gas stations across Georgia, of which 175 (35%) are located in Tbilisi.



Source: Revenue Service, Competition Agency

Figure 11 shows that by 2012, the five listed companies have gained considerable market power and control almost 100% of the import of fuel products. In 2013, following the change of government, the share of these companies in the overall import of fuel products declined substantially, namely, their import of petrol decreased from 98.7% to 84.3%, while their import of diesel decreased from 95.9% to 76.9%. Nevertheless, this trend did not continue in 2014 and the market share of these five companies grew once again. Moreover, in 2014 these companies controlled an even greater share (99.6%) of import of petrol than in 2012 (98.7%). As for their share in the import of diesel fuel, this indicator also deteriorated in 2014 compared to the previous year. In particular, the share of these companies' import of diesel fuel in 2013 drastically decreased (by almost 20%) compared to the previous year, amounting to 77%. In 2014 this indicator grew by 10%. Such contradictory trends in the fuel market in 2013 considerably undermined the expectations of increased competition.

2.1. JSC Wissol Petroleum Georgia

The company Wissol Petroleum Georgia was founded in 2000 and operates in the wholesale and retail fuel markets. This company is a legal successor of Canargo Development LLC. Since reorganization in 2006, this firm functions as a joint stock company. In 2009 the company merged with Wissol Petroleum Georgia – Gldani LLC; in 2010 it merged with Air Wissol LLC, Wissol Avchala LLC, and Wissol Angisa LLC; in 2011 it merged with Marneuli Children's Esthetic Education Center LLC; in 2012 it merged with Wissol Petroleum Georgia – Didube LLC, Wissol Petroleum Georgia – Signaghi LLC, and Wissol Petroleum Georgia – Isani LLC. In 2013 the company became the owner of Wissol – Samtredia LLC, and in 2014 it became the owner of Wissol Petroleum Georgia – Saburtalo LLC.

Because the turnover of oil companies is classified information, determining exact market shares of each company is impossible. Yet, the study commissioned by Transparency International Georgia gives us a rough picture. The next sub-chapter of this report provides an in-depth overview of the survey results, while this sub-chapter is concerned only with which companies' fuel Georgian consumers prefer. Most respondents (26%) use fuel of different companies; however, Wissol was in the top place among the five main companies. Twenty percent of respondents said they prefer fuel from this company.

Currently, Wissol operates 102 petrol and gas stations across Georgia, including 45 in Tbilisi, 12 in Batumi and 7 in Kutaisi. Apart from supplying fuel, the company sells other services as well. In 2013 it employed 1850 individuals.

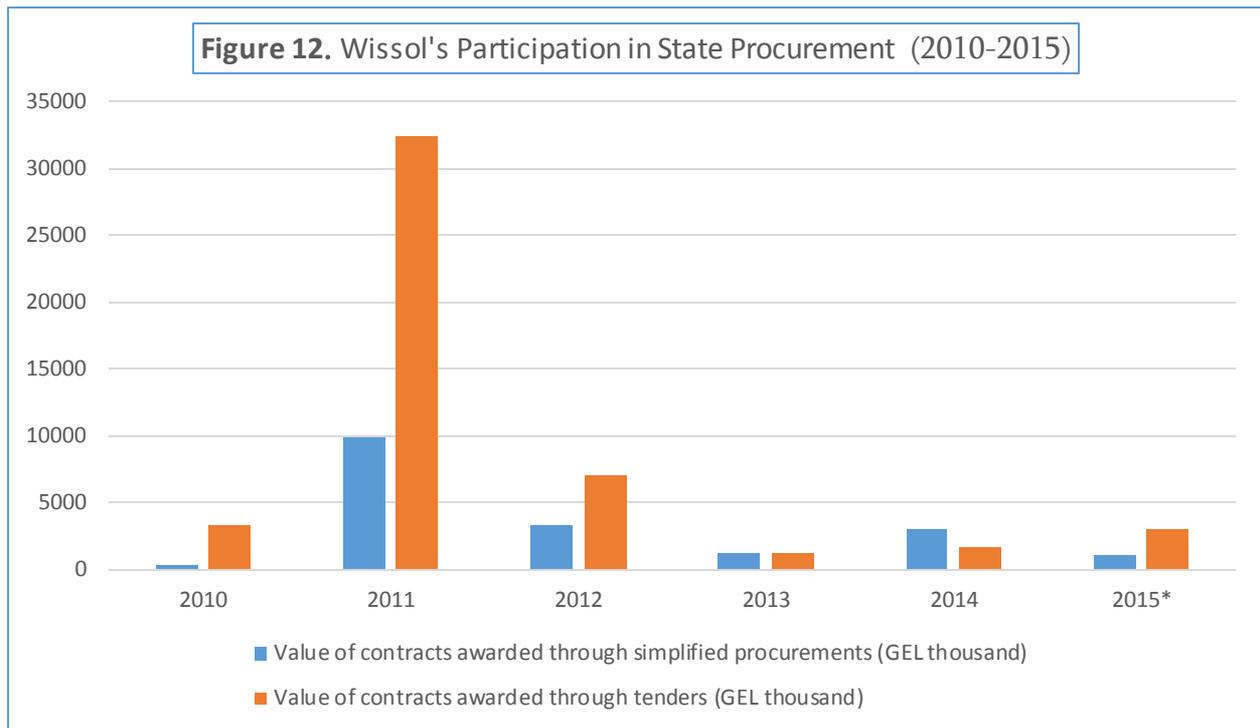
Wissol Group's shareholders are:

- WISSOL HOLDING with 61.96% shareholding, owned by Samson and Levan Pkhakadze (50-50% shareholding);
- HELVETSIA PETROLEUM HOLDING with 25% shareholding, owned by Giorgi Ramishvili (62%), Alex Topuria (28.5%) and David Borger (9.5%);
- STANDARD OIL HOLDING LLC with 10.86% shareholding, owned by Nugzar Abramishvili (76%) and Levan Pkhakadze (24%);
- Levan Pkhakadze is a 2.38% shareholder of Wissol Petroleum Georgia. The company's Director is Vasil Khorava.

