

Project Fiche 6

Title	Strengthening Regional Energy Co-operation in Eastern Europe and Caucasus		
Total cost	EC contribution: Euro 6,000,000		
Aid Method	Project approach – centralised management		
DAC-code	23010	Sector	Energy

1. Rationale

1.1. Strategic framework

The involvement of the Community in the area of oil and gas networks in the Former Soviet Union started with the 1992 Tacis Interstate project involving only Central Asian and Caucasus countries. Th project addressed a strategic sector and was relevant to the concerns of the Newly Independent States (NIS) to develop their oil and gas resources and to secure reliable supplies. This led to the creation in 1995 of a broader initiative henceforth known as the INOGATE (Interstate Oil and Gas Transport to Europe) Programme. This programme included for the first time the basic concept of interdependence among the NIS countries and the European Member States.

The INOGATE Programme was initially funded under the Tacis Interstate Programme as part of a four-year programme (budget lines of 1996-1999). With the change in the Tacis Regulation in 1999, the Tacis Interstate Programme was transformed to the Tacis Regional Co-operation Programme 2000-2006. In the Tacis Regional Cooperation: Strategy Paper and Indicative Programme 2004-2006 adopted by the Commission on 11 April 2003, three priority themes were identified, where activities at the multi-country level were deemed to be the most appropriate, as follows:

- Sustainable Management of Natural Resources.
- Promoting Trade and Investment Flows
- Justice and Home Affairs

The component on promoting trade and investment flows in the energy sector is addressed by the INOGATE Programme. The overall objective is to ensure co-operation between NIS in the field of energy in order to facilitate and increase trade and investment flows, enhanced security and safety, reduced health and environmental impacts of existing energy networks, as well as improved statistical information in the sector.

In the field of energy, oil and gas networks are the focus of the support with a total of €18 million indicative budget for 2004-2006.

As per the Tacis Regional Co-operation Programme 2004-2006, the specific objectives for oil and gas networks are set out as follows:

- Development of rationalized and facilitated interstate oil and gas transportation systems, contributing to the implementation of the INOGATE Umbrella Agreement;
- Improvement of security and safety of the transport of gas and oil, in particular from Russia and the wider Caspian Basin to Europe, taking into account of economic and environmental importance of this sector and its importance for EU energy supplies;
- Promotion of IFIs investment and private sector involvement and progress on modernization and reform in these areas.

In addition to the Tacis Regional Co-operation Programme, a special Tacis Central Asia Sub-Programme was created in 2002 and funds specifically allocated to the energy sector with similar objectives also run under the greater framework of the INOGATE Programme.

1.2. Lessons learnt

Lessons learnt include the need for better coordination with other Community assistance instruments and with other policy areas as well as ensuring the complementarity between the assistance provided by this programme, the Tacis Central Asia regional programme, the national programmes and the activities developed by other donors .

It is further recognised that a mechanism within the European Commission is needed to ensure better co-ordination of regional programmes especially given that many projects have been decentralised to the EC Delegations .

1.3. Complementary actions

The European Union is currently implementing / in the process of tendering the following projects:

TACIS REGIONAL CO-OPERATION PROGRAMME - ENERGY

- Reform of the Gas Transit Network of Ukraine (AP2002) – 3 MEUR – Beneficiary Country: Ukraine (decentralised to EC Delegation Ukraine)
- Technical, Economic, Financial and Legal Advisory Support for the Development of the Project Concept for the Odessa-Brody-Plock Oil Transportation System (AP2002) – 2 MEUR - Beneficiary Country: Ukraine (decentralised to EC Delegation Ukraine)
- Development of Maintenance Excellence in NIS Gas Companies (AP2003) – 1.5 MEUR – Beneficiary Countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Ukraine and Uzbekistan
- Pre-feasibility Studies for Developing the Gas Transit Interconnections in Caucasus and Central Asia (AP2003) – 1.7 MEUR - Beneficiary Countries: Armenia, Azerbaijan, Georgia, Turkmenistan
- INOGATE-IFI Technical Assistance Support Fund for facilitating investments in Oil and Gas Projects (AP2004) – 3 MEUR – Beneficiary Countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Ukraine and Uzbekistan

