

Russia-EU Summit: WTO, the Energy Charter Treaty and the Issue of Energy Transit

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The May 2004 Russia-EU Summit in Moscow may rightfully be considered an outstanding event that opened up Russia's entry into the World Trade Organisation (WTO). Among its results, the details of the "energy package" of agreements reached are of particular interest. These include gas prices and energy transit issues. The former was resolved quite successfully: the parties stepped aside from the absurd demands to have Russian prices raised to "world" or European levels and reached a compromise coinciding with the targets of the Russian Energy Strategy until 2020. However, the transit issue in the WTO negotiations between Russia and the European Union appears to remain open. But the mere fact of completed WTO negotiations between the two parties has unblocked the process of bilateral consultations between Russia and the European Union on three outstanding issues of the Energy Charter Transit Protocol,¹ a process which was "frozen" in December 2003. The continuing lack of clarity in transit issues in the WTO, on the one hand, and the growing demand for establishment of "common economic spaces" which include Russia and other CIS states, on the other, make successful completion of the Energy Charter multilateral negotiations on transit in the near future even more feasible.

The parties' decision that Russia will gradually raise its domestic gas prices is widely touted as a serious victory for European diplomacy in terms of the summit outcome. This decision was allegedly made under continuous pressures from the EU Commission and in the face of Russia's extreme reluctance to agree with such requirements which had been displayed over the entire period of WTO negotiations since 1993. It is important to examine this more closely.

The official communiqué of the EU Commission on the summit outcome says that the agreement signed "includes a commitment that the price of gas for industrial users covers costs, profits and investment needed for exploitation of new fields. Russian gas prices to industrial users would be gradually increased from the current \$27-28 to between \$37-42 by 2006 and \$49-57 by 2010, which is in line with Russia's own energy strategy". So the parties arrived at an agreement based on common sense.

1 OGJ, October 20, 2003, pp.60-64, and October 27, 2003, pp.68-75.

Russian domestic gas prices (as agreed at Moscow Summit and as presented in Russia Energy Strategy) expressed in US\$ per 1,000 m³

	2003	2004	2006	2010
Russia-EU Summit agreements (May 2004)	...	27-28	37-42	49-57
Russia Energy Strategy until 2020 (2003)	23.3	...	36-39 to 40-41	59-64

Negotiating phases

The negotiations on prices started with demands that domestic prices for Russian gas be raised to a variety of formal levels, which was apparently caused by the initial absence of energy market experts among the negotiators.

Initially, the demand was made that domestic prices for Russian gas should be raised to the world price level. But as there is no world gas market as such, there are consequently no world gas prices as yet. Gas markets are still regional with considerable price differentials between them (about 25 per cent). Pipeline network gas markets will remain regional in the future. It is the advancement of liquefied natural gas (LNG) markets, which is rapidly picking up steam, that will be conducive to the formation of a world gas market in the near future. Only then may there be a "world" gas price (similarly to the world oil market).

The next phase was to demand that Russia's domestic prices for gas be pushed up to the European gas market price level. However, this demand made no economic sense: in pre-exchange pricing (pre-futures pricing) phases of market development and as gas transportation infrastructure is in the making, producer/exporter prices will always be lower than those of the user/importer because, the further from the gas well, the higher the gas transportation costs (the key cost component in the gas industry). And the price spread will be a function of the distance between the supplier and the user: the more distant the gas supplier state is from the end-user market state, the bigger is the gap in the prices in the two. Therefore, at the stage where pricing is done on a "cost plus" basis (and this is precisely where the gas market is today in Russia and in Continental Europe, *i.e.* excluding the United Kingdom), equal gas prices in Russia and Europe are simply impossible. And, incidentally, given that there is no unified gas price level within the European Union—which EU country was to be taken as a benchmark?

