



# A Strategy for Regional Cooperation in Energy For CAREC Countries

Presentation to the SOM  
September 25, 2008  
Baku, Azerbaijan

By the World Bank Energy Team  
On behalf of the Energy Sector Coordination Committee



# The Process

- **Results from the ESCC Meeting of 23 April 2008**
  - The CAREC countries:
    - broadly endorsed the focus and the key elements of the strategy,
    - confirmed that it adequately presents
      - the strategic vision for the sector
      - and related approaches and principles for the strategy implementation,
      - covering relevant dimensions of regional work



# Guidance Received from SOM

- The April 24-25, 2008 SOM:
  - expressed support and general consensus for the draft strategy;
  - agreed that comments by the April 23, 2008 ESCC delegates would be provided to the W.Bank by May 15, 2008, and
  - a revised text of the Strategy document in light of these comments to be submitted to the September SOM
  - for subsequent consideration by the 7<sup>th</sup> Ministerial Conference.
- Then World Bank conducted consultations



# Key Outcomes of Consultations

- The draft thus revised is presented to SOM:
  - Gives greater prominence to energy efficiency and clean energy
  - Spells out key aspects of cooperation among countries situated along a same river basin
  - Highlights Azerbaijan's longer-term role as an energy bridge between Central Asia and Europe
  - Clarifies that reporting on progress in strategy implementation is voluntary and on the basis of national best efforts; and
  - Clarifies that projects in Appendix 6 and 7 are illustrative and do not imply any commitment or approval by the countries.



# Elements of the CAREC Energy Strategy



# Long Term Vision of the Sector

- To achieve energy security - adequate energy for all in a reliable, affordable, sustainable and environmentally friendly way; and
- To enhance economic growth through energy trade



## Drivers for cooperation

- Uneven distribution of energy resources;
- Optimizing energy interdependencies;
- Least cost solutions;
- Attractiveness of hydro energy;
- Lucrative markets



# Principles Of Regional Cooperation

- sustained political will for reforms and cooperation
- *bilateralism* and multilateralism
- mutual benefits for all participants
- gradualism, voluntarism, and consensus
- prudent, marginal and diversified dependence on outside energy resources to maintain adequate energy security
- mutually compatible regulatory arrangements based on evolving experience,
- pursuit of sector reforms, governance and operations conducive to regional cooperation on a commercial basis;
- adherence to adequate level of transparency and disclosure standards, and
- respect for *environment through* collective action with regards to international river basins; climate change and littoral space.
- Fair and rational use of natural resources, incl. international rivers and minerals



# Forms of Regional Cooperation

- Market/trade
- transit
- investment
- riparian and littoral relationships; and
- knowledge and experience sharing



# Benefits of Regional Cooperation

- Realization of the Long term Vision:
- Countries with resources can enhance economic growth
  - Azerbaijan, Kazakhstan, Uzbekistan with fossil fuel resources;
  - Kyrgyzstan and Tajikistan with hydro resources
- Afghanistan and Mongolia are transit countries
- All countries can enhance energy security



# Snapshot of a CAREC country's Energy Sector Strategy

Investment Measures	<b>Domestic Market Dimension</b> <ul style="list-style-type: none"><li>• Loss Reduction</li><li>• Rehabilitation of Existing Assets</li><li>• Expansion of System</li><li>• Decentralized heating options</li><li>• Clean energy through<ul style="list-style-type: none"><li>• <i>retrofits for mitigation of pollution</i></li><li>• <i>alternative and renewable Energy Sources</i></li><li>• <i>reduced gas flaring</i></li></ul></li><li>• Capacity Building for commercial operations, regulation, public-private partnerships, DSM, alternative &amp; renewable energy, riparian issues,</li></ul>	<b>Regional Cooperation Dimension</b> <ul style="list-style-type: none"><li>• Transmission for trade</li><li>• Facilitation of access/transit to third country energy markets</li><li>• Production for Export</li><li>• Development of Energy Resources on a joint/cooperative basis</li><li>• Integration of energy markets</li><li>• Capacity building for Energy Trade</li><li>• Clean Development &amp; <i>carbon finance</i> Projects</li><li>• Invest abroad to access energy resources there</li></ul>
	Policy Measures <ul style="list-style-type: none"><li>• Financial Viability &amp; Sustainability of Services</li><li>• Social Protection for the poor</li><li>• Sector Restructuring and Commercialization</li><li>• Promotion of Private Sector Participation</li><li>• Sector Regulation</li><li>• Promotion of Energy Efficiency, Conservation and Alternative/Renewable Energy</li><li>• Environmental Protection</li><li>• Energy trade and security</li><li>• Cooperation in international river basins</li><li>• Littoral agreements for the use of seabed resources in common seas</li></ul>	



The Foundation



# Illustrative List of Studies to be carried out

- Potential in CAREC countries for improvement of energy efficiency and conservation
- Mongolia's potential for transit, imports of Kazakh oil and LPG, and refining oil, gas & coal
- China as investor in energy resources in Central Asia and market for Central Asian energy exports
- Transit potential of Xinjiang province of China
- Movement of primary energy commodities in the CAREC region
- Imports of gas from Afghanistan to Tajikistan



