

# REGIONAL ECONOMIES

## GEORGIA: CONFLICT REGIONS AND THE ECONOMY

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### *I n t r o d u c t i o n*

The conflicts in Abkhazia and South Ossetia have been of considerable detriment to Georgia and perceptibly reduced its economic potential. The current situation has directly or indirectly given rise to the following problems: the economic borders of the state and domestic market are unprotected, smuggling and criminalization of business are growing, there is a high level of shadow transactions in the economy and corruption, there is a severe financial and budget crisis caused by low tax collection and a growing balance of trade deficit, there is drop in investments and leak in capital, the foreign debt is increasing, production has undergone a severe slump, and financial and material resources are being allocated from the

state budget, which is limping anyway, to resolve the social problems of refugees and forced migrants. To these problems should also be added the extreme poverty of the refugees, their homelessness, the unbearable living conditions in temporary shelters and the threat of political destabilization caused by this threat, the decline in the size of the population (depopulation) due to emigration and the sharp drop in the fertility rate, and the rise in crime (including among refugees, most of whom are unemployed).

These conflicts are particularly prevalent in the border regions. The main land routes connecting Georgia with Russia and other European countries pass through their territory.

### **1. Smuggling or Who is Reaping Benefits from the Conflicts**

Smuggling has reached dimensions that are threatening the country's economic security. Goods are shipped by many routes without the proper registration. The conflict regions have a large part to

play in this, since in addition to the central routes, where customs services and control check points are in operation, they can offer a wealth of alternative, roundabout ways that can be used to transport goods illegally.

Keeping in mind that Moscow adopted a unilateral decision to introduce a visa system for Georgian citizens, and South Ossetia and Abkhazia have been granted certain privileges, we can expect an increase in shipments of unregistered and untaxed merchandise from Russia into the conflict zones. These territories have essentially already become "free trade zones" for the country, from where the flow of smuggled goods, as mentioned above, is spreading throughout its entire territory, disrupting the domestic market, creating competition for organized import, and is becoming a serious problem for the country's economic security.

Despite the decision by the CIS Heads of State Council (19 January, 1996) on reducing economic cooperation with the separatist authorities of Abkhazia, Russian governmental and nongovernmental structures, as well as the leaders of the regions bordering on Abkhazia, are actively cooperating with the separatists. However, this decision clearly states that without the consent of the Georgian government, the CIS republics shall not carry out economic trade, financial, transportation, and other transactions with the authorities of Abkhazia, shall not establish official contacts with representatives of the official structures existing on its territory, or with members of the military formations they have created, shall not support the separatist regime, shall not create political, economic, and other types of alliances with it, and shall not render it economic, financial, and military assistance.

Moscow's violation of these demands is of course aggravating Russian-Georgian relations. For example, in July 1998, the State Duma adopted a resolution obligating the Russian president to unilaterally change the border and customs conditions on the Abkhazian section of the Georgian-Russian border. This resolution can be assessed as an attempt to abolish the economic sanctions established for the Abkhazian separatist regime under the auspices of the CIS and in compliance with U.N. documents, particularly since Moscow has essentially begun executing this document.

After abolishing the economic sanctions (without political settlement of the conflict), Russian investments in Abkhazia significantly increased, which in turn may pique those financial and material interests of Russian state or private structures that could create a serious obstacle to restoring Georgia's territorial integrity.

Tbilisi is trying to use the levers it has to counteract Moscow's legal aggression. In particular, on 5 December, 2002, the Georgian parliament adopted a resolution whereby the country's government would not support Russia's possible membership in the World Trade Organization, if Moscow continued to violate the norms of international agreements.

Georgia, as a full-fledged member of the WTO, is holding negotiations with the Russian Federation in order to overcome the economic problems between the two countries, as well as create corresponding conditions for giving Georgian goods (and services) access to the Russian market.