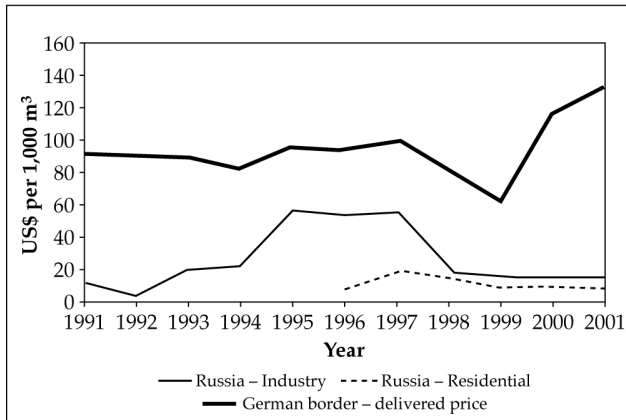
Approximate end-user gas prices intervals within EU-15 in 2003

	Industry	Households	Electricity generation
US\$ per 1,000 m ³ (net calorific value, incl. local taxes)	135-290	260-920	100-180

Source: IEA Statistics: Energy Prices and Taxes Quarterly Statistics (first quarter 2004). OECD/IEA, 2004

At a later stage, the demand was made (which is still very popular today) that domestic gas prices in Russia should be increased to the level of export prices for Russian gas at the EU border (Figure 1).

Figure 1. Average gas prices in Russia



Source: IEA World Energy Investment Outlook 2003, IEA, 2003, p.225

As is well-known, Russian gas is exported to the European Union under long-term contracts that provide for delivery point locations on the EU-15 external border, *i.e.* on the eastern borders of the Union prior to its expansion on May 1, 2004, for example in Baumgarten on the Slovakian-Austrian border or in Waidhaus on the Czech-German border. However, it is also well-known that under such long-term contracts, the gas price is a "formula price" and is based on the so-called "escalation" formulas which tie down gas prices to the prices of other primary energy resources competing with gas on a given market in a given end-use sector. For example, if Russian gas is supplied to German power plants, its price may be tied down to the prices for coal and residual fuel oil (RFO) on the German market. Most frequently, gas prices are tied down to exchange (futures) quotations for RFO and crude oil which hinge on global expectations of the world oil market players. In other words, export gas prices on the EU border are not related in any way to Russian gas market development trends and domestic gas price changes: their developments depend on different trends of different energy resources in different markets.

Russian pricing specifics

From this perspective, the assertions that the difference between export and domestic prices for Russian gas (see Figure 1) in post-Soviet Russia is due to government subsidies to Russian consumers of gas may hardly be considered to be well-founded.

One may and must talk about gas underpricing in Russia: gas prices do not yet cover the full costs (of extended reproduction, *i.e.* CAPEX plus OPEX) and the producer's profit. It is known, however, that such gas underpricing in post-Soviet Russia is the result of the previous 74 years of the planned command-and-administrative Soviet system of business management under which all price proportions were knowingly distorted and the fuel and energy sector subsidised the rest of the economy, primarily the defence industry.

This huge economy built on distorted proportions could not instantly be put on an open and competitive market track, especially in those industries where the imbalances were glaring, such as the gas industry. The discovery of gas fields with colossal reserves in Western Siberia in the 1960s was, in the final analysis, conducive to the formation of a "gas pause"² concept in the USSR and, as a result, led to the deviation of the gas share and role in the present-day Russian economy from its potential optimum. Gazprom is the principal and key economic agent to be interested in higher gas prices in Russia because low gas prices, among other things, can lead to an investment crisis and a gas industry production crisis. The Government also realises that the Soviet era gas consumption patterns (primarily in the residential sector), at the current stage of national development, must not permit the gas price to climb faster than the pace that can be "digested" by the country's population which still has a rather low per capita income.

For this reason, in all versions of the Russian Energy Strategy until 2010/2020 (1995, 2000 and 2003 versions), the levels and the rate of gas price growth reflect two groups of vectors: growth-accelerators and growth-decelerators. The slowest acceptable growth is a growth that covers the costs of expanded gas reproduction (long-term marginal costs). This means that before discussing price levels as such, one must first determine the relevant pricing formulae that will form the basis for calculating the desired price levels proceeding from domestic market realities (*i.e.* having determined the pricing formulae which match the stage of market development in a given country at a given time). To put it differently, while discussing gas price levels in Russia as part of the negotiations regarding Russia's joining the WTO, the parties should inevitably have moved from a blind-alley way of enumerating "externalities" involved in domestic gas price levels in Russia to discussing the "internal" pricing patterns.

