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President Giorgi Margvelashvili has signed a bill on redistricting of single-mandate constituencies into law, but said it was falling far short of much-needed broader electoral system reform.

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Georgia's Energy Security in Crisis: Gazprom vs. National Interests?

By Dr. VAKHTANG MAISAIA

Many rumours are circulating concerning Georgia's ability to promote its national geoeconomic interests. In December an Iranian newspaper reported that the Georgian government was conducting secret negotiations with Russian energy giant Gazprom to try and obtain new gas supplies for Georgia with new trade-off arrangements. Government officials have had to confirm that these negotiations have taken place, with Energy and Fuel Minister Kakha Kaladze acknowledging that he has met Gazprom representatives three times in various places in Western Europe.

Georgia is seeking to remove the country's dependence on Azerbaijani gas from the Shah-Deniz field. Both Russia and Iran are seen as potential new suppliers. Since October 2012 (when the present government was elected) Georgia has consumed more than 1,800,000,000 million cubic metres of gas annually, 300 million of which came from Shah-Deniz (at the rate of 1,000 cubic metres for \$55) and an additional 500 million for so-called "affordable purposes" at \$64 per 1,000 cubic metres. Georgia pays for its gas partly through the transit fees it charges other countries for using its pipelines: it charges Armenia for carrying about 150 million cubic metres of gas from Russia, the fee being \$110 per 1000 cubic metres and receives 10% of an additional 200 million cubic metres of Russian gas as payment for carrying it.

Georgia obtains its natural gas through three main pipelines – two from Azerbaijan (the Baku-Tbilisi-Erzurum gas pipeline and the Kazakh-Gardabani local pipeline) and one from Russia. However SOCAR, the State Oil Company of Azerbaijan, has a 50% market share, which is a dangerously high figure and is an effective monopoly. This is

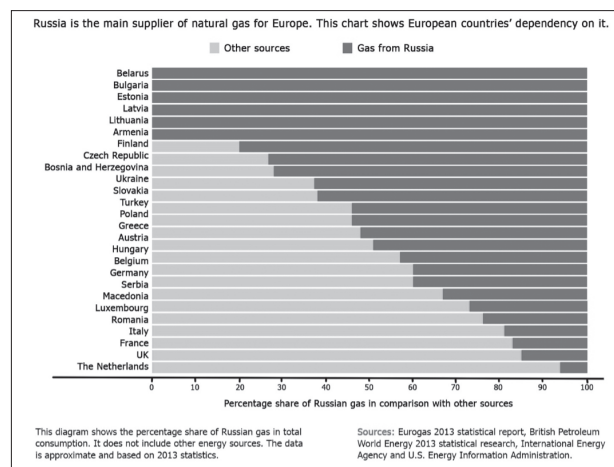
very clearly acknowledged in the strategic document adopted by the Georgian government in July 2014, "Energy Strategy of Georgia (2015-2030)", which provided the basis for launching the talks with Gazprom..

The document sets out the following energy policy goals:

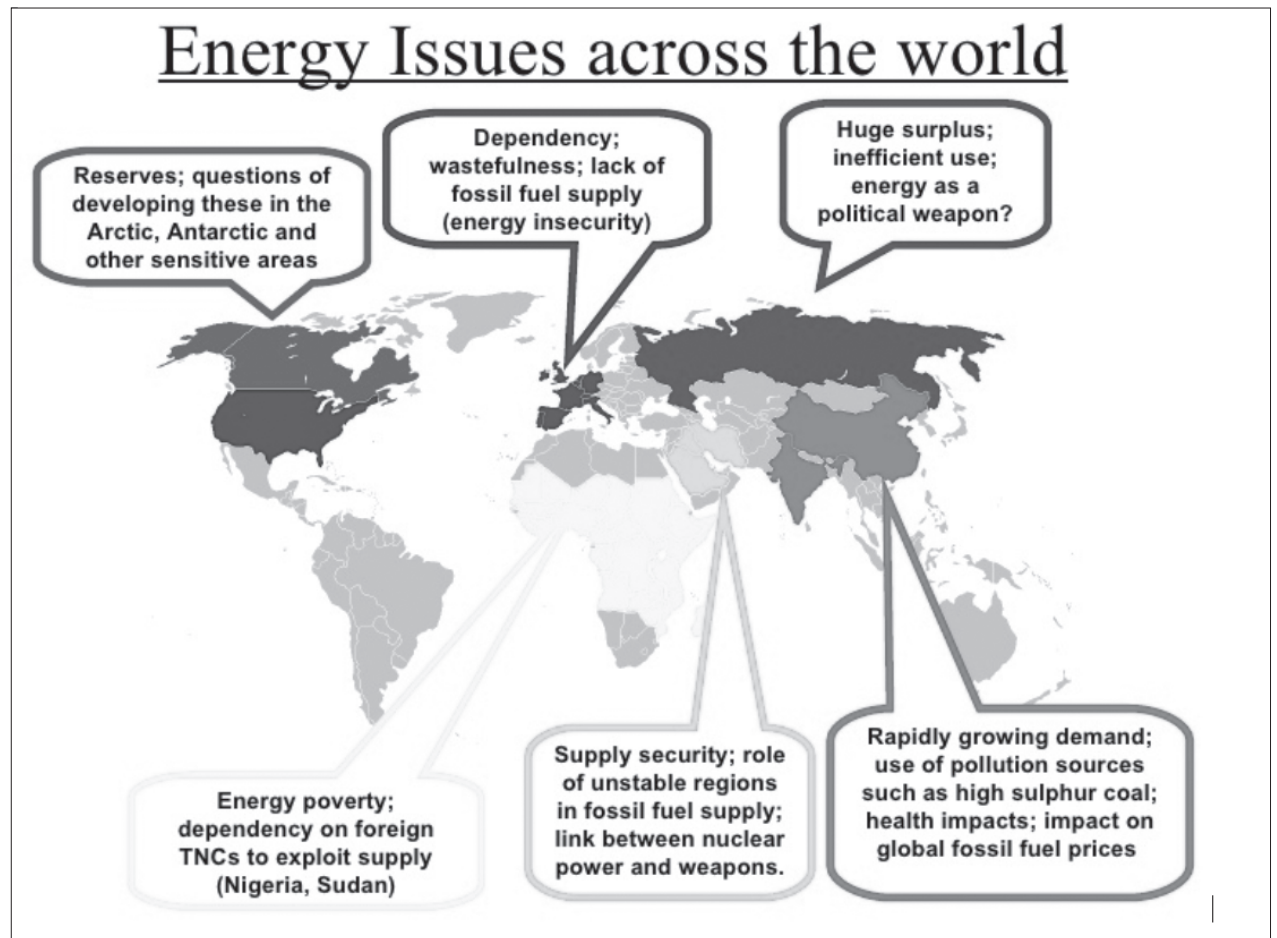
- To achieve energy security
- To meet the long-term need for clean and affordable energy
- To establish fully competitive energy markets
- To ensure social and environmental protection

