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ALCOHOLIC BEVERAGE SECTOR IN GEORGIA

SECTOR OVERVIEWS

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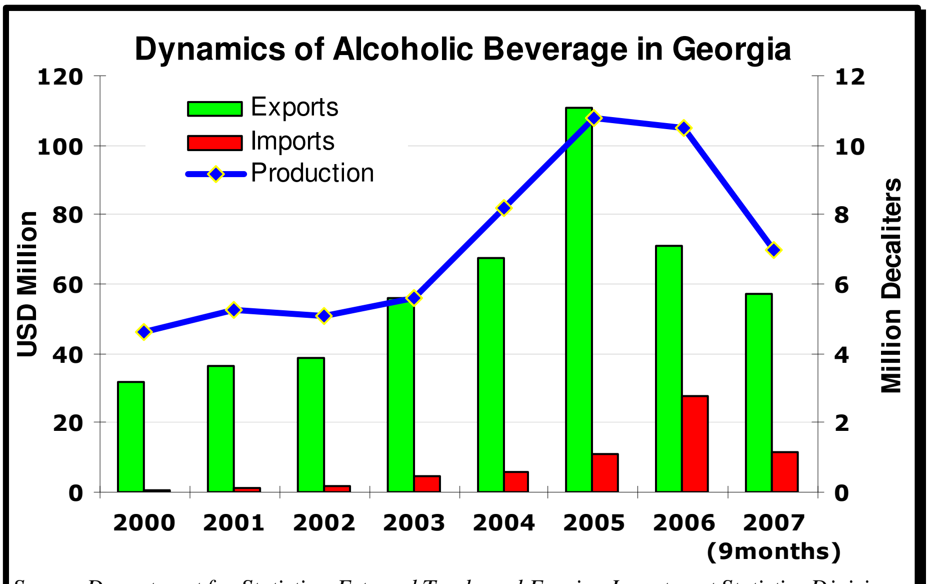
SECTION 1. EXECUTIVE SUMMARY

The alcoholic beverage sector in Georgia is struggling to establish its place on the foreign market. As market competition is stiff, experts assert it will be challenging for the Georgian alcoholic beverage to reinforce its position on European, American, and Asian markets without adequate quality and price combinations. In 2006, the volume of wine exports represented USD 41.05 million, while the total exports of alcoholic beverages represented USD 71.13 million. In data from 2007 (11 months), the volume of wine exports decreased by 37.1% from 2006. This can be explained by the fact that local wine producers serve about 98% of the local market and demand for wine in local market has experienced recent growth. In addition, exports of other alcoholic beverages (besides wine) has grown by 66% over the previous year and totaled USD 49.96 million. In accordance with this data, the total export value represented USD 75.76 million, a 6.5% increase over the previous year. In 2007 Ukraine represented the largest alcoholic beverage export destination country for Georgia (wine volume – USD 12.73 million, other alcoholic beverages – USD 46.55 million). Kazakhstan takes second place, followed by Azerbaijan, Belarus, Latvia, and the United States. In total, Georgia exported alcoholic beverages to 34 countries in 2007.
In 2006, imports of alcoholic beverages to Georgia increased by 39.5% over the previous year and netted profits of USD 27.6 million. The biggest share of alcoholic beverage imports to Georgia has been Turkey at 31.9%, followed by France, Russia, and Ukraine. Most of these imports are alcoholic beverages in the form of tequila, whisky, rum, liqueur, cognac, and champagne.

