

**ENERGY CHARTER
SECRETARIAT**

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DECISION OF THE ENERGY CHARTER CONFERENCE

Subject: Secretariat's Work Programme for 2006

[The Energy Charter Conference at its 16th Meeting held on 9 December 2005 approved the Secretariat's Work Programme for 2006, as proposed in document CC 306 (Annex).]

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Energy Charter Secretariat's Work Programme for 2006

as adopted by the Energy Charter Conference
at its 16th Meeting held on 9 December 2005

INTRODUCTORY NOTES

The priority for the draft Work Programme for 2006 continues to be the implementation of the conclusions of the Review of the Energy Charter process, which were adopted by the Charter Conference in December of 2004. In this context, the main themes of the draft Work Programme are:

- Emphasis on implementation of the Energy Charter Treaty and PEEREA: the Secretariat has made an effort to ensure that each activity has a clear and tangible output, based on the provisions of the Treaty and / or PEEREA;
- Development of an integrated programme of activities aimed at the facilitation of cross-border energy flows, following the creation of a single Working Group for Trade and Transit in 2005;
- Cooperation with other relevant international organisations, and a strong dialogue with the energy industry (i.a. through the Industry Advisory Panel), in order to ensure that the Charter's activities are distinctive in responding to developments in the energy sector;
- Efforts to raise awareness about the Energy Charter process, in line with increasing demand for information both from within the Charter constituency and from Non-Signatories.

It should also be noted that, in line with the conclusions of the Review, the Contracting Parties and other Signatories of the Energy Charter Treaty should examine in 2006 the feasibility of a further consolidation of the Conference's subsidiary bodies, namely through a merger of the Investment Group with the Trade and Transit Group.

The summary draws delegations' attention to the main aspects of the draft Programme. The full Work Programme follows, with a summary of the staff month calculations attached at Annex I.

SUMMARY

Private Office: the Private Office will continue to provide the overall direction and operational co-ordination of the Secretariat's work. The priority in 2006 will be to ensure consistent implementation of the conclusions of the 2004 Review, which underlined the importance of ratification of the Charter's legal instruments by all Signatories, work on the implementation of the Treaty, clearly targeted activities, and cooperation with other relevant international organisations.

Cooperation with International Organisations; External Events; Horizontal Activities: alongside the close collaboration with other organisations, the Secretariat intends in 2006 to make a particular effort to improve transparency and dissemination of information regarding the Charter process. The Secretariat will also continue to support the activities of the Industry Advisory Panel (IAP).

Ratification, Accession and Relations with Non-Signatories: the Secretariat will continue to provide support to Signatories, which have not yet completed ratification of the Treaty.

The objective of the Secretariat's work with observer states will be to develop a focused relationship, and thereby to ensure that observer status is seen as a stepping-stone to full membership. Particular focus in 2006 will be devoted to Asia, where the Secretariat aims at achieving closer involvement of present observer states. Upon request, the Secretariat will continue its support for countries expressing interest in the Energy Charter Process, in particular India and Pakistan.

Investment Issues: the country reports on investment climate and market structure remain central to this part of the activities; these will be carried out in the new format of 'in-depth' reviews, conducted by the Secretariat in cooperation with the country concerned. There will be monitoring, through follow-up reports, of compliance by member countries with the recommendations adopted by the Charter Conference in respect of earlier ICMS reports.

The Secretariat will intensify its work on the improvement of entry conditions for foreign investors in the energy sector, through a new effort to reduce the number of country-specific exceptions to the principle of non-discrimination. The Secretariat plans to hold a workshop linked to this issue in autumn 2006.

In addition, it is proposed to continue the work, begun in 2005, on risk reduction for foreign investment in the energy sector, concentrating on the development of options for risk mitigation policies. In addition, more in-depth analysis will be made of the possible lessons to be drawn from the experiences of the most developed market economies in their energy market reforms and restructuring, including privatisation.

Trade and Transit: following the merger in 2005 of the Trade and Transit Groups, work in this area attempts to consolidate the trade and transit agendas by addressing a range of potential barriers to cross border energy flows, especially for grid-bound energies. Elements beyond the classical trade agenda will be to analyse the development of international pricing mechanisms for oil and gas, and to address regional cooperation in the electricity sector and obstacles to technology transfer.

Work on the Transit Protocol will follow the assessment made by the Energy Charter Conference in 2005. The main body of activities with regard to transit relate to the comprehensive monitoring of how the transit-related provisions of the ECT are

implemented. This will include: enhancing transparency on the legal and regulatory framework for new cross-border oil and gas pipelines through voluntary presentations; monitoring the implementation of the principles of the ECT for transit of oil and gas in the legislation of member countries; and analysing the tariffication of cross border pipelines both for gas and for oil.

Energy Efficiency and Related Environmental Aspects: work on the implementation of PEEREA and ECT Article 19 is envisaged in three main directions of activity: the review process, including ‘in-depth’ and regular reviews and the follow-up of previous recommendations; an investigation of the methodologies that can be used for evaluating energy efficiency policies and measures; and horizontal studies.

The PEEREA Group will look to develop its role as a forum for exchange of information on latest development and events in the area of energy efficiency, and disseminate the information more widely. The horizontal studies proposed for 2006 involve a cross-country analysis of two areas where there is a high potential for energy efficiency improvements. The first is energy efficiency in the transport sector, where it is proposed to have a first and exploratory discussion in the Group. The second addresses the issue of using renewables directly in end-use sectors such as residential, tertiary and industry.