It also outlines the following energy challenges:

- The Government of Georgia will not take on additional liabilities for the energy sector
- The dependence on Azerbaijani gas, is unacceptable
- Use of the Enguri hydro-power plant in Abkhazia must be increased
- Government-owned entities need institutional development in several areas
- Illegal wood cutting for residential heating, hot water and cooking is jeopardizing forests in Georgia
- There is a lack of competition in many aspects of the sector.
- Resources are being polluted and there is a lack of regulation surrounding this
- Domestic resources are not being used
- The lack of a competitive market make is difficult to attract needed investment



All these factors could compromise national energy security and thus Georgia's ability



to provide affordable, sustainable and reliable energy.

It is interesting to underscore that Georgia's primary energy mix is composed of the following: gas (ktoe)-41%, oil (thousand tonnes)-23%, hydropower (ktoe)-17%, biomass (ktoe)-13%, coal (ktoe)-6%. Therefore Georgia is very dependent on gas deliveries for its energy sustainability and they are critical for the country's economic development. Despite efforts to diversify, natural gas is the largest single energy source for Georgia and will inevitably grow in importance.

Georgia's national gas sector strategies include:

- Addressing the technical

and contractual limits on the use of gas pipelines, which restrict their ability to deliver gas to the TPPs during the winter peak times;

Improving storage facilities, which is the highest priority in ensuring security of supply and will greatly alleviate the above problem

It is pursuing this strategy which lies behind Georgia's approaches to Gazprom. By increasing gas storage provision Georgia will get closer to achieving the "energy hub" status it has long sought and eventually become energy suf-



ficient. The government is hoping to attract enough investment to build a 250 mil-

lion cubic metre gas storage facility in the Tsalka region in southern Georgia or the Iori Field in the Kakheti region in eastern Georgia. This would enable Georgia to survive for 20-30 days without gas supply during extreme circumstances such as the Georgia-Russia gas war of 2006 and keep almost all strategic facilities running. Hence, diversification of energy supply will enable Georgia to enhance economic development in general.

Energy security can be defined in the following terms:

- It is an umbrella term cov-

It is the assurance of the ability to access the energy resources required for the continued development of national power;

It is the association between national security and the availability of natural resources for energy consumption. (Access to cheap energy has become essential to the functioning of modern economies. However, the uneven distribution of energy supplies among countries has led to significant vulnerabilities – Wikipedia).

According to above-mentioned definitions, the Georgian government is pursuing quite a logical policy by seeking to enlarge and diversify energy supplies from various sources – namely, Iran and Russia (though Gazprom wants Georgia to "monetise" the transit fee deal – or pay cash instead of receiving free gas, a move which would cost Georgia more than \$30 million per year) and thereby achieve the national energy security goals outlined in the strategic document. However, what the consequences will be for energy geopolitics is another matter, and this will be the focus of debate in the near future.

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KVIRIKASHVILI REFLOATS IDEA OF ZERO TAX ON REINVESTED PROFIT

PM Giorgi Kvirikashvili said on January 15 that the government will submit "in the nearest future" to the Parliament bill envisaging zero tax on reinvested profit.



"The government has started active work on tax liberalisation and we are actively considering introducing elements of the Estonian model, involving taxing only the distributed profit... That implies exempting companies from profit tax, if that profit is reinvested," MP Kvirikashvili said at a government session on Friday morning. Estonia has had zero corporate taxes on reinvested profit since 2000.

"We are actively working on this with the IMF representation... and I think that it will be possible in the nearest future to discuss the draft at a government session and then send it to the Parliament for consideration," Kvirikashvili said, adding that he is convinced that there will be support of opposition lawmakers as well on this issue.

Kvirikashvili first voiced this proposal in March 2015, when he was the Economy Minister. He said at the time that although it would have a negative short-term impact on state coffers, cutting tax revenues by several hundreds of millions of lari, in the long run it would boost economic growth.