The company's owners were identified among donors to the political party United National Movement. In August 2012, the owners of Wissol Petroleum Georgia donated 260 000 GEL to the United National Movement:

- Levan Pkhakadze - 60 000 GEL;
- Samson Pkhakadze - 60 000 GEL;
- Vasil Khorava - 20 000 GEL;
- Nugzar Abramishvili - 60 000 GEL;
- Giorgi Ramishvili - 60 000 GEL.

The company is also actively involved in state procurements. In 2010-2015, the company was awarded 2212 contracts through simplified procurements, with an overall value of approximately 19 million GEL. In addition, over the same period Wissol participated in 559 tenders, 404 of which it won. Total revenue generated from tenders won accounted for around 49 million GEL (see Figure 12).



2015: Data of the first seven months*

Source: State Procurements Agency

2.2. Sun Petroleum Georgia LLC (Gulf)

Sun Petroleum Georgia LLC, also known as Gulf, entered the Georgian fuel market in 2010 under the name of Sonol Oil Products LLC. By the end of 2010 the company's name was changed and it operated as Sun Oil Georgia, and since 2011, the company has been known in the fuel market as Sun Petroleum Georgia. According to the results of a survey commissioned by Transparency International Georgia, 17% of respondents purchase fuel from Gulf.

Originally, the company was owned by Kobadet Holdings LLC, registered in the British Virgin Islands, and since 2011 the company's 100% shareholder is the US-registered company Energy Investment Venture Holdings. Further, the company's Director Giorgi Devadze has been identified in the database of donors of political parties. In May 2012 he donated 60000 GEL to the United National Movement party.

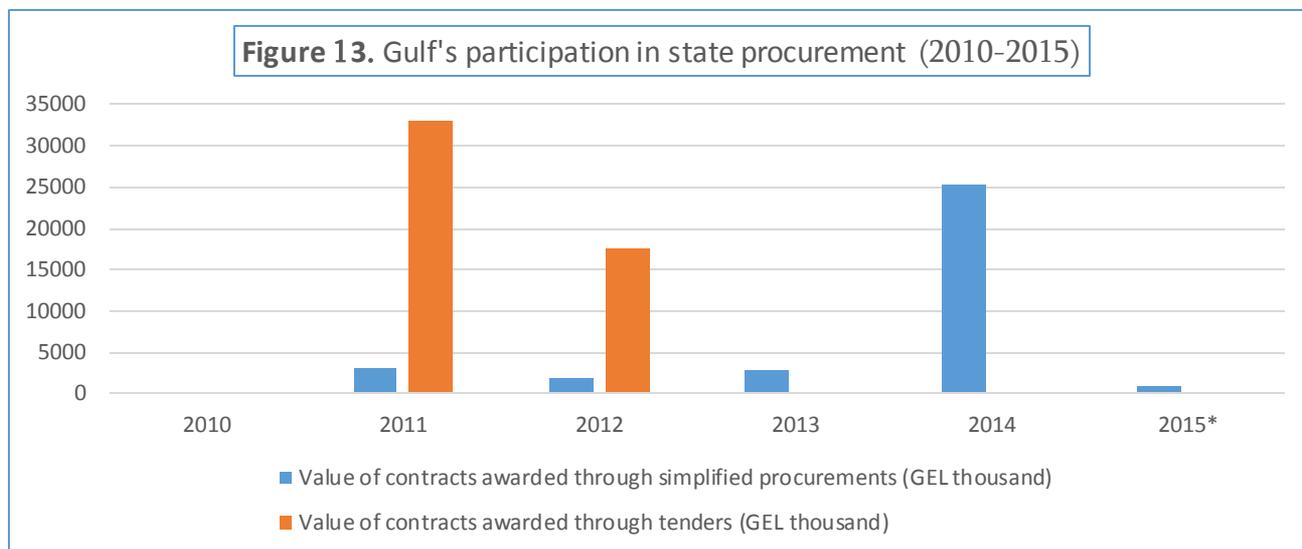
The entry of Sun Petroleum Georgia into the market resulted in disappearance of Senta, Eko and Magnat from the market. Owners of these companies claim they were forced to transfer their gas station chains to Sun Petroleum Georgia, whose capital included the interests of former Defense Minister, Davit Kezerashvili.

Sun Petroleum Georgia owns shares in Didubeoil LLC, Sun Stores LLC, Kare+ LLC, Georgian Petroleum Equities LLC and Ponichala 2009 LLC.

Remarkably, in the two years since its founding, the company has become the market leader of retail sales of fuel. In 2012 it was the largest firm operating in the retail market and the company remains one of the leading retail and wholesale sellers of fuel products in Georgia.

The company's gas station network owns the former chains of Senta, Eko and Magnat. Currently, it operates 140 gas stations, 43 of which are located in Tbilisi. The company employs over 1300 individuals.

Gulf also participates in the state procurements. During 2010-2015, the company was awarded 1542 contracts through simplified procurements, with a total value of approximately 34 million GEL. In addition, in the same period, Gulf participated in 45 tenders, 7 of which it won. Tenders won have generated total revenue of around 50 million GEL (see Figure 13).



