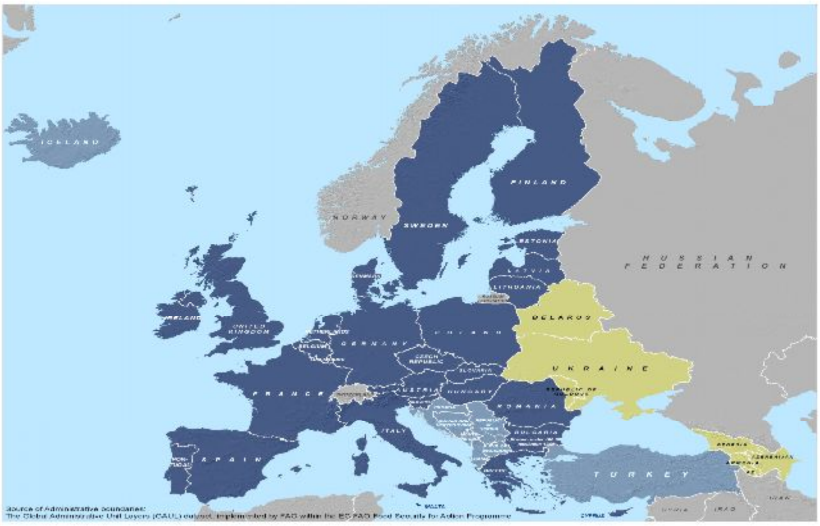
The Working Group 3
"Environment, Climate Change and Energy Security"
of the Eastern Partnership Civil Society Forum



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Information bulletin
of the Working Group 3 Coordinator Office

#1_JAN_2010_Events_2009

With this issue the Working Group 3 Coordinator office commences the monthly publication of information-analytic bulletin for sectoral review of situation in EaP countries. By means of the publication it is intended to enlighten the energy and ecology sectors in EaP countries. The pilot issue of the bulletin is devoted to most important events in energy sector of EaP countries within 2009.

Kyiv

Armenia

1. On December 3, 2009, the Government of Armenia has approved a decision on establishment of a joint Armenian-Russian company that will be dealing with construction of a new unit for Armenian nuclear power plant near Metsamor. The company's shareholders will be the Ministry of energy and mineral resources of Armenia and Russian Atomstroyexport. The project cost is estimated as much as $5 bln., and it is scheduled to begin with construction in 2011. Armenia tries to improve the generation of own electricity, which is also an important export component, in particular, to Iran as payment for natural gas. Also there is a possibility to export 1,5 bln. kWh of electricity from Razdan thermal power plant to Turkey since 2010, with further possibility to increase this volume to 3.5 bln. kWh. Nevertheless, this project, according to Armenian leadership, has been postponed due to lack of political decision by Turkey.

2. On December 1, 2009, construction of the Kajaran – Ararat section of Iran – Armenia gas pipeline was completed. The new 150 km section enables to increase the capacity of the pipeline to 2 bcm annually. However, given that Russia's Gazprom owns a controlling stake in the company CJSC «ArmRosgazprom», significance of this pipeline in increasing energy security of Armenia is quite low.

3. In July 2009 an agreement was reached on the construction of the oil product pipeline Tabriz (Iran) - Eraks (Armenia). This project will enable Armenia to meet domestic needs in gasoline and diesel fuel. Such decision was taken due to refusal of Russia to participate in building a refinery in Meghri, which would work on Iranian oil and cover both Armenia's domestic needs and export oil products to Iran, probably on account of payment for crude oil.

4. Armenia joined the International Renewable Energy Agency (IRENA) which was officially established in Bonn on January 26, 2009.

