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**REPORT
OF THE MEETING
OF THE BSEC WORKING GROUP
ON ENERGY**

Baky, 14-15 February 2006

1. The Meeting of the BSEC Working Group on Energy was held in Baky on 14-15 February 2006.
2. The Meeting was co-chaired by Mr. Rasim MAMMADOV, Head of Administrative Department, Ministry of Industry and Energy of the Republic of Azerbaijan, and Mr. Ashraf SHIKHLAIYEV, Director of Department of Economic Cooperation and Development, Ministry of Foreign Affairs of the Republic of Azerbaijan.
3. H.E. Mr. Natiq ALIYEV, Minister of Industry and Energy of the Republic of Azerbaijan, opened the Meeting and delivered a statement on the progress and prospects of development of energy sector in Azerbaijan. The Minister stressed the importance of strengthening the cooperation among BSEC Member States to utilize the new opportunities, particularly in view of further exploration of the Caspian hydrocarbon deposits and emerging a new regional infrastructure for the benefit of the countries and peoples of the region as well as wider international community.
4. Ambassador Tedo JAPARIDZE, Secretary General of the BSEC PERMIS, welcomed the participants and delivered a statement on the current BSEC developments. The statement, as delivered, is attached as Annex I to the Report.
5. The Meeting of the Working Group was attended by the following BSEC Member States:
 - Republic of Azerbaijan
 - Republic of Bulgaria
 - Georgia
 - Hellenic Republic
 - Republic of Moldova
 - Romania
 - Russian Federation
 - Serbia and Montenegro
 - Republic of Turkey
 - Ukraine

6. The Secretary General of the BSEC Business Council and the representative of the Black Sea Trade and Development Bank attended the Meeting.

7. Representatives of the Republic of Belarus, the French Republic, the State of Israel, the Republic of Italy and the Republic of Poland participated at the Meeting in the capacity of BSEC Observers.

8. Islamic Republic of Iran, EU/TACIS, OSCE, Asian Development Bank, KEPA, BP, Exxon Mobil, ITOCHU, Total E&P Azerbaijan and Türkiye Petrolleri A.O. and a Greek trader Mr. Prodromos KÜRÜKOĞLU, participated at the Meeting as Guests.

The list of participants of the Meeting is attached as Annex II.

9. The Draft Agenda of the Meeting was discussed and adopted. The Agenda, as adopted by the Working Group, is attached as Annex III.

10. The participants visited Sangachal Oil Terminal.

11. The delegations expressed their gratitude to the Government of the Republic of Azerbaijan for the hospitality extended to them.

REVIEW OF THE NEW DEVELOPMENTS IN THE FIELDS OF OIL AND NATURAL GAS IN THE BSEC MEMBER STATES

12. The delegations presented national reports on the developments in the field of oil and natural gas (upstream, downstream, transportation and development of relevant infrastructure) in their respective countries in order to outline the regional prospects.

13. The discussion was initiated with the comprehensive statement of the delegation of the Republic of Azerbaijan. A copy of the statement upon request of the Working Group would be forwarded by the PERMIS to the Member States.

14. The delegation of the Republic of Bulgaria introduced the latest developments in the Bulgarian gas and oil sectors including the increase of consumption and transit quantities. The principal oil and gas projects of regional and Pan-European impact were presented such as: construction of the gas pipeline Dupnica (Bulgaria) – Nis (Serbia) as the pilot project within the framework of Energy Community to transport the natural gas from Russia, the project for Trans-Adriatic gas pipeline along the European Corridor No. 8 from Bulgaria to Italy as well as the project NABUCCO and projects of oil pipeline Burgas – Alexandroupolis and Burgas – Vlore.

15. The delegation of Greece stressed that the main aim of the energy policy of the Hellenic Republic (as being member both of the EU and the BSEC) is the integration of the country within the major international networks of oil, natural gas and electricity, through the promotion and the realization of international and bilateral agreements.

16. The representative of Romania stated that the Government of the country pursued the following strategic goals as regards the energy policy: reaching a real competition in the energy field; improving the institutional framework; eliminating the deviations which impact the

competitive market. In the context of the EU accession, the Romanian energy policy will be synchronized with the EU “acquis communautaire”. In terms of restructuring processes in the natural gas and oil sectors recent privatization of the biggest companies as well as liberalization of internal market on a basis of the reform of prices and tariffs system were highlighted.

17. The representative of Serbia and Montenegro presented restructuring of “Oil Industry of Serbia – Public Enterprise”. This PE was unbundled into three companies: “PE Transnafta”, “PE Srbijagas” and Joint Stock Company “NIS A.D.” Privatization adviser was selected which should propose privatization plan for “NIS A.D.”. Also the representative of Serbia and Montenegro presented the basic Energy Balance Data for oil and gas sub-sectors and highlighted the National Action Plan for Gasification that has been recently adopted by the Government.