The idea appeared to be shelved since then. Deputy Finance Minister Giorgi Kakauridze said in October, 2015 that the government would not hurry with this reform, adding that it was "quite a difficult process, fraught with quite a lot of risks."

Georgia's 2016 state budget sets targeted revenue from corporate profit tax at GEL 980 million, accounting for 12.3% of total forecasted tax revenues for this year.

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THREE NEW DEPUTIES OF INTERIOR MINISTER APPOINTED

From left to right: new Deputy Interior Minister Merab Malania; Interior Minister Giorgi Mgebrishvili; new First Deputy Interior Minister Besik Amiranashvili, and new Deputy Interior Minister Davit Vardiashvili. Photo: Interior Ministry



Vardiashvili. Photo: Interior Ministry

Interior Minister, Giorgi Mgebrishvili, who presented on January 14 his three new deputies, said that the ministry's goal is to have "more efficient results in fight against crime."

Besik Amiranashvili has been appointed as the First Deputy Interior Minister; previously he served as chief of police department in Adjara Autonomous Republic. Mgebrishvili said that Amiranashvili has "distinguished himself in fighting against crime" in his previous positions and added that the "system needs practitioners and strong professionals" like Amiranashvili.

Two other new deputies are Davit Vardiashvili, who will be overseeing finances and logistics, and Merab Malania, who previously served as head of the special tasks department of the Interior Ministry.

Two deputies of interior minister Davit Khutsishvili and Teimuraz Mgebrishvili resigned earlier this week.

Three other deputies – Archil Talakvadze, Shalva Khutsishvili and Zurab Gamezardashvili, retain their posts.

Announcing about new appointments, Interior Minister Giorgi Mgebrishvili said it was "the first stage of those fundamental staff and systemic changes that are planned in the Interior Ministry"; he also said without elaborating details that the planned "changes" will not apply the Patrol Police.

"Our goal is to have more efficient results in fight against crime," said Mgebrishvili, who during parliamentary hearings in late December acknowledged that number of "grave crimes has increased to some extent".

"I want to stress there will be no leniency, and no requests whatsoever no matter from whom will be heeded when it comes to lawbreakers and criminals," he said and also stressed that the state will have "policy of intolerance" towards crime.

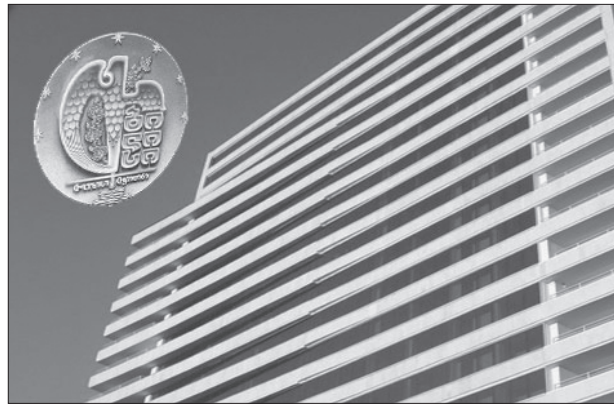
"Police will act in full compliance with the law and human rights and continue uncompromising fight against crime. Anyone who will disobey lawful orders of police and expresses disrespect towards police officers will be held accountable to the fullest extent of the law," the Interior Minister said.

"Fight against crime will be uncompromising and resolute; we will definitely succeed on this path," he said.

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NEW DEPUTY MAYOR OF TBILISI APPOINTED

Tbilisi City Council (Sakrebulo), dominated by councilors from ruling GD coalition, approved on January 15 Grigol Liliashvili as



new deputy mayor of the capital city, replacing Giorgi Solomonias, who resigned earlier this week.

Grigol Liliashvili has served as chairman of the supervisory board of ex-PM Bidzina Ivanishvili's Cartu Bank.

Liliashvili also served as chief executive in Ivanishvili-affiliated company involved in implementation of a controversial Panorama Tbilisi large-scale project to construct multi-functional complex on the hillside in the old part of the capital city. The plan is strongly opposed by preservationist groups, who argue that this oversized project will destroy Tbilisi's historic setting.

Opposition members of the Tbilisi Sakrebulo from the UNM party were against of Liliashvili's nomination, saying that this appointment was part of Ivanishvili's "informal rule".

"His [Liliashvili] actions will be determined by Ivanishvili's whims," Sevdia Ugrekheidze, Tbilisi Sakrebulo member from the opposition UNM party, said.

Liliashvili, who was approved with 40 votes to 4, said that "timely" implementation of infrastructure projects would be among his priorities.

Resignation of previous deputy mayor Solomonias, who was replaced by Liliashvili, came after PM Giorgi Kvirikashvili met on January 11 Tbilisi Mayor Davit Narmania and spoke about the need to speed up pace of implementation of infrastructure projects in the capital city.

Vice Mayor Giorgi Abashidze, and three other deputies of Tbilisi Mayor – Irakli Lekvinadze, Giorgi Khelaia and Nana Khatiskatsi, retain their posts.

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PRESIDENT SIGNS BILL ON ELECTORAL REDISTRICTING INTO LAW

President Giorgi Margvelashvili has signed a bill on redistricting of single-mandate constituencies into law, but said it was falling far short of much-needed broader electoral system reform.

Georgia has mixed electoral system in which 73 lawmakers in 150-seat Parliament are elected in 73 majoritarian, single-mandate constituencies, and remaining 77 seats are allocated proportionally under the party-list contest among political parties, which clear 5% threshold.