One of the most recent instances of unfriendly conduct on the part of Russia was restoring traffic on the Sukhumi-Sochi railroad without the consent of the Georgian authorities, which gave illegal goods circulation a shot in the arm.

### ***1.1. Smuggling Through South Ossetia (the Ergneti Market)***

There are numerous facts testifying to the dimensions of illegal goods movement between Georgia and Russia through South Ossetia. A large amount of smuggled goods comes to our country from Ergneti, close to Tskhinvali, which is having a very negative effect on the country's economy. The petroleum products and other goods transported through the Rokskiy Tunnel are unloaded at special terminals not far from Tskhinvali, and from there are sent to the spontaneous Ergneti market, where the merchandise is purchased by legal and private entities, who sell it throughout the country without customs clearance.

A strange situation is developing. Goods are being brought into Georgia that are not properly registered by its customs services, and taxes are not paid on them, that is, by law such goods should not be released into free circulation. But the end consumer of this commodity did not bring it in from another state, but purchased it in Georgia, in the Tskhinvali Region, and shipped it from one part of the country to another. Pursuant to current legislation, he is not obligated to register it as import.

At the same time, customs and tax services, as well as the law enforcement structures, cannot (and frequently do not want to) detain and duly register these smuggled goods. Representatives of both the Ossetian and the Georgian sides (including criminal spheres) participate in corruptive transactions.

According to the Emergency Legion of the Georgian Tax Revenue Ministry, up to 150 trucks of smuggled goods (in particular, Russian-made tobacco products) amounting to more than half a million lari (the monetary unit of Georgia) make their way to Tbilisi from the Ergneti market every day. This means that this "offshore" business alone brings smuggled goods worth almost 200 million lari to the capital every year. This amount does not include the gasoline and diesel fuel delivered by gasoline tankers to different regions of the country. The cash that comes into the Tskhinvali Region by way of payment for the purchased goods can be considered nothing less than a leak of capital from Georgia. According to the Georgian Finance Ministry, the largest flow of smuggled goods comes from South Ossetia (via the Ergneti market), mainly fuel, tobacco products, flour, grain, and foodstuffs, as a result of which the state budget loses approximately 5-6 million lari every month. Fuel and non-excised cigarettes account for three million of this amount. Incidentally, illegal commodities are also shipped through this market in the opposite direction, from Georgia to Russia.

For many years, heroin also has been coming from the conflict zone. Its quality and price are very low. Admittedly, according to some sources, the amount of drugs coming through the Ergneti market was half as much as those supplied from Azerbaijan.

## **1.2. Clan Control of Smuggling in Abkhazia**

Recently, illegal economic activity has become more dynamic in the area that divides Abkhazia from the rest of Georgia, that is along the entire length of the Inguri River, from the Black Sea to the village of Jvari. Goods are smuggled in both directions along the Central Bridge across this river and via passages "hidden from prying eyes." Large amounts of non-ferrous scrap metal and non-excised cigarettes, which come to Sukhumi on foreign shipping vessels (mainly Turkish and Russian), are shipped from Abkhazia and Zugdidi throughout Georgia, and foodstuffs are delivered in the opposite direction, to Abkhazia. According to data from the Emergency Legion of the Tax Revenue Ministry, approximately 4.5 million packs of smuggled cigarettes come from Abkhazia every month (9,000 cases, or approximately 108,000 cases a year).<sup>1</sup> Taking into account that the purchase price of one such case in Abkhazia amounts to approximately 159 dollars, this means the insurgent republic gets a windfall of 17.2 million dollars from other regions of Georgia every year.

Uncontrolled trade along the Inguri River is becoming increasingly dangerous, since drugs coming mainly from Turkey are assuming an increasingly greater percentage of the goods coming from Abkhazia. This is also having a negative effect on the Georgian-Abkhazian negotiations, since the Abkhazian side and the Georgian criminal elements are interested in retaining the current situation and are cooperating in complete harmony with each other.

