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**Meeting of the Economic, Commercial, Technological and
Environmental Affairs Committee**

draft

REPORT*

**“The priorities of cooperation between BSEC member states in
the field of energy: oil and gas sector”**

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I. INTRODUCTION

1. The Black Sea region lies at the crossroads of major oil and gas export flows to the world energy markets. Wider Black Sea area is increasingly becoming a place of utmost importance in terms of energy production, transportation and distribution. Given, on the one hand, the energy interdependence of all Black Sea countries and, on the other hand, their key role in the transit and supply of goods, regional cooperation in the field of energy has become crucial aspect during last decades.
2. Being as the second-largest source of fossil energy reserves after the Persian Gulf the Black Sea region has entered new millennium facing new rapid developments in energy field that requires unavoidable cooperative attitude with new approaches in this direction. Oil and gas projects, which have changed energy map of the region, encourage the member states to elaborate new mechanisms for establishing common energy strategy in the context of global energy security.
3. In 2003 in Chisinau the PABSEC adopted the Recommendation 68/2003 on "Cooperation in the field of energy" which calls on the Assembly to get directly involved in the working out of the legal norms to be laid at the basis for the multilateral cooperation agreements in the field of energy in the Black Sea region.
4. In its Recommendation 72/2003 on "Shaping European Economic Space" adopted at the 22nd General Assembly in Bucharest the PABSEC calls the national parliaments and governments to undertake common actions for the integration of the Black Sea countries into energy networks and to work close with the EU on the identification of priority fields of interaction at the regional level focusing on energy dialogue as well.
5. In 12-13 October 2005 the PABSEC with cooperation of the National Assembly of the French Republic held a seminar "Energy and Environment". During the seminar aspect of clear energy interdependence of the countries of Europe and Black Sea region was emphasized. This seminar was the first event, when the observer country to the PABSEC being leading country in Europe at the same time organized discussions summoned by the energy problem in wider context.
6. Report is based on contributions received from national delegations of Armenia, Azerbaijan, Greece, Romania, Russia and Turkey, sources of the Black Sea Regional Energy Center, proceedings of international conferences, BSEC seminars and other relevant sources.

II. BSEC FRAMEWORK OF COOPERATION IN THE FIELD OF ENERGY

7. In conditions of the urgent need of developing Eurasian energy infrastructure an importance of the BSEC is particular in seeking mutually beneficial decisions on construction of the system of regional energy security, development of the regional energy markets, ensuring predictability of the markets at the expense of extension of the long-term agreements practice and development of the dialogue between the energy producers and consumers.
8. Since its establishment in 1992 the BSEC member states gave particular emphasis to the interconnection in energy field. The BSEC Charter (1999) directly determined energy field as the priority direction of the cooperation.
9. The **BSEC Economic Agenda** defines energy as the priority sector of the regional cooperation in the context of oil and gas projects, as well as interconnection of electricity networks. Agenda determines that the growing role of the BSEC potential in the world energy market, particularly taking into account the promising oil and natural gas discoveries in the Caspian Sea basin and the development of prospective projects require the coordination of activities in the energy sector among the BSEC Member States and, whenever possible, the formulation of common strategies. Such coordination should take into account the possibilities to achieve better utilization of energy resources.
10. The continuity and regularity of the BSEC activity in the energy field is provided by the **BSEC Working Group on Energy** (created in 1994) through its Plan of Action. The last Plan (adopted in February 2006) is focused on the following areas:
 - 1) Ensuring security and stability of energy supplies through strengthening of cooperation among the BSEC member states aimed at the diversification of sources of oil, gas, coal and electricity as well as routes of supply; strengthening and broadening cooperation in the transportation/transiting of energy resources across the BSEC region and through the BSEC region to other destinations.
 - 2) Gradual mutual approximation of the relevant legislation of the BSEC member states and bringing it to conformity with the international standards as a prerequisite for formation of the BSEC energy market as an integral part of Trans-European Energy networks.
 - 3) Ensuring environmental protection through the application of best practices and environmental standards during designing and implementation of national and regional projects in energy; mitigation of risks of energy exploration and transportation in the BSEC region.

