

**Central Asia Regional Economic Cooperation
4th Energy Sector Coordinating Committee Meeting
April 9, 2006, Urumqi, People's Republic of China
Minutes of Meeting**

The Meeting was attended by delegations from Afghanistan, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan. The International Financial Institutions (IFIs) represented were Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD) and the World Bank. The meeting was co-chaired by PRC (Ms. Yan Xiaolu, Deputy Director General, State Electricity Regulatory Commission of China) and the World Bank (Mr. Raghuvver Sharma, Team Leader, Central Asia Energy Programs). The List of Delegates is provided in Attachment 1.

The World Bank presented the Progress Report on the Energy Sector activities in CAREC countries which covered: the status of Regional Projects; National and Regional Best Solutions; Private Sector Participation; Energy Efficiency; and Enabling Environment for Energy Sector (which ADB presented). The Delegates endorsed the Progress Report as the ESCC's Report to the Senior Officials Meeting (SOM).

Each of the attending country delegations made a presentation of their country's energy sector development strategy. The key messages of each country's presentation are summarized in Attachment 2. There was discussion among the delegates on: the considerations for PRC to become a trader of electricity with neighboring countries; electricity pricing issues in the CAREC member countries; the problem of high inefficiency in the electricity sectors and how to tackle them; and continuing investment support from IFIs but at an increased level.

The World Bank's presentation on "Options for Movement of Primary Energy Commodities from Central Asia" was well received, and the ESCC endorsed carrying a study to assess the available options. The ESCC also endorsed the suggestion made by PRC that the study should be at a 'pre-feasibility' level, identifying the strategic options and policy choices and requirements; and any particular project proposal coming out of this study would then be developed on a bilateral/trilateral basis with the countries involved.

The joint presentation of the World Bank and ADB on opportunities offered by the Clean Development Mechanism (CDM) was also well received. It was recognized that each of the IFIs - ADB, EBRD and WB in particular, have the ability to help each of the countries to realize these opportunities. Among CAREC members, Afghanistan and Tajikistan have to ratify the Kyoto Protocol to be able to benefit from CDM, and Kazakhstan has to resolve its status under the Kyoto Protocol to be able to benefit from CDM. Azerbaijan and Kyrgyz Republic in particular wanted the IFIs to start developing projects in their countries that could benefit from CDM. The ESCC agreed that, in view of the complexity of the subject and the many sectors that provide opportunities for CDM projects, the IFIs should, in the context of their operational visits, make additional presentation to all relevant officials in each of the CAREC members. In this regard, it was agreed that CAREC members could benefit from the experience of PRC, who have the most CDM projects among CAREC members.

The ESCC discussed the Terms of Reference (TOR) for the ESCC and after incorporating the amendments emanating out of discussions, adopted these TOR (Attachment 3). The key decisions reached are: the decisions, endorsements of the agreements and conclusions reached in ESCC (and by implications CAREC) are of an advisory nature; there should at least one meeting of the ESCC per year (the mandatory meeting) and there could one additional meeting on a need basis each year; these meetings should be held in conjunction with the SOM; and the country delegations felt that they would continue to need monetary support in order to be able to attend the ESCC meetings. In addition, a timetable was agreed to develop the Outcomes, Outputs, Investment Needs and Monitoring Indicators for the energy sectors of each of the CAREC members two months before the next SOM.

**Central Asia Regional Economic Cooperation
Energy Sector Coordinating Committee (ESCC) Meeting
9 April 2006; Urumqi, XUAR, People's Republic of China**

LIST OF DELEGATES

I. PARTICIPATING COUNTRY DELEGATIONS

A. Islamic Republic of Afghanistan

1. Mr. Mohammad Faqir Hamidi, President of the Gas and Oil Directorate, Ministry of Mines and Industry

B. Azerbaijan

2. Mr. Nazim Bayramov, Head, Energy Balance and Forecast Sector, Energy and Fuel Operations Division, Ministry of Industry and Energy

