

ANNEX 4

Action Fiche for the 2009 ENPI South Annual Action Programme¹² Euro-Mediterranean Gas Market Integration project – Second phase

1. IDENTIFICATION

Title/Number	Euro-Mediterranean Gas Market Integration project – Second phase (CRIS No 2008/020-533)		
Total cost	<i>EC contribution: EUR 5.5 million</i> <i>(Component 1: EUR 5 million, Component 2: EUR 500 000)</i> <i>Indicative contribution of the beneficiary countries, parallel co-financing: EUR 2 million</i> (a mix of in-kind and cash)		
Aid method/ Method of implementation	Project approach: centralised management		
DAC code	23010	Sector	Energy policy and administrative management

2. RATIONALE

2.1. Sector context

In 1995, the Barcelona Declaration set goals that included establishment of a free-trade area and progress towards regional economic integration. One key objective for the Euro-Mediterranean Partnership (Regional Strategy Paper 2007-2013 and Regional Indicative Programme 2007-2010) is to promote regional trade integration, infrastructure networks and better environmental protection. This calls for regulatory harmonisation both with the EU and within the region and for the development of infrastructure connections and networks.

Several EuroMed Ministerial Conferences laid the foundation for development of a common EuroMed energy policy promoting shared energy security and a fully interconnected and integrated energy market. The Declaration adopted at the last of these Ministerial Conferences (in December 2007) underlined the growing concern over energy security. Ministers agreed to enhance mutual energy security and to further

¹² The ENPI South region consists of nine Mediterranean partner countries: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Occupied Palestinian Territory, Syria and Tunisia. If the Pre-Accession Instrument (IPA) allows it and provides financial support, the project might be extended in future to the other members of the Union for the Mediterranean that are not in the ENP, namely Albania, Bosnia and Herzegovina, Croatia, Montenegro and Turkey.

the integration of energy markets. They stressed the need for greater harmonisation of energy policies and regulatory frameworks and to reinforce gas and electricity interconnections.

Representatives of the Mashreq countries also met the European Commission at a ministerial meeting in Brussels on 5 May 2008, when they reaffirmed their commitment to develop regional cooperation in the natural gas sector within the Euro-Arab Mashreq Gas Cooperation Centre (EAMGCC¹³).

The potential for gas exports from Egypt, Syria and Iraq matches the prospective demand for gas from Jordan and Lebanon, with the possibility to reach Turkey and the EU. Developing a gas market in the Mashreq region with a view to larger integrated Euro-Mediterranean energy markets appears a suitable solution to cope with the rising demand for energy and to boost development in the whole region. In December 2000 the partner countries agreed to collaborate in developing an integrated Euro-Mashreq natural gas market. The EU-funded EAMGM project was launched in 2005 to contribute to and support development of the main gas transportation infrastructure and integration of the gas market.

Infrastructure development for the Arab gas pipeline (AGP) has progressed well. The AGP runs south towards Tabah and the Gulf of Aqaba, where it crosses to Aqaba and then turns northwards across Jordan and Syria, before finishing at Killis in Turkey. Completion of the final phase of the AGP is already in progress. Preparatory studies are under way as part of phase one of the ongoing EAMGM project, including cost estimates, in close liaison with the partner countries, and detailed network development surveys.

One key aspect of integration of energy markets is the need to set up harmonised regulatory frameworks. Independent energy regulators have been established in every EU Member State. Regulators already in place in the Mediterranean basin have different degrees of independence and power. In 2006 the regulatory authorities of Mediterranean partner countries, along with those of Cyprus, France, Greece, Italy, Portugal, Slovenia and Spain, decided to set up a permanent Mediterranean Working Group on Electricity and Natural Gas Regulation (MEDREG). This Working Group was established in 2007 as a non-profit association, with the aim of institutionalising cooperation between the regulatory bodies in the Mediterranean region and creating a consistent, harmonised and investment-friendly regulatory framework.

