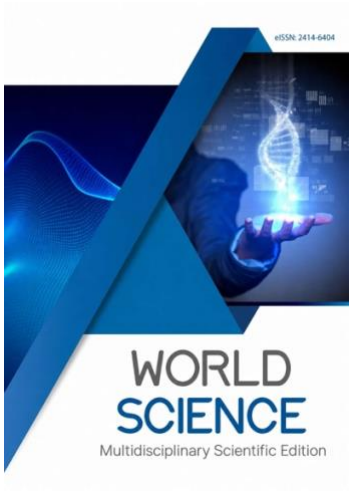


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NATURAL GAS MARKET LIBERALIZATION IN GEORGIA: PROSPECTS FOR COMPETITIVE TRADING AND AN ORGANIZED GAS MARKET

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ABSTRACT

Natural gas plays a significant role in Georgia's energy system, while the country remains highly dependent on imported gas and a limited number of supply sources. At the same time, Georgia's approximation to the European energy regulatory framework requires gradual transformation of the existing market structure towards a more competitive, transparent and rules-based model. This article examines the main principles of natural gas market liberalization and considers their applicability to Georgia. Drawing on international experience, including the development of competitive gas hubs and the liberalization of the Estonian gas market, the article argues that the introduction of an organized trading platform could support Georgia's market reform, but only if accompanied by adequate supply diversification, infrastructure development, effective regulation and measures to improve market liquidity.

KEYWORDS

Natural Gas, Georgia, Market Liberalisation, Deregulation, Gas Trading, Energy Exchange, Competition

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Introduction

Natural gas markets have undergone substantial structural transformation over recent decades. Traditionally, the sector was characterized by vertically integrated utilities, regulated prices, long-term bilateral contracts and limited competition. Liberalization changed this model by separating potentially competitive activities—such as production, trading and supply—from network activities that retain the characteristics of natural monopolies. Consequently, deregulation in the energy sector does not imply the complete withdrawal of regulation. Rather, it changes its purpose: competition increasingly determines commodity prices, while regulators continue to oversee network access, tariffs, market conduct, security of supply and consumer protection.[1]

This distinction is particularly important for Georgia. The country's natural gas sector remains characterized by limited competition, high import dependency and a strong role for bilateral contractual arrangements.[2] The central question is not simply whether Georgia should formally liberalize its natural gas market, but how a competitive market can function effectively under the country's particular structural

[1] Paul L. Joskow, "Lessons Learned from Electricity Market Liberalization," The Energy Journal 29, Special Issue 2 (2008); David Newbery, Electricity Liberalisation in Britain (2005)

[2] International Energy Agency, Gas Market Report (Paris: IEA, 2020).

conditions. International experience demonstrates that legal liberalisation alone does not automatically generate competition. For Georgia, the development of an organized trading environment must therefore be considered together with supply diversification, infrastructure, market liquidity and regulatory capacity.

From Regulated Supply to Competitive Gas Trading

A liberalised natural gas market requires several interconnected elements. These include the liberalization of wholesale and retail supply, effective unbundling of vertically integrated undertakings, non-discriminatory third-party access to transmission and storage infrastructure, and transparent mechanisms for trading and price formation. The experience of mature markets illustrates the importance of implementing these elements as part of a coherent reform process. In the United States, successive reforms including the Natural Gas Policy Act and Federal Energy Regulatory Commission Orders 436 and 636 progressively liberalized prices, opened pipeline infrastructure and separated gas sales from transportation. These reforms contributed to the development of competitive wholesale trading and Henry Hub as a major benchmark for natural gas prices.[1] A similar transformation occurred in Europe through successive energy liberalization packages. The EU framework introduced requirements concerning unbundling, third-party access and cross-border market integration and contributed to the emergence of liquid trading hubs, including the Dutch Title Transfer Facility (TTF) and the United Kingdom's National Balancing Point (NBP). Organized trading performs several functions in such markets. Spot markets facilitate short-term transactions and price discovery, while futures, options and swaps allow market participants to manage exposure to price volatility. Natural gas prices are influenced not only by immediate supply and demand but also by weather, storage availability, infrastructure constraints and geopolitical developments. Consequently, the development of a competitive market requires mechanisms both for transparent price formation and for managing the risks created by market-based pricing.[2]

Structural Challenges in Georgia

The Georgian case differs considerably from mature European gas markets. Domestic natural gas production covers only a very small proportion of national demand, making Georgia overwhelmingly dependent on imports. The principal sources are Azerbaijan and Russia, while important volumes are also obtained under arrangements related to the South Caucasus Pipeline. [3]

This dependence is accompanied by significant concentration at the import level. The thesis notes that only two companies place imported natural gas on the Georgian market and identifies both the limited number of supply sources and the confidentiality of import agreements as factors affecting competition and transparency. Import dependency and insufficient diversification have also been identified in Georgia's energy policy framework as important energy-security challenges.