The dynamics of the alcoholic beverage sector during the last few years is shown on the chart below:



Source:Department for Statistics. External Trade and Foreign Investment Statistics Division

SECTION 2. SECTOR'S STRUCTURE

According to the Ministry of Agriculture, the total number of registered companies producing alcoholic beverages in Georgia amounts to 218. In fact, 180 companies are functioning, and 35 companies out of these are engaged in export activities.
There is a wide range of alcoholic beverages produced in Georgia, but most of these are wine, sparkling wine, vodka, liqueur, brandy, and different spirit drinks. Often, wine, vodka and chacha are produced by households for personal use or for sale at bazaar outlets. Wine continues to be the most demanded alcoholic beverage in Georgia. The total given excise stamps to the sector equaled 25 million (USD 10.7 million), out of which 77.5% was given to vodka, 9.5% to sparkling wine, 7.3% to wine, 1.3% to liqueur and 1% to different spirit beverages. The remaining 3.4 percent of excise stamps were given to champagne, tequila, whisky, rum etc. Excise payments for domestic producers and importers are the same. In 2008 prices for wine exports will be increased by approximately 15% from 2007, while on the local market prices are not expected to increase significantly. In 2007, the average sales of Georgian alcoholic beverages, principally wine, in comparison to the 2006 sales level, increased in Ukraine by 160-180%, in Kazakhstan by 80-90%, and in Poland by 20-25%.

SEGMENT 1.

Wine

The number of excise stamps given to this segment is relatively low due to high exports. The key industry players are export-oriented, export activities reaching 80-95% of total production. The Georgian wine market is divided into two main segments: semisweet – representing about 65%, and dry – about 35%. Due to climate and soil characteristics, Georgia is divided into five main wine producing regions: Kakheti, Kartli, Imereti, Rach-Lechkhumi and the Black Sea Subtropical Zone. The opinion of sector representatives is that the best vineyards for wine production are located in the Kakheti and Kartli regions of Georgia.

Significant investments have been made to expand the sector and to implement further development. At present most of the companies are equipped with up-to-date production facilities; however, the modernization process is still underway. The modernization process will allow companies to increase production capacities and improve the whole winemaking process. For further sophistication of the segment's production, most industry key players collaborate with the most advanced laboratories abroad, where all technological processes of winemaking are conducted, in order to guarantee the best wine for the consumer and continue Georgia's reputation Georgia as the birthplace of wine.

The main players in this segment include: Tiflis Wine Celler Ltd, Georgian Wines & Spirits Company Ltd, Tbilvino JSC, Telavi Wine Celler Ltd, Badagoni Ltd, Teliani Valley JSC, Taro BZI Investment Incorporation in Georgia, Vaziani JSC, Hareba Ltd, Corporation Kindzmarauli JSC, Tbilvazi Ltd, Mildiani Family Ltd, Shumi JSC, Tiflis Marani Ltd.

SEGMENT 2.

Sparkling Wine

The best vineyards for sparkling wine (Shushkhuna Gvino) production are located in the regions of Kartli and Imereti. In 2007, sparkling wine sales increased by an average of 30% over the previous year. The mostly domestic market is serviced by local producers, who maintain about 99% of the market. About 10% of both locally produced and imports are top market oriented.

The main players in this segment include: Bagrationi 1882 JSC, Vaziani JSC, and Teliani Valley JSC.

SEGMENT 3.

Vodka

The 2006 production capacity of vodka has increased by 34.4% over the previous year. In 2007 the total amount of excise stamps represented 19.4 million (23.8% growth over the previous year), out of which 79.8% was due to domestic players. According to data from 2007 (11 months), exports of vodka has increased by 66.1% over 2006.

The main players in this segment include: Gomi Spirits & Vodka Company JSC, Ushba Distiller Ltd, Samgori Alko #1 Vodka & Liqueur company Ltd, Askaneli Brothers Ltd. And the following vodka brands are imported: Nemiroff, Premial, Absolut, Souz-Viktan, Parliament, Kremlyovskaya, Smirnoff, Stolichnaya, and Yamskaya.

SEGMENT 4.

Beer

Beer is a steadily growing segment with high potential on both local and foreign markets. Beer production capacity grew in 2006 by 23.7% over the previous year. The growth in the demand for beer in the local market over previous years is approximately 5-7% per annum and the main export destination countries for Georgian beer are Azerbaijan, Armenia, Kazakhstan, and Ukraine.