18. The delegation of the Russian Federation outlined the current strategic priorities for oil and gas sectors development, which are as follows:

- creation and development of new centers of large scale oil and gas extraction in Eastern Siberia, Sakha Republic and the north of the European part of the country;
- development of prospective pipeline projects;
- attraction of investments in the development of new deposits and associated infrastructure for transportation;
- fostering competition by means of customs and tax regulation mechanisms;
- modernization and refurbishment of refineries, production and export of liquidified gas.

REALISATION OF PROJECTS IN OIL AND NATURAL GAS IN THE BSEC REGION

19. In line with the established practice the delegations exchanged information on the development of the projects in oil and natural gas having regional impact.

20. Specifically the delegation of Georgia presented two projects that are under development in oil and natural gas sectors:

- Baky – Tbilisi – Erzurum gas pipeline project and
- Baky – Tbilisi – Ceyhan main export oil pipeline.

The delegation also stressed the importance of these projects for developing Eastern – Western integrated energy cooperation and promoting mutual cooperation between South-East Europe, the Black Sea and the Caspian Sea region countries within the European energy system.

21. The representative of Serbia and Montenegro presented the plans of the Government concerning the improvement of energy interconnections with neighboring countries. In particular the MoU for Support and Development of the Project of Pan-European Oil Pipeline between the Governments of Croatia, Italy, Romania, Serbia and Montenegro and Slovenia to be signed in March 2006 was highlighted in this regard. Also the significance of the gas interconnection Nis (Serbia) – Dupnica (Bulgaria) was stressed.

22. The delegation of the Hellenic Republic highlighted the state of affairs with respect to the implementation of the Hellenic-Turkish Natural Gas Transmission Pipeline aimed at diversification of natural gas supplies to the European market, the signature of bilateral agreement for the construction of Hellenic – Italian natural gas undersea transmission pipeline, as well as the Burgas – Alexandroupolis oil pipeline.

23. The representative of Romania outlined the pace of implementation of the major investments projects, namely the NABUCCO Project and the Pan-European Oil Pipeline Constanza – Trieste Project.

24. The delegation of the Republic of Turkey, highlighting the risks created by the increasing tanker traffic in the Strait of Istanbul, the Sea of Marmara and the Strait of Canakkale, underlined the necessity of the by-pass oil pipelines and informed of the two major projects in oil transportation that are under development by Azerbaijan, Georgia and Turkey, notably BTC and Samsun –Ceyhan to serve further increase of oil transportation from Caspian region to world markets. With regard to the gas transportation, the new developments in the Baky – Tbilisi – Erzurum and South European Gas Ring Projects were outlined as well as the Turkey – Bulgaria – Romania – Hungary – Austria NABUCCO gas pipeline of a total length of over 3,300 km. and the projects with the Russian Federation on the natural gas transportation to Mediterranean countries were mentioned.

25. The delegations of the Hellenic Republic and the Russian Federation opposed the wording used by the delegation of the Republic of Turkey concerning the names of the Straits and indicated the need to adhere to the terminology used in the Montreaux Convention of 1936, such as the Bosphorus Strait, the Marmara Sea and the Dardanelles Strait.

26. The delegation of the Republic of Turkey:

- recalled the outcomes of the Meeting of the Committee of Senior Officials and the Meeting of the Council of Ministers of Foreign Affairs of the BSEC Member States held on 28-30 April 2004;
- reminded the fact that the Montreaux Convention of 1936 recognized the full sovereign rights of Turkey over the Turkish Straits;
- referred to the Para. 16 of the “Third United Nations Conference on the Standardization of Geographical Names” held in Athens in 1977 which confirmed the fact that it is a sovereign right of every state to name the places under their sovereignty;
- pointed out the established practices of IMO;

stated that Turkey has the right to name its domestic localities by itself and the term “the Straits” means the Turkish Straits and it denotes the Strait of Istanbul and the Strait of Canakkale.

27. The delegation of the Russian Federation expressed the interest of the country to cooperate within the BSEC framework in the following directions:

- in gas sub-sector – securing reliability of gas supplies; expansion of transit capabilities in the territories of the Member States; participation in construction of underground storage facilities;

- in oil sub-sector – securing supplies of oil and oil products through the Straits to Europe; implementation of the pipeline projects aimed at lessening burden on the Straits, particularly the Burgas – Alexandroupolis one; oil processing and extension of petrol station network; joint projects on oil extraction;
- in electricity sub-sector – for ensuring stability and security of energy supplies elaboration of joint plans of action oriented at further interconnection and synchronization of electric power networks in the BSEC region will be crucial. It was proposed to investigate the possibilities of interconnection of Mediterranean Energy Ring and the Black Sea electrical networks.

28. The representative of Ukraine informed of the extension of the Odessa – Brody oil pipeline towards Plock (Poland) and further to Western European countries; development of storage facilities for creation of oil reserve in the country; latest efforts taken for refurbishment of gas transit pipeline system.

29. While visiting the Sangachal Oil Terminal the delegations were informed by BTC Co., AIOC, Şah-Deniz Co. and SCP Co. of the projects in oil transportation that are under development in the Republic of Azerbaijan and neighbouring countries.