1. **PRIVATE OFFICE**
(84 staff-months¹)

The Private Office, led by the Secretary-General, will be responsible for:

- Overall direction and operational co-ordination of the Secretariat's work, and strategic and political aspects of the Secretariat's role, including the development of contacts with governments of Contracting Parties/Signatories, with their diplomatic representations in Brussels, and with relevant international organisations and institutions, with the aim of promoting implementation and awareness of the Treaty and its related instruments;
- High-level political contacts with those Signatories that have yet to complete their ratification of the Charter's legal instruments, with the aim of facilitating the ratification process, as well as consultations at political level with countries wishing to become more closely involved in the Charter process;
- Relations with the energy industry and its associations, and with other relevant bodies and organisations dealing with energy issues, including the newly established Industry Advisory Panel;
- Raising the level of public awareness of the Treaty and its impact on the energy sector via public relations activities, participation in international conferences, and high-level contacts with constituent states and with the headquarters of relevant international organizations;
- Advice and organisational support for the Conference Chairman and Vice-Chairmen;
- External information policy, including the maintenance of the Energy Charter's web site and the dissemination of printed and electronic materials produced by the Secretariat.

In addition to the above, Private Office is responsible for the coordination, monitoring and quality control of all work relating to the translation of Energy Charter documents from and into Russian.

Private Office also has the lead responsibility within the Secretariat for supporting the Charter Conference in its implementation of the conclusions of the 2004 review.

¹ All staff-month calculations include secretarial support and secondees' output

2. COOPERATION WITH INTERNATIONAL ORGANISATIONS; EXTERNAL EVENTS; HORIZONTAL ACTIVITIES

(12 staff months)

<p>2.1 <i>Co-operation with International Organisations</i> <i>[ECT Article 34(4), PEEREA Article 3(8)]</i></p>

In all areas of activity described in the Work Programme, the Secretariat will strive, in accordance with Article 34(4) of the Treaty, to ensure that its activities are complementary with those of other relevant international organizations. Accordingly, the calculated staff time devoted to the activities described below encompasses in each case the need to devote certain Secretariat resources to the development of cooperation with such organisations.

The most relevant organisation in this context is the International Energy Agency (IEA), but this consideration applies in specific areas also to the World Trade Organisation (WTO), UN-ECE, the International Energy Forum (IEF), the EBRD, World Bank and Asian Development Bank, and regional organisations such as the Association of South-East Asian Nations (ASEAN), the Baltic Sea Regional Energy Cooperation (BASREC) and the Organisation of Black Sea Economic Cooperation (BSEC).

In relation to the WTO, the intention is to find a pragmatic but structured framework for cooperation. Based on contacts with the WTO in 2005, this could involve observership on an ad hoc basis in the most relevant WTO Standing Bodies when issues of relevance to the Charter are on the agenda. Concerning the IEA, it is proposed to continue the close informal cooperation in relation to planned activities, in particular with regard to country reviews undertaken by both organisations. It is also proposed to continue discussions with the UN-ECE on the Charter's involvement in the preparation of the 2007 Environment for Europe meeting in Belgrade.

<p>2.2 <i>Improving Transparency and Dissemination of Information</i></p>

Paragraph 21 of the conclusions of the 2004 Review affirms the need for “greater transparency and awareness of the Energy Charter’s provisions and of our activities”. To this end, the Secretariat will make a particular effort to ensure that information on the Treaty and on the results of the activities described below is readily available, both in printed form – where publication is justified – and electronically through the Energy Charter’s web site. Where appropriate, each activity in the Work Programme specifies whether its completed output is intended only for the Energy Charter member states and observers (*‘Notes’ / ‘Papers’*), or whether dissemination is planned to a wider public (*‘Reviews’ / ‘Reports’*).

The Secretariat will also make efforts to improve the Charter’s web site in both English and Russian, and to ensure regular updates of its database of contacts (also for observer states) and of the enquiry points. This is a priority action for 2006, with the objective to raise general awareness about the Charter’s activities.

2.3	<i>Conference on the Role of Governments and International Organisations in Promoting Energy Security</i>	<i>8 staff-months</i>
	<i>Output: Annual Policy Conference</i>	<i>Timing: Q4 2006</i>

Continuing the practice of holding an annual policy conference, the Secretariat intends in autumn 2006 to address the issue of energy security, including the role of governments and international organisations in promoting international cooperation on this issue. A focus on energy security was suggested by the delegation of the Russian Federation in view of the prominence that this topic will enjoy in the context of Russian presidency of the G-8 in 2006. It is expected that the conference will look at definitions of energy security in different member states of the Charter process, and assess the roles of different actors in promoting energy security, including governments and international organisations. Governments are not only responsible, as policymakers, for the regulatory and legal framework for the energy sector, they are also – in many cases – resource owners and participants on the energy market, through the operation of state-owned companies. This Conference will analyse the role of Governments and the interface between the state – in its different capacities – and private industry in different parts of the Energy Charter constituency. The tentative schedule is to hold this event in October 2006.