This creates a fundamental difficulty for liberalization. A market can be legally opened to competition, but if alternative suppliers cannot obtain gas on commercially viable terms, formal market opening may not produce meaningful competitive pressure. Similarly, establishing a gas exchange does not in itself guarantee liquidity. A trading platform becomes effective only when sufficient volumes and a sufficient number of independent participants are able and willing to trade.

Georgia, therefore, faces a sequencing problem: competition requires new market participants and diversified sources, while potential new participants may themselves be reluctant to enter a small and concentrated market until transparent trading and non-discriminatory access arrangements are established.

Despite these constraints, an organised trading platform could become an important component of Georgia's transition towards a competitive gas market. Its immediate objective should not necessarily be to replicate highly liquid European hubs such as TTF. Instead, it could initially provide a transparent mechanism through which defined volumes of natural gas are offered to market participants on equal terms.

One potential transitional instrument that is widely discussed is a **gas release programme**. Under such a mechanism, part of the gas controlled by dominant or incumbent market participants could be required to be offered through an organised trading platform. This could provide new suppliers with access to gas, facilitate

[1] U.S. Energy Information Administration, “Natural Gas Policy Act”; Federal Energy Regulatory Commission, Orders No. 436 and No. 636.

[2] Andrej Juris, “The Emergence of Markets in the Natural Gas Industry” (1998).

[3] Georgian National Energy and Water Supply Regulatory Commission (GNERC), 2023 Annual Report (Tbilisi, 2024).

transparent price formation, and gradually increase market liquidity. Such an obligation could operate as a transitional measure rather than a permanent feature of the market.

International experience also suggests that market size matters. Estonia provides a particularly relevant comparison because of its relatively small market and historical dependence on a single external supplier. Diversification through access to LNG infrastructure and increased regional interconnection strengthened its alternatives to Russian supply. Nevertheless, concentration remained significant, illustrating that liberalisation and diversification do not automatically eliminate market dominance in small markets.[1]

This experience has an important implication for Georgia: **regional integration may ultimately be as important as domestic market opening**. A small national market may offer limited commercial incentives for numerous suppliers and traders. Greater physical and commercial integration with neighbouring markets could increase the potential trading area, attract additional participants, and improve liquidity.

Conclusions

Georgia's transition toward a competitive natural gas market should therefore be understood as a gradual structural process rather than a single act of deregulation. International experience demonstrates that effective liberalization depends on the interaction of several conditions: unbundling, transparent and non-discriminatory network access, independent regulation, diversified supply, sufficient infrastructure, and credible market-based trading mechanisms.

For Georgia, establishing an organized gas market could represent an important step towards greater transparency and competition. However, creating an exchange before the underlying conditions for competition exist could result in a formally liberalized but insufficiently liquid market. Reform should therefore proceed in stages. Initial measures could include strengthening third-party access and unbundling, improving transparency, enabling new suppliers to enter the wholesale market and introducing a transitional gas release mechanism. As liquidity develops, organized spot trading could gradually assume a larger role, followed, where market conditions justify it, by more sophisticated forward and risk-management products.

The Estonian experience further demonstrates that supply diversification and regional interconnection are particularly important for small and import-dependent markets. Georgia's long-term objective should consequently extend beyond the creation of a domestic gas exchange. The broader aim should be the establishment of a transparent, competitive and increasingly regionally integrated market in which organized trading supports, not substitutes for, competition.[2]

In this context, the key question for Georgia is not whether liberalization should precede diversification or diversification should precede liberalization. The two processes need to reinforce each other. Gradual market opening can create incentives for new entrants, while diversified sources and stronger regional connections can provide the physical basis on which meaningful competition can develop.

[1] International Energy Agency, Estonia 2023: Energy Policy Review (Paris: IEA, 2023).

[2] Pöyry, *Liberalisation of Estonian Gas Market*.

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