Basis for consensus

A move to consensus only became possible when the parties switched their discussion from price levels to pricing formulae. As a result, the "cost plus" formula emerged to include both operating and investment costs and profit. Incidentally, in terms of methodology, the gas price formula agreed between Russia and the European Union as part of the WTO negotiations coincides with the gas transit price formula (*i.e.* transit tariff) in the Draft Transit Protocol to the Energy Charter Treaty (ECT), with Russia and the European Union still unable to resolve their differences relating to it.

² Huge gas reserves discovered in Western Siberia in the 1960s-70s presupposed a strong increase in gas demand for their effective development. The concept of "gas pause" proposed accelerated development of the gas industry (for export purposes to earn incremental hard currency revenues so that this industry would serve, together with the oil industry, as "donors" for state budget) and gas consumption (which accelerated development has been stipulated by the low production costs of huge gas reserves discovered in Western Siberia and the "economy of scale" effect of large-scale long-distance transportation of gas produced to Central-European Russia both for industrial, including for electricity generation, and household consumption).

But the valid price formula equalling “cost plus” could only emerge based on calculations of ongoing and projected energy supply balances, investment needs for reserves replacement for producing fields and development of new fields in line with production plans, etc.³ Such information has become available from the long-term Russian Energy Strategy developed and continuously updated by Russian experts. Therefore, the fact that European negotiators actually agreed with the projected gas price developments contained in the Russian Energy Strategy is a victory of common sense serving the interests of both parties. This means that there is hope that common sense will triumph in regard to other items on the energy agenda.

Transit: GATT/WTO or ECT?

As is known, the “transit” group of issues emerged during the Russia–EU negotiations on Russia’s joining the WTO in October 2003 as part of six items of the “Lami package” (Figure 2). At that time, it caused a very sharp public response from the Russian President during his meeting with Chancellor Schroeder in Yekaterinburg (many remember Putin’s rhetoric about “European bureaucrats”).

Figure 2. “Lami Package” (October 2003 EU Commission’s six demands on Russia under energy agenda in EU–Russia WTO accession negotiations)

- Raise internal prices for natural gas
- End Gazprom’s monopoly on gas exports
- Lift restrictions on gas transit (“free transit”)
- Allow foreign investors to build pipelines in Russia
- Introduce equal prices for transit of gas for domestic users and for exports
- Cancel gas export tariffs

Source: www.russijournal.com, March 2, 2004

However, it was not only Putin’s statements that aroused interest in the way the transit issues were resolved at the Summit. The prospects of multilateral negotiations on the ECT Transit Protocol depended on this as well. In December 2002 the multilateral phase of the ECT Transit Protocol negotiations was ended by the ECT Member States because only three issues remained unsettled at that time, on which there were differences between the Russian and EU delegations only. The multilateral negotiations were transformed into bilateral consultations between Russia and the European Union until the two could agree on the three outstanding issues. The two parties’ negotiators compromised on the text of the Transit Protocol in June 2003, immediately prior to the 12th regular bi-annual meeting of the Energy Charter Conference. The latter is the supreme authority of the Member States of the Organisation comprising 51 states in Europe and Asia plus the European Union as the only institutional party to the Treaty (the so-called Regional Economic Integration Organisation—REIO).

However, before Moscow and Brussels could approve the achievements made by their respective negotiators, the “Lami package” emerged as part of the other negotiating process involving both parties (Russia’s accession to the WTO), including transit

³ IEA evaluates the full-costs levels of Russian gas at US\$46–49 per 1,000 m³ at 2010.

requirements for Russia which were made in a different context and were harsher compared to the Energy Charter process. In response, the Russian Government stated in December 2003, prior to the 13th meeting of the Energy Charter Conference, that as long as both ECT and WTO negotiating processes overlapped, completing the negotiation of the ECT Transit Protocol was out the question.