2015*: Data of the first seven months

Source: State Procurements Agency

2.3. Rompetrol Georgia LLC

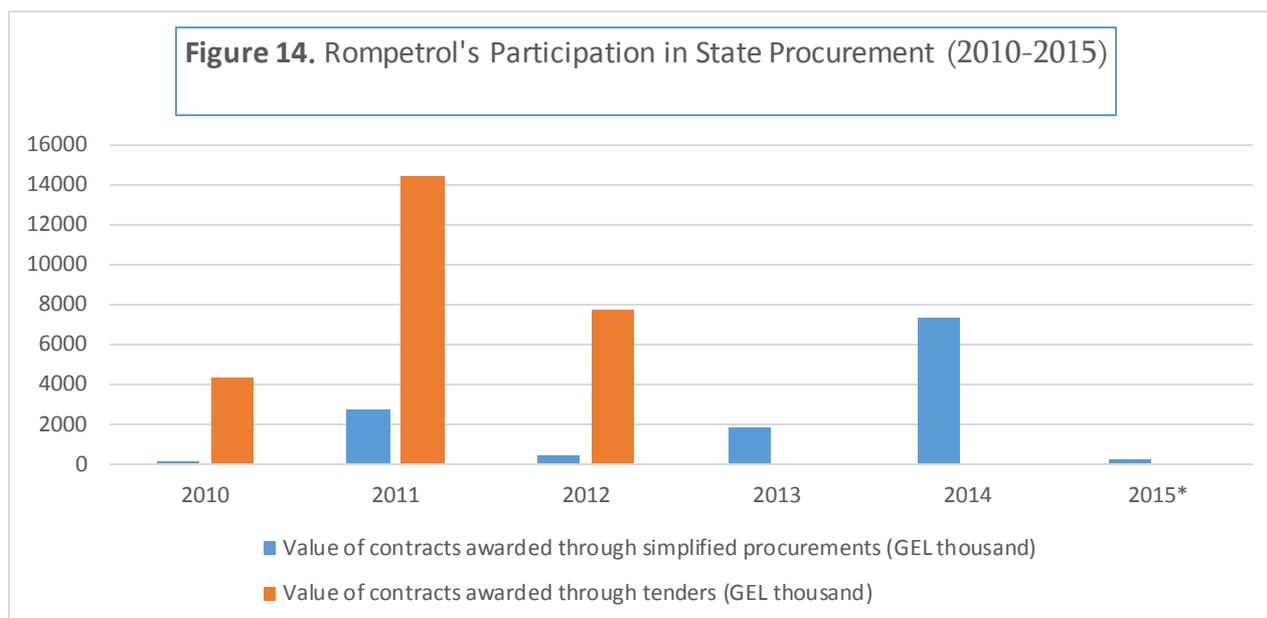
Rompetrol Georgia is a member of the transnational oil company Rompetrol Group. This company supplies fuel products to 12 countries worldwide.

Rompetrol Georgia has operated in the Georgian market since 2005. In 2007 the company became the owner of Sharmi LLC and N&N LLC. According to the results of a survey commissioned by Transparency International Georgia, 16% of respondents buy fuel from Rompetrol.

Currently Rompetrol operates 69 facilities in Georgia, including 26 in Tbilisi. The company’s 100% shareholder is KMG International N.V., registered in the Netherlands. The company’s Director is Sergey Popusoi.

The company’s owners were not identified among donors of political parties, because foreign citizens are prohibited from donating to a Georgian political party.

Rompetrol also participates in state procurements. In 2010-2015, the company was awarded 584 contracts through simplified procurements, with a total value of approximately 13 million GEL. Further, over the same period Rompetrol participated in 92 tenders, 41 of which it won. Total revenue generated from tenders won equaled around 27 million GEL (see Figure 14).



2015*: Data of the first seven months

Source: State Procurements Agency

2.4. Socar Georgia Petroleum LLC

SOCAR is the Azerbaijani state oil company, which extracts, processes and distributes gas and oil. Socar Georgia Petroleum has been operating in the Georgian market since 2006. The company imports oil products from Azerbaijan. Currently, the company operates 114 gas stations, including 37 in Tbilisi. The company employs over 1500 individuals. The company's Director is Davit Zubitashvili. According to the results of survey commissioned by Transparency International Georgia, 14% of respondents purchase fuel from Socar.

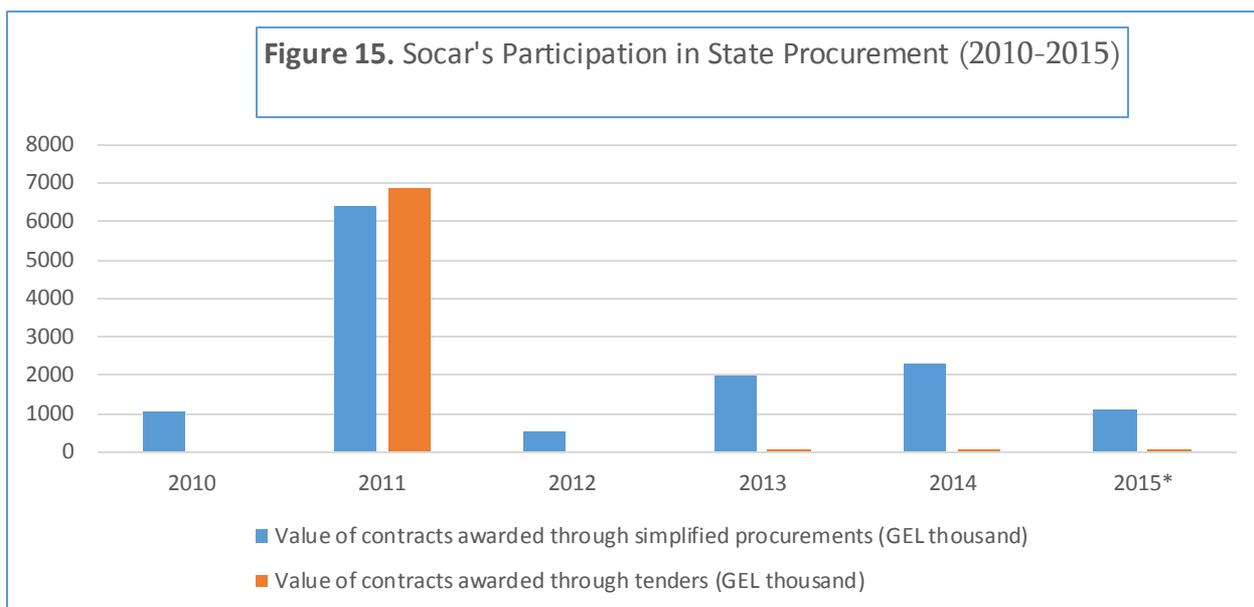
Several companies operate in Georgia under Socar's brand:

