

Mashreq Gas Initiative



Hydrocarbons Development and Transportation across Borders: Investment, Market Structure, Integration

**19 June 2008
Damascus, Syria**

Seminar Report



Soufian Al-Alao and André Mernier

The Energy Charter Secretariat (ECS) welcomed the opportunity to organise a seminar in the Mashreq region in close cooperation with the European Commission, and with the support of the Euro-Arab Mashreq Gas Cooperation Centre. This seminar was hosted by the Ministry of Petroleum and Mineral Resources of the Syrian Arab Republic.

Scope and Objective of the Seminar

The main objective of the seminar was to encourage cooperation in the energy sector, with special emphasis on the natural gas sector in the Mashreq and to outline the opportunities for improving the current dialogue between the Mashreq countries and members of the Energy Charter Treaty (ECT) constituency.

The seminar was important within the ECT context, given the potential of the Mashreq countries in contributing to the prosperity of the region. Responding to the request of the European Commission to find new sources of supply for and associated transport routes to the markets of the European Union, the seminar offered the opportunity for ECS to share its knowledge and skills to overcome the barriers in realising the infrastructure for natural gas transportation. This seminar was also directed at regional consumers and transit countries.

This report outlines the key issues that were discussed during the seminar, and aims to summarise the discussions concerning improved cooperation in the Mashreq region and the future relations in the Euro-Mashreq context and the ECT constituency.

The seminar was widely supported by the Mashreq countries, the EU, and the Republic of Turkey. Speakers included experts from relevant government offices, the private sector, and non-governmental institutions.

The seminar programme and copies of individual presentations are available on the Energy Charter website (www.encharter.org/index.php?id=338&L=0).

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THE MASHREQ GAS MARKETS

One of the main objectives of the seminar was to provide a platform for discussions of ways and means for the establishment of a more efficient and reliable gas market structure in the Mashreq by encouraging cross-border energy cooperation and investment flows. It was revealed that the establishment of a cross-border gas network in the region would not only benefit the countries along the Arab gas pipeline, but also enhance the various dimensions of gas cooperation and trade, including interconnections to Iraq. A well functioning gas market in the Mashreq could also help the region be a part of the broader international gas network.

The European Union established the Euro-Arab Mashreq Gas Market Project with the aim of contributing to the integration of the gas markets of Egypt, Jordan, Lebanon, Syria and beyond, with the EU internal gas market. The project envisages developing a gas master plan, helping Mashreq countries establish their legislation and regulation activities, as well as assisting them by know-how transfers. The final outcome of the project is to ensure the establishment of gas markets in the Mashreq countries that would be coherent with the EU gas market principles; this would, in turn, facilitate EU-Mashreq gas pipeline projects.



Laurent Muschel - Session One

The Mashreq is a key region in the effort of the European Union to diversify its energy sources. Supplying the Nabucco and other projects with gas from producers in the region and neighbouring countries has become one of the European Union's energy priorities.

The relevance of the ECT for establishing improved gas markets in the Mashreq region is an important concept that was embraced by decision makers in the region. The letter and the spirit of the Treaty

call for the establishment of a transparent, liberal market structure in its member countries. The idea is to ensure a commercially driven market structure and the establishment of an investor-friendly framework. At the same time, ECT enshrines the principle of unfettered sovereignty of countries over their natural resources and national energy policies.



Ali Abbas - Session Two

Participants at the seminar welcomed the efforts to establish liberalised markets. Also of note was the desire to invite the private sector to take an active role in the establishment of energy markets via innovative financing models such as, for example, the build-operate-transfer model.

Seminar participants acknowledged the Energy Charter Treaty's immediate relevance in the light of recent developments and the objectives for the gas sector in the Mashreq region. Participants also recognised the importance of energy efficiency in moving to more sustainable energy use in the Mashreq region. Energy efficiency is an integral part of the ECT, including a dedicated forum for sharing policy experiences and developing good practices in this area.



Sarkis Hlaiss - Session Two

THE EU-MASHREQ GAS PIPELINE PROJECT

Energy security has been high on the agenda in many parts of the world during recent years. Source and route diversification of energy supplies, along with more sustainable energy supply and use, are key strategies to improve energy security. Many governments are looking at sound policy options in this context.