Azerbaijan

1. On December 15, 2009, the State Oil Company of Azerbaijan Republic (SOCAR) and National Iranian Gas Export Company (NIGEC) signed a contract of supply 500 mmcm of gas in winter period to northern regions of Iran. This agreement may be supplemented by signing a five-year contract to supply up to 5 bcm of gas with possibility of its extension;

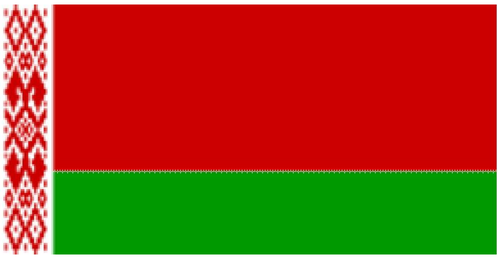
2. On November 13, 2009, Azerbaijan and Bulgaria signed a Memorandum of understanding on the supply of over 1 bcm of Azerbaijani gas to Bulgaria during the future branch of the Turkey – Greece – Italy (ITGI) pipeline since 2011-2012. Both countries also plan to establish a Joint Venture on transportation of compressed natural gas (CNG) from Azerbaijan to Bulgaria and onward to Europe. In case of successful implementation of this project, 7-8 bcm of Azerbaijani gas will be carried by specialized tankers to Bulgaria, part of which can be further exported to Europe;

3. On October 4, 2009, the SOCAR and Gazprom signed a contract to begin pumping of 500 million cubic metres of gas annually to southern regions of Russia in 2010-2014. This agreement will help Baku to save balance in relations with Russia and to show the EU the need for more constructive dialog in the energy sector. On December 28, 2009, SOCAR's president Rovnag Abdullayev told that in 2010 the Company would supply 1 bcm of gas to Russia;

4. On June 10, 2009, Azerbaijan joined the International Renewable Energy Agency (IRENA).

5. On Mai 8, 2009, Azerbaijan signed the final Declaration of the Prague Summit «Southern Corridor – Modern Silk Road» that called for political, economic and technical support of alternative routes of energy supplies to Europe, bypassing Russia, in particular, Transcaspian pipeline and «Nabucco» gas pipeline projects. On July 13, 2009, Azerbaijan also supported the signing of the contract on realization the «Nabucco» pipeline project, but refused to join the shareholders of Nabucco Gas Pipeline International GmbH. This gave the project participants the right to announce the availability of gas resources for the first phase of «Nabucco» (~ 7-8 bcm annually), and Azerbaijan to demonstrate its commitment to cooperate directly with the EU in the energy sector;

6. On February 18, 2009, during the 4th EITI Global Conference in Doha (Qatar) an announcement on successful completion of validation process in the EITI framework by Azerbaijan was made. Azerbaijan became the first country that has fulfilled all the stipulated in the Initiative procedures.



Belarus

1. At the end of December 2009 a dispute between Belarus and Russia over oil prices for oil that will be supplied from Russia in 2010, broke out. According to the Custom Union provisions, oil should be supplied for preferential price without export duty, which since January 1, 2010 will be $267 per ton. Russia insists that the reduced price is only to be applied to oil amounts, designed for covering domestic needs of Belarusian market (approx. 30% imports, ~6 million tons annually), the remaining oil should be supplied on non-preferential basis. The dispute threatens to go into crisis in bilateral relations. Belarus expects that oil will be supplied on duty-free basis under the Custom Union (Russia, Belarus and Kazakhstan) provisions, which become active since January 1, 2010.

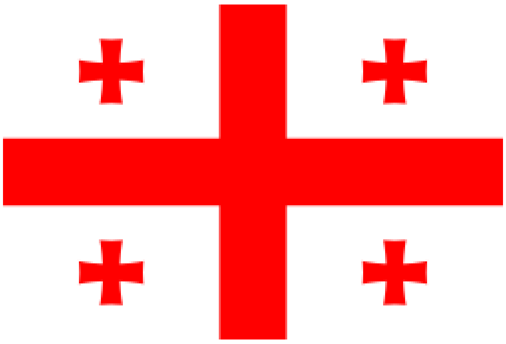
2. Belarus actively implemented the country's energy development projects. In 2009 in energy sector $600 million of foreign investments were brought. The focus is mostly given to the modernization of basic and production assets of energy system, energy efficiency and increase of the share of local fuels and alternative energy in energy consumption.

3. In December 2009 corporation Petroleos de Venezuela SA has granted Belarus the right to control, maintain and develop two oil fields, located in the Orinoco oil belt. Belarus and Venezuela agreed to invest $8 billion in oil operations in the next 25 years.

