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Get Out of Jail Free Card Costs $100M in Georgia

By Paul Rimple

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Relations between Georgia and Israel appear to be strained because of a scandal involving Israeli businessman, Rony Fuchs. It is Israel's contention that Georgia has entrapped Fuchs instead if paying him the $98 million that an international court had ordered it to pay.

Imprisoned since October, Fuchs' trial is expected to conclude later this month. The likelihood of conviction is all but certain.

Fuchs' story goes back to 1991, when the entrepreneur saw profits to be made in the oil and gas transit business in newly independent Georgia. But when Eduard Shevardnadze was appointed head of the government in 1992, he dumped Fuchs for bigger fish. Shevardnadze promised to pay Fuchs back for his large investment losses, but the 2003 Rose Revolution forced Shevardnadze out of power and repudiated many of his acts, including the promise to compensate Fuchs.

Fuchs filed a claim with the Washington-based International Centre for Settlement of Investment Disputes, which ruled in his favor in March 2010. Georgia now owes more than $100 million, including interest, which is quite a hefty figure for a country that only collected $433 million in foreign investment last year. This might explain Georgia's contentious sting operation.

In September, Georgian Deputy Finance Minister Avtandil Kharaidze met with Fuchs and his associate Zeev Frankiel in an Istanbul hotel room. A concealed camera recorded Fuchs offering Kharaidze $5 million to help "smooth out" a $72 million settlement. To their credit, Georgian authorities didn't arrest Fuchs and Frankiel until after dinner.

Fuchs' lawyers claim that Georgia's Justice Ministry proposed Fuchs could buy his way out of prison if he relinquished his $100 million claim. Although Georgia denies such a deal was offered, it follows a plea bargaining method that Georgian courts have used in the past, where defendants can buy their way out of jail instead of waiting for the court's decision.

Georgia has been spinning the case as part of its anti-corruption drive and has asserted that relations with Israel are "overall excellent." But Israel has made clear that Davit Bakradze, Georgia's parliament speaker, is not welcome to visit, indicating otherwise.

This puts foreign investment-hungry Georgia in a rather awkward position. Georgia might save $100 million today by putting Fuchs behind bars, but it might also lose much more in the long run because nobody likes to do business with people who film them with hidden cameras.

Paul Rimple is a journalist based in Tbilisi.

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