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ECONOMIC COMMISSION FOR EUROPE

COMMITTEE ON SUSTAINABLE ENERGY

Working Party on Gas

Thirteenth session, 21-22 January 2003

REPORT

I. ATTENDANCE

1. The thirteenth session of the Working Party on Gas was attended by 90 participants, representing the following 24 countries: Austria, Belgium, Bosnia and Herzegovina, Croatia, Czech Republic, Estonia, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Romania, Russian Federation, Slovakia, Slovenia, Spain, Switzerland, Turkey, Ukraine, United Kingdom of Great Britain and Northern Ireland, United States of America, and Yugoslavia. Representatives of the Commission of European Communities also participated.

2. Egypt participated under Article 11 of the Commission's terms of reference.

3. The following intergovernmental and non-governmental organizations were represented: Energy Charter Secretariat, European Natural Gas Vehicles Association (ENGVA), World LPG Association (WLPGA), World Energy Council (WEC), European LPG Association (A.E.G.P.L.), Cambridge Energy Research Associates (CERA), Ecological Vernadski Foundation, GEOSTOCK, Russia and CIS Foreign Investment Promotion Centre (FIPC) and World Business Council for Sustainable Development.

4. The session was opened by the Executive Secretary, who underlined the important role of natural gas in sustainable energy development, especially its ecological benefits in comparison with other fossil fuels. She also noted the successful implementation of the programme of work by the Working Party and its Ad Hoc Groups of Experts, suggesting however that the performance of the Ad Hoc Group of Experts on Natural Gas Resources be carefully reviewed and an appropriate decision on the future of this Group be taken. The Executive Secretary acknowledged the important role the Gas Centre plays in the process of the opening up and liberalisation of the gas market, and enhancement of cooperation between gas industries and thanked the companies, organizations and governments who are the members of the Gas Centre for their valuable support and contribution.

II. OFFICERS OF THE SESSION

5. The officers of the session were as follows: Mr. Boleslaw REY (Poland), Chairman and Mr. Noël COUPAYE (France) and Mr. Ferdinand DE LICHTERVELDE (Belgium), Vice-Chairmen.

III. ADOPTION OF THE AGENDA (Agenda item 1)

6. The provisional agenda (ENERGY/WP.3/2003/1) was adopted.

IV. DECISIONS OF THE COMMITTEE ON SUSTAINABLE ENERGY OF CONCERN TO THE WORKING PARTY (Agenda item 2)

7. Decision:

To take note of the information and decisions of the Committee on Sustainable Energy of concern to the Working Party, in particular regarding the progress achieved in the preparation of a new classification framework system for energy commodities, such as coal, petroleum, natural gas, and uranium:

V. ECONOMIC REFORMS AND RESTRUCTURING IN CENTRAL AND EASTERN EUROPE AND THEIR IMPLICATIONS AND SIGNIFICANCE FOR GAS MARKETS AND THE GAS INDUSTRY IN THE ECE REGION - Promotion and development of a market-based gas industry in economies in transition - the Gas Centre (Agenda item 3)

8. Decisions:

(i) To note, with appreciation the results of the Gas Centre's operations in 2002, in particular the work of the Task Force on the Security of Gas Supply and the development of the database;

(ii) To thank Governments, enterprises and institutions for their active support of the Gas Centre.

VI. CURRENT DEVELOPMENTS AND MEDIUM-TERM AND LONG-TERM PROSPECTS AND POLICIES IN THE GAS INDUSTRY, INCLUDING TRADE OF GAS - Review of the gas situation and prospects in the ECE region

(Agenda item 4)

9. Decisions:

(i) To thank Governments and other organizations for the interesting information they provided regarding developments in the gas industries and gas markets;

(ii) For the next session of the Working Party, to request delegations to prepare their statements in a concise way and to send them in electronic form to the secretariat in advance, preferably not later than one month before the start of the session.

VII. ACTIVITIES OF THE AD HOC GROUPS OF EXPERTS (Agenda item 5)

(a) Twenty-fifth session of the Ad Hoc Group of Experts on Natural Gas Resources;

(b) Fourth session of the Ad Hoc Group of Experts on the Supply and Use of Gas.