The EU is supporting participation by the energy regulators from Mediterranean partner countries in MEDREG in a project due to end on 30 June 2009. MEDREG's key role in market integration was acknowledged in the Declaration of the EuroMed Energy Ministerial Conference of December 2007. The regulatory aspects of the Euro-Mediterranean Gas Market Integration project are to be tackled by the MEDREG Association. With regard to legislation issues, close collaboration between the technical assistance project and MEDREG will have to be ensured.

¹³ The Euro-Arab Mashreq Gas Cooperation Centre (EAMGCC) was established in Damascus, Syria, in 2005.

2.2. Lessons learned

Component 1 of the project corresponds to the second phase of the EAMGM project. This first phase is expected to end in December 2009. The new project structure and objectives are based on the findings and lessons learned from the spring 2008 evaluation of the ongoing project. The EAMGM project has made considerable progress on fostering trans-national cooperation. On the Steering Committee (SC), representatives of partner governments have worked together in a cooperative spirit. Training activities have brought together professionals from all the partner countries. The second phase will benefit from and build on this experience.

One of the objectives not fully achieved in the first phase is harmonisation of the legislative and regulatory frameworks in the partner countries and with the EU. This is clearly due to the complexity and political implications of this task. The second phase will take this issue into account by (a) giving the leadership for this aspect of the project to the regulators themselves, leveraging the expertise and collaborative work of the MEDREG Association and (b) involving in the Steering Committee representatives of the ministries and not only of the gas companies. Tasks and processes will be clearly defined, both during preparation of the project (in the final stages of the ongoing first phase) and during inception of the second phase. The commitment of the Steering Committee to the reform process will be secured in the next two meetings planned in early 2009, identifying the decision-makers and engaging them in formulation of relevant project activities, in close coordination with the relevant Commission departments.

The evaluation also made a key recommendation for improving the ongoing first phase concerning finalisation of the roadmaps towards legislative changes. This is now being implemented. The roadmaps will be completed by the end of the current phase and approved by the Steering Committee. They will provide a clear starting point for the second phase. Clear deliverables and milestones with respect to harmonisation of regulation and legislation will be set in two stages, first during project preparation and, second, during inception of the second phase.

Component 2 is continuation of the EC support for cooperation between the EuroMed energy regulators. The relevance of MEDREG and the good progress on the activities were highlighted both at the last meeting of the Experts' Group of the EuroMed Energy Forum on 7 October 2008 and by an external ROM mission in November 2008.

Know-how transfer has been identified as the greatest success of the first phase. One aspect leaving room for improvement has been highlighted. As a consequence, know-how transfer activities in the second phase will be broader and include more advanced training, with greater emphasis on, in particular, aspects of energy policies and on institutional aspects of gas market integration. Know-how transfer activities will also focus on strengthening the managerial and institutional capacity in the energy sector across the relevant public administrations and the private sector. The MEDREG Association will collaborate with the EAMGCC to define and organise advanced *ad hoc* training on energy regulation and legislation.

2.3. Complementary action

Complementary EU-funded action is particularly relevant to the Gas Market Integration project, notably the support for the MEDREG Association to promote cooperation between Euro-Mediterranean energy regulators (EUR 300 000).

Another important EU-funded project is MED-EMIP (Support for enhanced integration and increased security of the EuroMed energy market: EUR 4 066 000; duration: three years). It plays a key overarching role of coordination and cross-fertilisation to enhance the synergies between and impact of all EuroMed cooperation projects in the field of energy. Another relevant scheme is the Maghreb electricity market integration project (IMME),¹⁴ which has a budget of EUR 6.2 million and objectives similar to the EAMGM project, albeit in the electricity sector and in the Maghreb region. Aspects of market integration that are common to both electricity and gas should be addressed by collaboration between all these projects, with a particular focus on collaboration with MEDREG and between EAMGM and IMME.

2.4. Donor coordination

Close collaboration with financing institutions, donor agencies and other EC-funded projects (such as MED-EMIP, IMME and the project entrusted to MEDREG) will be sought systematically.