- 4) Promoting energy efficiency throughout the region, comply with international requirements for gas emissions; introduce technical standards in compliance with the international requirements.
 - 5) Ensuring compatibility of professional (educational) standards in the field of energy, recognition of diplomas and certificates on the basis of relevant intergovernmental agreements enabling employment possibilities in the member states and through the joint ventures in the third countries.
 - 6) Ensuring efficient exchange of reliable information as a basis for the progressive cooperation among the member states in the field of energy, preparing comprehensive energy study in the BSEC region.
 - 7) Promoting the Organization of BSEC as the only full-fledged regional multilateral mechanism for cooperation in the field of energy; engaging in a more cooperative and comprehensive basis cooperation with other important stakeholders in the field of energy.
11. Elaboration of the new directions of energy cooperation between the BSEC member states is one of the priority activities of the BSEC WG on Energy. Upon the initiative of the Republic of Turkey the **Ad Hoc Working Group for cooperation between the BSEC Member States in exploration and exploitation of hydrocarbon resources of the Black Sea** was established. The work on the realization of initiative of the Russian Federation on **creating data base of national energy strategies in the BSEC member states** is continuing.
 12. **Establishment of the integrated market of natural gas** is another initiative of the Russian Federation forwarded in the framework of the BSEC WG on Energy that implies a possibility of creation of the unified system of natural gas mining, transportation and distribution. During the Russian Chairmanship in BSEC the "Gasprom" Joint Stock Company (JSC) suggested an idea on establishing sub-regional market of the gas circuit and also realization of the multilateral program on transferring motor transport into natural gas.
 13. The **Baku Declaration on Energy Cooperation in the BSEC region** adopted on 19 September 2003 stipulates such provisions, as close work of the member states towards further diversification of oil and gas export routes to the European and international markets, ensuring freedom of energy transit by pipelines and networks, close cooperation with respect to improving oil and gas networks and linking them to the Trans-European Networks, liberalizing trade in energy materials, products and energy-related equipment with due regard to WTO rules and the other international obligations, strengthening the rule of law on energy related issues by ensuring a level playing-field of rules for all member states.
 14. In **Alexandroupolis Declaration on Energy Cooperation in the BSEC region** adopted on 4 March 2005 the ministers in charge of energy have

- affirmed their readiness to work for the creation of a regionally integrated energy market for electricity and natural gas networks and for the integration of this market into the wider European market and to explore the possibilities of cooperation between the BSEC Member States and the Energy Community in South East Europe.
15. On 27 September 2006 in Sochi a **Statement of Ministers of Energy of the BSEC Member States** was adopted, in which ministers stressed that formation of an energy system capable to provide people in the region and on global level with secure and uninterrupted supply of energy resources at cost-reflective prices, to maintain stability at both regional and global energy markets and to ensure environmental safety, is one of the priority task. In this statement ministers also stressed that common understanding of mutual interests and purposes of energy strategies as well as the ways to achieve them are key factors to effectively mitigate risks and in the long run to ensure the energy security in the Black Sea region.
 16. The Heads of State and Governments in the **Declaration on the Occasion of the Fifteenth Anniversary Summit of the BSEC** adopted on 25 June 2007 recognizing “the importance of energy as an essential element for sustainable development and being aware of the role and the further potential of the wider Black Sea area in terms of energy resources, including electric power, and its profile as a significant transit corridor for oil and gas bound mostly for Europe reaffirmed their willingness to deepen cooperation in the area of energy with due regard to interests of energy producing, consuming and transit countries and cooperate with the European Union and other international partners in order to ensure fair access to energy resources and markets on a mutual basis for all interested countries to enhance global energy security, efficiency, competitiveness and environmental sustainability”.

III. ENERGY OUTLOOK OF THE BLACK SEA REGION

17. Last global tendencies in energy field indicate that the Black Sea region plays an important role in formation of new energy map of the Eurasian continent, which in perspective will contain such aspects, as diversification of oil and gas supplies, new routes of transportation of energy sources to the European markets and ensuring security of these projects. The concept of wider Black Sea region implies along with Russian oil and gas resources an increasing role of the energy sources of the Caspian basin with participation of Trans-Caspian countries – Iran, Kazakhstan and Turkmenistan in regional energy projects.
18. Most BSEC countries are linked by oil and gas production and transportation projects. The majority of oil and gas transportation and production projects are in Russia and Azerbaijan, being self-sufficient countries in view of fossil resources. Pipeline projects that connect

countries of the BSEC region among themselves and with the rest of the world revealing the great potential for cooperation in the oil and gas sectors.