2.4	<i>Interaction with the Industry Advisory Panel [ECT Articles 9(3), 6(2), PEEREA Article 3(6)]</i>	<i>4 staff-months</i>
	<i>Outputs:</i>	<i>Timing:</i>
(i)	<i>Assistance to the meetings of the IAP in 2006</i>	<i>Tentatively two meetings per year (Q1, Q3)</i>
(ii)	<i>Ensuring the interaction with the Conference and its subsidiary bodies</i>	<i>as needed</i>
(iii)	<i>First Review of IAP activities and its Terms of Reference by the Conference</i>	<i>December 2006</i>

The Secretariat will support the activities of the IAP and secure the interaction between the ECT constituency and the IAP, in accordance with the Terms of Reference of the IAP as adopted by the Conference.

Furthermore, the Secretariat will assist the Conference in the review of the activities of the IAP, its Terms of Reference and its composition in light of the experience gained. According to the Terms of Reference of the IAP, this review is due no later than two years after its establishment and should consequently be made at the December 2006 Conference.

The IAP's input will be particularly useful in relation to the following actions in the draft Work Programme: 4.2 on improving entry conditions for foreign investors, where the IAP will be asked for its views on the relative importance of different exceptions to national treatment; and action 4.3 on risk reduction in the energy sector.

3. **RATIFICATION, ACCESSION AND RELATIONS WITH NON-SIGNATORIES**
(18 staff-months)²

3.1	<i>Ratification of the Treaty/PEEREA</i>	<i>4 staff-months</i>
	<i>Output: Support to Signatory States in their ratification process</i>	<i>Timing: ongoing</i>

Ratification – the Secretariat will continue to provide technical advice and support to those Signatories, which have not yet completed their national ratification procedures for the Treaty.

In addition, the Secretariat will assist those Contracting Parties which have not yet ratified the Trade Amendment, with a view to achieving ratification by three quarters of Signatories and thereby the entry into force of the Trade Amendment.

Accession – the Secretariat will continue to assist Serbia and Montenegro (and other countries wishing to accede) in the consultation process on their terms for accession to the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects.

3.2	<i>Relations with Non-Signatories</i>	<i>14 staff-months</i>
	<i>Outputs:</i>	<i>Timing:</i>
(i)	<i>4th Round Table for observer countries</i>	<i>Q2 2006</i>
(ii)	<i>Workshop on Energy Cooperation in Northeast Asia based on a report by the Secretariat</i>	<i>1st half 2006</i>
(iii)	<i>Workshop for ASEAN countries on the Energy Charter Treaty, organised jointly with the ASEAN Secretariat and the ASEAN Centre for Energy</i>	<i>1st half 2006</i>
(iv)	<i>Seminar on the Energy Charter Treaty and its relevance to China (subject to final agreement with the Chinese authorities)</i>	<i>tbc, likely 2nd half 2006</i>

The aim of the Secretariat's work with observer states will be to develop a focused relationship, guided by the objective that observer status should be seen as a stepping-stone to full membership.

Following the practice established over the past three years, the Secretariat will hold its fourth yearly 'Round Table' forum for the observer states; this serves as a regular means to develop the dialogue with observers by providing information on Charter activities and to exchange views on the observer states' possible accessions to the Energy Charter Treaty. An aim of this regular Round Table is to encourage closer interaction between the observer

² This refers to activities under the responsibility of the Directorate for Trade, Transit and Relations with Non-Signatories, and is in addition to the resources that will be devoted by the Private Office in 2006 to promoting ratification and developing relations with Non-Signatories at political level.

states and the Charter process, and – on the basis of the interest from observer states – to plan additional contacts on issues of particular interest.

Based on previous contacts with the observer states, the main focus for activities in 2006 will be the Asian region.

Following up on activities during 2005, the Secretariat will continue the dialogue with the authorities of the People’s Republic of China and the Republic of Korea with the aim of achieving closer involvement of these countries in the Energy Charter process. As suggested by Contracting Parties from the Northeast Asian region, the Secretariat will analyse policies and structural issues relevant for cross border energy trade in the North East Asian region and produce a report on the role of the Energy Charter in the development of new energy infrastructure and integration in the region. In order to present this paper and discuss related issues, the Secretariat intends to organise a workshop in the region during the first half of 2006.

There have also been preliminary contacts with the Chinese authorities and the China National Petroleum Corporation about a specific seminar on the Energy Charter Treaty and its relevance for China, which could be held in 2006.

The possibility of enhancing relations with the ASEAN countries will be pursued through cooperation with the ASEAN Secretariat and the ASEAN Centre for Energy. Following initial discussions with ASEAN in 2005, it is envisaged to organise a seminar for the ASEAN countries in the first half of 2006 on the role of the Energy Charter in promoting investments and cross-border energy flows. This responds to the ASEAN Action Plan for Energy, adopted by ASEAN Ministers of Energy in June 2004, which recognised that the “experience gained by the Energy Charter process is useful in facilitating the implementation of the Trans-ASEAN Gas Pipeline and the ASEAN Power Grid projects”.

The Secretariat will also continue its support for countries expressing an interest to join the Energy Charter Process, such as India and Pakistan, based on the requests for assistance by the countries concerned.

4. INVESTMENT ISSUES
(50 staff-months + 2 consultancy-months)

4.1 Country Reports on Investment Climate and Market Structure [ECT Article 10, Article 9]	25 staff-months
(i) Outputs: Two in-depth ICMS Reports	Timing: one in spring, one in autumn
(ii) Follow-up Reports	Two to three both in spring and in autumn

The in-depth country reports on Investment Climate and Market Structure have proven to be a useful instrument for assessment of the implementation of the ECT³. The reports deal with the occasionally complex and politically sensitive issues of the investment conditions in the energy sector, the restructuring of energy markets and privatisation. They are the basis for the ‘peer review’ of policy developments in the examined countries and will be enhanced by a more extensive Secretariat evaluation. The activity is based on ECT Article 10(9).