- Socar Energy Petroleum LLC has operated in the retail sales market of fuel since 2006;
- Socar Gas Export-Import LLC has operated in the natural gas wholesale market since 2011;
- Socar Gas Distribution LLC has carried out wholesale trading with natural gas since 2013;
- Socar Georgia Gas LLC has carried out wholesale trading with natural gas since 2007.

In addition, Socar Energy Georgia also operates in Georgia, and owns shares in several companies. The company is the 100% shareholder of Socar Georgia Petroleum LLC and Socar Georgia Gas LLC. Additionally, the company owns shares in Kulevi Oil Terminal, Socar Georgia Security LLC and International Railway Expedition LLC.

Socar Energy Georgia's 51% shareholder is the State Oil Company of Azerbaijan Republic, while the remaining 49% belongs to two companies registered in the United Arab Emirates, Intersun Holding FZCO and EVENTUS GENERAL TRADING FZE, with equal shares of 24.5%-24.5%. The company's Executive Director is Giorgi Japaridze. The names of the company's owners and directors associated with Socar were not identified among donors of political parties.

In 2010-2015, Socar was awarded 1314 contracts through simplified state procurements, with a total value of approximately 13 million GEL. In addition, during the same period, the company participated in 59 tenders, 20 of which it won. Total revenue generated from tenders won accounted for around 7 million GEL (see Figure 15).



2015*: Data of the first seven months

Source: State Procurements Agency

2.5. Lukoil Georgia LLC

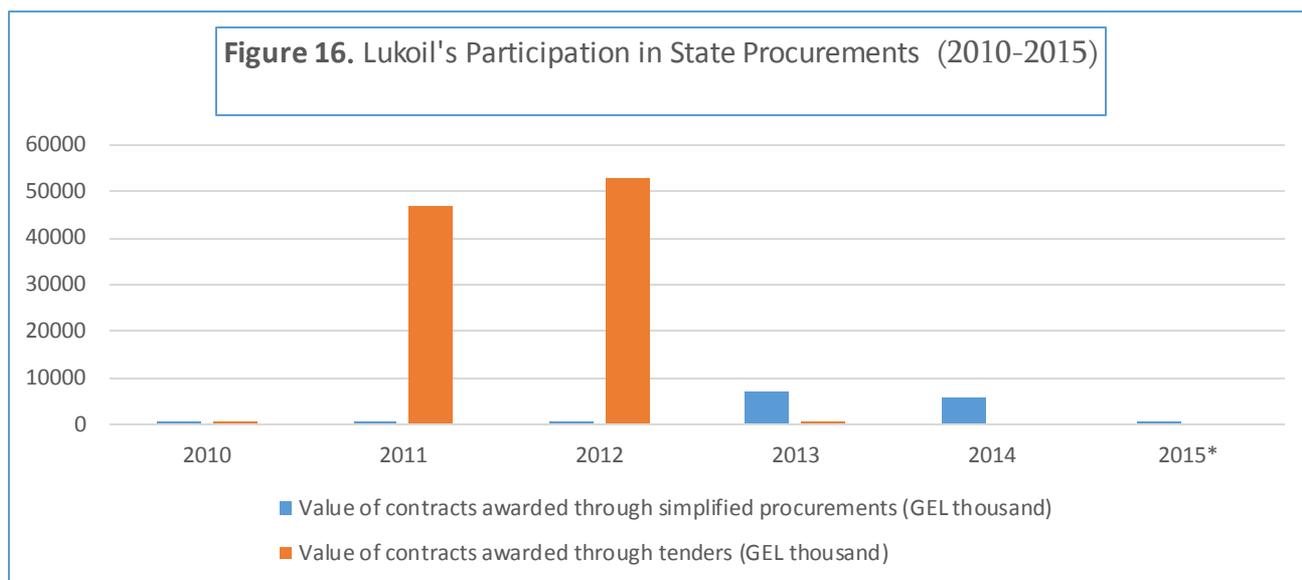
Lukoil Georgia LLC has been operating in the Georgian fuel market since 2002. In 2002-2010 Lukoil Georgia overtook several companies. In 2002 Lukoil Georgia merged with Kavta LLC, in 2004 it merged with Lukoil Gruzia LLC and in 2010 it merged with JSC Mtskheta Navtobprodukti LLC under the name of Lukoil Georgia LLC.