CENTRAL ASIA REGIONAL CO-OPERATION PROGRAMME – ENERGY

- Technical Audit of Oil and Gas Pipelines (AP2002) – 1.4 MEUR + 0.6 supply (equipment) – Beneficiary Countries: Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan
- Gas Pipelines Diagnostic Mobile Laboratory (AP2003) – 0.7 MEUR supply contract – Beneficiary Country: Turkmenistan
- Emergency Priority Actions for Security and Improvement of Exploitation Conditions for Gas Transportation Systems Central Asia countries (AP2003) – 1.8 MEUR – Beneficiary Countries: Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan
- Rapid-response Expert Facility for developing gas supplies and interstate transportation in Central Asia (AP2004) – 2.5 MEUR - Beneficiary Countries: Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan

Other Energy Policy Support Programmes of the European Commission

In the context of energy policy, the Green Paper «Towards a European strategy for the security of energy supply» has highlighted the need for an enhanced producer-consumer dialogue including in the NIS countries. Co-operation has been strengthened in the last years through the EU-Russia energy dialogue and the development of contacts with producer and transit countries in the framework of the PCA. The Synergy programme has provided some technical assistance to support the reform and modernisation of the energy sector in the NIS. In 2001 and 2002, the programme focused on security of supply and energy efficiency in the context of the fulfilment of the Kyoto commitments. These priorities are also proposed for the international part (COOPENER) of the new energy action programme "Intelligent Energy for Europe" (2003-2006).

Other Donors

Energy assistance provided by multilateral and bilateral donors focuses on restructuring, rehabilitation and modernisation of different energy sectors as well as energy efficiency and conservation. In this area EBRD, WB, USAID and the Asian Development Bank have financed the restructuring, rehabilitation and modernisation of power plants and district heating. They have also financed restructuring of the oil, gas and coal sectors (World Bank in Russia). Projects were also developed by USAID and the EBRD for restructuring of the electricity sector. Financing of energy efficiency and energy conservation has been provided by EBRD, WB and USAID. Projects on energy renewable sources (hydro projects, wind power) were also supported by USAID. Support to the transport sector is mainly provided by the EBRD, WB and the Asian Development Bank.

1.4. Donor co-ordination

Active co-ordination has been developed with the EBRD especially in the implementation of the projects supporting investment attraction, namely:

- INOGATE-IFI Technical Assistance Support Fund for facilitating investments in Oil and Gas Projects
- Rapid-response Expert Facility for developing gas supplies and interstate transportation in Central Asia

It should be mentioned that under the National Action Programme 2003 for the Russian Federation a very similar project is proposed for the Harmonisation of the Gas Standards between the EU and Russia which is quite relevant to component 1 of this project fiche.

2. Regional context

2.1. Cooperation related policy of beneficiary countries

The following two regions are key beneficiary regions of this project :

- 'Eastern Europe Region' consisting of Ukraine, Belarus, Moldova
- 'Caucasus Region' consisting of Armenia, Georgia and Azerbaijan

Co-operation in the oil and gas sector in Eastern Europe Region is much more advanced than in the Caucasus Region.

In Eastern Europe, one of the most advanced levels of co-operation is being realized by three beneficiary countries (Ukraine, Moldova and Belarus), which have agreed to jointly create the Eastern Europe Regional Natural Gas Metrological Centre in Boyarka, Ukraine. The main function of the Centre is to improve the measuring techniques applicable in gas transit compatible to internationally recognized standards. All activities (civil construction works, engineering of infrastructure facilities and equipment installation) have been performed in close co-operation with the specialists of the beneficiaries - NJSC "Naftogaz of Ukraine", SE "Beltransgaz" and SC "Moldovagas". After completion of the main construction works, scheduled for December 2004 and passing the stage of accreditation that is expected for the second quarter of the year 2005, the international certified Regional Metrological Centre will provide state-of-the-art calibration services for the gas transfer within the region and will offer calibration services to other countries.