Opposition parties, both the parliamentary and non-parliamentary, as well as many civil society organizations and election monitoring groups have been calling for the majoritarian component of the electoral system to be scrapped by 2016 elections, requiring constitutional amendment. The President also backs this proposal. Georgian Dream ruling coalition, however, agrees to carry out this reform by 2020 elections.

Redrawing of electoral boundaries was proposed by the ruling GD coalition in an attempt to on the one hand maintain existing majoritarian component of the electoral system for 2016 parliamentary elections and on the other to address the long-standing issue of huge disparity in size of single-mandate constituencies.



The Georgian Constitutional Court ruled in May, 2015 that electoral districting, which had existed for many years, was undermining equality of vote because of large discrepancy in size of single-mandate constituencies – ranging from over 150,000 voters in the largest one to less than 6,000 voters in the smallest one.

The bill, approved by the Parliament in December, has significantly narrowed discrepancy between the size of constituencies through merging of small districts and splitting of large ones.

"These amendments do not in any way represent an electoral reform which we've been talking about for years already. These amendments are stemming from the requirements set by the Constitutional Court," President Margvelashvili said on January 8 while announcing about signing of the bill into law.

"Therefore, these are absolutely technical amendments and in fact we don't have electoral reform – the reform which would have provided full consent and consensus of political players on the rules of the game," President Margvelashvili said.

"An important process took place in this regard in 2015. Actually the entire political spectrum, both opposition parties and the ruling coalition agreed on what is better for the Georgian electoral system; the answer is clear – the best option is to switch to a proportional system," Margvelashvili said.

"The only difference is about the timeframe for implementing this reform," the President said.

"The entire political spectrum, non-governmental organizations, our international partners, moreover, a petition certified by over 240,000 signatures of the Georgian citizens, support to implement it in 2016. The ruling [GD] coalition thinks differently and intends to implement this reform by 2020," he said.

The President was referring to the petition, which was made possible as a result of the opposition parties' campaigning and based on which a draft of constitutional amendment was initiated, envisaging scrapping of the majoritarian component of the electoral system for 2016 elections. A separate constitutional amendment was proposed by the GD ruling coalition, which envisages the same reform for the post-2016 elections, which should be held in 2020. Support of at least 113 MPs is required for a constitutional amendment to be endorsed, meaning that neither opposition nor the ruling coalition will be able to pass their proposed drafts without each other's support.

"I think that it is not quite clear, why we should delay for four years doing of something that we all agree is good and acceptable. I call on all political forces to come to an agreement on this issue through more intensive consultations," President Margvelashvili said.

Asked why he did not veto the bill if he thinks that it fails to reform electoral system, the President responded: "Because this bill meets requirements set by the Constitutional Court by introducing technical amendments to the existing electoral code."

"This is correctly drafted bill in frames of requirements put forth by the Constitutional Court. This is not a bill about electoral reform," he added.

In late December, the President also signed into law a bill, proposed by the GD ruling coalition, which replaces plurality vote for electing majoritarian MPs in single-mandate constituencies with majority vote.

Under the previous rule a majoritarian MP candidate with more votes than others, but not less than 30%, was declared an outright winner of the race. According to the new rule, threshold required for an outright victory in the first round has increased from 30% to 50%. A second round runoff should be held if none of the candidate garners more than 50% of votes.

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GEORGIAN DEFENSE MINISTER VISITS AFGHANISTAN

Georgian Defense Minister, Tina Khidasheli, is visiting Afghanistan to meet Georgian troops serving in the NATO-led Resolute Mission, the Georgian Defense Ministry said on Thursday.



With about 870 soldiers, Georgia is the second largest troop contributor to the NATO-led Resolute Support mission in Afghanistan. Georgian troops are stationed at the German army's camp Marmal in Mazar-i-Sharif, performing duties of quick reaction force, as well as at the Bagram Air Field in the Parwan province and in Kabul.

Khidasheli met Georgian soldiers in Kabul at the Resolute Support mission headquarters and deputy commander of the mission Lieutenant General Tim Radford on January 13.

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RUSSIAN TROOPS IN BREAKAWAY SOUTH OSSETIA HOLD DRILLS

Russian troops in breakaway South Ossetia launched military exercises with participation of more than 2,000 soldiers at Dzartsemi firing range in north of Tskhinvali, the Russian Defense Ministry said on January 13.

It said that about 500 units of military hardware and weapons systems, among them T-72 BM tanks; BMP-2 and BMP-3 infantry fighting vehicles; Akatsia and Gvozdika self-propelled howitzers take part in the military exercises.

The Russian Defense Ministry reported in December, that throughout 2015 Russian troops, deployed in South Ossetia, received about 150 units of military hardware and various weapon systems, among them Iskander-M short-range ballistic missile system.

Iskander-M missile system, which was officially adopted by the Russian army in 2006, has a firing range of up to 500 kilometers.

Among other equipment and weapons delivered to South Ossetia in 2015 the Russian Defense Ministry also listed modernized main battle tanks, T-72B3, which entered service in 2011; BM-21 Grad multiple rocket launchers; Strela-10 short-range surface-to-air missile system; unmanned aerial vehicles Leer-3, as well as new electronic warfare complex Borisoglebsk-2, a ground vehicle designed to disrupt communications and GPS systems, which was adopted by the Russian army last year.

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CITING ALLIANCE WITH MOSCOW, SOKHUMI MULLS 'RESTRICTIVE MEASURES' AGAINST TURKEY

Authorities in breakaway Abkhazia will compile list of restrictions they plan to introduce in economic and trade ties with Turkey as part of Sokhumi's move to join Russia's sanctions against Ankara.