The company imports fuel from Bulgaria. Currently it operates 63 stations, including 24 in Tbilisi. According to the results of a survey commissioned by Transparency International Georgia, 10% of respondents purchase fuel from Lukoil.

Lukoil's Director is Zaza Katamadze. The company's 100% shareholder is Lukoil Europe Holdings B.V., registered in the Netherlands.

Since 2005 the company has been British Petroleum's partner and supplies the Baku-Tbilisi-Ceyhan oil pipeline with diesel fuel. The company's other partners include Unigroup LLC, which provides the company with marketing and distribution services.

In 2010-2015, Lukoil was awarded 351 contracts through simplified state procurements, with a total value of around 14 million GEL. In addition, over the same period, the company participated in 65 tenders, 25 of which it won. Total revenue generated from tenders won equaled approximately 100 million GEL (see Figure 16).



2015*: Data of the first seven months

Source: State Procurements Agency

3. Public Survey Results

To identify current trends in the Georgian fuel market, the Caucasus Research Resources Center (CRRC) conducted a public survey in December 2014 commissioned by Transparency International Georgia. The survey was conducted across Georgia,¹⁷ interviewing 1867 adult citizens.

According to the survey results, 42% of respondents (himself/herself or his/her family) owned a vehicle (see Figure 17), majority of which (71%) operated on fuel, while only 27% operated vehicles on natural gas. Only 16% of respondents consumed diesel (see Figure 19).

¹⁷ Except territories settled with ethnic minorities and occupied territories.

Figure 17. Does your family have a vehicle (any)? (% , 2015)

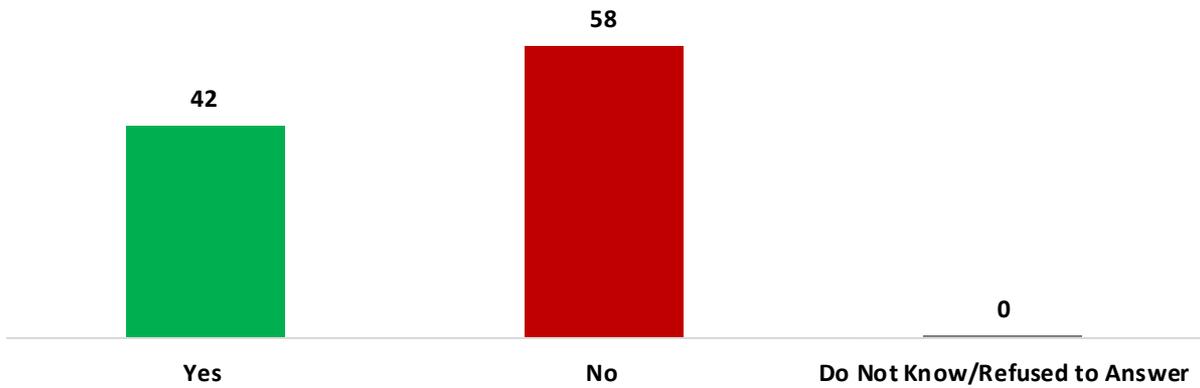


Figure 18. How many vehicles does your family have? (% , 2015)
(Of 42% who responded "Yes" to previous question)