The reports will continue to provide information on the general investment climate through examination of relevant legislation, including the evolution of the regulatory framework and the issue of access to capital (ECT Article 9). A particular accent will be on market access, especially through the monitoring of remaining pre-investment exceptions in view of the undertaking of Contracting Parties/Signatories to remove progressively discriminatory restrictions for investors of other Contracting Parties/Signatories. This will be part of the renewed efforts to improve entry conditions for foreign investors in the energy sector (see also activity 4.2). During 2006, the Secretariat will review the format of the in-depth reviews, and possibilities for simplifying the format will be examined and presented to the Investment Group.

The review process will include monitoring, through follow-up reports, of compliance by member countries with the policy recommendations adopted by the Charter Conference in respect of earlier ICMS reports. This procedure will give member countries an opportunity to share their experience in implementing the policy recommendations and to discuss recent developments.

Following the discussion in the October 2005 Investment Group of the first report by the Secretariat on the reform and market restructuring process in the most developed market economies, more in-depth analysis of selected issues will be undertaken in 2006. This will include a more detailed analysis of the policy challenges and experiences in the area of regulation and market creation.

³ These reports will continue to be available on the Energy Charter web site.

4.2	<i>Improving Entry Conditions for Foreign Investors [ECT Articles 10(3), (5), (9)]</i>	<i>10 staff-months</i>
(i)	<i>Outputs: A new effort to reduce the remaining exceptions</i>	<i>Timing: ongoing</i>
(ii)	<i>Workshop on entry conditions for foreign investors in the energy sector</i>	<i>Q3 2006</i>

As agreed by the Investment Group in May 2005, the Secretariat will intensify work on the further improvement of entry conditions for foreign investors in the energy sector. To this end, it has launched an initiative in 2005 to reduce the number of remaining country-specific exceptions to the principle of non-discrimination in the “Blue Book” (i.e. non-conforming measures of Contracting Parties/Signatories in the pre-establishment phase of an investment). The overall purpose of the undertaking is to facilitate much needed foreign investment in producer countries, thereby contributing to the security of energy supply.

This activity also aims to give more prominence to the commitment of Contracting Parties/Signatories not to introduce new non-conforming measures (“standstill clause”), and to provide for full transparency concerning existing country-specific exceptions of various types.

The IAP has been asked to provide businesses’ views on the importance of the various types of exceptions to the principle of non-discrimination.

Given the importance of the issue, the Secretariat plans to organise a workshop on entry conditions for foreign investors in the energy sector in the autumn of 2006. It is planned to be organised back-to-back with the meeting of the Investment Group. It will focus on access conditions for exploration and development of oil and gas resources in the Energy Charter constituency. On the background of tight global energy markets and concerns about future supplies, improving access conditions and attracting more investments to upstream projects are increasingly important. Depending on the outcome of the seminar, subsequent activities focusing on the entry conditions in other parts of the energy industry (e.g. electricity, pipelines) will be considered.

Finally, the Secretariat will pursue the existing monitoring mechanism with respect to individual non-conforming measures notified by Contracting Parties/Signatories.

4.3	<i>Risk Reduction Dialogue [ECT Article 2]</i>	<i>9 staff-months 2 consultancy-months</i>
	<i>Outputs: Development of options for risk mitigation policies, based on the identification and assessment of the most relevant risks</i>	<i>Timing: ongoing</i>

Taking into account the outcome of the Conference on Risk Reduction in 2005, the Secretariat will continue its work on risk reduction for foreign investment in the energy sector. Whereas activities in 2005 concentrated on the *identification and assessment* of specific types of political and regulatory risks, work in 2006 will extend to the possible development of options for risk mitigation policies. The focus will be on (1) encouraging the removal of market barriers through establishing a transparent, efficient and stable legal, regulatory and institutional framework both upstream and downstream in the energy chain; (2) helping to develop regulatory regimes for the upstream petroleum sector, the electricity and the gas markets, which provide incentives for capacity expansion in line with demand; and (3) assisting in the building of confidence of investors by promoting rational energy policies, independence in regulation, and fair and transparent dispute settlement mechanisms.

Investor risks may also result from the process of restructuring and privatisation. Following the finalisation of the Best Practices Guidelines in 2003, and the workshop on the Guidelines organised by the Secretariat in 2004, selected facets of the broad range of issues covered by the Guidelines need further analysis and update. This includes, inter alia, an examination of preconditions for success in the privatisation process and of regulatory models suitable for the energy sector in advanced market economies compared to economies in various phases of transition.

It is intended to invite the IAP to provide inputs to this activity and cooperation will be sought with other international organisations active in this area. Consultant assistance is planned for the development of policy conclusions for the regulatory regimes for the upstream petroleum sector and the electricity and the gas markets.

4.4	<i>Review of ECT Implementation in Selected Areas [ECT Article 2]</i>	<i>4 staff-months</i>
	<i>Output: Submissions to the Investment Group</i>	<i>Timing: ongoing</i>

The Investment Group will continue its exchange of information and assessments related to measures adopted by Contracting Parties/Signatories with regard to energy-related foreign investment. This activity has been recognised by the Group as being an important element in monitoring the implementation of the ECT's investment provisions. It supplements the country reports on investment climate and market structure. As a new element delegations will be invited to present in 'Round Table' format the latest national policy developments related to the investment climate and market structure in general, and more specifically with regard to measures affecting foreign investments in the energy sector. These 'round tables' will be supported as needed by information notes from the Secretariat on recent developments in member states. This activity is based on ECT Article 2.