a) Map of the oil pipelines and future projects

19. The factor of high energy interdependence of the BSEC countries urged them to strengthen their energy cooperation aimed at the diversification of oil and gas supply and its routes with a view of creating and providing reliable system of interrelations between energy suppliers and energy consumers and stable price policy. Construction of export pipelines to deliver hydrocarbons to the international markets has become focus of the energy cooperation.
20. The **Druzhba pipeline** is the world's longest oil pipeline with 4000 km length reaching Ukraine, Hungary, Poland and Germany. Pipeline was built in 1964 for transporting oil to the Eastern Europe countries. The Druzhba pipeline currently has a capacity of 60–62 million tons per year. There are two project proposals with regard to the further extension of the Druzhba pipeline: extension of the northern branch of pipeline to the German North Sea port of Wilhelmshaven and extension of the pipeline to pass through Hungary and Croatia for reaching Adriatic Sea.
21. Construction of the **Baku-Tbilisi-Ceyhan pipeline (BTC)** became a key factor of transportation of the Caspian oil resources to the European markets began in September 2002 and officially inaugurated in July 2006. The BTC pipeline with total length of 1760 km makes a major contribution to the development of the world energy supply with its annual 50 million ton capacity and constituted an important leg of the East-West energy corridor.
22. **Burgas-Alexandropoulos** oil pipeline will be used to transport Russian oil through Black Sea port to Aegean Sea as an alternative route bypassing Bosphorus and Dardanelles. Its construction is estimated to be completed by the beginning of 2011. Extension of the pipeline is 280 km with annual capacity of 35 million tons with possible increase up to 67 million tons per year. Intergovernmental agreement on the project was agreed in February 2007 and it was signed on 15 March 2007 in Athens under the presence of the leaders of Bulgaria, Greece and Russia.
23. **Odessa-Brody pipeline** is a 674 km long crude oil pipeline was built in 2001 and originally intended for transferring oil from the Caspian Sea to the Polish Baltic Sea port and further to the rest of Europe. Presently the pipeline works in reverse regime for transportation of the Russian oil.
24. The project of **Trans-Caspian oil pipeline (Aktau-Baku oil pipeline)** is planned under the Caspian Sea connecting Kazakhstan with Azerbaijan and considered as a part of the BTC pipeline and would allow transporting oil from the major Kazakhstani oil field Kashagan to the world market. Currently the project is at the feasibility stage and

- according to the expert's opinion in case of its realization would provide an important export route for oil in Western Kazakhstan.
25. **Pan-European oil pipeline** is a proposed route from Constanza (Romania) via Serbia and Croatia and from there through Slovenia to Trieste (Italy). 1.856 km long is considered to bypass Turkish straits in the transportation of oil feeding refineries in South-Eastern Europe, Italy, Austria and Bavaria with predictable 40 million ton of oil per year. A declaration on construction of the pipeline was signed on 3 April 2007 by the energy ministers of Croatia, Italy, Romania, Serbia and Slovenia and its completion is scheduled for 2011.

b) Gas pipelines and projects in the region

26. **Blue Stream** is a major trans-Black Sea gas pipeline that carries natural gas from Russia into Turkey and has been officially inaugurated in November 2005. Decision to sell Russian gas to Turkey was made in 1997, when the two sides signed inter-governmental agreement. By 2010 Blue Stream is expected to be operating at full capacity delivering 16 bcm per year. Construction of the second leg of pipeline will allow expanding Russian gas export to the south (via Samsun-Ceyhan gas pipeline further to Israel and Lebanon). The pipeline is considered as a part of forming Southern European Gas Ring project.
27. **South Caucasus Gas Pipeline** (Baku-Tbilisi-Erzurum route) is to transport natural gas from the Shah Deniz gas field in the Azerbaijan sector of the Caspian Sea to Turkey. First deliveries of gas started in December 2006. The pipeline is being constructed in the same corridor as the Baku-Tbilisi-Ceyhan oil pipeline in order to minimize the environmental and social impact. The pipeline is 692-km-long and the annual capacity will be up to 16 bcm, with the potential of being connected to Turkmen and Kazakh producers through the planned Trans-Caspian Pipeline. The first aim of pipeline is to supply Georgia and Turkey. In longer perspective South Caucasus pipeline will supply Europe with Caspian natural gas, including Iran and Turkmenistan, through the planned NABUCCO project, Turkey-Greece and Greece-Italy pipelines.
28. Another proposed route aiming at the transportation of natural gas from Kazakhstan and Turkmenistan to Central Europe is expansion of **Central Asian-Centre** gas pipeline, which runs from Turkmenistan via Uzbekistan and Kazakhstan to Russia. The pipeline was built in 1974 and the western branch of the pipeline runs from the Turkmen areas of the Caspian Sea region to the north. The eastern branch runs from Eastern Turkmenistan and southern Uzbekistan meeting with western branch in Kazakhstan. From there the pipeline runs to north where it is connected to the Russian natural gas pipeline. On 12 May 2007 presidents of Russia, Kazakhstan and Turkmenistan signed an agreement providing for Central Asian gas