10. Decisions:

(i) To take note of the information presented by the secretariat regarding the current situation in the Ad Hoc Group of Experts on Natural Gas Resources;

(ii) To underline the important role of the upstream activities, e.g. prospecting, exploration and development of gas fields in the successful performance of the gas industry;

(iii) To note that the very small number of delegations attending the sessions and low level of contributions by national experts cannot justify maintaining the Ad Hoc Group of Experts on Natural Gas Resources in the future;

(iv) To discontinue formally the work of the Ad Hoc Group of Experts on Natural Gas Resources;

(v) To continue to study various issues related to the prospecting, exploration and development of gas fields through the projects implemented directly by the Working Party on Gas, by including these topics in the agenda of the sessions of the Working Party;

(vi) To include in the agenda of the fourteenth session of the Working Party on Gas a topic on "Natural Gas – Reserves, Resources and Exploration and Development Prospects in the UNECE Region", for in-depth consideration;

(vii) To approve the report and programme of work of the Ad Hoc Group of Experts on the Supply and Use of Gas.

VIII. OVERVIEW OF THE ACTIVITIES OF OTHER INTERNATIONAL ORGANIZATIONS IN THE FIELD OF GAS (Agenda item 6)

11. Decisions:

(i) To thank representatives of other international organizations for the interesting information on their activities in the field of natural gas and LPG;

(ii) To accept the proposal of the VNIMI Institute (Russian Federation) to organize in St. Petersburg in September 2003, a fourth International workshop on the “Role of Geodynamics in Solving Ecological Problems in Oil and Gas Complex – Case Studies”, and to request the secretariat to prepare, in cooperation with VNIMI, an Information Notice outlining the scope and programme of the workshop;

(iii) To note with appreciation the progress made by the Task Force on the “Blue Corridor” project, focused on the use of gaseous fuels in transboundary vehicle traffic, and to request the secretariat to report on the results of the Task Force at the next session of the Working Party;

IX. FUTURE ACTIVITIES OF THE WORKING PARTY (Agenda item 7)

(a) **Programme of work for 2003-2006;**

(b) **Provisional calendar of meetings for 2003 and 2004.**

12. Decisions:

(i) To approve the programme of work of the Working Party;

(ii) To approve the provisional calendar of meetings.

X. OTHER BUSINESS (Agenda item 8)

Round Table on a Wider Europe – New Challenges for the Energy Sector *

13. In response to the changing political and economic structure of Europe and the European Union (EU), and its repercussions for neighbouring regions and individual countries, the United Nations Economic Commission for Europe’s (UNECE) Working Party on Gas hosted a **Round Table on A Wider Europe – New Challenges for the Energy Sector**. The objective of the Round Table was to briefly review the alternative concepts of “A Wider Europe” (WEUR) and to highlight the potential range of required energy and natural gas policy changes that would be

* For a complete report on the Round Table see document ENERGY/WP.3/2003/3

necessary to foster a WEUR, which would in turn be of benefit to both EU and non-EU countries in the UNECE region. Panellists and delegates were invited to share their views on the matter so that it would be possible to define what was meant by a WEUR and its implications for the energy sector.

14. The panellists for the Round Table were: Mr. Togrul Bagirov, Executive Vice President, Moscow International Petroleum Club (on behalf of Russian oil companies, including LUKOIL); Mr. Wilfried Czernie, Senior General Manager, Ruhrgas; Mr. Jacques Deyirmendjian, Group President, Gaz de France; Mr. Frank Duffield, Vice President, Shell Gas and Power; Mr. Ivan Ivanov, Deputy Director, Institute for Europe, Moscow (and until recently Deputy Minister of Foreign Affairs of the Russian Federation); Mr. Gerhard Lohan, Head of Unit, External Relations Directorate General, European Commission; Mr. Rainer Seele, CEO Wingas and Board member Wintershall; and Mr. Sergei Balashov, Deputy Head of Foreign Relations Department, Gazprom.

15. The Round Table was opened by **Mr. George Kowalski**, Director of the UNECE Industrial Restructuring, Energy and Enterprise Development Division (IREEDD). In view of the changing global and European political and economic landscapes, combined with the profound political and economic changes that have occurred in central and eastern Europe and central Asia over the last 12 years, Mr. Kowalski stressed that it was perhaps an opportune time to take stock of the progress achieved so far in integrating the countries of central and eastern Europe and central Asia, the challenges that still lie ahead and in what way or framework a WEUR could play a useful role in the whole process.