On June 15, 2004, at the 14th meeting of the Energy Charter Conference, Russia and the European Union informed the other ECT countries that the bilateral negotiations between them within the WTO framework were over. Overlapping of the two negotiating processes could be removed from the agenda. The way to continuation of bilateral consultations and thus to the successful finalisation of the Transit Protocol was open.

Another question remained: what was the agreement reached on the transit issues in Moscow on May 21, 2004? The key issue was whether the GATT’s Art.V on freedom of transit applied to network infrastructure facilities (pipelines, electricity grids, etc.). If yes, what was the dominant rule to regulate transit issues: GATT Art.V “Freedom of Transit” or ECT Art.7 “Transit”?

Both parties’ official documents avoid this question. With reference to some unnamed representatives of the EU Commission’s Trade Directorate, the Western press claims that there is an understanding in the Commission about the applicability of the relevant GATT article in regard of pipeline transit and that if related disputes arise (after Russia joins the WTO) it would be absolutely clear in whose favour they will be resolved under that Organisation’s dispute resolution arrangements. As far as this author is aware, Russia sticks to the diametrically opposite point of view on this matter, with both parties having no benefit from its ungoverned status.

The difference may have a major effect not only for Russia and the European Union, but also for other WTO members among the non-EU part of the ECT community.

What is “freedom of transit”

First, it is necessary to “decode” the term “freedom of transit”. It should be clearly understood that there is no unlimited “freedom of transit” (which was also a matter of concern to the Russian President as expressed in Yekaterinburg). Without clearly defined restrictions to “freedom of transit” or, in other words, without legally binding and unambiguous definitions of economically proven instruments of state regulation of transit in correlation with other types of operations in regard to utilisation of energy transportation infrastructure (grids) which take into consideration economically proven interests of shippers, owners of transportation facilities, investors, and the producer, consumer and transit states, the term “freedom of transit” will remain an empty phrase.

In this author’s view, under GATT/WTO this backbone term as it applies to energy grid-bound systems is lacking the detailed interpretation of all mutually agreed and appropriate constraints to “freedom of transit” which are needed to ensure that this rule can be appropriately implemented in practice with the

least possible risk, due to clear and unambiguous interpretation. GATT/WTO rules do not describe access to and do not provide a definition of available capacities, nor do they describe a number of other important issues that are needed to secure energy transit.

The ECT and its instruments are the only international law documents in existence today that are recognised both by members and by non-members of the WTO. It is only the ECT and its draft Transit Protocol that define in detail the legally-binding basis of "freedom of transit" and examine what it means in practical terms, taking into consideration the realities of the current state of development of the energy markets in all ECT Member States. In the case of Russia, the ECT takes into consideration that Gazprom is a company which is both a gas producer and a gas transportation capacity owner (a situation that also applies to some other ECT Member States). The ECT and its Transit Protocol introduce a definition of "available capacities for transit", and define access to available capacities (mandatory third party access is not implemented), formation of transit tariffs, etc. (Figure 3). Without this type of legal clarification (constraint), implementation of the term "freedom of transit" would be meaningless and would result in higher transit-related risks for both investors and states due to the possibility of its ambiguous interpretation.