To further strengthen the role of the Investment Group, the Secretariat will pursue the preparation of occasional papers on selected investment-related issues. It will likewise continue to invite representatives of relevant bodies (energy companies, financial institutions, academia and international organisations) to make presentations on their investment-related activities in member countries.

4.5	<i>Supplementary Treaty Issues [ECT Article 10(4)]</i>	<i>2 staff-months</i>
	<i>Output: Note to the Investment Group on latest developments in the WTO</i>	<i>Timing: Q3 2006</i>

Following up on the 2004 Review, the Investment Group had a first exchange of views at its meeting in May 2005 on the prospects of resuming negotiations on the Supplementary Treaty. There was agreement in the Group not to resume negotiations but that the Secretariat should continue to monitor developments in the WTO concerning the GATS and possible future negotiations on a multilateral framework for foreign investment.

The Secretariat will prepare a note on the latest developments in the WTO concerning foreign investment in the energy sector for the Investment Group in 2006.

5. CROSS-BORDER ENERGY FLOWS: TRADE AND TRANSIT

(58 staff-months + 2 consultancy-months)

The Energy Charter Conference resolved, in its conclusions to the 2004 Review, to merge the Energy Charter's trade and transit agendas and, in this context, explicitly suggested to address potential barriers to cross border energy flows, especially related to the grid-bound nature of trade in hydrocarbons and electricity. It also asked to examine converging rules for regional electricity markets, including the need for new instruments and for facilitating electricity trade. Correspondingly, the draft Programme of Work takes up the topics addressing cross border issues and regional electricity cooperation with a view to consolidation of the Trade and Transit Group agenda.

5.1 <i>Instruments to Manage and Secure Cross Border Energy Flows: the Role of the Energy Charter [ECT Articles 3, 5, 7]</i>	<i>10 staff-months</i>
<i>Output: Report for discussion in the Group, and eventual public dissemination</i>	<i>Timing: end 2006</i>

Based on a request by the Trade and Transit Group, the Secretariat will produce a report analyzing the legal and contractual instruments to secure cross border grid-bound energy flows and their interfaces. The report will take stock of existing examples of the legal, regulatory and contractual arrangements of cross border energy flows linked to fixed infrastructure. The report will focus on the role the Energy Charter's binding and non-binding instruments, such as model agreements, can play.

The analysis will be done in close cooperation with member countries having relevant experience and with representatives of the industry.

5.2 <i>Obstacles to Technology Transfer [ECT Article 8]</i>	<i>7 staff-months</i>
<i>Output: Paper to be presented and discussed at the spring meeting of the Group</i>	<i>Timing: 1st half 2006</i>

In reply to the interest voiced during the review process, the Secretariat will prepare an analytical paper identifying the obstacles to the transfer of technology (e.g. basic economic conditions in the energy sector, the trade and investment conditions in general and especially conditions conducive or obstructive to transfer of technology into major ECT energy producing countries). The objective is to identify typical obstacles and potential market-friendly measures aimed at facilitating technology transfer. It is envisaged to have an initial discussion on this issue at the Trade and Transit Group meeting in spring.

5.3	<i>Development of international pricing mechanisms for oil and gas [ECT Article 3]</i>	<i>10 staff-months (plus up to 3 months consultancy)</i>
	<i>Output: Paper for discussion at the autumn meeting of the Group</i>	<i>Timing: end 2006</i>

International markets for oil and gas have been experiencing important changes over the past decades. The pricing mechanisms are key in understanding the possible impacts of these trends for both importing and exporting countries and the evolving structure of international energy markets.

The study aims at providing an analytical framework of pricing mechanisms of cross-border trade of oil and gas illustrated by pertinent examples. It will describe and analyze pricing mechanisms, under different contractual structures such as supply-based and demand-based pricing (cost plus vs. net back and respective escalation formulas) and under different market structures (such as real time, forward, future and option markets). Different patterns such as pricing of pipeline gas vs. LNG, pipeline oil vs. seaborne oil will be described and analyzed. The study will address the more recent developments in international energy resource pricing mechanisms and contractual pricing arrangements; in particular the changing balance between long-term and shorter-term contracts will be addressed reflecting the more recent developments in international energy markets. The scope of the study will cover oil and gas and focus on cases with involvement of ECT members.

The material will be elaborated in close cooperation with experts from the Energy Charter countries. First results will be discussed at the autumn 2006 meeting of the Trade and Transit Group. The work may require support by consultants, in particular in relation to the analysis of pricing under LNG contracts.

5.4	<i>Cross-Border Cooperation in the Electricity Sector [ECT Articles 3, 4, 7]</i>	<i>6 staff-months</i>
	<i>Output: Paper as a basis for further discussion at the Group</i>	<i>Timing: Q3 2006</i>

In response to requests from the Energy Charter constituency, the Secretariat will continue to facilitate discussions on further development of cooperation in the electricity sector. Of particular relevance in this context will be the road maps on market rules and environmental standards that were developed jointly by EURELECTRIC and the CIS Electric Power Council in mid-2005.