The Gali Security Service, which is subordinate to Sukhumi, also fulfills police functions. In this region there are five control points located in the villages of Dikhazurga, Saberio, Samakvalo, Tagiloni, and on the main bridge across the Inguri. What is more, in the Gali Region there are also two customs-control points, in the village of Tagiloni and on the bridge across the Inguri. They are also under the ju-

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<sup>1</sup> See: Report on the draft of Georgia's State Budget for 2001. Budget Office of the Georgian Parliament (in Georgian).

risdiction of the regional security service and accept payments from citizens delivering goods across the border. Fees are also collected from the local population.

In Abkhazia this business is mainly controlled by the clan of the insurgent republic's president, Vladislav Ardzinba. According to the data of the Georgian Ministry of Security, for example, his relatives are engaged in the smuggling of timber, exporting its valuable species (20-30,000 cubic meters costing 4-6 million dollars) on Turkish ships. They control the Sukhumi port, through which petroleum products are smuggled. They are brought from Russia on ships, then delivered on trucks belonging to the same clan members to the Gali Region, where this commodity is distributed throughout Georgia (approximately 10 cisterns of gasoline a week). The VICEROY tobacco factory in Gudauta is controlled by the Ardzinba clan, from where non-excised cigarettes go not only to Georgia, but also to Russia. What is more, red wine, citrus fruit and other products are illegally sent from Abkhazia to Russia. On the Georgian side, the smuggling business is lobbied by high-ranking police officials of the Megrel Region and members of the Abkhazian government in exile. According to experts, Georgian partisans and Abkhazian criminal structures also participate in this business.

### ***1.3. Smuggling of Petroleum Products***

The smuggling of petroleum products is one of the factors causing the deficit in the Georgian state budget. During recent years, the high level of corruption and low collection of revenue in this sector of the economy have turned into excruciating fiscal problems. For example, if the government organized proper control in this area, the state's tax revenue from the petroleum products coming into the country would increase by 30%.

According to the parliament's Budget Office, monthly consumption of gasoline in the country amounts to 50,000 tons and of diesel fuel to 30,000 tons. If these deliveries were fully legalized, the state budget would receive 327 million lari (163 million dollars) in tax a year (including 204 million lari from gasoline, and 123.6 million lari from diesel fuel), that is, almost three times higher than it currently receives from all petroleum products together (gasoline, diesel fuel, kerosene, oil fuel, lubricants).

According to the Finance Ministry, petroleum products are mainly smuggled from South Ossetia (Ergneti), Abkhazia, and Azerbaijan (from Krasniy Most, Lagodekhi, and Djandara). In neighboring countries, the prices for this commodity are lower than in Georgia, which encourages its illegal import.

Small importers mainly engage in the illegal delivery of fuel from the Ergneti market (according to the Finance Ministry, approximately 5,000 tons passes through their hands every month, 6% of consumption and 12% of the amount brought into the country illegally). Most of these goods are smuggled by rail.

Gasoline also comes to Abkhazia by ship, after which it is transported via the Inguri Central Bridge and roundabout routes to be sold throughout Georgia. According to the country's State Intelligence Department, groups working in Abkhazia import fuel from Russia in the gasoline tankers of its peacekeeping forces. It is usually reloaded into Abkhazian transportation vehicles in the area adjacent to the Gagra train station. What is more, gasoline and diesel fuel are brought from Russia by rail and boats through the ports of Sukhumi and Ochamchira. The total amount of petroleum products brought into Abkhazia from Russia reaches 8,000 tons a month. A small amount of them are used by Russian troops, the rest goes to the Abkhazian criminal structures for subsequent sale in Abkhazia and other regions of Georgia. The shipment of petroleum products from Turkey through the Abkhazian ports (approximately 1,000 tons a month) has become a regular thing.

Smuggling forces other importers to resort to falsification (in order to be competitive). In particular, they ship various admixtures (for example, pyrolized resin), which are taxed at lower rates, mix them with cheap gasoline, which not only artificially raises its octane value, but also its price. However, this fuel is hazardous to the health, particularly to that of adolescents.