16. **Mr. Gerhard Lohan**, Head of Unit for Russia, Ukraine, Belarus, and Republic of Moldova, Directorate General External Relations, European Commission, Brussels, provided a view and number of concepts for a Wider Europe or a Common Economic Space in Europe. Mr. Lohan put forward the overall objectives as being the prevention of the appearance of new dividing lines in Europe, as well as prosperity gaps along the borders of the enlarged EU. Mr. Lohan stated that economic integration to that effect had three main thrusts: to help create political stability; to unleash domestic economic dynamism as well as to enhance FDI and international technology transfer; and to provide insulation against terrorism, crime and corruption. Economic integration, furthermore, was favoured by the complementarity of economic structures on the Eurasian continent, such as energy/raw materials versus technology/manufactured and relative production cost differences. To that end Mr. R. Prodi and Mr. V. Putin, European Commission and Russian Presidents respectively, in 2000 launched the concept of a “Common European Economic Space”. Additionally, at the same time the EU was preparing for a discussion on how to further intensify relations with its ‘new’ neighbours, with the preliminary names of “Ring of Friends”, “Wider Europe” and “New Neighbourhood Initiative”.

17. **Mr. Ivan Ivanov**, Deputy Director, Institute for Europe, Moscow, and until recently Deputy Minister of Foreign Affairs of the Russian Federation, stressed that the very concept of a WEUR or a “Common European Economic Space” (CEES) was no longer an abstract and vague idea and then proceeded to provide a detailed examination of both the West and East of the continent. He mentioned that the High Level Russia – EU Working Group on this issue did elaborate on its formation and modalities in a practical way, implementing the political decisions of their summits.

Amongst other topics these endeavours cover the energy sector, including gas, and thus are intertwined with the energy dialogue of the Parties now also under way.

18. Reminding the delegates that energy policy was not initially a part of the joint EU policy package, **Mr. Jacques Deyirmendjian**, Group President, Gaz de France, Paris, emphasized that common European efforts in the energy field had to date produced good results. The adoption of the first EU Directives on Electricity and Natural Gas had profoundly transformed the EU energy sector. The second Directive on Gas, which is under consideration, risks introducing further changes in the market and preparing the industry for key future challenges. At the same time, the internal market changes were echoed in the EU neighbourhood, in particular in the energy exporting countries and to some extent in the transit countries.

19. **Mr. Rainer Seele**, Chief Executive Officer, Wingas, Kassel, Germany, opened his presentation with the following question: “What will happen with the EU expansion to the East concerning energy markets”? He immediately replied that in the short-term not too much would happen due to the simple fact that the accession countries had taken the necessary energy-market integration measures long before the enlargement process had been approved at the European level. Furthermore, the energy companies from the accession countries were already reliable partners for western companies, as highlighted by their participation in several European pipeline projects. Therefore further energy market integration should concentrate on creating a stable, reliable and sustainable framework that took into account the interests of all players: producers, importers, distributors and above all customers.

20. **Mr. Frank Duffield**, Vice President of Shell International Gas, London, addressed the very specific issue of the implications of EU enlargement for those producers and suppliers remaining outside the EU, together with the significance of the role that a WEUR could have. He highlighted that for those producers and suppliers remaining outside the enlarged EU, a key requirement to unlock new supply would be security of demand. Given that the enlarged EU would be increasingly energy import dependent, most of the producers and suppliers would remain outside its borders.

21. Further integration of the gas industries in the UNECE region, in the context of a WEUR, was elaborated by **Mr. Wilfried Czernie**, Senior General Manager, Ruhrgas AG, Germany. On account of import/export ties and transit business, he emphasized that the gas industries in a so-called WEUR already had many points of contact and long-standing experience with mutually beneficial cooperation. He mentioned the importance of Russia and Algeria as suppliers to western or central Europe and the role of Ukraine as a transit country. It did not take much courage, Mr. Czernie indicated, to predict further integration of the gas industries in the UNECE region. This further integration would be fostered by major supply challenges faced by both gas-importing countries in Europe and existing and potential export and transit countries.

22. One of the main rationales for the creation of a WEUR would be to facilitate an increasing and uninterrupted flow of energy, in particular natural gas, between country exporters and country importers. The natural gas flows from Russia would be of paramount importance for the smooth functioning and eventual success of the WEUR’s energy segment. **Mr. Togrul Bagirov**, Executive Vice President of the Moscow International Petroleum Club, provided an overview of how realistic

the expectation was that Russian gas companies would supply ever-increasing export quantities over the next 20-30 years.