The emerging new gas supply route to Europe via the Arab Mashreq may potentially play a vital role in enhancing Europe's energy security. The route may also provide an additional impetus for spreading economic prosperity in the Mashreq region. The presentations in the seminar underlined these potential benefits and called on all stakeholders to combine their efforts.



Marwan Metry Al-Baka'in - Session One

Turkey's situation is rather unique in this respect. A member of the Energy Charter Treaty, it acts as a bridge between the EU and the Mashreq region. The country's position is ideal for playing a vital role in achieving the objective of creating a new gas route. Participants from Turkey underlined Turkey's commitment to attain this important goal. Turkey is a reliable country for the transit of energy resources, whilst at the same time providing a key market for gas in the region.



Söner Aksoy - Session One



Ali Arif Aktürk - Session Three

Another topic taken up for discussion during the seminar was the possible emergence of Turkey as a hub for the gas transported to Europe from a variety of sources, including the Mashreq region.

Overall, speakers and participants supported the idea of increased energy cooperation between energy producing and consuming countries. Such cooperation would encourage planned projects for large-scale infrastructure, such as the Nabucco gas pipeline, envisaged to help alleviate concerns about the security of energy supply in Eurasia. The Nabucco project would help the EU diversify its energy supplies, but also assist those countries



Ahmed El Ashmawi - Session One

along the route by allowing them to earn transit fees or export revenues, and to access new gas sources at a lower cost in an environmentally friendly way. There were a variety of options for establishing a link between the Arab Mashreq and the Nabucco project, and the issue of how to bring gas resources from Iraq into the picture was also addressed.

Private financing is inevitable in most cases where significant investment in infrastructure is needed, so the views of international financial institutions were welcome. Risks associated with developing



Anna Bjerde - Session Three

and operating pipelines need to be adequately addressed to ensure the financial feasibility of such projects. As potential risks tend to increase when a project involves several states, meeting participants reviewed various financial tools aimed at minimising this problem. Another interesting point of discussion was the availability of regional funds provided in accordance with the terms of local legislation by institutions like the Islamic Development Bank, which can facilitate financing energy infrastructure projects, including the EU-Mashreq Gas Pipeline Project.



Hatem El-Bakali - Session Three

Energy Charter Model Agreements

Finally, participants recognised the important role of the Energy Charter Treaty in addressing issues related to the mitigation of energy investment risks. Attention was paid to the Energy Charter Model Agreements for Cross-border Pipelines (Model Agreements) and the way in which they can serve as a framework for cross-border energy infrastructure, both within and outside the Energy Charter constituency. As the Secretariat's presentation explained, Model Agreements are non-project-specific legal templates, provided in draft form by a neutral organisation such as the Secretariat, with the intention that they can be

used by governments, investors and banks as a neutral starting point for negotiations.



Bernard Clément - Session Two

The presentation started by reviewing the legal context against which the Model Agreements project was first proposed. This involved examining the different types of commercial pipeline operators and the different roles which could be played by the international border(s), giving rise to a different legal structure for each project. The presentation went on to consider the advantages of Model Agreements as a basis for negotiations. It was explained that this instrument has been developed by the Secretariat with the help of leading energy lawyers from industry and private practice. The Model Agreements have been reviewed by an Expert Group consisting of energy and legal experts from Energy Charter member states, and have been used as a starting point for oil and gas projects in Central Asia, the Balkans and elsewhere. The second edition of the Model Agreements was made available on the Secretariat's website in early 2008.

The Model Agreements package consists of an Intergovernmental Agreement (IGA) and a Host Government Agreement (HGA), together with three Appendices. These are intended to be used



John Mills and Ole Myklestad - Session Two

as an integral set. The IGA deals with horizontal issues which concern the pipeline infrastructure as a whole, while the HGA deals with vertical issues which concern the project activity within each participating state. The Appendices contain more detailed provisions dealing with specific topics.