Another form of smuggling is selling shipments registered as transit, but which are essentially sold duty free throughout the whole of Georgia. The percentage of this fuel in the total consumption is very high, particularly in the shipments supposedly transited from Azerbaijan.

#### **1.4. Smuggling of Grain, Flour, and Sugar**

Unaccounted for grain and flour mainly comes to Georgia from Russia and Turkey. According to experts, the consumption of sugar in our country amounts to approximately 180,000 tons a year. According to statistics, 40% of this amount is registered at customs. For example, in 1999, its employees registered only 75,800 tons (at 15.8 million dollars).<sup>2</sup>

#### **1.5. Illegal Export of Timber**

In 1999, approximately 50,000 cubic meters of timber were exported from Abkhazia (including valuable species, the felling of which is prohibited). According to the available data, the following amounts were shipped from the Gagra and Gudauta regions alone: 24,000 cubic meters in 1997, 30,000 cubic meters in 1998, 39,503 cubic meters in 1999, 50,000 cubic meters in 2000, 57,000 cubic meters in 2001, 63,430 cubic meters in 2002, and up to 80,000 cubic meters, according to preliminary data, in 2003.<sup>3</sup> Of course, this data does not reflect all the illegal export of timber, and the cost of 1 cubic meter is approximately 100-125 dollars.

Turkish citizens are particularly active in this sphere. They are destroying such valuable species as chestnut and plane in increasingly large quantities. The timber produced is exported twice a week from the ports of Ochamchira and Sukhumi.

People from other countries also participate in the production of timber. In particular, a Spanish company is directing the felling of forests in the Bzyb Gorge. Spanish investments in this industry amounted to 4 million dollars. At present, five workshops at the Bzyb plant are manufacturing high-quality parquet (approximately 4,000 cubic meters a month), which is exported not only by the Spanish, but also by the Turks. Intensive forest felling has also been organized in the Gali and Tkvarcheli regions.

According to Georgian and foreign specialists, cutting down forests in Abkhazia is destroying the region's natural balance. During Soviet times, forest felling was prohibited here. Now smuggling in this area has become an everyday phenomenon and is an important source for replenishing the Abkhazian budget and of illegal revenue for several other structures.

#### **1.6. Cigarette Smuggling**

If the cigarette market were taxed in full, the Georgian budget should receive as much as 140 million lari (70 million dollars) a year.<sup>4</sup> But in 1999, its cigarette revenue amounted to 31.1 million dollars, to 13.1 million in 2000, to 14.9 million in 2001, and to 16.9 million dollars in 2002. Essentially 75% of the cigarette business is not taxed.

The main reason for the existence of a black cigarette market is smuggling and uncontrolled territory. Most of the smuggled cigarettes consumed in Tbilisi come from the Ergneti market. What is more, they are brought in from Abkhazia and Ajaria. A very unfortunate situation has developed on the periphery, where almost 80% of the market is occupied by smuggled tobacco products.

<sup>2</sup> See: Opinion of the Provisional Parliamentary Commission for Studying the Reasons for the Financial-Budget Crisis. Georgian Parliament, Tbilisi, 2000 (in Georgian).

<sup>3</sup> Data from the Georgian State Intelligence Department.

<sup>4</sup> Resources and Use of Tobacco Products in Georgia. Georgian State Department of Statistics, Tbilisi, 2002 (in Georgian).

Abkhazian smugglers are in close cahoots with their Russian and Turkish “colleagues,” as well as with Georgian “businessmen” who operate in other regions. Imported and local tobacco products come to Gali, from where they are shipped in relatively small batches to the Zugdidi District (via the bridges and fords on the Inguri River), and then distributed in eastern Georgia (in the direction of Tbilisi) and in Ajaria.