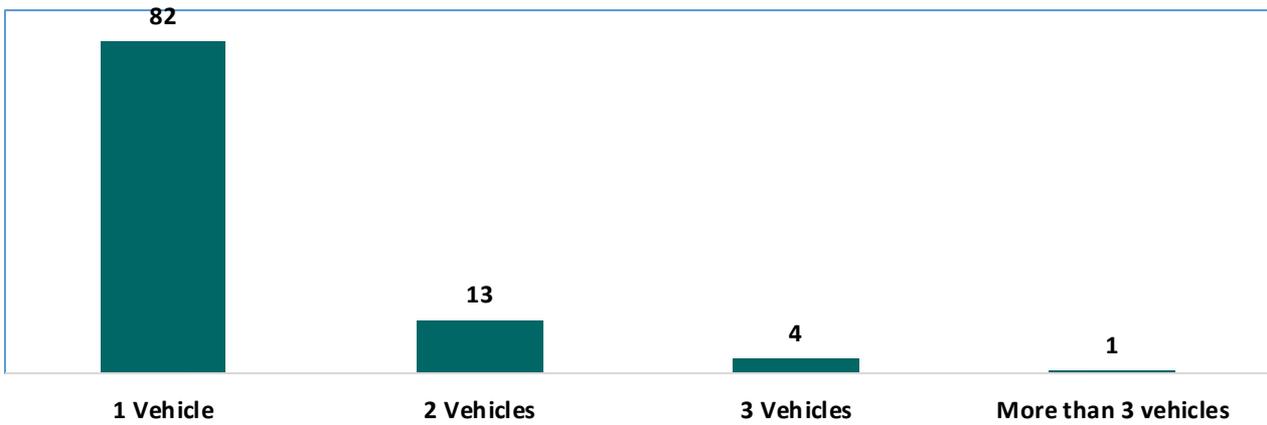
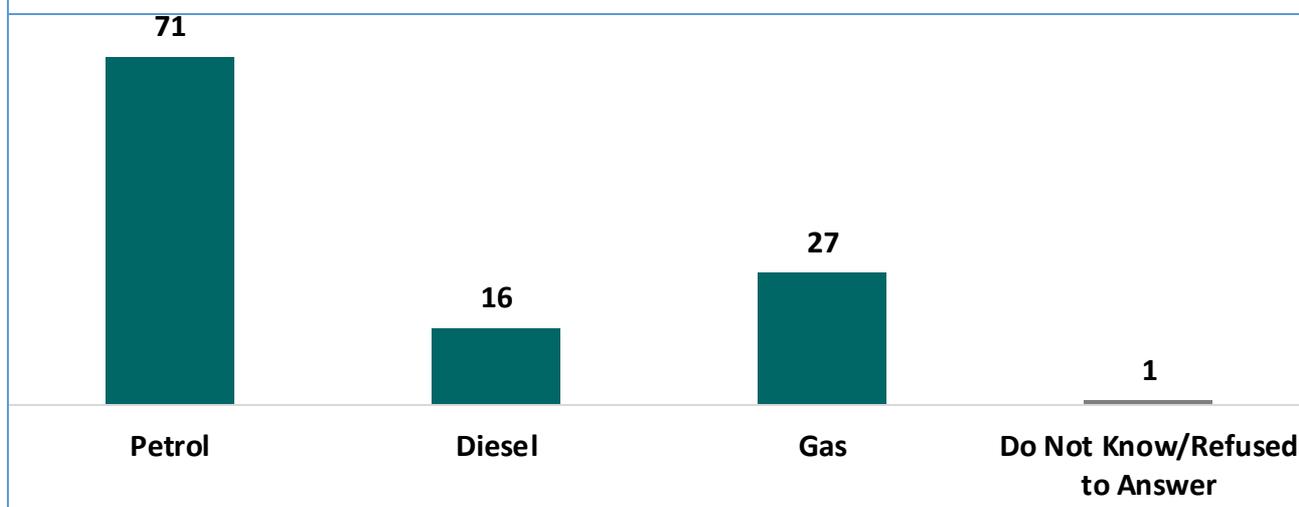
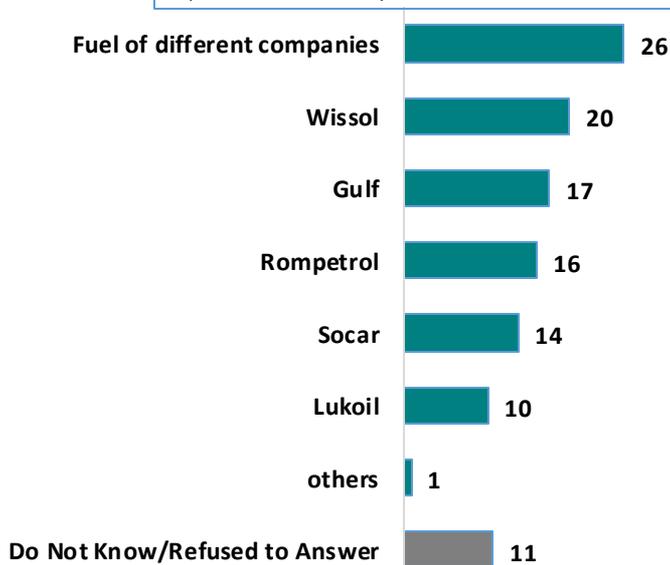


Figure 19. What kind of fuel do you use for the vehicle/s? (% , 2015)
(Of 42% who responded "Yes" to previous question)



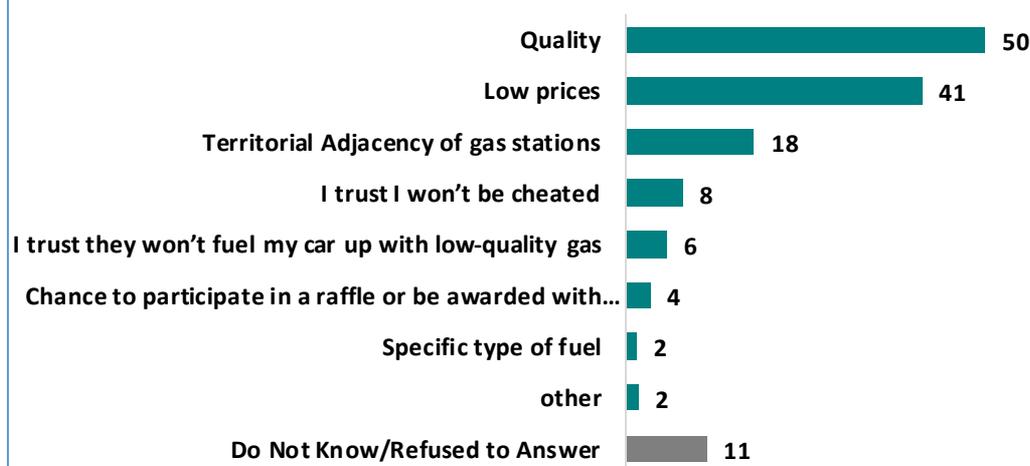
Among other things, the survey aimed to determine the number of consumers of companies operating in the fuel market. The survey did not identify clear preferences towards any of the companies. Twenty-six percent of respondents purchase fuel from different companies, 20% prefer Wissol's fuel, 17% purchase fuel from Gulf's gas stations, 16% purchase fuel from Rompetrol, and 14% purchase fuel from Socar. Lukoil is the least popular among the five large companies - only 10% of respondents buy fuel in gas stations of this company (see Figure 20).

Figure 20. Fuel of which company do you usually purchase for your vehicle?
(%, 2015)
(Of those who responded "Gasoline" and "Diesel" to previous question)



As for the factors affecting the consumers' preferred choice of fuel, 50% of respondents give priority to the fuel quality, while the choice of 41% depends on the fuel price (see Figure 21). Prices are a priority for respondents with monthly income up to 400 GEL, while the population with a relatively higher income (over 800 GEL) gives priority to quality when purchasing fuel.