Figure 3. ECT Transit Protocol: major issues addressed

1. Obligation to observe Transit Agreements
2. Prohibition of unauthorized taking of EMP in Transit
3. Definition of Available Capacity in Energy Transport Facilities and used for Transit
4. Negotiated Regulated access to Available Capacity (mandatory TPA is excluded)
5. Facilitation of construction, expansion or operation of Energy Transport Facilities used for Transit
6. Transit Tariffs shall be non-discriminating, objective, reasonable and transparent, not affected by market distortions, and cost-based incl. reasonable ROR
7. Technical and accounting standards harmonised by use of internationally accepted standards
8. Energy metering and measuring strengthened at international borders
9. Co-ordination in the event of accidental interruption, reduction or stoppage of Transit
10. Protection of International Energy Swap Agreements
11. Implementation and compliance
12. Dispute settlement

Secondly, is one of the demands in the "Lami package" to Russia—that all types of transportation tariffs (for transit, export, import, domestic transportation) need to be equal—really a correct legal interpretation of the WTO provisions? Or was that just a tactical negotiating tool of one of the two contracting parties? It is clear that within the European Union, where since the establishment of the European Community by the Treaty of Rome in 1958 the notion of "free movement of goods" is in effect, all types of transportation tariffs need to be equal. But, in this author's view, that is due to the Treaty of Rome, and not to the WTO rules. Should this be the same within the WTO, but outside the European Union, *i.e.* in the countries (including ECT Member States) where a legal difference between different types of transportation still exists, or where at least there is no legally established "free movement of goods"?

According to a number of EU experts, it appears that pursuant to the GATT/WTO, transit rates even beyond the limits of the Community must be no less favourable than domestic transportation tariffs. But GATT does not establish the interrelation between transit tariffs and tariffs for other types of energy transportation. GATT Art.V and ECT Art.7 each deal with different subjects. So the question is still open on

the legal and economic background of transit tariffs demands to Russia (and to other non-EU WTO members?) in the "Lami package".

So although Russia-EU bilateral WTO-related negotiations are finished, it looks as if the transit issue between the two parties remains in the "grey" zone. Lack of clarity in regard to the transit issue between Russia and the European Union is of no profit to either party. On the contrary, the Transit Protocol would implement in practice the principle of "freedom of transit" in the energy sector as proclaimed in GATT Art.V. Therefore, it would be quite logical for the ECT and its Transit Protocol to operate in areas where it is not yet clear how the GATT/WTO will operate.

Gazprom's concerns about ECT transit clauses

Opponents to ECT ratification in Russia—some representatives of Gazprom and State Duma deputies—raised many of their concerns just in relation to the issue of transit tariffs. According to the company and its lobby, the ECT demands that all types of transportation tariffs must be equal (for transit, export, import and domestic transportation). But that is not true. ECT opponents confuse real ECT demands on transit tariffs with "Lami package" demands. According to the ECT (Art.7.3), transit tariffs must be no less favourable than export and/or import tariffs, and they are not compared with the tariffs on domestic transportation. Special clarification in this regard was made by official letter from Dr Ria Kemper, Secretary General of the Energy Charter Secretariat, to Russia in February 2001.

This means that in the case of, for example, transit of Central Asian gas through Russia to Europe, its transit tariffs need to be no less favourable (nor higher than) the export and/or import tariffs of gas into/from Russia. And it will not be in violation of ECT provisions if the above-mentioned transit tariffs are higher than those subsidised by Gazprom (according to Art.21 of the RF Law "On gas supply") for domestic transportation of its subsidiaries (affiliates).

Taking into consideration the principle of mutual-ity of agreements, the same ECT rules regarding transit tariffs, access to transportation facilities etc. (*i.e.* the issues that are of major concern to Gazprom regarding transit of foreign gas through Russian territory) would be implemented in relation to transit of Russian gas through foreign territories. For instance, in the case of the recent Russia-Turkmen long-term gas agreement, Turkmen gas is sold to Gazprom at the Turkmen-Uzbek border and then already as Russian gas (the title of ownership is transferred to Gazprom at that border) is transmitted via the "Middle Asia-Centre" pipeline which has been in place since Soviet times, through Uzbek and Kazakh territories. As all CIS countries are ECT members, in this case transit tariffs must be no less favourable than export or import tariffs. In the case of Russian gas supplies to Europe, the same ECT rules will apply within Ukraine and Belarus as the main CIS transit states for Russian gas to the West.