Certain key aspects of the Model Agreements were examined in more detail. These included the different categories of project participants; the timing of signature, entry into force and

termination; taxation; land rights; environmental, safety, technical, employment and social impact standards, and how these might be varied; changes of law in general; and dispute settlement.

Finally, future prospects for the Secretariat's Model Agreements project were briefly presented. These include, as a new initiative at the request of our Central Asian member states, the development of a set of Model Agreements for Cross-border Electricity Projects.

SPEECH BUBBLES

"The Euro-Mashreq gas market, supported by the European Commission in Damascus since 2005, will be the basis for co-operation with Europe in the field of gas, and also for the establishment of an integrated gas market in the long run."

Soufian Al-Alao

"The Middle East, which holds 40% of the world's gas resources, is likely to play a role in filling the European gas supply gap. Countries like Turkey, Egypt, Jordan and Syria could play a key role in facilitating the transit of that gas and stand to benefit from doing so."

John Mills

"Benefits of the Energy Charter experience in Eurasia can be extended to the Mashreq."

André Mernier

"The Euro-Arab Mashreq Gas Cooperation Centre Project was brought forward at the most suitable time."

Sarkis Hlaiss

"As a natural bridge both in the east-west and south-north axis, Turkey will play an important role as the 21st century's energy 'silk road'."

Söner Aksoy

"The Middle East's share in world gas production is much lower than its share of proven reserves. The region could profitably meet the world's growing need for energy."

Bernard Clément

"Energy is a driving force for integration. Establishment of an interconnected Mashreq gas market can play an important role enhancing security and safety of energy supplies, promoting regional cooperation and integration."

Ahmed El Ashmawi

"Multiple countries means multiple political risks."

Anna Bjerde

"The principal risks to energy supply do not arise for the foreseeable future from resource availability, but are essentially 'above the ground'."

Howard Chase

"We see benefits in the gas reserves of Iraq, especially after the initial agreement of Iraq to join the Arab gas pipeline. We hope to connect the Syrian network to the Iraqi network and then to connect it to the Arab network for the transportation of gas. As Iraq has large gas reserves the gas could also be transported to other neighbouring countries, as well as to the EU countries."

Soufian Al-Alao

"Integrating the Arab gas pipeline, Nabucco and other main pipelines in Europe will close the ring around the Mediterranean. The Arab gas pipeline will not be the only one – it will provide a corridor for other gas pipelines which might be installed in the future."

Ali Abbas

"Europe should 'speak with one voice' in a global energy market, but member states, industry and stakeholders should be fully involved. Energy companies are major drivers for investment."

Jean-Marie Devos

"IDB is willing to support all regional efforts to improve trade between member countries. Regional projects are given top priority in IDB operations."

Hatem El-Bakali

"Transnational infrastructure projects are critical if nations are to forge close cooperative ties, as each strives to realise its full potential in an ever more competitive global economy."

Saleh al-Kharabsheh

"I am sure that if Mashreq countries decide to join the Energy Charter Treaty, it will bring a more sustained and uniform flow of investments into the region. The Treaty will provide a useful framework in establishing a set of common rules for energy cooperation in the Euro-Mediterranean area and a better functioning of the market."

Dario Chello

MASHREQ GAS INITIATIVE

HYDROCARBONS DEVELOPMENT AND TRANSPORTATION ACROSS BORDERS:

INVESTMENT, MARKET STRUCTURE, INTEGRATION

PROGRAMME SUMMARY

Speakers' presentation available on the Energy Charter website: www.encharter.org/index.php?id=338&L=0.

Welcome Address and Opening Statements

Soufian Al-Alao, Minister of Petroleum & Mineral Resources, Syria
André Mernier, Secretary General, Energy Charter Secretariat

Session One: Policy Options for Integrating the Mashreq Gas Markets & the European Internal Gas Market

Laurent Muschel, Head of the International Unit, DG for Energy & Transport, European Commission

Turkey as a Key Country on the Energy Ring

Söner Aksoy, Member of Parliament, Head of the Energy & Technology Commission of the Parliament, Turkey