Figure 21. What determines your choice when purchasing fuel? (% , 2015)
(Of those who responded "Gasoline" and "Diesel" to previous question)



4. The Dynamics of Fuel Prices

Prices in the Georgian fuel market have always drawn public attention and suspicion has been voiced concerning a collusive agreement on prices among companies in this sector. It was noted in the first study of the Georgian fuel market by Transparency International Georgia that in the case of increasing oil prices in international markets, prices in the local markets would increase shortly after, while a fall in the global price of oil would take much longer to be reflected on the Georgian market, if at all. Based on such changes in prices, it was concluded the Georgian fuel market was oligopolistic and the market players would agree on prices rather than let the market dictate the price.¹⁸

Because only imported fuel is consumed in Georgia, local prices should be closely linked to the global price of oil. Several conclusions can be drawn by comparing the global price of oil in 2012-2015 and prices of fuel on the Georgian market:

- Overall, local fuel prices followed the general trend of the global price of oil. The correlation coefficient (r) between Euro Brent prices and prices of fuel sold in the Georgian market is approximately 0.85 (see Table 1), but in some cases the changes in global prices were delayed on the Georgian market by several months. For instance, in July 2014, the global oil price started falling sharply and by the end of the year, it had decreased by approximately 45% (price per 1 liter by approximately 40 cents). The change in the Georgian market was far more modest, where the price of petrol decreased (see Figure 22) by approximately 13% (price per 1 liter by approximately 17 cents). Local prices started adequately decreasing only in December 2014 when Prime Minister Gharibashvili instructed the Competition Agency at the Government session to submit information on this issue within 10 days.¹⁹
- The price of fuel from the five key players in the Georgian market during last three years has been changing simultaneously (the correlation coefficient (r) between changes in prices was almost 1 (see Table 1)).

Bearing the above facts in mind, the possibility of a cartel agreement in the Georgian fuel market cannot be excluded and fines imposed by the Competition Agency on these companies are reasonable.

¹⁸ Transparency International Georgia, *Competition Policy in Georgia*, 3 August 2012: <http://www.transparency.ge/node/2247>

¹⁹ "Tabula", Prime Minister: *Cheapening of Petrol in Georgia Must be Consistent with the Global Market*, 18 December 2014: <http://goo.gl/l6wxPw>

Figure 22. International Price of Oil and Georgian Price of Petrol (2012-2015)

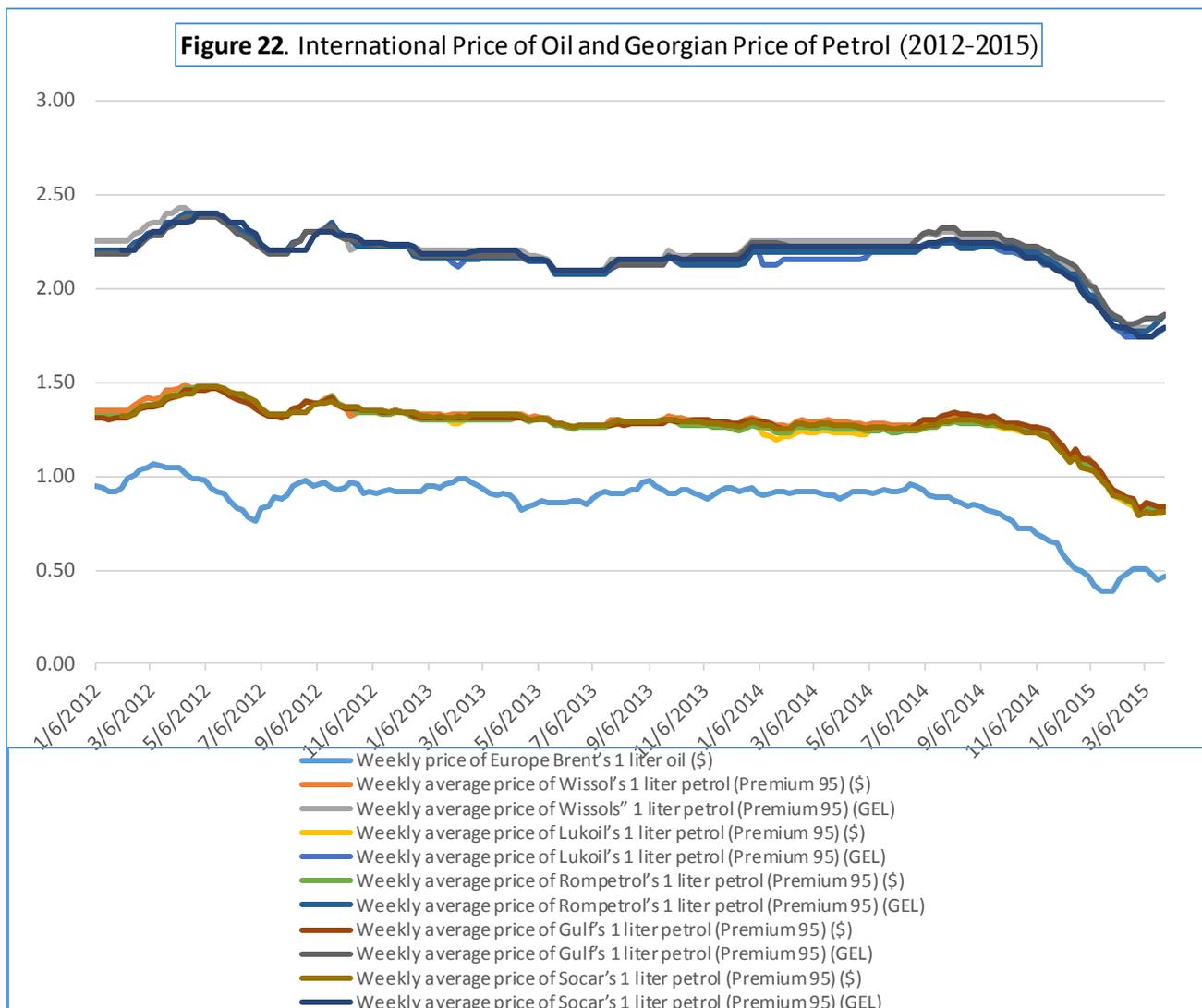


Table 1. Correlation (r) between international price of oil and Georgian price of petrol (2012-2015)