# Strategy Implementation

- **Dimensions**

- **Central Asia-China**

- China invests in energy production in CA and imports energy

- **Central Asia-South Asia**

- Electricity trade

- **Intra Central Asia**

- Energy trade

- **Central Asia-Russia**

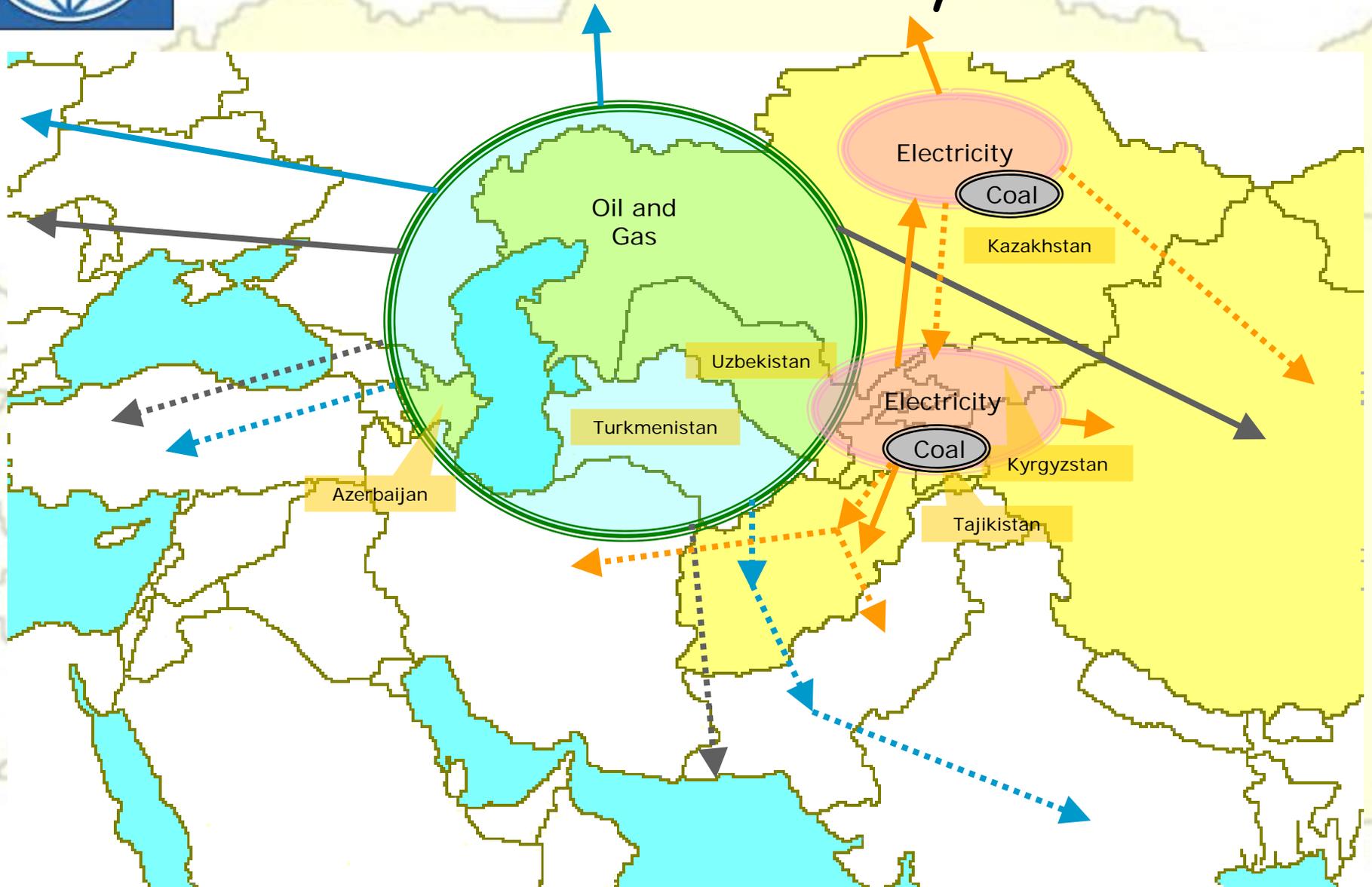
- Russia invests in oil and gas exploration and production, pipelines and hydro, imports, CA oil & gas

- **Central Asia-EU**

- Exports of CA and Azeri oil & gas and CA power through Azeri system to West



# Strategy Implementation Dimensions in Summary





# Costs and Financing

- Investment Measures

- Total cost not less than \$20billion
- Self-financing (\$5 billion)
- Financing from IFIs (\$3.8 billion)
- Other sources (\$11.6 billion)

Other sources include China, Russia and other bilateral and commercial and private sources



# Costs and Financing

- **Capacity Building**
  - On-site training, pilot projects, exchange of experience, and regional training courses and conferences
  - Six international workshops
  - Follow up TA in each country
  - Costs \$12 million
  - Source of funds: IFIs, bilateral donors and governments
- **Studies**
  - Costs \$9.7 million



# Progress Indicators

- Number of *Agreements* reached:
  - riparian, trade, transit and littoral
- Volume of imports and exports:
  - for electricity, oil, gas and coal within the defined market area
- Investment in energy cooperation projects



# Risks and Risk Mitigation

Risks	Risk Mitigation
Project site risk - geology, hydrology, environmental and social impact	Adequate feasibility analysis, adherence to IFI's safeguards
Investment - related risk	Sound economic policy, IFI financing & guarantees bilateral investment agreements
Trade - related risk - markets, payments	Adequately crafted contracts, inc. arbitration
Country performance	Sound stabilization and economic and social development programs
Geo-political - diverging positions of major players in the region	Adherence to standard International Law, relevant UN Conventions



## Next Steps

- ESCC, over the next year plans to:
  - Prepare the Action Plan for the Strategy implementation
    - For approval by the next ministerial conference
  - Plan and hold a Workshop on Energy Efficiency and Conservation
  - Build consensus for the priority studies including arranging funding
  - Facilitate partnership with private sector



We request the SOM's endorsement of  
the CAREC Energy Sector Strategy  
and

for submission to the 7<sup>th</sup> Ministerial  
conference

**THANK YOU**