The Euro-Arab Gas Market Project

Richard Kupisz, Team Leader, Euro-Arab Mashreq Gas Cooperation Centre

Future of Gas Exports from Egypt by Pipeline & LNG

Ahmed El Ashmawi, Assistant Chairman, Investment & International Cooperation, Egyptian General Petroleum Corporation

The Mashreq Gas Markets in Transition & the Benefits of Bringing Gas to Lebanon

Sarkis Hlaiss, Head of Committee, General Manager of Oil Installations, Ministry of Energy & Water, Lebanon

Energy strategy in Jordan

Mahmoud Al-Ees, Director Planning, Ministry of Energy & Mineral Resources, Jordan

The JGTP Project & the Impact of the Arab Gas Pipeline in Jordan

Marwan Metry Al-Baka'in, Director Natural Gas, Ministry of Energy & Mineral Resources, JGTP Project Manager, Jordan

Session Two: New Oil & Gas Transportation in the Mashreq Region: an Industry Perspective

Angel Gutierrez Hidalgo, Head of the Economic Cooperation Section, the European Commission's Delegation to Syria

The Changing Landscape of Europe's Gas Industry: Looking for New Supply

Jean-Marie Devos, Secretary General, Eurogas

Syria's Role in the Regional Gas Transit Business

Ali Abbas, General Director, Syrian Gas Company

The Potential for New Oil & Gas Transit in the Mashreq Region

John Mills, Executive Vice-President (Middle East, North Africa South Asia), Shell Gas & Power
Ole Myklestad, General Manager, Syria Shell Petroleum Development BV

Investing in New Natural Gas Infrastructure

Howard Chase, Chairman of the Energy Charter Industry Advisory Panel, Director of European Government Affairs, BP

Producing Gas to Markets: the End of Easy Gas?

Bernard Clément, Vice-President Middle East, Total Exploration & Production



Session Three: Mitigating Investor Risks: Market Structure & Instruments

Malek Kabariti, President, National Energy Research Centre, Jordan

Trans-boundary Energy Project in the Region

Saleh al-Kharabsheh, Director, Projects Department, Ministry of Planning & International Cooperation, Jordan

Gas Transit Tariffs – Methodology & Results

Gürbüz Gönül, Senior Expert, Energy Charter Secretariat

Turkey as a Hub for Transit Gas Projects

Ali Arif Aktürk, Managing Director & Member of the Board, Naturgaz A.Ş.

Risk & Risk Mitigation in Cross-border Gas Pipeline Projects

Anna Bjerde, Senior Infrastructure Specialist, World Bank

Energy Charter Model Agreements for Cross-border Pipelines: a Framework for Cross-border Energy Infrastructure

Graham Coop, General Counsel, Energy Charter Secretariat

The Role of the IDB in Supporting New Arab Mashreq Energy Infrastructure

Hatem El-Bakali, Portfolio Manager, Syria Gas & Power Projects, Islamic Development Bank

The Energy Charter: a Confidence-building Process

Pascal Laffont, Office of the Secretary General, Energy Charter Secretariat

Session Four: Concluding Panel Discussion

Sigurd Schmidt, International Relations, Enlargement, DG for Energy & Transport, European Commission

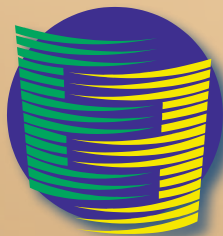
Closing remarks:

Ali Abbas, General Director, Syrian Gas Company

Dario Chello, Director for Energy Efficiency & Investment, Energy Charter Secretariat

John Mills, Executive Vice-President (Middle East, North Africa South Asia), Shell Gas & Power