- to be exported to Europe through the reconstructed and expanded western branch of the Central-Asian-Centre gas pipeline.
29. **NABUCCO** project represents a new gas pipeline with the view of connecting the Caspian region, Middle East and Egypt via Turkey, Bulgaria, Romania, and Hungary with Austria and further on with the Central and Western European gas markets. The pipeline length is approximately 3.300 km starting at the Georgian/Turkish or alternatively Iranian/Turkish border, leading to Baumgarten in Austria. According to the market studies the transport capacity of pipeline would reach up to 30 bcm per year in the long term.
 30. **Trans-Caspian Pipeline project** is a proposed submarine pipeline between city of Turkmenbashi in Turkmenistan and Baku in Azerbaijan and considered as a part of the South Caucasus pipeline and NABUCCO project. By some proposals it will also include connection with Tengiz gas field in Kazakhstan. Project was suggested in 1996 and currently a feasibility study on it continues.
 31. Along with South Caucasus and Trans-Caucasus pipelines the **Iran-Turkey gas pipeline** with extension of 2.577 km is the third essential branch of the NABUCCO project. The construction of pipeline started in 1996 after gas deal between two Turkish and Iranian governments and was completed in 2001. In Erzurum the Iran-Turkey pipeline is linked to the South Caucasus pipeline.
 32. **Iran-Armenia gas pipeline** is a 140 km pipeline between two countries running from Tabriz to Iran-Armenia border. The initial capacity of the pipeline is 1.1 bcm annually, which will be increased up to 2.3 bcm by 2019. The Armenian side plans to lay some more 197 km of the pipe in order to reach the planned amount. The pipeline operation started on December 2006 and was officially inaugurated on 19 March 2007. Discussions for building second pipeline from Iran to Armenia are open.
 33. In addition, the following pipelines are under construction or under consideration:
 - The **Karacabey-Komotini gas pipeline**, on which construction work is due to start in near future to connect Greece directly to major Caspian and Middle Eastern gas producers.
 - **The Ionian Sea gas inter-connector** between Greece and Italy. On 28 April 2005 Greek and Italian sides signed a provisional agreement for building a 220-km long natural gas pipeline from Trikala in Greece to Otranto in Italy.
 - **AMBO (Trans-Balkan pipeline) project** is planned oil pipeline from Bulgarian Black Sea port Burgas via Former Yugoslav Republic of Macedonia (FYROM) to Albanian Adriatic port Vlore. The 894-km pipeline is expected to transport 750 000 barrels of oil per day. Trilateral convention on the AMBO project was signed on 31 January 2007.

b) Energy cooperation of the member states in the framework of international initiatives