The main players of this segment include: Kazbegi JSC, Lomisi (Natakhtari Brewery) JSC, and Castel - Georgia Ltd.

Production Dynamics of the Alcoholic Beverage Sector (million decaliters)

	2000	2001	2002	2003	2004	2005	2006	2007 (9months)
Vodka & Liqueur	0.4	0.5	0.1	0.1	0.4	0.6	0.8	0.5
Brandy	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1
Wine	1.7	2.0	2.0	2.3	2.7	3.9	2.1	0.6
Beer	2.3	2.6	2.7	2.8	4.8	5.9	7.3	5.7
Champagne	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Total	**4.6**	**5.3**	**5.1**	**5.6**	**8.2**	**10.8**	**10.5**	**7.0**

Source: Department for Statistics. External Trade and Foreign Investment Statistics Division

SECTION 3. HUMAN RESOURCES

In data from 2007 (9 months), the alcoholic beverage sector employed approximately 5,000 people within Georgia.

Trainings for the sector representatives are organized by the companies' top management, which recruit highly-specialized trainers and foreign short-term consultants. In addition, on-the-job trainings are implemented.

SECTION 4. RAW MATERIALS

The availability of raw materials is satisfactory given that producers have developed their own acquisition channels, and major alcoholic beverage producers have direct contacts with raw material manufacturers. This arrangement allows producers to control the cost and quality of raw materials, and there is a wide variety of importers and raw material wholesalers from which producers may choose.

SECTION 5. RESEARCH & DEVELOPMENT

Only the wine and sparkling wine segments have made significant investments in research and development. Researches are mainly delivered internally by company management or are implemented through business consulting companies.

SECTION 6. STANDARDIZATION

The following alcoholic beverage companies have issued an ISO 900x quality certificate:

Company	Activity	Standard
Badagoni Ltd.	Wine producer	ISO 9001:2000; ISO 22000:2005
Georgian Wines & Spirits Company Ltd.	Wine producer	ISO 9001:2000
Gomi Spirits & Vodka Company JSC	Vodka & Spirits producer	Will issue in July, 2008 ISO 9001:2000
Teliany Valley	Wine & Spirits producer	ISO 9001:2000; ISO 22000:2005
Telavi Wine Celler Ltd.	Wine producer	ISO 22000:2005; ISO 9001:2000
Ushba Distiller Ltd.	Vodka Distiller	Will issue in spring, 2008 ISO 9001:2000
Saradjishvili JSC	Cognac & Liqueur producer	ISO 9001:2000; ISO 22000:2005
Mildiani Family Ltd	Wine producer	Will issue in February, 2008 ISO 22000:2005; ISO 9001:2000
Shumi JSC	Wine Producer	ISO 9001:2000
Kindzmarauli Marani Ltd.	Wine Producer	ISO 9001:2000; ISO 22000:2005

SECTION 7. LEGISLATION

According to Georgian legislation, companies have to be registered and issued with a specific certificate. The wine-making process is controlled by the juridical face of public law, SAMTREST, which is controlled by the Ministry of Agriculture of Georgia.

SECTION 8. MAJOR ALCOHOLIC BEVERAGE SECTOR COMPANIES

Among companies based on foreign capital include: Georgian Wines & Spirits Company Ltd, Telavi Wine Celler Ltd, Badagoni Ltd, Teliani Valley JSC, Taro BZI Investment Incorporation in Georgia, Bagrationi 1882 JSC, Ushba Distiller Ltd, and Kazbegi JSC.