3. DESCRIPTION

The beneficiaries of component 1 are: Egypt, Jordan, Lebanon, Syria, Turkey (if IPA funding is available) and Iraq (based on Article 27 of the ENPI Regulation). The beneficiaries of component 2 are: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Occupied Palestinian Territory, Syria and Tunisia (ENPI South countries). As members of the Union for the Mediterranean, Albania, Bosnia and Herzegovina, Croatia, Montenegro and Turkey may be invited to participate in component 2.¹⁵ These countries are also members of the MEDREG Association.

This project has been designed in accordance with the assessment and review of the principles of effective aid delivery currently being conducted by EuropeAid (Backbone Strategy).

3.1. Objectives

The **overall objective** is to improve security of energy supply in the region and in the EU by fostering integration of the energy markets¹⁶ between all the partner countries.

¹⁴ EU-funded project on “Progressive integration of the electricity markets of Algeria, Morocco and Tunisia into the EU internal electricity market” (April 2007-April 2010).

¹⁵ Turkey may not receive ENPI funding and its participation in this programme would be subject to the availability of the corresponding IPA funds.

¹⁶ Component 1 focuses in particular on gas market integration, whereas some aspects of that imply energy market integration broader than just the gas sector. Component 2 focuses on energy regulation in general.

The **purpose** is that the partner countries' energy market in general, and gas market in particular, should be more regionally integrated.

3.2. Expected results and main activities

The main **results** expected from the project are: (1) progress on legislative and regulatory harmonisation in the energy sector between partner countries and with the EU; (2) studies necessary to expand the Arab gas pipeline, including connection to additional national networks, should be completed and contribute to developing gas flows between the Mashreq countries concerned and to the EU; (3) progress towards harmonisation of technical standards and specifications between partner countries' gas networks and with the EU and identification of remaining gaps; (4) progress towards efficient and sustainable management of the gas sector in the partner countries; (5) further consolidation of the network of EuroMed energy regulators; (6) definition and implementation of the minimum responsibilities and organisational structure of Euro-Mediterranean regulatory authorities; and (7) cooperation with other energy-related projects supported by the EC, EU Member States and other donors in the region.

The main activities planned include: assistance for preparatory legislative work and regulatory reforms; studies, including network development surveys and updates of the Gas Master Plan; detailed economic and financial analyses for key investments, *inter alia* providing expert advice to determine which feasibility studies by IFIs (e.g. the EIB) would be necessary; training activities and study tours, including advanced training on regulation, legislation and management issues; capacity- and institution-building with the relevant energy stakeholders; meetings and general assemblies of MEDREG; development by MEDREG and its *ad hoc* groups of a common method and action plan to implement the jointly developed recommendations on the minimum responsibilities and organisational structure of Euro-Mediterranean regulatory authorities.

3.3. Risks and assumptions

There are several assumptions, giving rise to related risks if these are not fulfilled:

- That partner governments have the political will and the commitment required to bring about legislative harmonisation, including adequate regulation. This risk can be mitigated by ensuring that the appropriate authorities are fully involved in defining relevant project activities and the details of the processes required. Accordingly, partner governments will share project ownership and actively support the project during implementation.
- That regional and national security and stability are maintained.
- That there are no major policy changes contradicting the existing policy framework that underpins the objectives and implementation plan for the project.

3.4. Cross-cutting issues

Environmental sustainability is the main cross-cutting issue in this project. The project contributes to increasing the capacity for gas transport to many oil-dependent economies and to promoting use of gas. In most cases this will replace oil and

improve the environmental footprint of energy production and consumption. The other cross-cutting issue relevant to this project is good governance. The first phase of EAMGM has already achieved one significant result, as it has enhanced regional cooperation and dialogue on key energy market policies. The second phase will further address this aspect and focus on improving managerial capacity within both the gas companies and the ministries, contributing to better governance of the energy sector.