34. The roots of the **Energy Charter** date back to a political initiative launched in Europe in early 1990, when after the end of the Cold War there was recognized need for establishment of a commonly accepted foundation for developing energy cooperation among the states of Eurasia. The Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects were signed in December 1994 and entered into legal force in April 1998. To date the Treaty has been signed or acceded by fifty one states and the European Union. Presently all the BSEC member-states, except Russia, have ratified Energy Charter Treaty (BSEC Organization itself has an observer status in the Energy Charter Conference), Serbia has an observer status in the Conference. The Treaty was developed on the basis of the Energy Charter Declaration of 1991. Whereas the latter document was drawn up as a declaration of political intent to promote energy cooperation, the Energy Charter Treaty is a legally binding multilateral instrument. The fundamental aim of the Energy Charter Treaty is to strengthen the rule of law on energy issues by creating a level playing field of rules to be observed by all participating governments, thereby mitigating risks associated with energy-related investments and trade.
35. Five BSEC member states – Albania, Bulgaria, Moldova, Romania and Serbia, Ukraine with observer status, Russia and Turkey as supporting partners, are member partners to the **Stability Pact in South Eastern Europe** was adopted on 10 June 1999 in Cologne at the European Union initiative. Pact is divided among three Working Tables with the fourth Regional Working Table and Table 2 embraces economic reconstruction and development issues, including energy cooperation.
36. In the framework of the Stability Pact a Treaty establishing the **Energy Community** between the EU and South Eastern Europe has been signed on 25 October 2005 in Athens. Four BSEC member states - Albania, Bulgaria, Greece and Serbia participate in the Treaty, Moldova and Turkey are states with observer status. The task of the Energy Community shall be to organize the relations between the Parties and create a legal and economic framework. The main goals are to create a stable and regulatory market framework capable of attracting investment; to create a single regulatory space for trade; to enhance security of supply; to improve the environmental situation and to develop electricity and gas market competition on a broader geographical scale.
37. One of the first initiatives towards the establishment of the Energy Community was taken in 2002 when the European Commission put forward a strategy outlining the principles and the institutional necessities on which the development of the regional electricity market should be based. All South East European countries agreed to adopt European

- Union legislation and to set up a structure to monitor the operation of the market. These commitments were included in the **Memorandum of Understanding on the Regional Electricity Market in South East Europe** signed in Athens in November 2002.
38. In March 2003, it was decided to extend the approach to gas. The European Commission then prepared the **Athens 2003 Memorandum of Understanding** which takes into account both the extension to gas and the new electricity and gas directives that were adopted within the European Union in June 2003. The 2003 Memorandum is a document expressing political will of the signatories and stressing the need to move towards a legally binding framework, strong institutions and an oversight body to monitor the operation of the market.
39. **The South East European Cooperation Process (SEECP)** was launched on the initiative of Bulgaria in 1996. The basic goals of regional cooperation within SEECP include the strengthening of security and political situation and intensification of economic relations. Members of the SEECP are Albania, Bosnia Herzegovina, Bulgaria, Greece, Croatia, FYROM, Moldova, Romania, Serbia and Turkey.

IV. ENERGY COOPERATION OF THE BSEC AND ITS MEMBER STATES WITH THE EUROPEAN UNION

40. EU external energy policy has included negotiating and developing wider international agreements, extension of the EC energy regulatory framework and principles to neighbors and emission trading scheme to global partners. Besides policy of the EU in this direction is focused on ensuring efficient follow-up and coherence in pursuing the initiatives and processes for sharing information in case of an external energy crisis, as well as for assisting the early response and reactions in case of energy threats.
41. Cooperation of the BSEC and its member states with the European Union is based on mutual interest in enhancing energy security of the continent. In this regard the **Platform for Cooperation with the EU** adopted in 1999 is a key factor in initiation of the BSEC-EU energy dialogue defining a development of energy network infrastructure as one of the priority areas of cooperation.
42. In the light of BSEC-EU interaction member states give particular emphasis to cooperation with the European Union in energy field, which contains new initiatives and bilateral agreements as well. Along with this BSEC member countries are involved in a number of other regional initiatives with some EU countries and have already started to realize their activities within relevant framework. Besides BSEC and EU member states consider a possibility of initiating energy dialogue with other stakeholders.

43. Since the traditional system energy links between the member countries has changed the new aspects of energy cooperation raised in this regard. Presently, such states, as Bulgaria, Greece Romania being the EU members at the same time have become not only consuming parties in the energy cooperation, but also as the countries-distributors of energy carriers playing a role of important transportation route.
44. Communication of the European Commission on “**Black Sea Synergy - A New Regional Cooperation Initiative**” adopted in 11 April 2007 determines that “the Black Sea region is a production and transmission area of strategic importance for EU energy supply security offering significant potential for energy supply diversification and being therefore an important component of the EU’s external energy strategy. The Commission will continue to enhance its relations with energy producers, transit countries and consumers in a dialogue on energy security, which will promote legal and regulatory harmonization through the Baku Initiative and in the framework of the European Neighborhood Policy (ENP) and the EU-Russia Energy Dialogue. This would be pursued also through the expansion, when appropriate, of the Energy Community Treaty to Moldova, Turkey and Ukraine, also through the Memoranda of Understanding with Azerbaijan and Ukraine, PCA and trade agreements, WTO accession negotiations and, where appropriate, via other bilateral energy agreements. The objective is to provide a clear, transparent and non-discriminatory framework, in line with the EU acquis, for energy production, transport and transit.”
45. **INOGATE** is the EU-funded is an international co-operation program aiming at promoting the regional integration of the pipeline systems and facilitating the transport of oil and gas both within the greater newly independent states region and towards the export markets of Europe, while at the same time acting as a catalyst for attracting private investors and international financial institutions to these pipeline projects. Participating countries are Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Romania and Ukraine. INOGATE supports the security of supply of both EU and the INOGATE participating countries by:
- enhancing the safety and security of the existing hydrocarbon network
 - facilitating the extension of the network to reduce bottlenecks and enhance supplies
 - attracting and facilitating the necessary investments
 - acting to improve the investment climate
 - supporting the convergence of the regulatory framework and normative standards of participating countries towards those existing in the EU.