### 1.7. Illegal Shipping of Goods by Sea

In Abkhazia, a significant percentage of the export-import transactions (approximately 60-70%) is carried out by sea and relates to smuggling.

As noted above, the Sukhumi, Ochamchira, Gagra, and Gudauta ports take an active part in this illegal business. In terms of potential, the most important is the Sukhumi port, since it can handle large-tonnage ships. Cargo, which is then distributed throughout the whole of Georgia in the form of contraband, mainly comes through this port. In contrast to other Georgian ports (for example, Poti, Batumi), in Soviet times it specialized in passenger traffic (in 1980, its annual passenger turnover amounted on average to 1.3 million people), because the region was an international resort. The port operated seasonally, since the resort season in Abkhazia lasted from the beginning of summer until the onset of winter, and 86% of the passenger flow came between May and October. As for cargo shipments, they did not exceed 190,000 tons a year, that is, 24-fold less cargo went by sea than by rail, and 79-fold less than by road. In terms of passenger movement, sea transport lagged 2.3-fold behind rail, and 8.3-fold behind road travel. Now the situation has changed and, as noted above, most of the cargo is transported by sea.

Today, the Sukhumi port mainly used to ship freight, although its depth fluctuates from 3.5 to 7 meters. What is more, it is poorly protected from the sea, only two tower cranes are in operation, it has no railroad connections, and there are no handling machines for containers. Two warehouses have been built taking into account the local commercial requirements.

There is another port at Ochamchira, a former navy port, which is better equipped.

The Abkhazians have established close contacts with commercial structures in Turkey, Russia, Rumania, Moldova, Ukraine, Italy, Spain, and other countries. Fish, ferrous and non-ferrous metal, coal, citrus fruit, and timber are exported by sea.

Gasoline, diesel fuel, industrial goods, grain, flour, and mineral fertilizers occupy a leading place in the import structure, whereby gasoline and diesel fuel play a particularly important role, which are mainly shipped from Russia, Turkey, and Rumania. Quite a high percentage of the cargo is intended for smuggling to other regions of Georgia.

In 1999-2003, Coast Guard subdivisions of the Georgian Border Defense Department detained more than 40 shipping vessels, due to illegal actions by their crews, and eleven were detained in 2002 alone for smuggling cargo to and from Abkhazia. Among the registered violations, there was one instance of timber smuggling, five of illegal fishing transactions, 2 of metal scrap smuggling, one instance of lubricant import, one of cigarette smuggling, one of coal export, and one instance of smuggling other products.

On 31 July, 2003, a Turkish ship, *Selim-1*, was sold at an auction in Tbilisi, for which the time had expired from making an appeal in court, as well as the deadline for paying the voluntary fine for illegally crossing the state border and heading for Abkhazia. And a month prior to this, a Turkish fishing seiner, *Shakir-Baba-3*, was auctioned for 13,500 lari. In 2003 alone, the Coast Guards of the Border Troops detained seven shipping vessels from various states for violations in Georgian territorial waters. What is more, eight vessels were issued warnings. As a result of the measures taken, during the first six months alone, 548,000 lari went into the budget and another 250,000 lari should go in, according to preliminary data.<sup>5</sup>

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<sup>5</sup> See: *Dilis gazeti*, 29 July, 2003, p. 2.

### **1.8. Uncontrolled Fishing**

In the Abkhazian part of the Black Sea, seven Turkish fishing boats catch approximately 700-800 tons of fish a year. Including, 400 tons of whiting at 0.35 dollars a kg, 100-150 tons of mullet at 0.5 dollars a kg, 100-150 tons of anchovy at 0.2 dollars a kg, and 30-40 tons of plaice at 3 dollars a kg. These amounts are paid to the separatist authorities. The Turkish Konev Ltd. and Kiyak Kardes Liyar companies predominate in this business, which have registered corresponding agreements with the Ministry of the Economy of the self-declared republic.

Turkish seiners usually fish using prohibited methods, which causes immense damage to the Black Sea flora and fauna.