4. Belarus develops projects of power lines interconnections in the region. In particular, on June 23, 2009, after the turn to the work of two 330kV transmission lines that connect Ukraine and Belarus, resumed imports of electricity from Ukraine. Moreover, Belarus considers to create the conditions for parallel operation of power systems of Belarus and Lithuania, and to expand electricity trade and transit.

5. On May 28, 2009, Belarus and Russia signed an intergovernmental agreement on cooperation in peaceful uses of nuclear energy. It is a framework document outlining major avenues of cooperation in the development, design, construction and operation of the nuclear power plant, provision of nuclear and radiation security as well as scientific cooperation, personnel training and other areas. A Belarusian-Russian intergovernmental agreement on cooperation in building the Belarusian nuclear power plant (NPP) and general contract for building the NPP is expected to be signed soon (in H1 2010). With the construction of the NPP Belarus may reduce the shortage of electricity, diversify the country's fuel balance by reducing gas consumption by 25-30% (currently 93% of electricity is produced from gas). On the other hand, the diversification of energy supply will not happen since the construction of the NPP will be made by Russia, on Russia's loan, nuclear fuel will be bought in Russia. The price of electricity is also expected to be high.

6. On February 11, 2009, Belarus joined the International Renewable Energy Agency (IRENA).



Georgia

1. On November 17, 2009, the Ministry of Energy of Georgia announced a tender on exploration and production of oil and gas on the licensed unit H on the Black Sea shelf (depth to 100.0 m) and onshore units XI(A) and XI(B) with the total area of 6.997 thousand square kilometres. The tender is estimated to be completed by January 15, 2010.

2. On October 22, 2009 the Government of Georgia took decision on construction of three hydro-electric power stations:
– Bakhvi Hydro Electric Power Station with the capacity 9 megawatt and construction period of 1,5 year,
– Mtkvari Hydro Electric Power Station with the capacity 41 megawatt and construction period of 3,5 years;
– Paravani Hydro Electric Power Station with the capacity 78 megawatt, which, as estimated, is to be commissioned within 4 years. Georgia also plans to construct a 500 kW transmission line for connection of Georgian and Turkish energy systems. The estimated value of the project is 280 Mio. Euro and it will be put into operation in 2012.

3. On October, 2009, a Protocol of cooperation in energy sector between Georgia and Romania was signed, in particular, concerning possibility of a LNG terminal construction in Georgia.

4. On June 24, 2009, Georgia joined the International Renewable Energy Agency (IRENA).

5. On April 3, 2009, a Memorandum of cooperation between the Ministry of Energy of Georgia and the company White Stream Pipeline Co. Ltd concerning realization of the «White stream» gas pipeline project was signed. This project could be considered as an additional route of gas supply from the Caspian region through Georgia, as a kind of north-west branch of the «Nabucco» project. The European Commission supports the development of technical and economic feasibility of this project.

Moldova

1. On December 18, 2009, the 7th Energy Community Ministerial Council approved the accession of Moldova to the Energy Community. The accession will be effective when and if Moldova solves the remaining gaps and make its gas laws comply with the EU acquis requirements and complete its respective ratification procedures. On December 23 the Moldovan Parliament ratified this document. Moldova's accession to the Treaty of the Energy Community will promote energy sector reforms which will result in a mutually beneficial enlarged energy market based on common rules.

2. The development of port complex near Giurgiulesti (at the confluence of the Prut and the Danube rivers) in Moldova is underway. In 2009 the oil products terminal received 15.000 tonnes of various oil products for transhipment. Maximum transhipment capacity is in excess of 2 mln. tonnes per annum. The disadvantage of the terminal Giurgiulesti is shallow channel and depth of the port area up to 7 m, which allows only accepting river-marine vessels. Also, the operation of the terminal in a unique biosphere zone of the Prut and Danube rivers is an environmental threat.

3. On August 25, 2009, a gas pipeline Beltsy - Ungheni was put into operation. This pipeline enables to provide gas for more than 140 communities in the north-western regions of Moldova. The construction was conducted by the company «Moldovagas», which is on 50% owned by the Russian «Gazprom».