C. People's Republic of China

3. Ms. Yan Xiaolu, Director General, International Department, State Electricity Regulatory Commission (SERC)
4. Mr. Xiang Haiping, Director, Power Market Regulation Department, SERC
5. Ms. Zhang Di, International Cooperation Department, SERC
6. Ms. Wang Guanzhu, Principal Program Officer, International Department, Ministry of Finance

D. Kazakhstan

7. Ms. Elmira Abdrakhmanova, Head, Energy Regulation Division, Agency of Regulation of Natural Monopolies

E. Kyrgyz Republic

8. Mr. Akylbek Tumenbaev, Deputy Director, State Agency of Energy

F. Mongolia

9. Mr. Tudev Tserenpurev, State Secretary, Ministry of Fuel and Energy

G. Tajikistan

10. Mr. Abdullo Yorov, Deputy Minister, Ministry of Energy
11. Mr. Shavkat Shoimov, Deputy Director General, State Unitary Enterprise TajikGaz

H. Uzbekistan

12. Mr. Ulugbek Abdullaev, Deputy Chairman, SJSC "Uzbekenergo"
13. Mr. Zikriyaev Rakhmidin, Deputy Chairman, Uzbekneftegaz

II. PARTICIPATING MULTILATERAL INSTITUTIONS

A. Asian Development Bank

14. Mr. Bayanjargal Byambasaikhan, Project Economist (Energy), Energy Division, East and Central Asia Department
15. Ms. Cholpon Mambetova, Regional Cooperation Specialist, ADB Resident Mission in Kyrgyz Republic
16. Mr. Nadir Safaev, Senior Advisor, CAREC Program
17. Mr. David Husband, Senior Advisor, CAREC Program
18. Mr. Aziz Aliev, Advisor, CAREC Program

B. European Bank for Reconstruction and Development

19. Mr. Masaru Honma, Director, Central Asia Department

C. The World Bank

20. Mr. Raghuvveer Sharma, Team Leader, Central Asia Energy Program, Infrastructure Department, Europe and Central Asia Region
21. Mr. Nikolay Nikolov, Operations Officer, Infrastructure Department, Europe and Central Asia Region

Key Messages of the Country Delegations

Afghanistan. The oil, gas and mineral resource endowment was presented and a request made that investments from neighboring countries, IFIs and private investors are needed to develop these resources to benefit the people of Afghanistan. The proposed Turkmenistan-Afghanistan-Pakistan (TAP) pipeline is considered an important project as it would, among other things, deliver transit revenues to the country.

Azerbaijan. Country focused on energy export led economic growth, and success has been achieved in realizing oil exports. The future efforts are on gas exports (e.g., from the Shah Deniz field) and essentially looking at Georgia and Turkey as routing. Private sector participation is fundamental. In electricity, the efforts are to recover the domestic energy system and also export. Connections to neighbors are being strengthened/established.

People's Republic of China. The energy supply systems were growing very fast (e.g., the electricity installed capacity grew by 15% in 2005 compared to a GDP growth of 9%) but the demand too was increasing quite rapidly. PRC's 90% of current energy needs are being met from indigenous resources and the remaining 10% from imports. PRC is aiming to increase electricity trading (both exports and imports) and has begun electricity supply to North Vietnam, and exchanges at the border with Russia continue. Recently the Heads of State of PRC and Russian Federation signed agreements to increase Russia's exports to PRC. This is likely to happen in three phases – increase in power supply to border areas at 220kV level; by 2010 through a 500kV DC transmission system; and by 2015 through an 800kV DC transmission system. To a specific suggestion that PRC should import electricity from Central Asia to its Xinjiang province, the response was that the power needs of Xinjiang are small; the real need is in eastern China; the Xinjiang grid is isolated from the rest of the country. Nevertheless, studies are underway to integrate the grid nationally, but it would take time. Until then trade at the border would continue, and the competitiveness of central Asian electricity could help determine PRC's decision to move earlier on importing electricity from Central Asia.

