

Can low electricity prices be a comparative advantage of Georgia?

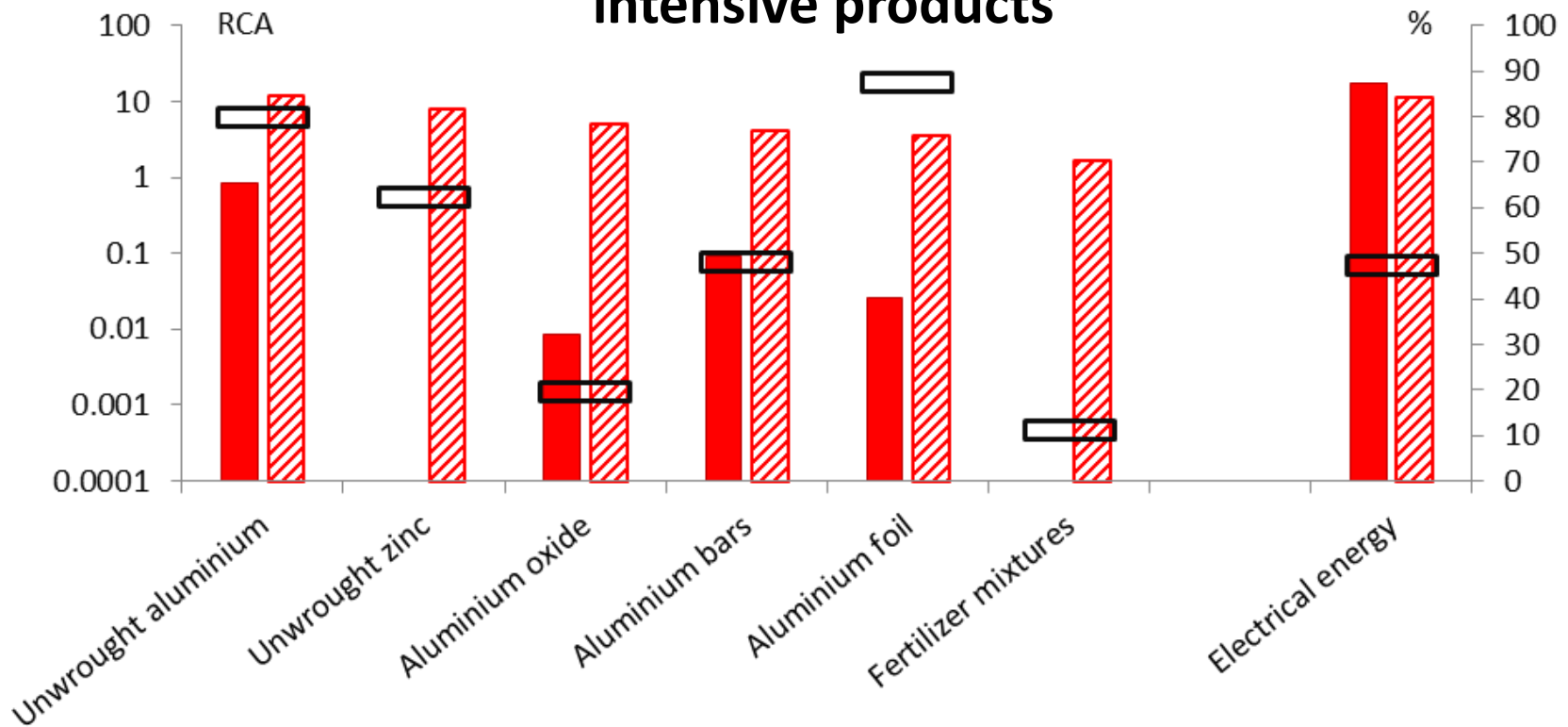
- Summary of findings -

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Current and potential comparative advantage of energy intensive products