During 2006 the Secretariat will continue to facilitate debate on this topic with a focus on regional cooperation. Based on an expert meeting scheduled for spring of 2006, the Secretariat intends to produce an internal paper as a basis for further discussion within the Energy Charter constituency focusing on existing models and examples for market opening and cross border cooperation in the electricity sector (including the potential role of model agreements).

5.5	<i>Activities Related to the Transit Protocol</i>	<i>6 staff-months</i>
	<i>Output: Follow up of results achieved in 2005 in the Transit Protocol negotiations in line with the assessment by the Charter Conference in 2005.</i>	<i>Timing: ongoing</i>

Depending on the assessment of the status of the Transit Protocol negotiations at the Charter Conference in 2005, the Secretariat will undertake necessary follow-up work.

The final allocation of resources between item 5.5 and items 5.6-5.8 will be adjusted in line with the assessment of the Conference.

(Items 5.6 – 5.8) Implementation of the ECT Transit Provisions (ECT Article 7 and Draft Transit Protocol)

Alongside the activities relevant to the Transit Protocol, the second main theme for the 2006 activities related to transit will be the monitoring of how the transit-related provisions of the ECT are implemented. This will be pursued through multi-country analyses of the following issues for oil and for gas:

- Legal and regulatory framework for the construction of new transport facilities and possible obstacles (item 5.6);
- Implementation of the non-discrimination principle and practices for access to networks for transit/transport of gas / oil in selected Contracting Parties (item 5.7); and
- Tarification of cross border gas and oil pipelines (item 5.8).

5.6.	<i>Updated Overview of the Status of Selected New Transport Facilities (consultative framework to foster transparency)</i>	<i>3 staff-months</i>
	<i>Output: Voluntary presentations at meetings of the Group made available to the public</i>	<i>ongoing</i>

The analysis of the framework for the construction of new transport facilities will continue through voluntary presentations by Signatories on projects under development / construction in their countries. The objective is to increase transparency on ongoing projects and the implementation of the ECT rules and principles in these practical cases.

5.7.	<i>Implementation of the ECT Transit Provisions for Gas and Oil [ECT Article 7]</i>	8 staff-months
	<i>Output: Reports on gas transit provisions and oil transit provisions, both for eventual public dissemination.</i>	<i>Timing: 1st half and 2nd half of 2006, respectively</i>

The Secretariat will continue monitoring the implementation by Signatories of the transit-related provisions of the ECT and consistency with the draft Transit Protocol for gas and pipeline-bound oil.

The reports will cover both generic legislative and pipeline-specific aspects of implementation. The main focus of the legislative component is on the non-discrimination and transparency principles, access to networks and tariffication and legal and regulatory framework for transit/transport facilities. Following its preliminary discussion at the Trade and Transit Group meeting of autumn 2005, the draft monitoring report on natural gas transit will be finalized during 2006. A similar monitoring report on crude oil transit will be presented to the Trade and Transit Group at its spring 2006 meeting and finalized during the second half of 2006.

5.8.	<i>Transit Tariffs for Oil and Underlying Methodologies [ECT Article 7]</i>	8 staff-months
	<i>Output: Report for eventual public dissemination</i>	<i>Timing: 1st half 2006</i>

Following the conclusion of discussions on natural gas transit tariffs and methodologies in 2005, the Secretariat will complete its analysis through a similar study on transport tariffs for cross-border crude oil pipelines (i.e. export, import and transit pipelines). A separate study for oil is needed in view of important differences between oil and gas concerning their technical nature, markets and regulatory frameworks.

The analyses will include the review of transport tariffs for cross border oil pipelines and the underlying methodologies for establishing such tariffs in selected ECT member states as well as an assessment of compliance with the relevant transit provisions of the ECT and consistency with the draft Transit Protocol (in particular, transparency, non-discrimination / national treatment and cost-reflectiveness).

The resulting report will be presented to the Group at the spring meeting of the Trade and Transit Group.

6. ENERGY EFFICIENCY AND RELATED ENVIRONMENTAL ASPECTS
(36 staff-months)

6.1	<i>Review Process</i> [ECT Article 19, PEEREA Articles 3,8]	<i>19 staff-months</i> <i>1 consultancy-month</i>
(i)	<i>Outputs:</i> <i>Two In-depth Reviews of National Energy Efficiency Policies</i>	<i>Timing:</i> <i>One in spring, one in autumn</i>
(ii)	<i>5 standard energy efficiency reviews</i>	<i>3 in spring, 2 in autumn</i>
(iii)	<i>2 progress reports on earlier in-depth reviews</i>	<i>One in spring, one in autumn</i>
(iv)	<i>Decision on a possible contribution by the Charter to the 'Environment for Europe' Ministerial in 2007</i>	

The country review process is a core activity of the PEEREA Group. Being composed of regular and in-depth energy efficiency reviews together with follow-up reports, it provides a unique platform of analysis and discussion on efficiency and environmental issues. The reviews provide the basis for discussions in the Group on national policy developments, and exchanges of experiences in policy formulation and implementation between the member countries.

The in-depth reviews are the main tool for offering peer guidance to Governments in developing and implementing their energy efficiency policies and they will continue to be developed for selected countries. In the selection of countries to be reviewed, the Secretariat will seek to obtain a balance between the most developed market economies and transition economies. Follow-up on the implementation of the recommendations of earlier in-depth reviews will continue, with progress being assessed by the Group based on the Secretariat's analysis. The assessment of the PEEREA Group will be conveyed to the national authorities concerned.