Kazakhstan. The progress being made towards the establishment of an electricity market was reported, with particular emphasis on the pricing policy mechanisms being considered. While Kazakhstan has the ability to meet its own energy needs from its own resources, it is being recognized increasingly that international linkages are inevitable, for transit and for export.

Kyrgyz Republic. Kyrgyz Republic's energy sector has regressed considerably. The export revenues are down, mainly as a function of selling its summer surplus at very low prices, the losses are still very high; and the prices have actually declined in real terms since there has been no increase since 2002. The operating companies are bankrupt and the reforms have stalled and unless these things are reversed on an urgent basis, the country will face a huge and possibly insurmountable problem of deteriorating asset base, including the Toktogul cascade.

Mongolia. Mongolia has created the necessary legal framework for the operation of a market oriented energy system and also for promoting renewable energy. The prospects for mining industry development are bright and this is likely to drive the demand new power capacity. The country is actively soliciting private investment.

Tajikistan. A very comprehensive picture of the hydroelectric resource base and the options for its development were presented, including specific projects. Tajikistan has recognized that it has to work on a regional basis to be able to exploit the above resources.

Uzbekistan. The existing asset base is deteriorating, and although there are investment interventions in thermal power plant rehabilitation (e.g., Tashkent TES and Syrdariya TES),

additional resources are needed urgently for equipment modernization and upgrading. The focus since November 2004 is to reduce commercial losses, and a government re-metering program has been adopted and pilot projects have been implemented. This program needs to be completed by 2008.

**Central Asia Regional Economic Cooperation Program (CAREC)
Energy Sector Coordinating Committee
Terms of Reference**

The Central Asia Regional Economic Cooperation (CAREC) Program aims at enhancing economic cooperation in the region as a basis for economic growth and improving standards of living in the participating countries - Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan. The Program has concentrated on financing infrastructure projects and improving the region's policy environment in the priority areas of (i) transport, (ii) energy, and (iii) trade policy and trade facilitation.

Economic cooperation is considered by the CAREC participants as an important prerequisite for enhancing national development strategies in view of the countries' common developmental challenges in terms of geographic location, unbalanced distribution of natural resources, and the subsequent most acute need of shared use of natural resources.

In view of the important role the energy sector in the overall regional economic development, the CAREC member countries have established an Energy Sector Coordinating Committee within CAREC. In accordance with the key priorities of regional cooperation outlined at the regular annual Ministerial Conferences (MC) of the CAREC countries, the Energy Sector Coordinating Committee will:

- (i) Develop regional and national best solutions to meet future energy demands and promote new energy resources development for the region and for export.
- (ii) Facilitate the involvement of international development partners and the private sector¹ to join CAREC member countries in the implementation of regional power projects; Ensure that regional cooperation reflects the needs and interests of the private sector, which is seen as an engine for economic growth in the region.
- (iii) Enhance cooperation with neighboring countries so as to exploit the potential for mutually beneficial gains and to allow regional cooperation to become a catalyst for regional integration.

In order to achieve the above objectives, the Energy Sector Coordinating Committee will:

- (i) Apply practical and result-oriented approach with a focus on concrete projects that bring tangible benefits.
- (ii) Elaborate the scope of work beyond the power sector, including oil, gas and opportunities offered by the Clean Development Mechanism of the Kyoto Protocol.
- (iii) Continue consultations and planning, drawing from the Regional Electricity Exports Potential Study, for various projects and for the export of power to South Asia, Russia and possibly other markets, in accordance with international best practices.
- (iv) Identify and recommend actions that will (a) enable private sector to respond to economic opportunities in the energy sector; (b) help mobilize domestic and

¹ Private sector in a given country in this context also includes wholly or partially state owned companies from another country.

private sector investment participation in infrastructure projects; (c) enhance responsiveness of the CAREC member countries to the needs of the private sector, and (d) facilitate linkages among private sectors throughout the region so as to compete more effectively in global markets, (e) facilitate capacity building and human resources development in the energy sectors of the CAREC countries.