The breakaway region's Prime Minister Artur Mikvabia signed a decree on January 11 instructing ministries to propose for consideration before January 20 a list of specific measures – ranging from "strengthening control" over Turkish nonprofit entities operating in Abkhazia to banning import of some products from Turkey.

While most of the measures have to be elaborated by January 20, the decree has already banned hiring of Turkish companies or other entities "controlled" by Turkish citizens for implementing infrastructure projects carried out in Abkhazia with Russian aid funds.

The decree says that the move is pursuant to the treaty on alliance and strategic partnership between Russia and Abkhazia, which, among others, also envisages carrying out "coordinated" foreign policy.

The decision comes two weeks after Russian President's aide Vladislav Surkov visited Sokhumi to press authorities there for "coordinated" actions amid Turkey-Russia tensions following downing of a Russian fighter jet by Turkey in November.

According to the decree, the breakaway region's foreign ministry has to submit before January 20 to the government proposals to "strengthen control over interactions of the Abkhaz state entities, organizations and enterprises with entities under the jurisdiction of Turkey and/or organizations under control of Turkish citizens."

The breakaway region's justice ministry has been instructed "to submit before January 20, 2016 proposals on strengthening control over activities of those non-commercial organizations and entities, operating on the territory of Abkhazia, which are founded or managed by Turkish citizens, and/or organizations, which are under the Turkish jurisdiction and/or organizations controlled by the Turkish citizens."



The economy and agriculture ministries, as well as the customs service have been instructed to submit before January 20 proposals on "temporary restrictive measures on import of certain products, produced in Turkey."

Some Russian and Abkhaz sources estimate that trade with Turkey accounts for 18-20% of breakaway region's total foreign trade turnover.

Turkey is destination of about 10% of Abkhaz exports; it exports mostly coal, fish and scrap metal.

According to the breakaway region's deputy PM Dmitri Serikov, trade turnover between Abkhazia and Turkey amounted to 2.5 billion rubles (about USD 32.6 million as of Jan. 13) in the first ten months of 2015.

Serikov, who has been tasked with overseeing implementation of the PM's decree, said that Abkhaz exports to Turkey will not be affected by planned restrictions, which will only apply to import of some products from Turkey.

Abkhazia imports mostly building materials, fuel, food and textile from Turkey.

"Proposals from the ministries will be discussed by the cabinet by January 20; proposed [restrictive measures] will either be approved or not only after consideration by the cabinet," RFE/RL's Russian-language Ekho Kavkaza reported on January 12 quoting Serikov.

He said that the economic interests of Abkhazia will be a priority while making decision on specific restrictive measures.

"No one is going to cut off the branch on which we sit," deputy PM of the breakaway region said.

Some members of the breakaway region's parliament, Ekho Kavkaza reported, have expressed concerns over government's intention to impose restrictive measures, noting that it would affect businesses of those Turkish citizens in Abkhazia, who are representatives of Abkhaz diaspora in Turkey with whom Sokhumi tries to keep close ties.

Abkhaz MP Beslan Tsvinaria said that it was "a hasty decision".

"We are not taking into consideration that our diaspora lives there [in Turkey]," he told Ekho Kavkaza. "This decision will hit first and foremost our diaspora. I think this is not right."

Bloc of the Opposition Forces, which like the Abkhaz government condemned in November downing of a Russian fighter jet by Turkey, said in a statement on January 12 that the authorities should spare no effort in order to maintain ties with the Abkhaz diaspora in Turkey.

"Abkhazia is Russia's strategic partner... Of course participation of the Turkish companies in construction of facilities financed through Russian assistance is inadmissible. At the same time we believe that the Abkhaz authorities should do everything in their power in order not to allow cutting ties of our diaspora in Turkey with their historic homeland as a result of sanctions," reads the statement of Bloc of the Opposition Forces.

Turkish fishing vessels were actively involved in the fishery

along the Abkhaz Black Sea coast. But in mid-December Russia's federal fishing agency, Rosrybolovstvo, said that the Russian fishing vessels would launch fishery in the Abkhaz waters and would possibly also "replace" Turkish fishing vessels.

Economic activities in Abkhazia without authorization from the Georgian authorities represent violation of Georgia's legislation, including the law on occupied territories. At least four Turkish vessels were detained by the Georgian coast guard in 2013 for unauthorized entry to breakaway Abkhazia; but no such cases of detention of Turkish vessels were reported since then.

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ENERGY MINISTER ON TALKS WITH GAZPROM

Ongoing talks with Russia's Gazprom focus on terms of transit of Russian gas to Armenia via Georgia, as well as on possible import of additional volumes of gas from Russia on top of what the country is receiving as a transit fee, Energy Minister Kakha Kaladze said.

He said that Gazprom insists on change of current arrangement through which Georgia receives as a transit fee 10% of gas delivered by Russia to Armenia via pipeline running through Georgia.

Gazprom now wants to pay cash as a transit fee, Kaladze said in an interview with Imedi TV on January 11.

He said that Russia has been insisting to monetize fee for past two years.

"Talks are ongoing on the price – we want to get the same benefit in case of [monetization]," Kaladze said.

"No agreement has been achieved yet," he added.

Kaladze reiterated that due to Georgia's increasing gas consumption, the country may need to import additional gas volumes from Russia on top of what it has been receiving as a transit fee.

It, however, does not mean, Kaladze said, that Georgia will reduce volume of gas imported from Azerbaijan, which is the main source of gas supplies for Georgia – over 87% of total gas consumption.