The regular reviews, which also monitor progress in implementation of the PEEREA obligations, should be updated at regular intervals. The Secretariat will assist countries in preparing and presenting their reports. Once finalised, these reports will be made public on the website of the Energy Charter. The Secretariat will review the format of the Reports with the aim to streamline information requirements and facilitate contributions from delegations.

It is also envisaged to continue the Round Table presentations about latest national developments and events in the area of energy efficiency, which were introduced in 2005. The Round Table format increases transparency for measures undertaken at the national level.

The Secretariat will follow closely the Environment for Europe process and will, as a function of that, invite the PEEREA Group for a discussion of the possible contributions of the Energy Charter to the preparation of the Ministerial meeting scheduled to take place in 2007.

6.2	<i>Evaluating Energy Efficiency Policies</i>	<i>7 staff-months</i> <i>1.5 consultancy-months</i>
	<i>Output: first draft of Report</i>	<i>Timing: Autumn 2006</i>

Evaluating energy efficiency policies, programmes and measures requires both methodologies and verifiable indicators of success. Quantitative and qualitative evaluations are of value, both when estimating expected benefits of new programmes and initiatives and later on for evaluating the actual efficiency in achieving the expected results. Such assessments require the development of verifiable indicators, often in the form of disaggregated indicators.

The report will analyse the methodologies used for evaluating energy efficiency policies and measures. The report will describe the main approaches employed for performing such evaluations, and their strengths and weaknesses in assessing the effects of various types of policies for promoting energy efficiency. Measures having a bearing on the strength of the implementation of policies will be part of the discussion, and institutional aspects may also be addressed in this context. The report will discuss the practical potential for developing verifiable indicators across the PEEREA countries. It is planned to hold a panel debate in the PEEREA Group on this subject. In the same context, the Secretariat will also contribute to a study on Evaluation and Monitoring of Energy Efficiency in the EU 25, led by ADEME under the “Intelligent Energy - Europe” programme.

6.3	<i>Energy Efficiency in the Transport Sector</i>	<i>5 staff-months</i> <i>0.5 consultancy-month</i>
	<i>Output: first draft of Report</i>	<i>Timing: Autumn 2006</i>

The PEEREA Working Group attaches growing importance to cross-country analysis of policies, programmes and trends in energy efficiency in the various sectors of the economy. The focus is on areas with high potential for energy efficiency improvements and scope for government policies and supporting measures.

In 2006 it is proposed to address energy efficiency in the transport sector. The transport sector is not only one of the main end-use energy sectors in all countries across the ECT, but it is also one of the fastest growing ones. Energy efficiency in transportation is an important issue amongst an array of other issues related to transport policies, ranging from technology improvements to traffic organisation and modal shifts. In order to define the areas where a strengthening of the inputs from the energy efficiency side on the international level to transportation policymaking could be useful, it is proposed to have an exploratory discussion in the PEEREA Group on these issues. A paper by the Secretariat will be developed as background for this discussion in the first half of 2006. The background paper will also describe the activities of other international organisations in the area of transportation policies and related energy efficiency issues.

6.4	<i>Renewable Energy Sources – the Demand Side Option</i>	<i>5 staff-months 1 consultancy-month</i>
<i>Output: first draft of Report</i>		<i>Timing: Autumn 2006</i>

ECT Article 19 includes the obligation to addressing environmental impacts throughout the whole energy cycle, from production to the end use. It also requires countries to have particular regard to both improving energy efficiency and developing and using renewable energy sources.

As a follow-up on activities in this area during 2004-2005, a new study is suggested with focus on the opportunities for the use of renewables on the demand side, seeking to identify the most appropriate mechanisms for the promotion of renewables in this part of the energy chain. A large number of studies are available on renewables as part of the supply systems. However, there is much less analysis available on the use of renewables directly in end-use sectors, such as residential, tertiary, and industry. The report should also examine how the promotion of renewables on the demand side may work in parallel with policies and measures aimed at increasing end-use energy efficiency.

7. LEGAL AFFAIRS
(30 staff-months)

Legal Affairs serves as a support unit and provides legal advice to the Charter Conference and its subsidiary bodies as well as all departments of the Secretariat, on issues related to the Charter Process. Legal Affairs also provides legal advice to the Secretariat regarding its daily operations, in particular in the area of relations with the host government and human resources.

In addition, Legal Affairs is responsible, within its mandate, for providing clarifications of certain legal aspects of the ECT and related documents.

Owing to the time taken over the past year by the permanent responsibilities, in particular related to human resources, some of the other items included in the activities for 2005 have had to be rescheduled and are therefore included again in the draft Programme of Work for 2006.

7.1	<i>Permanent Responsibilities of Legal Affairs</i>	11 staff-months
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As stated above, Legal Affairs provides legal advice to the Secretariat regarding its daily operations, in particular regarding relations with the host government and in the area of human resources.

As far as the Secretariat can foresee, these permanent responsibilities should not exceed the staff months allocated to them for 2006. Legal Affairs will continue to provide general legal advice and assistance to the Charter Conference and its subsidiary bodies.

Legal Affairs provides legal support to all directorates and units of the Secretariat on matters arising from the operational activities of the Secretariat. Legal Affairs also remains the contact point for the Depositary and for external legal queries.