In the Caucasus, the ongoing issues under negotiations between Armenia and Azerbaijan do not allow for optimal co-operation in the oil and gas sector in the region. At present the two gas pipelines connecting Azerbaijan with Armenia are shutdown and the only route open for the import of gas into Armenia is from the Russian Federation via Georgia. In this sense, Armenia and Georgia, both highly dependent net energy importers, are primarily supplied natural gas from Russia, and in recent years from Turkmenistan (piped through Russia). But a change in Russian suppliers, from the Russian independent Itera, to

Gazexport Ltd (a subsidiary company of Russian Gazprom), has in effect put large portions of the Caucasus countries' economies in the hands of the Russian monopoly.

In Azerbaijan, while there are proven natural gas reserves of roughly 30 trillion cubic feet (Tcf), potential for even larger reserves, insufficient infrastructure to deliver the country's natural gas from offshore fields (the source of the majority of the country's production) results in a large part of natural gas having to be flared instead of being piped to markets.

2.2. Sector context

The Tacis Regional Cooperation Programme 2004-2006 clearly sets out the priorities for activities in the sector on a regional basis as follows:

Activities with wider impacts and potential for intensified regional cooperation, including, where appropriate, harmonisation with EU standards and rules, should be prioritised. Special attention is needed as regards security and safety aspects as well as environment and health impacts. These are priorities for the EU but they are also highly relevant for the NIS as they are bound by commitments in international and regional conventions and agreements. Moreover, harmonisation with EU standards becomes necessary in order to facilitate trade flows and avoid barriers to trade. Reliable statistics showing trends in these sectors are also essential. While there is a huge need for investment in infrastructure development and modernisation in these areas, the limited Tacis resources should not generally be used for direct investment. The main aim should be to leverage IFIs investment and promote private sector involvement.

3. Description

It is proposed to address the issues described above through three components as follows:

- Component 1 – Harmonization of EU gas and oil standards and practices in both Eastern Europe and Caucasus
- Component 2 – Feasibility Study for expanding the Eastern Europe Regional Natural Gas Metrology Centre in Boyarka to include oil and oil products metrology
- Component 3 – Safety and security of main gas transit infrastructures in Eastern Europe and Caucasus Regions

3.1. Harmonisation of EU Gas and Oil Standards and Practices in Eastern Europe and Caucasus

3.1.1 Objectives

The overall scope of the project aims to support the countries' uptake of international standards, rules and practices for design, construction, manufacturing, testing, certification, accreditation, operation, storage and maintenance applied to all components of gas and oil production / transmission / storage. [For example, from the Soviet Union period and until now, construction and exploitation norms and standards (GHOST and SNIP) are used for gas pipeline system operation and maintenance. The project will aim to support the countries transition to meeting internationally recognized standards and norms as EU norms, ISO and ANSI/ASME.]

3.1.2 Main activities and expected results

Activities will include:

- Ø Cooperation between Beneficiary Countries and EU public and independent bodies for the gas and oil sectors
 - Unification of gas quality and gas volume measurements, as well as related testing
 - Unification of oil volume measurements, as well as related testing and measuring equipment
 - Standards, testing and certification of equipment for the gas and oil sector
 - Common standards, rules and industrial practices for construction and operation of gas and oil pipelines, including Quality, Health, Safety and Environment (QHSE) standards, EIA practices and Best Available Techniques (BAT) concept
 - Common standards, rules and industrial practices for equipment and materials that will be used in oil and gas sector (exploitation, processing, transportation, storage).