Georgia's gas consumption increased by 19% year-on-year to 2.59 billion cubic meters in 2015, according to the Energy Minister.

In recent days Kaladze, who has met Gazprom chief executive Alexei Miller for three times since September, has again become a target of opposition's criticism.

The United National Movement (UNM) opposition party has accused Kaladze of "holding covert talks" with Gazprom, which "poses threat to country's energy independence." UNM MP Nugzar Tsiklauri said on January 11 that the party will launch street protest rallies if the authorities refuse to make public details of talks. UNM has asked the Energy Minister for number of times to appear in the Parliament before opposition lawmakers to brief them about ongoing talks.

"There is a very small part of the society, called the United National Movement, which tries to politicize these negotiations," Kaladze said.

He said that talks aim at getting the best possible option for the country and added that it is impossible for Georgia to become dependent on Russian gas supplies as the country has long-term agreements with its major supplier and "strategic partner" Azerbaijan.

"We have long-term contracts with Azerbaijan [on gas supplies]; Azerbaijan is our strategic partner and its interests are not damaged in any way. Volume of gas received from Azerbaijan is not threatened," the Georgian Energy Minister said, adding that Georgia was receiving additional gas volumes on top of the transit fee from Russia even when UNM was in power.

"Georgia cannot become dependent on Russian gas ... Georgia's gas supplies are diversified," he said, adding that there might be a possibility to also receive gas from Iran sometime in the future "if the price is competitive."

On January 12 Kaladze and several senior lawmakers from the ruling GD coalition met a group of Georgian commentators and analysts, who have been complaining that the ministry was not properly communicating its position with the public, fueling speculation over its talks with Gazprom.

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HEAD OF SOCAR HOLDS TALKS IN TBILISI



President of Azerbaijani state energy company SOCAR, Rovnag Abdullayev, held talks with Georgian PM Giorgi Kvirikashvili and Energy Minister Kakha Kaladze in Tbilisi on January 13.

The visit came amid Georgia's talks with Russia's Gazprom on terms of transit of Russian gas to Armenia via Georgia and on purchase of additional gas from Gazprom.

Energy Minister Kakha Kaladze says that Georgia will need additional volumes of gas to fill the gap amid increasing gas consumption in Georgia.

Kaladze says that further increase of supplies from Azerbaijan, which provides about 87% of Georgia's annual gas needs, is not possible because of "technical" reasons, especially during the winter period when gas consumption peaks in Georgia.

Georgia receives gas from two sources in Azerbaijan. About 720 million cubic meters of Azerbaijani gas came in 2015 as part of the deal in frames of the BP-operated South Caucasus Pipeline, which transports gas from Shah Deniz offshore field in the Caspian Sea to Turkey via Georgia. 1.35 billion cubic meters were imported in 2015 as part of a separate contract with SOCAR, according to data provided by the state-owned Georgian Gas Transportation Company.

"We have discussed the existing situation, technical problems and deficit that Georgia has... during consumption peak, especially in the winter period and when the gap is filled by Russian gas," Kaladze said. "Today it is technically impossible to receive [more gas from Azerbaijan during consumption peak] and it has been the case for years – we have been filling the gap from Gazprom; that has been happening for years already and will probably continue."

"SOCAR's pipelines, through which we receive gas, work at their full capacity. But there is a possibility and we plan to imple-

ment a project, which will allow us to increase their capacity," Kaladze said.

He said that "additional investments" will be required, specifically for a gas compressor station, in order to increase volume of gas supplied by SOCAR.

Kaladze, however, also added that it will not be possible to complete these works this year, indicating that Georgia will require increasing supplies from Gazprom to offset the deficit.

Georgia receives as a transit fee 10% of Russian gas delivered by Gazprom to Armenia via Georgia. Gazprom wants to pay cash as a transit fee instead of giving Georgia 10% of gas transported to Armenia. On top of gas received as transit fee, Georgia purchased 61.1 million cubic meters of gas from Gazprom in 2014. Georgia received total of about 295 million cubic meters of gas from Russia in 2015, according to data provided (without detailed breakdown of what was a precise share of transit fee in this total amount) by the Georgian Gas Transportation Company. In separate remarks on January 12 Kaladze said that the deficit that Georgia will have to fill, most likely by purchasing Gazprom gas, may reach 300-400 million in 2016.

After talks with SOCAR leadership, Energy Minister Kaladze also stressed that completion of the second phase of Shah Deniz project, expected by 2019, will help Georgia to fill the existing gap in gas supplies.

"It is also very important that the second phase of Shah Deniz project is scheduled to be completed by 2019, which will also allow us to receive additional natural gas," Kaladze said.

Chief executive of SOCAR's Georgian subsidiary, Mahir Mammadov, who was also present at the meeting with the Georgian PM and Energy Minister, said that "technical capacities of gas supplies, especially during peak period," were discussed.

"We discussed how to fill the deficit. We have agreed that our expert groups will work on this issue... We will try to increase supplies [from current 6-6.5 million cubic meters per day] to 7 million cubic meters. On the other hand we are also exploring possibilities to offset this deficit during the winter period by increasing supplies [to Georgia] from Shah Deniz project [via South Caucasus Pipeline]," Mammadov told journalists after the meeting.

The Georgian Energy Minister reiterated "strategic partnership" with Azerbaijan and added that SOCAR has expressed interest towards Georgia's planned gas storage facility. Kaladze said that Georgia plans to launch construction of the gas storage in 2016.