46. **SYNERGY** is a cooperation program managed by the Directorate General for Energy and Transport (DG TREN) of the European Commission. It finances cooperation activities with non EU countries in the field of formulation and implementation of energy policy to the mutual benefit of all parties concerned. The objectives of the SYNERGY programme are in line with those set out in the White Paper "An energy policy for the European Union".
47. The SYNERGY program refocuses on activities related to security of supply and implementation of the Kyoto protocol. Unlike other EU programs that are of a more general nature and include energy as one of several aims, SYNERGY is a specific energy policy program covering the external dimension of EU actions in the energy policy sector. As it is not assistance but a cooperation program, SYNERGY's program are carried out following action taken by European organizations and the European Commission. Examples of SYNERGY projects are the *Black Sea Regional Energy Center*, the *Balkan Energy Interconnection Task Force* and *Study on the political risk guarantee of European investments in the energy sector in the Republics of the former Soviet Union*.
48. **The Black Sea Regional Energy Centre (BSREC)** was established in February 1995 in Sophia by eleven BSEC member states jointly at the initiative of the European Commission (EC), under its SYNERGY Program. The BSREC acts as a focal point for energy related activities aimed at developing cooperation between the Black Sea region countries and the EU in the energy field, as well as among the countries themselves. The Centre's core activity is targeted to promote the development and implementation of market-oriented energy policy, encourage restructuring of the monopoly structures, liberalization and privatization activities, support the energy efficiency projects, assist attraction of investment and funding into the region, stimulate environmental protection measures and allow the collection and dissemination of energy sector related information at a regional level.
49. **Baku Initiative** is a policy dialogue on energy cooperation between the European Union and countries of the Black and Caspian Seas basin, which was announced on 13 November 2004 at the Energy Ministerial Conference in Baku. The aim of the Baku Initiative is enhancing integration of the energy markets of participating countries with the EU energy market to create predictable and transparent energy markets, capable of stimulating investments as well as security of energy supply. Armenia, Azerbaijan, Georgia, Moldova, Russia, Ukraine and Turkey are the partner countries to the initiative and Russia has observer status in it.
50. The objectives of Baku initiative are formulated as following: harmonization of the legal and technical standards with the view to creating a functioning integrated energy market in accordance with EU and International legal and regulatory framework; increase of the safety and security of energy supplies by extending and modernizing the

- existing infrastructure, substituting the old and dangerous power generation infrastructure with environmentally-friendly power generation infrastructure, developing new infrastructure and implementing a modern monitoring system of their operation; improvement of energy supply and demand management through the integration of efficient and sustainable energy systems; promoting financing of commercially and environmentally viable energy projects. Second Ministerial Conference in frames of the Baku Initiative was held in Astana on 30 November 2006, where the road map for achievement of the abovementioned objectives was adopted.
51. The process of the **EU-Russia energy cooperation** has been initiated on 30th October 2000 at the sixth EU-Russia summit, when it was agreed to institute an energy dialogue on a regular basis between the two parties to enable progress to be made in the definition and arrangements for an EU-Russia Energy Partnership. As noted in the Joint Declaration adopted at this Summit "will provide an opportunity to raise all the questions of common interest relating to the sector, including the introduction of co-operation on energy saving, rationalization of production and transport infrastructures, European investment possibilities, and relations between producer and consumer countries".
 52. The EU-Russia energy dialogue is based on a new comprehensive process within the Post-Partnership and Cooperation Agreement (PCA). The work is held at a level of business circles, state bodies and also via consultations instrument of the state institutions with business representatives in the form of trade, infrastructure, investments and energy efficiency task working groups. Energy dialogue includes a wide range of issues, such as improvement of energy resource delivery reliability for suppliers and consumers, development and protection of attractive, stable and predictable investment climate in Russia.
 53. The **EU-Azerbaijan energy cooperation** framework laid in the PCA from 1 July 1999, according to which EU and Azerbaijan committed themselves to establish a partnership providing for close economic relations. PCA with Azerbaijan determines that "energy cooperation shall take place within the principles of the market economy and the European Energy Charter against a background of the progressive integration of the energy markets in Europe including such areas as improvement in management and regulation of the energy sector, improvement of energy supply in an economic and environmentally sound manner, modernization of energy infrastructures and energy technologies in supply and end use across the range of energy types.
 54. **Memorandum of Understanding** signed by the President of Azerbaijan and President of the European Commission on 7 November 2006 in Brussels aiming at the establishment of energy partnership between Azerbaijan opened a new stage of cooperation with the EU. The