The key players of Georgian alcoholic beverage market are:

Tiflis Wine Celler Ltd 27, Jumashev St. 0198 Tbilisi, Georgia Tel.: (+995 32) 407 200 Fax.: (+995 32) 407 181	**Georgian Wines & Spirits Company Ltd** Achinebuli 2200 Telavi, Georgia 0108 Tbilisi, Georgia Tel.: (+995 35) 076 051 Fax.: (995 35) 050 065 www.gws.ge
Tbilvino, Tbilisi JSC 2, Saradjishvili Ave. 0153 Tbilisi, Georgia Tel.: (+995 32) 651 625 Fax.: (+995 32) 651 461 www.tbilvino.com.ge	**Telavi Wine Celler Ltd** 2, Marshal Gelovani Ave. 0159 Tbilisi, Georgia Tel.: (+995 32) 985 296 Fax.: (+995 32) 985 296
Badagoni Ltd 4, Tavisupleba square 0105 Tbilisi, Georgia Tel.: (+995 32) 936 243 Fax.: (+995 32) 936 243 www.badagoni.ge	**Teliani Valley JSC** 2, Marshal Gelovani Ave. 0159 Tbilisi, Georgia Tel.: (+995 32) 313 245 Fax.: (+995 32) 313 249 www.telianivalley.com
Taro BZI Investment Incorporation in Georgia 62, Chavchavadze St. 0162 Tbilisi, Georgia Tel.: (+995 32) 294 659 Fax.: (+995 32) 294 759 www.taro.ge	**Vaziani JSC** Orhevi Settlement. Ahvlediani Line, 8 0109 Tbilisi, Georgia Tel.: (+995 32) 768 966 Fax.: (+995 32) 768 749 www.vaziani.ge
Khareba Ltd. 1, Rustaveli Ave. 0108 Tbilisi, Georgia Tel.: (+995 32) 988 396	**Bagrationi 1882 JSC** 12, D.Saradjishvili Ave. 0153 Tbilisi, Georgia Tel.: (+995 32) 651 236 Fax.: (+995 32) 652 432 www.bagrationi.ge
Gomi Spirits & Vodka Company JSC 149, B. Khmelnitsky St. 0136 Tbilisi, Georgia Tel.: (+995 32) 791 817 Fax.: (+995 32) 790 190	**Ushba Distiller Ltd** 20, Kairo St. 0137 Tbilisi, Georgia Tel.: (+995 32) 700 911 Fax.: (+995 32) 701 654 www.ushba.ge
Samgori Alko #1 Vodka & Liqueur company Ltd Lilo Settlement. 12, Jumashevi St. 0151 Tbilisi, Georgia Tel.: (+995 32) 407 052	**Askaneli Brothers Ltd** 110 A, Kakheti highway 0151 Tbilisi, Georgia Tel.: (+995 32) 407 777 Fax.: (+995 32) 407 777
Lomisi JSC (Brewery Natekhtari) Georgia Natakhtari, Mtskheta Reg Tel.: (+995 32) 261 137 Fax.: (+995 32) 261 137 www.natakhtari.ge	**Kazbegi JSC** 6, Mshvidoba St. 383040 Rustavi, Georgia Tel.: (+995 34) 156 134 Fax.: (+995 32) 156 124 www.kazbegi.com

Saradjishvili JSC 4, D.Saradjishvili St. 0153 Tbilisi, Georgia Tel.: (995 32) 654 444 www.saradjishvili.ge	**Wine Company SHUMI Ltd** 42, Shalva Nutsubidze, Georgia 0177 Tbilisi, Georgia **Tel.:** (995 32) 399 034 **Fax.:** (995 32) 399 034 www.shumi.ge
Mildiani Family Ltd 5, Jikia St. 0186 Tbilisi, Georgia Tel.: (995 32) 209 999 Fax.: (995 32) 209 998 www.mildiani.ge	**Corporation Kindzmarauli JSC** Erekle Tatishvili Line # 4 0179 Tbilisi, Georgia Tel.: (995 32) 230 054
Kindzmarauli Marani Ltd. 88 Paliashvili St. 0179 Tbilisi, Georgia Tel.: (995 32) 917 337 www.kmwine.ge	**Tiflisi Marani Ltd.** Village Vaziani, Gardabani Region 1310, Georgia Tel.: (995 32) 507 590 Fax.: (995 32) 507 593 www.tmarani.ge