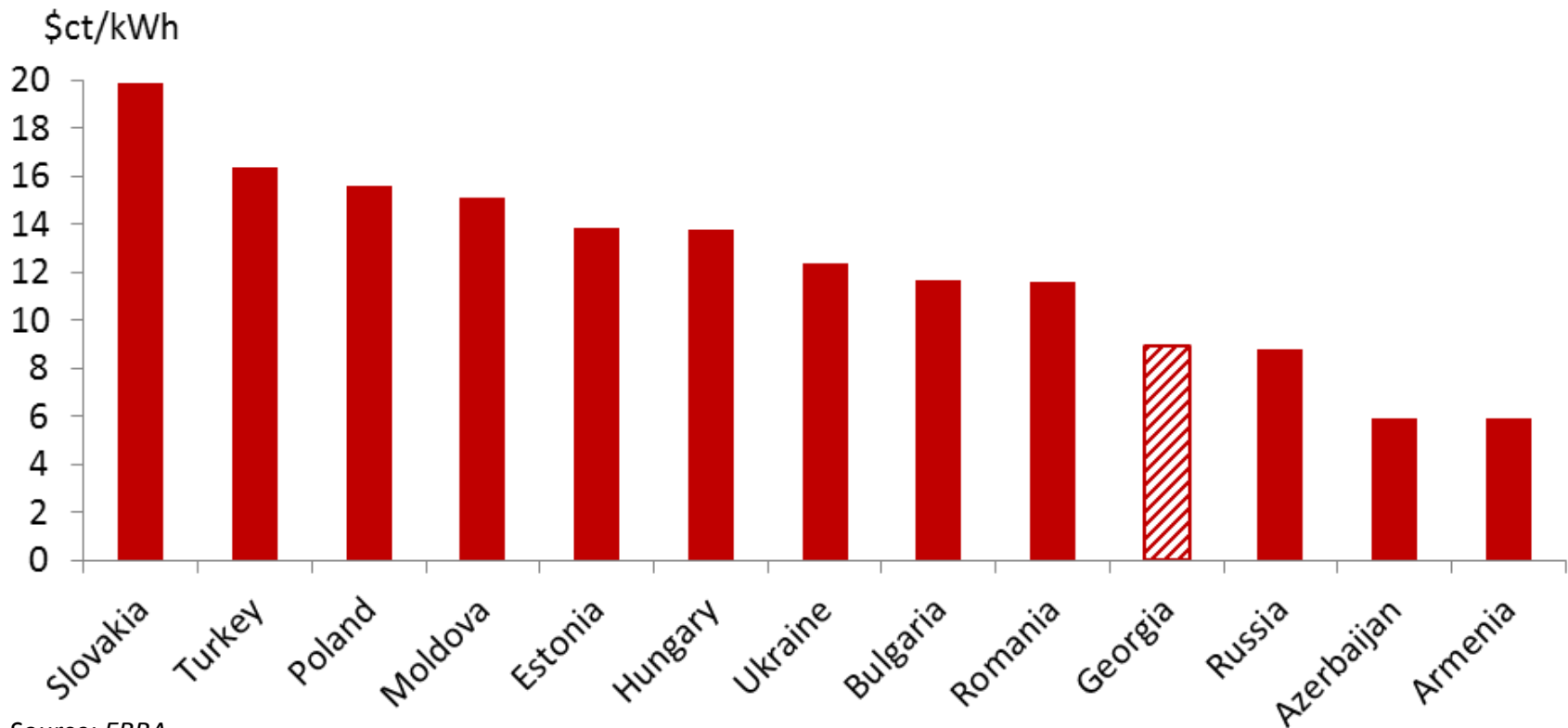


Source: GET Georgia ■ Present RCA (lhs) ▨ Predicted RCA (lhs) ◻ Value factor (rhs)

Note: RCA is the revealed comparative advantage in exporting this product. Values larger than one indicate that the country has a higher share of its exports in this product than other countries. The value factor indicates whether this product is typically exported by richer or poorer countries.

-> Georgia might have some potential to specialise in exporting energy intensive products