implementation of the memorandum will allow achieving a better integration of Azerbaijan into European energy markets, strengthening EU energy security and developing a more efficient energy demand management in Azerbaijan.

V. LEGISLATION AND REGULATIONS OF THE MEMBER STATES IN THE FIELD OF ENERGY

55. In *Albania* the Government along with other specific laws in energy sector (Mining Law from 1993 and Petroleum law from 1995) adopted two strategic documents – Policy Statement for the Energy Sector (April 2002) and National Strategy for Energy (June 2003). These two documents stipulate political will of the Albanian Government to restructuring the energy sector, introducing new tariffs and pricing policy, increasing the efficiency of public and administrative services etc.
56. In *Armenia* the most important part of legislation dealing with the restructuring of the energy sector is the Energy Law. The scope of the regulatory activity includes tariff regulation in the power, thermal and natural gas sectors and licensing in the energy sector for production, import, transmission, export and distribution of electricity, thermal energy and natural gas aiming to balance interests of consumers and licensees, formulation of equal terms for the activity of licensees and contribution to formulation and development of competitive market.
57. In *Azerbaijan* the government is working on adaptation of its legislation to the international standards. A working group has been established at the Ministry of Industry and Energy and related proposals will soon be presented to the government. Energy, Electro-energy, Power and Heating Stations, and Investment related laws currently regulate the said sector.
58. *Bulgaria* after its accession to the EU in January 2007 is approximating energy legislation to the *acquis communautaire* and in fact the common rules for functioning of the internal EU energy market are applied at the national level. Besides, elaboration of legal instruments is carried out in the framework of the newly established Energy Community.
59. In *Georgia* the parliament has adopted amendments to the Law on Electricity and Natural Gas and on the basis of these amendments the existing structure of the market of electricity has been changed. The draft law on market rules of natural gas is elaborated at the Ministry of Energy aiming at the establishment of the maximally favorable environment for attraction of private investments in the sectors of electricity and natural gas.
60. In *Greece* the Parliament in 2005 adopted Law on Liberalization of the Greek Natural Gas Market with the view to promoting competition in electricity and natural gas sectors. Additionally being as an integral part of the EU *acquis communautaire* the EU Gas Directive 2003/55 was adopted, which establishes the Internal Market of Gas.