SECTION 9. MAIN REASONS TO INVEST IN THE ALCOHOLIC BEVERAGE SECTOR IN GEORGIA

1. Low production costs (cheap, self-initiated, intensive labor force)
2. Relatively inexpensive raw materials
3. Big leap forward: Development of sector potential
4. A stable and growing economy
5. Target potential: Georgia is located close to the target markets of the Caucasus, Black Sea, Russia, Central Asia, the Balkans and the EU (1 billion person market potential)
6. European and international standards are rapidly being implemented

SECTION 10. INVESTMENT OPPORTUNITIES

Development of the Georgian bio-wine segment: According to “Elkana” consultant of vinery and wine making – George Barisashvili - in an interview with “24 Hours, “Demand for bio-wine production has increased by 200 % in Europe. Local bio-wine makers do not produce the wine in large quantities, and only several farmers are certified to bottle bio-wine in Georgia. In 2007, 20 000 bottles of bio-wine were produced in Georgia. In 2009 the number of bottles will be augmented by 200 to 300 thousand, but when factories are provided with adequate certificates, the bio-wine production is expected to soar to 6-7 million bottles. Provided the plan is implemented, Georgia will make a dramatic leap forward”. Issue “24 Hours” 10th of December, 2007 # 281.

Development of wine exports to Western and Eastern Europe (e.g. Poland) markets: The major constraint facing the Georgian wine industry in servicing Western markets is being able to produce wines suitable to the taste of Western consumers. Furthermore, due to stringent western market standards, the lack of modern and hygienic equipment may also hinder growth. It will be extremely difficult to develop markets without attention to these factors. While Georgia is not currently widely perceived as a source of wine by consumers in Western Europe, experts say that Western European consumers have traditionally been consuming similar wine.

Tourism: There is opportunity for the Georgian alcoholic beverage sector to develop sales via tourism. Georgia has a strong cultural and artistic tradition of wine making and cuisine, which represents long-term tourist attractions that can play significant role in the sector's further development and attraction for investors.

Renascence of Georgian Vines and Vineyards: Kakheti, Kartli, Imereti, Rach-Lechkhumi and Black Sea Subtropical Zones are the main Georgian wine producing regions. Currently part of the vineyards are deserted and need additional care. Efficient investment would encourage manufacturing and attract foreign markets to Georgian natural, sparkling wine.

Fulfillment of Free Niches and Further Development of Potential: The alcoholic beverage sector is rapidly growing due to huge natural resource capabilities and a large potential. Current niche markets can be observed in the sparkling wine sector.

Ltd. Sakartvelo (wine producing company). For further information about the company please contact Boris Gogichaishvili, Director General. Tel: +995 370 7 01 32; Fax: +995 370 7 01 32; Mob: +995 99 23 15 15.

Ltd. Kartuli Gvinis Imperia (wine producing company). For further information about the company please contact Boris Gogichaishvili, Director General. Tel: +995 370 7 01 32; Fax: +995 370 7 01 32; Mob: +995 99 23 15 15; website: www.empirewines.ge

SECTION 11. SECTOR STAKEHOLDERS

1. **Invest in Georgia. National Investment Agency**
   Ms. Tamuna Liluashvili, Director
   6 Khetagurovi Street, Tbilisi 0108, Georgia
   Telephone: 995-32-43-34-24; Fax: 995-32-92-11-22
   E-Mail: tamunal@investingeorgia.org
   Website: www.investingeorgia.org

2. **Ministry of Agriculture of Georgia**
   Mr. Petre Tsiskarishvili, Minister
   6 Marshal Gelovani Avenue, Tbilisi, Georgia 0159
   Telephone: +995 (32) 37 80 09; Fax: +995 (32) 37 80 13
   E-mail: ministry@maf.ge
   Website: www.maf.ge