	<i>Column 1</i>	<i>Column 2</i>	<i>Column 3</i>	<i>Column 4</i>	<i>Column 5</i>	<i>Column 6</i>
<i>Column 1</i>	1					
<i>Column 2</i>	0.8557	1				
<i>Column 3</i>	0.8413	0.9902	1			
<i>Column 4</i>	0.8352	0.9941	0.996	1		
<i>Column 5</i>	0.8398	0.9936	0.9908	0.9929	1	
<i>Column 6</i>	0.8571	0.9935	0.9926	0.9938	0.9919	1
<i>Column 1</i>	Weekly price of Europe Brent's 1 liter oil (\$)					
<i>Column 2</i>	Weekly average price of Wissol's 1 liter petrol (Premium 95) (\$)					
<i>Column 3</i>	Weekly average price of Lukoil's 1 liter petrol (Premium 95) (\$)					
<i>Column 4</i>	Weekly average price of Rompetrol's 1 liter petrol (Premium 95) (\$)					
<i>Column 5</i>	Weekly average price of Gulf's 1 liter petrol (Premium 95) (\$)					
<i>Column 6</i>	Weekly average price of Socar's 1 liter petrol (Premium 95) (\$)					

Chapter V. Conclusion and Recommendations

The Georgian transport fuel market consists entirely of imported products, the importation of which does not require licensing. Hence, formally there are no considerable legislative barriers for entering the fuel market.

The state usually supervises the oil products and natural gas market in two ways: (1) observing competition on the market; and (2) observing quality norms of products.

Until 2014, the state had a rather limited capacity in terms of observing competition. The situation in this respect changed considerably on 14 April 2014, when the Competition Agency was set up with increased powers pursuant to the new Law of Georgia "on Competition".

Given the high public interest, on 12 November 2014, the Competition Agency launched an inquiry into the fuel market, aimed at establishing abuses of power by firms on the market. In July 2015 the Agency completed its inquiry into the market and fined eight companies for breaching competition legislation a total of 55 million GEL.

As for the fuel quality control, legislation of Georgia sets standards that the oil products and natural gas sold on the Georgian market must meet. Nevertheless, there is no quality control mechanism for these products in the country. Further, no adequate sanctions exist for violating the quality norms.

Since fuel in Georgia is imported, quality control starts from the moment the customs border is crossed. Yet, a state control mechanism for the quality of fuel supplied to the wholesale and retail markets is absent, which is a serious gap.

According to the Levan Samkharauli Forensics Bureau, oil products are examined based on requests by interested parties only. In 2010-2015, total of 489 samples (petrol and diesel) were examined, 38% (187 samples) of which failed to meet quality norms set by legislation.

In 2014 fuel products accounted for the largest imported good in Georgia. There were 903.2 thousand tons of motor fuel worth 1.415 billion GEL imported into the country in 2014.

In its first study on the fuel market, Transparency International Georgia noted that until 2012, a clear oligopolistic structure dominated by five companies had been formed in the import of fuel, as well as wholesale and retail trade. Statistical indicators measuring competition attest to the same conclusion.

Statistical data illustrate that competition on this market in 2013-2014 has grown slightly, while the market structure is still far from perfect. The share of large enterprises in total turnover in 2013 decreased by 2% compared to the previous year, constituting 93%.

In respect to other indicators, in 2013-2014, the number of companies importing motor fuel increased several times compared to 2012, but is still considerably smaller than before 2008.

In 2013-2014, the Herfindahl-Hirschman Index decreased by approximately 1000 points compared to 2012. This is progress but still insufficient. Interestingly, the decreasing trend of the level of concentration in the fuel market in 2013 did not continue in 2014, resulting in a reduced number of fuel-importing companies and an increase in the Herfindahl-Hirschman Index. Although small-scale, these changes still pose a risk that oligopoly on this market will continue in the future.

Because only imported fuel is consumed in Georgia, local prices should be closely linked to the global price of oil. Several conclusions can be drawn by comparing the global price of oil in 2012-2015 and price of fuel in the Georgian market:

- Overall, local fuel prices followed the trend of global prices of oil, but in some cases the changes in global prices were delayed in the Georgian market by several months. This trend is especially visible during reduction of prices;
- In past three years, prices of fuel from the five key players in the Georgian market have been changing simultaneously.

This study demonstrated that the major problem of the Georgian fuel market lies in the fact that there is very little competition and an absence of a quality control mechanism. Therefore, we find the following recommendations should be taken into account:

- The Competition Agency should continue observing/studying this market in the future, and should apply relevant measures if breaches are detected;
- An integrated state mechanism should be set up for controlling the observance of quality norms of fuel, covering all phases of the fuel supply chain, from crossing Georgian customs to supplying to the retail market. To this end, relevant state agencies should periodically inspect gas stations and exercise control over fuel quality;
- Sanctions for violating fuel standards should be imposed;
- Preferably, relevant state agencies should periodically collect and publish statistical data on the types of fuel sold in Georgia, which at the initial stage, would serve as additional leverage for controlling the quality norms of fuel types available in the local market.