Mammadov said that Azerbaijan "welcomes and supports" Georgia's plans to build gas storage facility and confirmed that

SOCAR is interested in participation of the project. He said "format of our participation" will be defined in further negotiations.

"But today we already have willingness and consent from the both sides to jointly implement this project," Mammadov added.

In his opening remarks at a meeting with the SOCAR President Rovnag Abdullayev, Georgian PM Giorgi Kvirikashvili reiterated strategic partnership with Azerbaijan.

"Strategic partnership with Azerbaijan is extremely important for us. Despite of all the political speculation we've been hearing in recent days, strategic relations with SOCAR are very important. We are ready to consider further development and broadening of cooperation. Azerbaijan is our friend, strategic partner," PM Kvirikashvili said.

"Nothing else matters. In this spirit we are ready to discuss with you our future relations and to solve all the problems that may exist. I think that no technical problems whatsoever should serve as an obstacle for further development of our relations," the Georgian PM said.

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REMITTANCES DOWN BY 25% TO USD 1.08 BLN IN 2015

Money transfers from abroad to Georgia in 2015 declined by 25% year-on-year to USD 1.08 billion, according to figures released by the National Bank of Georgia on Friday.

Decline was mostly caused by sharp drop in transfers from Russia, which is Georgia's major source of remittances, as well as from Greece.

Transfers from Russia declined by 39% y/y to USD 432.68 million in 2015. Russia's share in Georgia's total remittances declined from 49.2% in 2014 to 40% in 2015.

Despite 42.5% y/y decline in transfers from Greece, the latter was still Georgia's second largest source of remittances in 2015 with USD 117.68 million.

Greece was followed by Italy with USD 109 million (down by 10.2% y/y); the United States – USD 91.42 million (11.5% y/y increase); Turkey – USD 68.87 million (up by 7.1% y/y); Israel – USD 32.78 million (38.9% y/y increase); Spain – USD 26.69 million (down by 4.6% y/y); Germany – USD 26.64 million (up by 10% y/y).

Transfers from Ukraine, which was Georgia's sixth largest source of remittances in 2014, declined by 32.4% y/y to USD 20.81 million in 2015.

Remittances stood at USD 1.44 billion in 2014, down by 2.45% y/y.

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The secret pact between Russia and Syria that gives Moscow carte blanche

Syrian President Bashar al-Assad visited Russian President Vladimir Putin in October 2015, weeks after Russia began a bombing campaign to support the embattled Syrian leader. (Reuters/Kremlin Pool)

When you are a major nuclear power and you want to make a secretive deployment to a faraway ally, what is the first thing you do? Draw up the terms, apparently, and sign a contract.

That's what the Kremlin did with Syria in August, according to an unusual document posted this week on a Russian government website that details the terms of its aerial support for Syrian President Bashar al-Assad.

Among other revelations in the seven-page contract dated Aug. 26, 2015, the Kremlin has made an open-ended time commitment to its military deployment in Syria, and either side can terminate it with a year's notice.

Russian military personnel and shipments can pass in and out of Syria at will and aren't subject to controls by Syrian authorities, the document says. Syrians can't enter Russian bases without Russia's permission. And Russia disclaims any responsibility for damage caused by its activities inside Syria. Since Russia's bombing campaign started at the end of September, Assad's forces have been able to recapture some territory from rebels, and much of the humanitarian aid to the country has come to a halt. A war that already looked intractable now seems more so.

Russian-Syrian military pact

Russia has deployed about 70 military planes to Syria, according to Russian news accounts, and the Defense Ministry has said that it has flown 5,500 sorties.

At the time the document was signed, Russia was publicly denying any stepped-up military commitment to Syria. Over the month of September, as the Russian military radically stepped up shipments to its military bases near the Syrian coast, the official Kremlin line was that they were simply performing routine maintenance there.

But two days after Russian President Vladimir Putin delivered an address at the U.N. General Assembly, he announced that Russia would begin bombing in Syria to fight the Islamic State. Western governments have said that in reality, Russia has concentrated on raiding territories of Syria held by other rebel groups arrayed against Assad, including those backed by the United States.

"I think this is an unprecedented document. It falls under the logic of operations of the Russian side in Syria," said the head of the foreign affairs committee of Russia's upper house of parliament, Konstantin Kosachev, the Interfax news agency reported Friday.

"This logic means that our operations need a firm, and clear, legal foundation understandable to everyone," Kosachev said.

We've translated most of the document underneath. The signatures are illegible and no names are listed in the document itself, but Moscow's Vedomosti newspaper reported, citing an unnamed source, that it was Russian Defense Minister Sergei Shoigu and Syrian Defense Minister Fahd Jassem al-Freij.

The contract:

Agreement between the Russian Federation and the Syrian Arab Republic on deployment of an aviation group of the Russian Armed Forces on the territory of the Syrian Arab Republic.

The Russian Federation and the Syrian Arab Republic, further on referred to as "parties to the agreement," based on the provisions of the Treaty of Friendship between the Union of Soviet Socialist Republics and the Syrian Arab Republic from October 8, 1980, as well as agreements signed between the Ministry of Defense of the Russian Federation and the Ministry of Defense of the Syrian Arab Republic on July 7, 1994, and in accordance with the mutual aspiration to protect the sovereignty, territorial integrity and security of the Russian Federation and Syrian Arab Republic;

Recognizing that the deployment of Russian aviation group on the territory of the Syrian Arab Republic is aimed at maintaining peace and stability in the region. Its purpose is purely defensive, and is not directed against any other state;

Confirming the commonness of tasks of fighting against terrorism and extremism;

Realizing the necessity of consolidating efforts in counteraction to terrorist threats;

Agreed on the following:

Article 1

Terms of the Agreement

Article 2

Subject of the Agreement

Upon the request of the Syrian side, the Russian Federation is deploying a Russian aviation group on the territory of the Syrian Arab Republic.