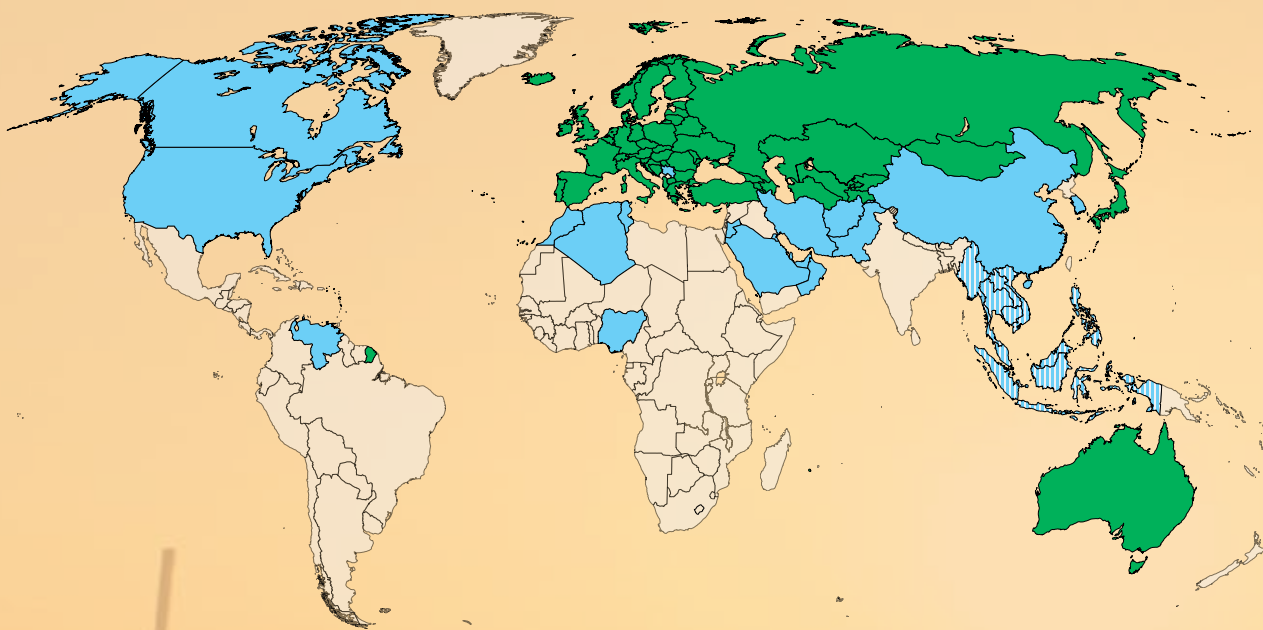
Ahmed El Ashmawi, Assistant Chairman, Investment & International Cooperation, Egyptian General Petroleum Corporation



ENERGY CHARTER SECRETARIAT

The Energy Charter Treaty is a legally-binding multilateral instrument covering investment protection, liberalisation of trade, freedom of transit, dispute settlement and environmental aspects in the energy sector. The Energy Charter Treaty was signed in December 1994 and entered into force in April 1998. To date the Treaty has been signed or acceded to by fifty-one states plus the European Communities, representing nearly 40% of global GDP.¹ Twenty more states and ten international organisations have the status of observers to the Energy Charter.²

The Energy Charter Model Agreements for Cross-border Pipelines are non-binding legal templates designed to facilitate project negotiations for cross-border infrastructure. They have been developed by the Energy Charter Secretariat with the help of leading energy lawyers in order to allow project negotiations to benefit from best international practices and reflect as much as possible the interests of the different parties concerned. The Model Agreements have been used as a starting point for oil and gas projects in Central Asia, the Balkans and elsewhere. The second edition of the Model Agreements was released in early 2008 and is available on the Energy Charter website.



- ¹ Albania, Armenia, Austria, Australia, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, European Communities, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Kazakhstan, Kyrgyzstan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Mongolia, the Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, Tajikistan, the former Yugoslav Republic of Macedonia, Turkey, Turkmenistan, Ukraine, United Kingdom, Uzbekistan

- ² **States:** Afghanistan, Algeria, Bahrain, People's Republic of China, Canada, Islamic Republic of Iran, Hashemite Kingdom of Jordan, Republic of Korea, Kuwait, Morocco, Nigeria, Oman, Pakistan, Qatar, Saudi Arabia, Serbia, Tunisia, United Arab Emirates, United States of America, Venezuela;

International Organisations: ASEAN, EBRD, IEA, OECD, UN-ECE, World Bank, WTO, CIS Electric Power Council, BSEC, BASREC

*This report was prepared by Sedat Çal with the assistance of Dario Chello and Olga Sorokina.
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