PRESENTATION BY THE REPUBLIC OF AZERBAIJAN IN THE CAPACITY OF COUNTRY-COORDINATOR OF THE PLAN OF ACTION OF THE WG ON ENERGY

30. The Draft Plan of Action of the BSEC Working Group on Energy for 2005-2007 was presented by the delegation of the Republic of Azerbaijan in its capacity as Country-Coordinator of the BSEC Working Group on Energy.

31. The delegations had a discussion on the Draft Plan of Action and approved it with amendments. The Plan of Action of the BSEC Working Group on Energy for 2005-2007 as approved is attached as Annex IV to the Report.

IMPLEMENTATION OF BAKY AND ALEXANDROUPOLIS DECLARATIONS ON ENERGY COOPERATION IN THE BSEC REGION

32. Having recalled the provisions of the Baky Declaration on Energy Cooperation in the BSEC Region signed on 19 September 2003 and the Alexandroupolis Declaration on Energy Cooperation in the BSEC Region signed on 4 March 2005, the delegations made their comments on the state of implementation of the former, particularly with respect to strengthening the rule of law on energy-related issues, enhancement of freedom and security of all modes of hydrocarbon transport, taking into account also the environmental concerns and the international commitments of the BSEC Member States, creation of a regionally integrated energy market for natural gas network in the context of the European market and development initiatives ensuring the physical safety and security of transport and energy supply networks as well as attaining the other objectives of cooperation listed in the above mentioned Declarations.

DISCUSSION OF THE INPUTS TO THE LIST OF STRATEGIC OBJECTIVES

33. No inputs by the delegations were presented and discussed at the Meeting.

34. The delegation of the Hellenic Republic informed the Working Group of the signing on 25 October 2005 of the Treaty Establishing the Energy Community aimed at furthering the Athens Process mentioned in Item 7 of the List.

BSEC PDF PROJECT “ BSEC-EU NETWORK FOR ENERGY POLICY AND RESEARCH”: CURRENT STATE OF DEVELOPMENT AND PROSPECTS

35. The representative of the Lead partner (KEPA) of the BSEC PDF financed project “Development of the EU-BSEC Network for Energy Policy and Research” gave a detailed presentation of the work carried out during project implementation.

36. The said project was approved by the WG in June 2004 and was carried out in 2005. After the completion of the BSEC PDF financed stage the project partners successfully secured further financing from the E.U. The Lead partner declared the willingness to expand the Energy Network Project to other Member States not currently participating.

37. The Lead partner presented to the WG an edition of the “Energy Review”, published under the auspices of BSEC at no cost for the Organization, and proposed to elaborate this into an annual “BSEC Energy Review” where Member States could include their annual energy figures. Also, the Lead partner extended an invitation to the WG inviting the members to attend an Energy Conference in Athens in October 2006, and communicated its capacity to host scientists from the BSEC countries for relevant to Promitheas network activities for short time visits at KEPA Premises in Athens.

38. The WG expressed satisfaction for the successful completion and further continuation of the said project, able to produce additional benefits to the BSEC region and congratulated the partners.

39. The PDF project proposal “Preliminary study for the development of a BSEC Regional Power Intermediary Organization” submitted by Azerbaijan, Bulgaria, Greece (Lead partner), Russia and Serbia and Montenegro were presented to the WG. The participants expressed their interest for the said project application, asked the Lead partner to submit the project presentation to the Member States and decided to continue the discussion at the next meeting of the WG that is supposed to be convened in the framework of the Russian BSEC Chairmanship.

40. The delegation of the Republic of Turkey, pointing out the fact that establishing a functioning market at regional level requires the establishment of national markets and competition at the national levels at first, stated that at this stage the aim of creating a regionally integrated market is a too ambitious target.

41. The Working Group took note of the presentation by the representative of Ukraine of the project idea on the development of combined technology cycle for coal utilization and recommended that the respective application should be prepared in accordance with the PDF regulations and submitted to the PERMIS with a view of its consideration by the Working Group.

ANY OTHER BUSINESS

42. The delegations took note of the proposal by Azerbaijan on elaboration of the following project ideas with interested countries:

- Ion-Transport Process of Purification of the Layer Waters from Radionuclides and Heavy Metals;
- Installation for Cleaning of the Oil Polluted Soils;
- Efficiency of Displacement of Oil from Layer by Carbonic Gas at the Parameters Close to Critical;
- Cleaning of Gas Blow-Outs of Petrochemical Manufacturers and Thermoelectric Power Stations.

43. The delegations took note of the proposal by Ukraine to include the issues related to effective production and utilization of coal in the scope of activities of the Working Group and expressed the view that it would be considered in detail at the next Meeting under separate agenda item.

ADOPTION OF THE REPORT

44. The delegations decided to submit the present Report to the Committee of Senior Officials and the Fourteenth Meeting of the Council of Ministers of Foreign Affairs to be held in Bucharest on 26 April 2006 for their consideration.