Place of deployment of the Russian aviation group and the list of facilities transferred over to the Russian side are stipulated in a separate protocol to the present agreement.

For the deployment of the Russian aviation group, the Syrian side provides Hmeimim airbase in Latakia province, with its infrastructure, as well as the required territory agreed upon between the parties.

Hmeimim airbase and its infrastructure are provided for use by the Russian Federation without charge.

The engagement of the Russian aviation group shall be carried out upon the decision of the commander of the group and in accordance with the plans agreed upon between the parties.

Article 3

Authorized Agencies

Article 4

Composition of the Russian Aviation group

Composition (type and quantity of air equipment, ammunitions and military equipment as well as size of personnel) of the Russian aviation group shall be defined by the Russian side upon the agreement with the Syrian side.

The organizational chart and list of staff of the Russian aviation group shall be developed, approved and amended by the authorized agency of the Russian party, notifying the authorized agency of the Syrian party.

Article 5

Importing and exporting of property and travel of personnel

The Russian party shall have the right to move into the Syrian Arab Republic and move out from the Syrian Arab Republic any equipment, ammunition, shells and other materials required for



the aviation group, without any fees or duties.

All movable property and objects of infrastructure temporarily deployed by the Russian party on Hmeimim airbase shall remain the property of the Russian Federation.

Personnel of the Russian aviation group shall be able to freely cross the border, upon presenting travel documents valid for exit from Russia, and shall not be subject for customs or border control.

Article 6

Immunity and privileges

The Russian servicemen shall respect the laws, customs and traditions of the country of sojourn, of which they will be informed upon their arrival in Syria.

The Russian military contingent shall be immune from Syria's civilian and administrative jurisdiction.

Movables and immovables of the Russian aviation group shall be inviolable. Representatives of the Syrian Arab Republic shall not have the right to enter the place of deployment without prior agreement with the commander.

The servicemen and their families enjoy all the privileges under the 1961 Vienna Convention on Diplomatic Relations.

Any property belonging to the Russian aviation group has been declared immune and inviolable.

Syria has also pledged to exempt the Russian air group from any direct and indirect taxes.

Click here for more information!

Article 7

Settlement of claims

The Syrian Arab Republic shall not lodge claims to the Russian Federation, the Russian aviation group and its personnel, and shall not file any suits related to the activity of the Russian aviation group and its personnel.

The Syrian Arab Republic assumes responsibility for settling all claims that could be put forward by third parties as a result of damage caused by the activities of the Russian air group and its personnel.

Article 8

Tax benefits

The Syrian Arab republic exempts the Russian aviation group from any direct and indirect taxes.

Article 9

Amendments to the Agreement

Upon agreement between the parties the present agreement can be amended. The amendments shall be stipulated in separate protocols.

Article 10

Settlement of disagreements

All disagreements arising from using or interpreting of the present agreement shall be settled through consultations.

Article 11

Effective Date

The agreement is temporarily used from the date of its signing and enters into force as of the date of notification via diplomatic channels of fulfillment of the parties' internal procedures.

Article 12

Term of the Agreement and its Termination

This agreement is for an indefinite period. It can be terminated by any of the signatories upon written notification. In this case, the agreement loses validity a year after the notification has been received by the other side.

The agreement was signed in Damascus on August 26, 2015, in Russian and Arabic, with both texts being equally authentic.

Materials required for the aviation group, without any fees or duties.

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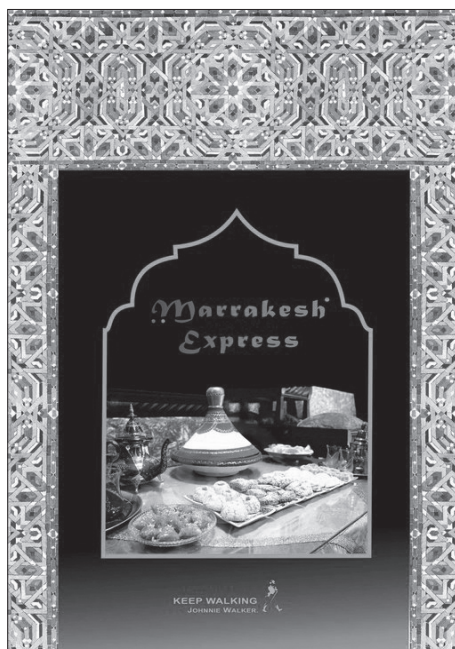
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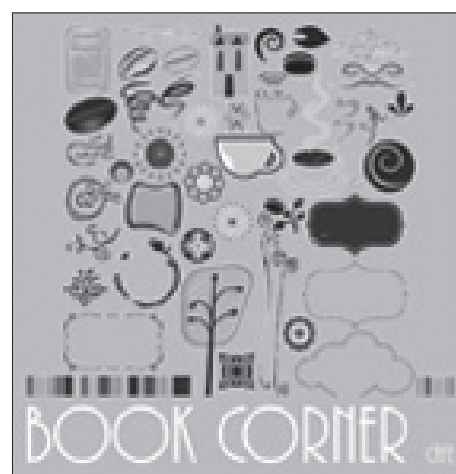
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