In the case of the European Union, transit of Russian gas within the Union only started to take place after May 1, 2004, and only within the newly joined EU Member States, such as Slovakia, the Czech

Republic and Poland. There has been no transit of Russian gas—in legal terms—within EU-15 due to the specific historical organisation of the external gas trade with Western Europe since USSR times, according to which the title of ownership on (former Soviet) Russian gas was transmitted to its Western European buyers at the external EU border. So within the European Union the same ECT transit rules are to be applied in combination with the *acquis communautaire* (the rules governing the operation of the European Union) based on the Treaty of Rome's principle of "free movements of goods" (no distinction between different types of transportation). Thus within the Union transit tariffs are to be no less favourable than the tariffs for any other type of transportation and not compared only to export or import tariffs.

ECT and EU *acquis communautaire*

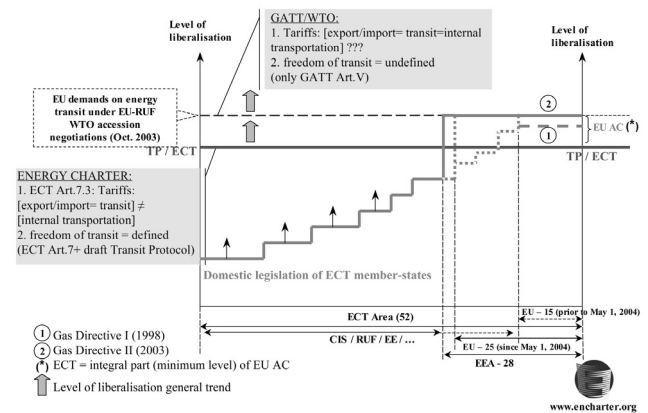
In 2003 the St Petersburg Russia-EU Summit established development of co-operative policy "spaces" between the European Union and Russia as a major priority for their bilateral relationship. Development of such common spaces will progress most effectively in the areas where interdependence of both parties is crucial. Energy is such an area. Russia is already a major energy supplier to Europe. Over time, the European Union will become increasingly dependent on energy imports from Russia, particularly of natural gas. Russia, even at a time of high prices for its energy exports, needs huge investment in order to maintain and develop effectively its energy resources and increase efficiency of energy utilisation. This investment will come mostly from international capital markets, either through Russian or international energy companies.

Common policy "spaces" require common rules, or at least compatible approaches to regulation, based on the principles of transparency, non-discrimination, being oriented towards market solutions and, finally, reflecting the balance of interests of the contracting parties adequate to the current state of development of their energy markets. The ECT represents one of the few sets of common rules that bind the European Union and Russia together. But so far, in fact, the ECT is the only piece of the EU *acquis communautaire* to which not only Russia, but all the countries of Eastern Europe, the Caspian and Central Asia (another group of prospective energy suppliers to Europe) subscribe.

For the purposes of any "common energy space", the ECT represents a foundation of essential common rules (or minimum standard rules) that are necessary for the construction of an integrated energy relationship not only between Russia and the European Union, but within the broader geographical area—the emerging Eurasian energy market. Establishment of the common "rules of the game" for that broader energy space is the aim of the Energy Charter process. It is clear that the two processes need to be complementary to each other. And they already are complementary and interdependent—since the EU *acquis* in the energy sphere is just going further than the ECT in terms of energy market liberalisation (see Figure 4), reflecting the more advanced stage of energy market development that has been reached within the Union compared to other parts of the ECT area. But those

further liberalised rules of the EU *acquis* relating to energy markets (*i.e.* Gas and Electricity Directives I and II) apply only within the expanding EU territory.

Figure 4. Energy Transit: correlation between GATT/WTO, ECT and EU's *acquis communautaire*



The multilateral approach of the Energy Charter rests on the complementary interests of producer, transit and consumer countries to agree those common "rules of the game", based on the "minimum standard" principle, for investment, trade and transit, energy efficiency and related environmental issues in the energy sector. "Minimum standard" principle means that each individual ECT Member State can imply the more liberal regulations of their domestic energy markets (when or if the state of development of the market in this country—the availability and adequate density of energy infrastructure within its territory—would technically and economically allow the implementation of such more liberal rules).