- Ø Development of common standards, rules and practices for the gas and oil sectors, primarily for transmission pipelines
 - Classification and comparison of standards in the Beneficiary countries and EU and the Strategy Paper for ultimate harmonisation
 - Implementation of standards, rules and practices to render them compatible with the industrial practices (equipment, construction and operation of pipeline systems)
 - Case studies evaluating the economic and environmental impact of harmonisation on concrete investment / rehabilitation projects

- Ø Creation of a permanent information platform
 - Benchmarking EU experience
 - Establishment of an easy accessed information service on the harmonisation of EU standards, rules, rules, certification and accreditation in the gas and oil sectors

3.2. Feasibility Study for Expanding the Eastern Europe Regional Natural Gas Metrological Centre to include Oil and Oil Products Metrology

3.2.1. Objectives

The overall objective is to assist in setting up an internationally accepted and certified Eastern Europe Regional Centre for Metrology of Oil and Oil Products, which main function will be to improve measuring techniques applicable in their transit compatible with internationally recognised standards.

3.2.2. Main activities and expected results

Activities will include:

- Support in the negotiations between the beneficiary countries for the agreement on the expansion of the existing Metrological Gas Centre to include oil and oil products metrology
- Elaborate the feasibility study for the expansion of the Centre
- Develop any additional relevant studies for civil works, laboratories for oil and oil products metrology, and equipment design
- Overall management of the various studies to be carried out to ensure a coherent design
- Preparation of all tender documentations for procurement of all necessary equipment and materials as well as civil and mechanical erection works

3.3. Safety and security of main gas transit infrastructures in Eastern Europe and Caucasus Regions

3.3.1. Objectives

The project aims at enhancing the safety and security of energy supplies through the development of a comprehensive and prioritised programme of actions with the aim to reduce gas losses of the main gas transit systems.

3.3.2. Main activities and expected results

Activities will include:

- review of the existing INOGATE and other studies relevant to the status of the oil and gas networks in Beneficiary countries
- Update and validate the current gas losses on main gas transit lines
- Prioritise gas losses to be addressed and set out list of emergency actions
- Undertake specific studies (including basic design) for interventions on priority emergency areas with a view to limiting gas losses and environmental impacts
- On the basis of the studies, prepare full set of project documents including economic / budget analyses for obtaining funding
- Promote the projects to the IFIs for financial support

3.4. Stakeholders

Ukraine	Ministry of Energy, Naftogaz
Moldova	Ministry of Energy, Moldovgaz
Belarus	Ministry of Energy, Beltransgaz, Belneftechim
Armenia	Ministry of Energy, Armrusgazprom
Azerbaijan	Ministry of Energy, Azerigaz, Socar
Georgia	Ministry of Fuel and Energy, Georgian Gas international Corporation (GIC), Georgian International Oil Corporation (GIOC)

3.5 Risks and assumptions

This project is based on the following prerequisites and assumptions:

- The commitment of Belarus and Moldova to expanding the Eastern Europe Regional Natural Gas Metrological Centre in Boyarka, Ukraine to include oil and oil products metrology.

Risks:

- Level of Commitment by countries in the harmonisation process.

3.6. Conditionalities

The agreement of Belarus and Moldova to expanding the existing Eastern Europe Regional Gas Metrological Centre to include oil and oil products metrology.

3.7. Crosscutting issues

Good governance, legislative reform, democratization, economic growth and improved business climate.

4. Implementation issues

4.1. Implementation method Centralised management

4.2. Budget and calendar

The total amount allocated is Euro 6 Million tentatively divided between the three components as follows

Component 1 - Harmonisation of EU Gas and Oil Standards and Practices:

- The overall budget of the project is Euro 3 million (Service contract).

The project duration is 24 months.

Component 2 –Feasibility Study for the expansion of the Eastern Europe Regional Natural Gas Metrological Centre to include oil and oil products metrology:

- The overall budget of the project is Euro 1 million (Service contract).

The project duration is 18 months.

Component 3 - Safety and security of main gas transit infrastructures in Eastern Europe and Caucasus

The overall budget of the project is Euro 2 million. The tentative breakdown is as follows:

- Euro 1,000,000 for Service contract
- Euro 1,000,000 for Supply contract

The project duration is 24 months.

4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.4. Performance monitoring

The project will be monitored by the TACIS monitoring office and closely followed by the Delegation.

4.5. Evaluation and audit

A final evaluation should be foreseen and, if necessary, an audit.

Annexes