7.2	<i>Model Agreements for Cross-Border Pipelines</i>	9 staff-months
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It is recalled that the Charter Conference, at its December 2003 meeting, took positive note of the First Edition of the Model Agreements ("MAs"), which was subsequently widely circulated to member states, relevant industries and law firms.

The Secretariat's *ad hoc* Legal Advisory Task Force on Model Agreements ("LATF") comprising expert senior lawyers met in November 2005 and agreed that, in order to reflect and incorporate the most recent developments in the area, the MAs should be revised and updated.

The LATF also confirmed the importance and value of the MAs to host governments, energy investors and the legal community and recommended renewed efforts to make them more widely known.

Therefore, based on the evaluation of LATF, Legal Affairs will, in 2006, examine and develop the First Edition of the MAs, in line with the advice received, with the aim of

achieving a coverage of a wider scope of the legal subject matter. In addition, Legal Affairs will also give priority to achieving greater market recognition of the MAs within the Energy Charter Treaty constituency, energy investors and the legal community.

7.3	<i>Energy Charter Treaty Commentary</i>	7 staff-months
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The approach to the commentary is divided into two distinct steps. The first step is to define the structure and nature of the desired end product. Based on this definition, the objective is to achieve the drafting of an introduction to the various sections of the Energy Charter Treaty. This will enable Signatories to assess the need and opportunity of approaching the second step, which will aim to provide a more in-depth drafting of a commentary on each article within the section.

As initially conceived, the commentary will aim to provide a coherent legal approach to the provisions of the Energy Charter Treaty, with the objective of clarifying the provisions of the Energy Charter Treaty. It will give an overview of the content and aim of the Treaty as well as an outline of its negotiating history. It is, however, recognised that the commentary is not meant to provide an authoritative interpretation of the provisions of the Energy Charter Treaty.

7.4	<i>Activities related to the Transit Protocol</i>	3 staff-months
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Depending on the assessment of the status of the Transit Protocol negotiations at the Charter Conference in 2005, Legal Affairs will undertake necessary follow-up work in co-ordination with the Directorate for Trade, Transit and Relations with Non-Signatories. The final allocation of resources between this item and other activities of Legal Affairs will be adjusted in line with the assessment of the Conference.

8. ADMINISTRATION AND FINANCE

(66 staff-months)

The main areas of work of Administration and Finance are Budget, Personnel, Financial Administration, Information Technology and Support Services; specific activities are as follows.

- Budget: preparation of draft Budgets, financial control of expenditure, collection of outstanding contributions and preparation of documents for the Budget Committee.
- Personnel: recruitment and appointment procedures and all other issues related to the implementation of the Secretariat's Staff policies and rules.
- Financial Administration: administration and control of all commitments, payroll and expenditure; preparation of annual Financial Statements and assistance in the Audit procedure.
- Information Technology: maintenance and upgrading of all communication and other technical facilities of the Secretariat, ensuring the functioning of all IT systems, developing and maintaining the public and restricted areas of the organisation's web site.
- Administration and Support Services: various activities, notably office management, document dissemination procedures and support for all ECS meetings, including external workshops and seminars.

SUMMARY OF STAFF MONTH CALCULATIONS

	<i>No. of staff months</i>
1. Private Office	84
2. Cooperation with Int'l Organisations; Ext. Events; Horizontal Activities⁴	
2.3 Conference on the Role of Governments for Energy Security	8
2.4 Interaction with the Industry Advisory Panel	<u>4</u>
<i>Sub-total</i>	12
3. Ratification, Accession and Relations with Non-Signatories	
3.1 Ratification of the Treaty / PEEREA	4
3.2 Relations with Non-Signatories	<u>14</u>
<i>Sub-total</i>	18
4. Investment Issues	
4.1 ICMS reports	25
4.2 Improving entry conditions for foreign investors	10
4.3 Risk reduction dialogue	9
4.4 Review of ECT implementation in selected areas	4
4.5 Supplementary Treaty issues	<u>2</u>
<i>Sub-total</i>	50
5. Trade and Transit	
5.1 Instruments to manage and secure cross-border flows	10
5.2 Obstacles to technology transfer	7
5.3 Development of international pricing for oil and gas	10
5.4 Cross-border cooperation in the electricity sector	6
5.5 Activities related to the Transit Protocol	6
5.6 Consultative framework on new transport facilities	3
5.7 Implementation of ECT transit provisions for gas and oil	8
5.8 Transit tariffs for oil and underlying methodologies	<u>8</u>
<i>Sub-total</i>	58
6. Energy Efficiency and Related Environmental Aspects	
6.1 Review process	19
6.2 Evaluating energy efficiency policies	7
6.3 Energy efficiency in the transport sector	5
6.4 Renewable energy sources – the demand side option	<u>5</u>
<i>Sub-total</i>	36
7. Legal Affairs	

⁴ Activities 2.1 (co-operation with international organisations) and 2.2 (improving transparency and dissemination of information) apply to all areas of activity, and do not have a specific allocation of staff months.

7.1 Permanent Responsibilities of Legal Affairs	11
7.2 Model Agreements for Cross-Border Pipelines	9
7.3 Energy Charter Treaty Commentary	7
7.4 Activities related to the Transit Protocol	<u>3</u>
<i>Sub-total</i>	30
8. Administration and Finance	<u>66</u>
TOTAL	354

This calculation corresponds to the 2006 Establishment Table of 28 staff (28 x 12 = 336), plus 18 months of secondees' time