### **1.9. The Export of Scrap Metal**

As the result of property privatization, state enterprises have largely fallen into the hands of their former directors and the people close to them. And they are usually not interested in reviving the plants and factories. On the contrary, their equipment is being dismantling and exported as scrap metal, and at minimum prices. This business, which entails mass embezzlement of non-ferrous metal items, has proven quite profitable for the exporters, despite the fact that abroad (mainly in Turkey) this scrap is sold at prices lower than those on the world market. Theft of transmission lines, idle gas pipelines, and irrigation pipes continues to this day, and sometimes memorials and sculptures are even removed from graves. In particular, the cost of exported scrap amounted to 2.4 million dollars in 1995, to 600,000 dollars in 1996, to 1.6 million dollars in 1997, and to 1.8 million dollars in 1998. In recent years, the volume of this export has dramatically increased, which is related to privatization and the cancellation of export tax. For example, the export of scrap metal amounted to 54.8 million dollars in 2000, and to more than 56 million dollars in 2001. Correspondingly, the percentage of scrap in the export structure has increased. This index was equal to 1.6% in 1995, to 0.3% in 1996, to 0.6% in 1997, to 0.9% in 1998, whereby it was already 10.7% in 1999, 16.6% in 2000, and 17.6% in 2001.

Despite the fact that the export of scrap, as well as remnants of ferrous and non-ferrous metal, is strictly regulated by the country's legislation, contraband export continues (mainly through the ports of Batumi and Poti).

Instances of enterprises being dismantled for scrap in the uncontrolled territory are particularly worth noting. An overwhelming number of factories and plants in Abkhazia have become depreciated, and most of them have been exported in the form of scrap. According to the Georgian State Intelligence Department, Abkhazia's ferrous and non-ferrous scrap metal mainly goes through the ports of Sukhumi and Ochamchira, and some is transported in trucks to western Georgia. With the self-seeking connivance of local official and criminal structures, it is shipped through other ports (Batumi, Poti). Ships transporting scrap metal make up to 100 trips a year.

## **2. Kidnapping of People and Trafficking**

The growing instances of kidnapping are arousing particular concern, including a large number of girls who are kidnapped for the purpose of marriage (for example, they accounted for 28% of the total number of kidnappings in 2000, 44% in 2001, and 44% in 2002). These types of instances are usually exposed. At the same time, kidnapping for ransom is becoming more frequent, as well as to exchange the kidnapped persons for prisoners from the opposite side. This is mainly carried out by Georgian partisans, as well as by representatives of the Abkhazian "power" and criminal structures.

In the territory de facto controlled by the Abkhazian authorities, local criminal groups kidnapped 34 people in order to receive a ransom in 2000, 37 in 2001, and 28 in 2002, as well as taking 65 people hostage in 2000, 61 in 2001 and 48 in 2002.<sup>6</sup>

### 3. Trade in Stolen Cars

Stealing cars from Georgia (mainly from Tbilisi) to obtain a ransom is one of the most widespread forms of criminal business. Nearly all of these cars are transported to South Ossetia and Abkhazia. After the ransom is paid, most of them are returned to their owners, and the rest are shipped to Russia to be sold.

According to the Georgian Interior Ministry, in 2001, 206 cases of stolen cars were registered. One hundred and fifty-eight cars (76%) were returned to their owners. But the actual number of stolen cars is much higher since far from all cases are reported. The victims try to settle the problem by unofficial means. Criminal groups rake in several millions of dollars from this business.

### 4. Illegal Export of Coal

The development of coal fields in Abkhazia is mainly carried out by private Turkish companies that sell the raw material produced in Turkey. Ada Madencilik San Ltd. is one such company. In April 2000, it entered an agreement with the authorities of the unrecognized republic on the production of 100,000 tons of coal at the Khudzga and Tkvarcheli quarries.