3.5. Stakeholders

The main stakeholders include: (1) the Ministries of Energy and Gas of Egypt, Iraq, Jordan, Lebanon, Syria and Turkey; (2) the Ministries of Electricity: In most partner countries, increased supplies of natural gas will be used first for production of electricity, then for industrial units and, eventually, for residential consumption; (3) Energy regulatory bodies: The countries in the region are progressively developing a regulatory model for the energy sector, based on a central energy regulatory authority; (4) Environmental authorities: the environmental impact of gas-fired power plants is less than that of oil-fired ones; (5) Ministries of Finance: Energy subsidies have a major impact on energy security, efficiency, cost structures and fiscal burden. Participation by other relevant players in the context of Euro-Mediterranean market integration and additional initiatives to enhance energy security in the EU should also be facilitated.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Centralised management

Component 1 is devolved to the EC Delegation to Syria, which will launch the tender procedure and manage the technical assistance activities assigned to this component. This component will be implemented preferably by a single services contract. However, if necessary, two service contracts may be signed. An additional supply contract to purchase a few specific supplies necessary for the Gas Cooperation Centre (e.g. licenses and updates for specific software) will be put out to tender and managed by the EC Delegation to Syria.

Component 2 will be managed by EuropeAid headquarters. It will be implemented by means of a service contract with the MEDREG Association. Expertise in this field is almost entirely in the hands of the regulators themselves and can hardly be found on the market. A direct contract between MEDREG and the EC has already been signed (running from 1 January 2008 to 30 June 2009) and a second should be finalised using the negotiated procedure (Article 242(1)(b) and (f) of the Implementing Rules¹⁷ of the Financial Regulation) with the following justifications: (1) MEDREG is a non-profit association and its activities are clearly of an institutional nature; (2) for technical reasons, the services concerned cannot be provided by any other body (technical monopoly). The contract will not give rise to

¹⁷ Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Communities.

any profit for MEDREG since the maximum budget of EUR 500 000 will be used only to reimburse actual costs incurred on implementation of the project.

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. The procedure for award of contracts for this action will be open to all natural and legal persons covered by the ENPI Financing Regulation (Regulation No 1638/2006).

4.3. Budget and calendar

The total budget for component 1 will be EUR 7.0 million for a period of 36 months (2010-2012). The EC contribution will be EUR 5.0 million. The EC contribution will bear the cost of technical assistance (long-term and short-term, key- and non-key experts to support the EAMGCC). It will also cover costs related to, for example, training, travel and studies. In addition, part of the EC contribution will be for a supply contract (maximum: EUR 100 000). The indicative timeframe for launching the procurement procedures envisages publication of the forecast notice(s) in April 2009 and the procurement notice(s) in May 2009.

The contribution from the partner countries will be used to support operation of the EAMGCC, for up to EUR 2 million. The contribution will be a mix of resources in kind and in cash. It will include office space, running costs, administrative support and management staff.

The total budget for component 2 will be EUR 500 000. This will cover administrative and logistics costs, incidental expenditure, interpretation, room rent and training. Training costs will include fellowships for participation by partner countries in courses organised by the Florence School of Regulators and *ad hoc* training activities. The contract will be finalised soon after the EC decision, in May 2009. It will run for a duration of 36 months.

4.4. Performance monitoring

As highlighted during the identification phase, there are no DAC or EuropeAid standard indicators that would be relevant to this particular project. Key indicators for measuring progress will include: availability of an up-to-date regional gas master plan; investment plans to reinforce the gas infrastructure network; number of proposals formulated and/or new laws adopted; regulations and procedures in the area of natural gas policy; institutional strengthening, etc.

4.5. Evaluation and audit

Mid-term and final evaluations will be entrusted to independent consultants, along with external audits if necessary. These evaluations and audits will be funded from sources other than the project budget, since no commitment will be possible once the validity of this Decision has expired (the “n+1” rule will apply). Expenditure incurred will have to be certified, as part of the obligations of the parties contracted

in the framework of this project. An amount will be earmarked for audits in the contract.

4.6. Communication and visibility

A communication plan and specific strategies will be developed in order to reach all stakeholders. All communication and visibility activities will be conducted in line with the “Communication and Visibility Manual for EU External Actions” and with any updates and amendments that come into force during implementation of the project. Visibility and communication campaigns in the partner countries will also be conducted in collaboration with the Delegations.