23. To achieve a WEUR in the energy sector, energy market restructuring would not only be required in the EU countries but also in other participating States. In this respect, Russia as the largest oil and natural gas producer and exporter occupies the most prominent place. **Mr. Sergei Balashov**, Deputy Head of Foreign Relations Department, Gazprom, Moscow, provided an outline of the most recent institutional and market developments for natural gas in Russia, which could be used to judge the current and future compatibility of this key market with other WEUR segments. He indicated that there were two key natural gas players in Russia: Gazprom itself and independent gas producers (IGP). While the latter had a 12 per cent share in the domestic gas production of roughly 580 billion cubic metres in 2001/2002, it is expected that its share could increase to 24 per cent by 2020. At the same time, Gazprom is the exclusive owner of the Unified Gas Supply System, that includes all gas export and transit pipelines.

24. In conclusion, it was stated that the process of integration in Europe was well underway. There were, however, “transitional” costs associated with the process of EU enlargement that would affect the current EU Member States, and also both acceding and non-acceding countries. Nevertheless, these associated costs were not anticipated to be significant. At the same time, while the European continent was integrating, there were other regions such as Asia, whose economies were also growing and would hence be competitors for energy raw materials, commodities and various products.

XI. ELECTION OF OFFICERS (Agenda item 9)

25. The Working Party elected its officers as follows: Mr. Boleslaw REY (Poland), Chairman and Mr. Ferdinand DE LICHTERVELDE (Belgium), Mr. Noël COUPAYE (France) and Mr. Igor PONOMARENKO (Ukraine) as Vice-Chairmen.

XII. DATES OF THE NEXT SESSION (Agenda item 10)

26. The fourteenth session of the Working Party on Gas will be held on 20 and 21 January 2004, starting on Tuesday, 20 January 2004 at 10 a.m.

XIII. ADOPTION OF THE REPORT (Agenda item 11)

27. The Working Party adopted the report of its thirteenth session on 22 January 2003.

ANNEX

PROGRAMME OF WORK, 2003-2006

PROGRAMME ELEMENT 06.1.4

ECONOMIC REFORMS AND RESTRUCTURING IN CENTRAL AND EASTERN EUROPE AND THEIR IMPLICATIONS AND SIGNIFICANCE FOR GAS MARKETS AND THE GAS INDUSTRY IN THE ECE REGION

Description: Problems and issues associated with the creation of, transition to, and operation of a market-oriented gas industry and gas enterprises, institutional factors, promotion of investment opportunities and adjustment to economic and social needs.

Work to be undertaken: Exchange of information and experience, improvement of contacts and exchange of technical and economic knowledge, preparation of reports and studies on specific issues, promoting and strengthening of cooperation with other international governmental and non-governmental organizations, holding of workshops, seminars, informal meetings, etc.

Specific subjects for workshops or informal meetings may focus on market instruments of market-oriented gas industries; and basic principles of transition to market-oriented economies.

06.1.4.1 Promotion and development of a market-based gas industry in economies in transition (1994-2003)

Description: Exchange of knowledge, experience and information on a systematic, cooperative and coordinated basis between gas industries and Governments on market-based policies, regulatory framework, instruments and principles in the gas industry. Exchange of information, views and experience on the development, application and adaptation of gas pricing principles and practices in a market-oriented gas industry, including factors related to market adaptation of gas enterprises. Study of latest developments in gas industries, such as liberalization and privatization.

Work to be undertaken: A detailed programme of work is approved by the Executive Board of the Gas Centre at its annual meetings.

PROGRAMME ELEMENT 06.5.4:

DEVELOPMENTS IN THE GAS INDUSTRY, INCLUDING TRADE AND INTERCONNECTIONS/EXTENSION OF GAS NETWORKS

06.5.4.1 Future role of gas (natural gas and liquid petroleum gas (LPG)) in meeting energy requirements (continuing)

Description: Periodic examination of problems associated with gas (natural and LPG) markets, their development and supply prospects, the future role of gas in meeting the energy requirements of the ECE region, including national policies affecting energy and gas in particular, and fuel substitution.

Identification of specific issues for intergovernmental cooperation.

Work to be undertaken: Quantitative analysis and assessment of gas supply and demand; identification of issues for intergovernmental cooperation, consideration of problems relating to the following: prospects of gas industry growth and adjustments to market conditions and fuel competition, the position of gas versus other forms of energy in the overall energy balance and evaluation and assessment of fuel competition. Periodic organization of symposia, seminars, informal meetings and workshops on the subject.