61. *Moldova* is already a member of the WTO and has ratified the Energy Charter Treaty that already compelled Moldova to arrange its legislation in accordance with international requirements and as a consequence to ensure equal rules for all participants of mentioned international acts. All the articles with reference to transit, investments, trade and cross-boarder cooperation etc. had been applied by Moldova through internal legal acts.
62. In *Romania* legislative framework of the energy sector has been developed according to the industrial evolutions on the market and the need to be in line with the *acquis communautaire* and, lately, with the provisions of the EU Accession Treaty. At the moment, Romania has laws for electrical power, natural gas, mines, oil, nuclear activities, municipal services and energy efficiency, all harmonized with the European legislation. The existing institutional framework (ministries, regulatory bodies, national agencies) meets the requirements of the present stage, and each player has clear responsibilities.
63. In *Russia* In April 2006 was adopted Federal law "On introduction of changes into Article 6 of FL "On natural monopolies". This federal law determines the concept of "equal (proportional to production) access" to all oil export transport infrastructure, including seaport terminals, railway infrastructure, refinery plants and river terminals. The Federal law "On gas export" was adopted in June 2006, according to which an exclusive export right is authorized to a unique gas grid holder organization or its affiliate, where the stockholding of the unique gas grid holder is 100%.
64. *Serbia* by adopting the Energy Law has set the legal preconditions for the establishment of the appropriate institutions for the implementation of new rules of operation and business activity of the energy industry entities. It has adopted measures for the establishment of new-modern technical regulations, rules and standards for energy technologies and activities. Also it has adopted measures that enable the meeting of the requirements for full membership in the Energy Community of the Southeast European countries.
65. *Turkey*, being the participant of the cross-border oil and gas projects is interested in huge investments and consequently in regional cooperation and stability. The government of Turkey supports and guarantees the security of the pipelines, land and the facilities are provided according to Turkish Law by the designated state security forces. In addition, insurance is also set compulsory unless otherwise provided in the international agreements against any likely threats.
66. In *Ukraine* integration components in the energy sector are adaptation of legislation and corresponding institutional transformations and integration of networks and unification of standards. Adaptation of Ukrainian legislation to the EU standards is set forth in the PCA between Ukraine and European Communities of June 14 1994. According to Article

51 of PCA, Ukraine undertakes to harmonize current and future legislation to that of the European Union in the top-priority areas.

VI. CONCLUSIONS

67. Energy cooperation in the framework of the Black Sea Economic Cooperation as a single forum of the regional cooperation gained particular importance since rapid developments in global energy. Generally speaking a strategy of the BSEC energy cooperation is developed in the following directions: establishment of the regional energy market, rehabilitation and modernization of the energy infrastructure, promotion of investments and enhancement of the BSEC-EU energy dialogues. In spite of the fact that an enormous work was done in all these directions, new approaches of regional energy cooperation should be elaborated with consideration of existing experience and current challenges.
68. Effective energy cooperation depends on complete integration of energy markets and establishment of stable price policy and consistent realization of the current and future projects. In this regard legislation framework should be improved, where role of the PABSEC has particular role as the parliamentary dimension of the BSEC.
69. One of the priority issues for the region is the transportation of Caspian hydrocarbon resources to the international markets and passing capacity of the Black Sea straits Bosphorus and Dardanelles. There is a strong concern on environmental risks and possibility of the physical break of energy supply from the region in connection with predictable increase of the oil export flows from the Caspian region that consequently increasing the tankers pass through straits. Proposed projects, which in perspective will bypass Straits, could eliminate critical level of these risks in the region and efficient cooperation in this direction is necessary.
70. Rehabilitation and modernization of existing energy infrastructure and construction of new energy capacities is an urgent need in the context of important transportation networks for energy sources of the region. Undoubtedly there is a strong need for wider investment policy aimed at the improvement and liberalization of investment opportunities in the energy sector of the BSEC countries. Effective policy in this direction would serve for upgrading infrastructure and promoting energy efficiency in the Black Sea region.
71. BSEC-EU energy dialogue has already been transformed to the concrete framework reflected in communication of the European Commission on **“Black Sea Synergy - A New Regional Cooperation Initiative**, and besides two additional communications on **“Strengthening European Policy on Neighborhood”** and on **“BSEC-EU interaction: BSEC approach”** stipulate basic aspects of the cooperation between the EU and BSEC member states. In perspective the Black Sea region will play

- significant role in providing energy security of Europe. Collaboration between the PABSEC and European Parliaments on energy issues could be intensified with the view to providing legal support of new initiatives and projects in energy field. Along with this two BSEC member states - Azerbaijan and Russia possessing energy resources have established comprehensive dialogue with the EU on energy cooperation.
72. Welcoming the beginning of the activity of the Ad Hoc Working Group for cooperation between the BSEC Member States in exploration and exploitation of hydrocarbon resources of the Black Sea (initiative of the Republic of Turkey) a proposal of the Russian Federation on creating data base of national energy strategies in the BSEC member states should be realized with involvement of all stakeholders.
 73. The Black Sea region being as the strategically important region both as a transit route for transportation of energy resources and holder of huge fossil reserves is presently experiencing turning period. The increasing significance of the region in the world energy market must be properly assessed and realized by all concerned parties in order to create reliable and effective coordination activities in the energy sector. Fifteenth anniversary of the BSEC was marked as a new era in the history of the organization, where energy cooperation takes major and particular place in the agenda.