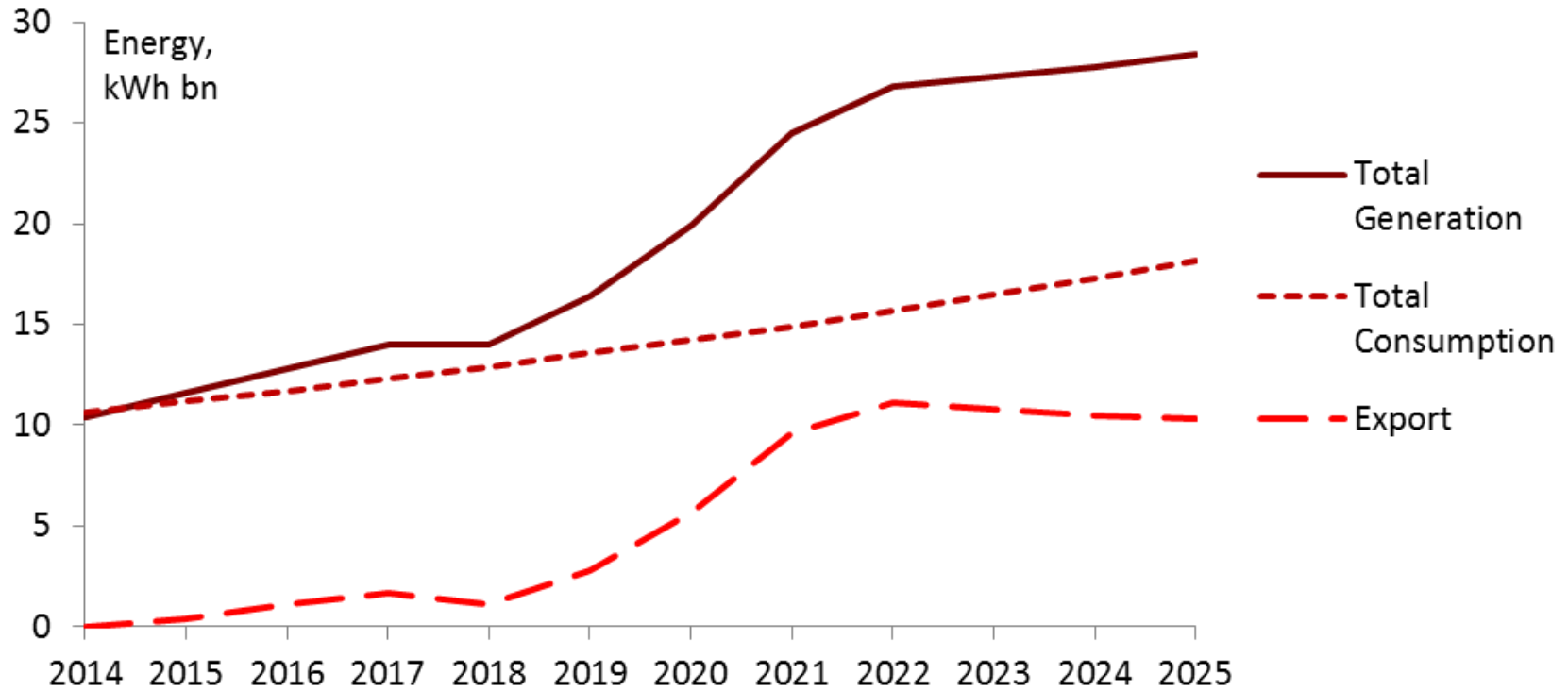
Non-residential electricity tariffs including taxes in 2012



Source: ERRA

-> potential comparative advantage in electricity-intensive exports due to low electricity prices in Georgia (and the region)

Generation, consumption and exports 2015 and 2025



Source: TYNDP

- Currently, no excess capacity (net exports ~0)
- Significant hydro-potential (3900 MW) shall be developed until 2025

Capacity and cost of selected hydropower projects

	Annual generation in GWh/y	Construction cost in USD m	Electricity cost at 10% interest rate, \$ct/kWh
Dariali HPP	510	123	2.4
Shuakhevi HPP	452	417	9.2
Shuakhevi HPP other source	483	356	7.4
Paravani HPP	409	160	3.9
Nenskra HPP	1194	450	3.7
Nenskra HPP other source	1194	1000	8.4
Koromkheti HPP	464	305	6.6
Total	3066	1828	6.0

- Envisaged projects still relatively low-cost: 6 \$ct/kWh

Dilemma

- 3900 MW of hydro will cost some 9 bn USD (~50% of GDP₂₀₁₄)
 - Requires foreign investors
 - Requires predictable and high cash-flows
- > Projects mainly designated for export market
- > no low-cost electricity supply left for developing a Georgian electricity intensive industry

Recommendations

Stable regulatory environment for investors in hydropower and energy intensive industry

- > convergence to EU market rules
- > regional integration

Reaping benefits of domestic hydropower resources

- > increase competition in hydropower site tenders

Attracting electricity intensive industry

- > clearly communicated, stable and sensible rules for self-generators
- > explore schemes to reduce the regulatory risk for investors

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