4. On January 26, 2009, Moldova joined the International Renewable Energy Agency (IRENA).

Ukraine

1. On December 23, 2009, the first unit of hydro pumped-storage power station (HPSPS) was put into operation on the Dniester River in Ukraine. With the introduction of the remaining 6 units the Dniester HPSPS will become the largest in Europe. HPSPS is one of the clean energy sources that can reduce the use of natural gas, coal, and reduce carbon emissions. It also will enhance flexibility of the United Power System of Ukraine.

2. On December 18, 2009, the Energy Community Ministerial Council approved the accession of Ukraine to the Energy Community. The accession will be effective when and if Ukraine solves the remaining gaps and make its gas laws comply with the EU acquis requirements and completes its respective ratification procedures. Ukraine's accession to the Energy Community will provide transparent and predictable mechanisms of energy tariffs, facilitate investments in industry, will enable more efficient use of existing export potential. Ukraine will also be able to participate in the EU electricity and gas domestic markets and benefit from all advantages of the European energy markets as an equal participant.

3. On November 24, 2009, Naftogaz of Ukraine and Gazprom signed amendments to the contract from January 19, 2009 for sale of natural gas. According to them, the Parties agreed to reduce Russian gas deliveries from the previously contracted volumes on 2009 and 2010, and to increase fees for gas transit through Ukraine by 60% in 2010. It is believed that this will reduce the likelihood of another gas crisis that could be caused by Ukraine's inability to pay fines for falling short of contracted volumes. However, this estimation seems questionable, as the contract between Naftogaz of Ukraine and Gazprom from January 19, 2009 is unbalanced and asymmetrical about the rights and obligations of the Parties and contains the legal preferences for Gazprom.

4. Since the beginning of October the imports of Azeri oil started on an irregular basis through the Odessa terminal. The issue of diversification of oil supply to Ukraine has been put into action.

5. On September, 30 the Government of Ukraine adopted the Resolution and made a formal declaration of the country accession to the Extractive Industries Transparency Initiative (EITI). This step was a response to the proposals of the international financial institutions and NGOs and aimed to increase transparency in the energy production sector - coal and hydrocarbons - of Ukraine.

6. Since September, the second phase of the project to diversify nuclear fuel supplies for Ukrainian nuclear power plants (NPP) was put into action. On September 4, 2009 the company «Westinghouse» (USA) delivered the full set of the nuclear fuel rods - 42 fuel rods - to the South-Ukrainian NPP. In the active zone of 3-rd reactor they will be loaded during the repair campaign in January 2010.

7. On March 23, 2009, in Brussels, following the Joint EU-Ukraine International Investment Conference on the modernization of Ukraine's gas transit system, Ukraine, the European Commission, IMF, WB, EBRD and the EIB signed a Joint Declaration. This document created the political conditions for launching not only the process of gas system modernization projects, but also reforms in the gas sector of Ukraine.

8. In March 2009, Ukraine provided the first sale of quotas on CO2 emissions to Japanese New Energy and Industrial Technology Development Organization (*NEDO*) on 30 millions of *AAU* (*Assigned Amount Unit)*. Earned revenues under the NEDO control will be directed to projects according to the scheme of «green investments», which will allow to reduce emissions till 2012. Negotiations on the sale of quotas were also launched with Spain, Switzerland and New Zealand.

9. On January 1, 2009, Russian Gazprom stopped gas supplies to Ukraine. On January 7 Gazprom halted gas supplies via Ukraine to EU. The Russian side motivated the halting of gas supplies by lack of a contract for selling gas to Ukraine and for transit gas through Ukraine. State company Ukrtransgaz in a short period of time (36 hours) solved an unprecedented engineering challenge to reverse Europe's largest gas transportation system in order to supply gas in West - East direction from the Ukrainian underground gas storage facilities to industrial and commercial customers in the eastern, southern and central regions of the country. As a result of negotiations, on January 19 Russia and Ukraine signed contracts on gas supplies and gas transit. Gas supplies were restored, but the confidence in Russia as the EU partner for gas supplies and Ukraine as the EU partner for gas transit was damaged. ***(See analyses of January 2009 Gas Crises written by Ukrainian experts in the attached article which was published by "Oil, Gas and Energy Law Intelligence")***

Activities of the WG3 Coordinator Office are provided by
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