Other Turkish companies are working at the Tkvarcheli fields, including Kara Elmas Ltd. At the end of 2001, it entered an agreement with the Abkhazian Ministry of the Economy. In Tkvarcheli, the company built a mini factory on the so-called "lower plateau," where the coal mined at the Khudzga quarry is dressed. This quarry is being developed by another Turkish company.

The Barashan Company, headed by Tushalian, a Turkish citizen, also made certain investments in the Tkvarcheli mine management. Since June 2002, the Tamsash company has been mining coal in the upper field of the Khodjal hill. It is also developing the Djigit field.

The representatives of the Turkish companies believe that the Abkhazian authorities will permit them to expand this activity. In their opinion, after the relevant preparatory work has been completed, they will be able to produce and export approximately 1,500 tons of coal a day.

### 5. Tourism in Abkhazia as a Form of Smuggling

The government of the self-declared republic believes the tourism industry to be one of the main areas in the development of its economy. In order to attract Russian citizens to come here on vacation, it opened the Rusaltur tourist agency in Moscow in 1999 (today there are ten of them in the Russian Federation) and began to renovate its resorts, in particular on Lake Ritsa, in Gagra, and at Pitsunda, for which budget funds were also used.

Nevertheless it should be noted that according to Sukhumi's official data, 25% of the assignments that go into the state treasury from this business are used for strengthening the country's defense capabilities. According to data published by the Abkhazian authorities, during the 2001 season, 20-25,000 people vacationed in Gagra. And since 2000, Russian circles interested in developing the tourist industry have been making big investments in Abkhazia. For example, the Gladiolus Company, the owner of a network of Moscow hotels, bought an Intourist Hotel in Sukhumi and is already renovating it. The son of former Russian prime minister Viktor Chernomyrdin intends to invest immense funds in Pitsunda.

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<sup>6</sup> See: Report of the Provisional Commission of the Georgian Parliament on the Problems of Abkhazia, 11 December, 2002 (in Georgian).

In order to achieve their political goals, the local authorities are making wide use of the tourist business, since many representatives of Russia's upper echelon take their vacations at Abkhazian resorts, which is subsequently having an effect on the state decisions they make.<sup>7</sup>

Based on the information above, it can be presumed that by developing the Abkhazian resorts, Russia is conducting economic expansion in the region and is essentially integrating Abkhazia into its economic space. When the time is right, it will be able to make use of the situation to carry out its strategic tasks in the region.

## 6. Illegal Privatization of Property in Abkhazia

Russian private structures are purchasing Abkhazia's assets essentially for a song, including not only land, resort facilities, enterprises, and so on, but also the property of the Georgian population exiled from Abkhazia, such as their estates, houses, and other property.

In 1995-1996, a privatization plan was drawn up in Abkhazia. At the first stage (1-2 years), there were plans to put commercial facilities and small enterprises up for sale, and at the second, large but unprofitable plants and factories would be sold, whereby profitable enterprises and resort facilities would remain in the hands of the state. For this purpose, a Committee for the Management of State Property was even created.

On 20 March, 2002, the Georgian parliament made a statement about privatization in Abkhazia. And prior to this, it adopted several resolutions (10 March, 1994, 17 April, 1996, and 1 April, 1998) on this issue. According to these documents, all legislative acts and by-laws that contradict Georgian legislation adopted by the Abkhazian authorities, as well as the structures in the alliance with them, including all decisions and civil legal transactions violating the rights of state property in Georgia, were deemed null and void. Nevertheless in 1997, illegal privatization of property began in Abkhazia, as a result of which by 2001 more than one thousand facilities, including hotels, resorts, and other facilities in Sukhumi, Gagra, Pitsunda, Novy Afon, Gudauta, Gulripsha, and Ochamchira had passed into the hands of physical and legal entities of different countries. The transfer of private property of refugees and Georgians forced to leave the insurgent republic assumed particularly mass proportions.

<sup>7</sup> See: *Trud-7*, No. 110, 19-25 June, 2003.