06.5.4.2 Developments in gas availabilities and consumption (continuing)

Description: Consideration of the gas situation in the UNECE region and its prospects. Exchange of views on annual developments of gas markets, factors affecting gas marketing availability of indigenous supplies, forecast of gas demand and other points of interest.

Work to be undertaken: At its annual sessions, the Working Party on Gas considers the information provided by Governments and reviews the gas situation and gas markets in the UNECE region, including reports of interest by other governmental and non-governmental organizations.

06.5.4.3 Underground storage of gas in Europe and Central Asia (continuing)

Description: Consideration of all ranges of issues, including economic issues related to the underground storage of natural gas and LPG, assessment of existing storage availabilities and long-term projections with regard to underground storage developments.

Work to be undertaken: To decide on the future work on this subject.

06.5.4.4 Interconnections and extension of gas networks in Europe (continuing)

Description: To study existing and future requirements of gas pipeline networks in Europe in the further development of gas markets and trade in Europe, and measures to promote and develop such interconnections/extension, including infrastructure developments related to the LPG industry.

Work to be undertaken: To suspend work on this topic until further consideration.

06.5.4.5 Use of gaseous fuels for motor vehicles (continuing)

Description: To study various aspects related to the use of CNG, LPG and LNG for transportation.

Work to be undertaken: Assessment of economic viability of the “Blue corridor” project, aimed at construction of transboundary motor vehicle corridors adapted for the use of gaseous fuels.

At the annual sessions of the Working Party to have in-depth discussion of the topic together with representatives of other international organizations working in this domain.

06.5.4.6 Natural gas and environment (continuing)

Description: To study various aspects of the interrelationship between natural gas and environment.

Work to be undertaken: Consideration of this topic at the annual sessions of the Working Party.

PROGRAMME ELEMENT 06.5.5

ASSESSMENT OF NATURAL GAS RESOURCES, INCLUDING GEOLOGICAL AND GEOPHYSICAL METHODS OF PROSPECTING FOR NATURAL GAS

Description: Assessment and evaluation of natural gas resources, reserves and production.

Work to be undertaken: To consider, at the annual sessions of the Working Party on Gas, various topics related to the prospecting, exploration and production of natural gas. In particular, at the fourteenth session of the Working Party on Gas, to consider a topic "Natural Gas – Reserves, Resources and Exploration and Development Prospects in the UNECE Region". Exchange of views, experience and other relevant information.

PROGRAMME ELEMENT 06.5.6

GAS TRANSPORTATION SYSTEMS, STORAGE AND RATIONAL USE OF GAS
(continuing)(to be implemented by the Ad Hoc Group of Experts on the Supply and Use of Gas)

06.5.6.1 Construction, management and maintenance of gas transmission systems: diagnostics of gas transmission lines (1996-2003)

Description: Study of various methods and techniques applied in the diagnostics of high-pressure gas pipelines in different countries.

Work to be undertaken: To organize a lecture/presentation on this topic at the next session. To undertake a survey on this topic in two years' time.

06.5.6.2 Methods for detection of gas leakages during extraction, transportation, distribution and storage of natural gas (1994-2003)

Description: Study of various aspects related to gas leakages and methods of their detection.

Work to be undertaken: Annual lectures and discussions on emissions requirements. Update of the topic in two or three years' time.

06.5.6.3 Use of horizontal wells in underground gas storage (2000-2003)

Description: Review and analysis of methods and techniques used in drilling and operation of horizontal wells in underground gas storage.

Work to be undertaken: To organize a lecture on this topic, prepared by the rapporteur from Hungary.

06.5.6.4 Technological and ecological norms required for the design and operation of gas distribution networks (1999-2003)

Description: To review existing norms, standards and techniques related to the design, construction and operation of gas distribution networks and household gas appliances.

Work to be undertaken: Update of the topic in two or three years' time.

06.5.6.5 Existing standards and regulations on permissible concentrations of harmful components in gaseous fuels and gaseous fuels combustion products (1999-2003)

Description: To review and study standards and regulations applied in countries.

Work to be undertaken: Update of the topic in two or three years' time.

06.5.6.6 Existing standards for CNG filling stations (2002 – 2003)

Work to be undertaken: Consideration of a draft questionnaire, prepared by the rapporteur from Portugal.