- (v) Advise on: (a) the formulation of a comprehensive strategic framework for energy sector development, including the main investments and policy measures; (b) the establishment of priorities and sequence of the investments and initiatives for the short to medium term; (c) articulating associated performance indicators with a focus on key expected outputs and outcomes; and (d) mainstreaming the strategic framework into country-based development plans and public investment programs, and financing options. .

Attachment: Organization and Operations of ESCC

Organization and Operations of the CAREC Energy Sector Coordinating Committee (ESCC)

	Organizational and Operational Aspects	Working Arrangements
1.	Representation from Member Countries	<ul style="list-style-type: none"> • The CAREC members will be represented at the ESCC by senior officials responsible for regulation, planning and operations of the energy sector. Each country should select its representatives in charge of these areas in accordance with the specificity of its own sector structure. • The country's representative(s) to the ESCC will have a tenure, at the pleasure of their respective governments, to provide continuity, a firm point of contact for the other participants and will participate in each of the ESCC meetings. • Each country's delegation should have the mandate to discuss topics related to ESCC's Terms of Reference.
2.	Chairing the ESCC meetings	<ul style="list-style-type: none"> • The ESCC would have two co-chairpersons, one from the World Bank as the lead IFI for energy sector, and the second co-chairperson will rotate amongst the members of the ESCC as would be the SOM.
3.	Secretariat	<ul style="list-style-type: none"> • CAREC Secretariat will provide all the necessary services, including sending invitations and confirming participation of the invitees, as well as translation and distribution of all relevant materials before and after the meeting.
4.	Meetings	<ul style="list-style-type: none"> • The ESCC will meet at least once a year. A second meeting should take place on an as needed basis. All meetings will be in conjunction with the SOM. • The venue of such meetings will generally be the host country for CAREC events for that year. • The meetings will be of one/two-day duration, with the circulation of invitations, agenda and supporting documents at least one month in advance by the CAREC secretariat. • The meetings will be conducted in English as the main language and Russian with arrangements for simultaneous translation, arranged by the CAREC secretariat.
5.	Resources	<ul style="list-style-type: none"> • Expenses towards the ESCC meeting venue (meeting facilities etc) will be provided by the host country/agency (for all regular and additional ESCC meetings). Additional contribution by the host country can be also made in kind. • The decision on who would meet the costs of the country delegates to attend the ESCC meeting such as travel, per diem, hotel etc, was deferred for consultations among the IFIs. • Studies recommended by the ESCC and endorsed by SOM and or MC will be managed by one of the IFIs depending on the focus of the study. Once

		<p>ESCC has reached a consensus on a study, key bi-lateral donors involved in the CAREC countries (USAID, USTDA, SECO, KfW, JBIC and others) may join a ESCC session to discuss financing options for the study (unless an IFI can commit upfront to funding such studies). ESCC sessions will be open for attendance to the key donors involved in the CAREC countries.</p>
6.	Preparation for ESCC meetings	<ul style="list-style-type: none"> • One month in advance of each scheduled meeting of ESCC, each participating country's permanent representative(s) to the ESCC will prepare, and submit to the host country's co-chairperson and to the World Bank ESCC focal point the following: (i) a progress report on (a) initiatives of regional importance (inputs) with clear time schedules for completion, and (b) corresponding sector development results (outcomes) from these initiatives, (ii) update of the CAREC progress indicators to monitor the results (outcomes) for the energy sector of this country, as agreed with ESCC. Country's representatives will present the progress report and the status of the monitoring indicators at the ESCC meetings. • The co-chairperson of the host country will be responsible for (i) collecting the progress reports and the progress indicators updates from each CAREC country, (ii) preparing a brief consolidated progress report/table(s) for all CAREC members with a comparison, where possible, of the same activities/indicators from individual countries, (iii) presenting the summary of the progress reports and comparative results at the opening of the ESCC meetings.