The Energy Charter also recognises that there are some specific issues in the energy sector, particularly that of cross-border energy flows, which cannot be regulated adequately through bilateral channels alone and, as was shown above, the Energy Charter represents the most developed multilateral mechanism in existence which can tackle this strategic question in detail. It is hard to underestimate the importance for the future of European (and in broader terms Eurasian) energy markets of the issue of energy transit. It will not be possible to develop the energy resources of Russia, and also those in the Caspian and Central Asia, unless there is a reliable and binding perspective on the use of existing or future pipeline networks bringing their energy resources to the quite distant markets in Europe and Asia.

Common sense, common spaces, common "rules of the game"

It is impossible in practice to use provisions of international agreements that allow for ambiguous interpretation. Instead of protecting and providing incentives to investment, this creates additional risks and threats to investment activities, increases the cost of raising capital and includes very high potential legal costs, *i.e.* generally speaking, the ambiguity is conducive to the loss of competitiveness of relevant

energy projects with a transit component (which represent the bulk of current and future upstream green-field projects in Eurasia) or to the loss of potential investors in such projects. It is especially risky to implement similar, but not adjusted, legal terminology within interacting economic spaces.

In addition to being a member of the Energy Charter "common energy space", accessing the WTO, and building a "common economic space" with the European Union, Russia is in the process of establishing some other common economic spaces within the CIS, whose countries are all ECT members and, with the exceptions of Russia and Belarus, have already ratified the ECT (those two states have not yet ratified the Treaty and have been implementing it on a provisional basis). The Euro-Asian Economic Community (EurAsEC), was established in 2000 as a co-operation body on the basis of the CIS Customs Union, and comprises five Member States: Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Russia. The term "freedom of transit"—though not defined in legal terms—is used in their internal agreements as a basis for interstate transportation within the EurAsEC, for instance in the "Agreement on common terms of transit through the territories of the member-states of the Custom Union" signed in 1998 by Belarus, Kazakhstan, Kyrgyzstan and Russia.

Another community is a four-member Unified Economic Space (UES) established by the Presidents of Russia, Belarus, Kazakhstan and Ukraine in 2003. The summit of four presidents held on September 15, 2004 demanded to speed up preparation of the first and foremost UES agreements. Victor Khristenko, Russian Minister on Industry and Energy, regarded as one of major proponents and lobbyists of the UES, considers that the oil and gas component of the UES needs to be the basis for elaboration of "economic codex of life in the new format".

So the composition of four Eurasia-based organisations is different but all of them are establishing common spaces. And the common spaces demand

common rules. Russia is represented within all four processes. Energy issues are key, including energy transit. It is the latter that can serve as an economic stimulus for effective integration since fair regulation of transit is possible only on a multilateral basis. Common sense demands that within all four common spaces the rules need to be unified on the same basis. All states who are members of the four unions (spaces) are ECT members. The Treaty has been an integral part of the international law system since 1998. That is why the Energy Charter rules are appropriate as the common legal basis for all four "common spaces" in the energy sphere, including energy transit. The term "freedom of transit" is used equally within the WTO, Energy Charter, European Union, EurAsEC and UES. But it is only in the Energy Charter that the transit rules are really properly settled.

The question is open . . .

The only way to move forward in establishing common rules and procedures related to energy transit is finally to draw together the positions of Russia and the European Union under the transit agenda of the Energy Charter process and successfully to finalise the Transit Protocol.

In mid-August 2004 the Chairman of the Energy Charter Conference, Mr Henning Christophersen, approached both Russia and the European Union with the proposition to hold their bilateral consultations in Brussels this autumn.

On October 15, 2004, such bilateral consultations between the experts of both Russia and the EU took place. Further exchange of views between the two contracting parties took place during the 15th meeting of the Energy Charter Conference on December 14, 2004. A series of further consultations are to take place soon with a clear indication of progress to be expected within the still outstanding issues. Let's keep our fingers crossed . . .