

EU-RUSSIA SUMMIT

Brussels, 11 November 2002

CONTENTS

JOINT STATEMENT OF THE EUROPEAN UNION AND THE RUSSIAN FEDERATION ON TRANSIT BETWEEN THE KALININGRAD REGION AND THE REST OF THE RUSSIAN FEDERATION.....	2
JOINT STATEMENT ON THE MIDDLE EAST.....	5
JOINT STATEMENT ON THE FIGHT AGAINST TERRORISM	6
REPORT OF THE HIGH-LEVEL GROUP ON THE COMMON EUROPEAN ECONOMIC SPACE.....	9
EU-RUSSIA ENERGY DIALOGUE - THIRD PROGRESS REPORT	12

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JOINT STATEMENT OF THE EUROPEAN UNION AND THE RUSSIAN FEDERATION ON TRANSIT BETWEEN THE KALININGRAD REGION AND THE REST OF THE RUSSIAN FEDERATION

1. The parties acknowledge the unique situation of the Kaliningrad Region as part of the Russian Federation but separated from the rest of the Federation by other states. With the aim of further developing the strategic partnership between EU and Russia, the parties therefore agree to make a special effort to accommodate the concerns on both sides related to the future transit of persons and goods between the Kaliningrad Region and other parts of Russia, and to intensify their cooperation to promote the social and economic development of the region as a whole.

2. The Russian Federation and the European Union note that from 1 January 2003 the Republic of Lithuania will, according to its agreement with the EU, implement national regulations for border control. The parties understand that these rules shall be applied in a flexible manner in order not to disrupt the traditional flow of transit passengers by rail. The parties recognise that the transit regime will not infringe upon the sovereign right of the Republic of Lithuania to exercise the necessary controls and to refuse entry into its territory.

3. On the economic and social development of the oblast, the parties agree to implement a comprehensive package of measures in order to ensure easy passage of borders for legal purposes with a view to facilitate human contacts and promote the development of the Kaliningrad Region. In this context, the EU will continue to support technically and financially Russian efforts to promote the economic development of the Kaliningrad Region and to strengthen cross-border co-operation along the borders of the enlarged EU with Russia, including measures to improve border management and border infrastructure. The parties note that development of the Kaliningrad Region is important for the overall development of the Baltic Sea area.

4. The parties agree that any further talks on the implementation of this understanding should proceed in the framework of the EU/Russia Partnership and Cooperation Agreement.

Arrangements for the transit of persons and goods

5. The European Union will introduce the necessary legislation to establish by 1 July 2003 a Facilitated Transit Document (FTD) scheme to apply for the transit of Russian citizens only between Kaliningrad and other parts of Russia by land. The FTD will be valid for direct transit by land from one third country to the same third country within a limited period of time and will be issued free of charge or at a very low cost.

6. The FTD scheme will allow for two types of FTD to be issued to Russian citizens. For multiple entry direct transit via all forms of transport by land to and from Kaliningrad, an FTD would be obtainable on the basis of an application to a Lithuanian consulate, and subject to necessary checks and controls.

7. In addition, for those Russian citizens intending to make single return trips by train through the territory of the Republic of Lithuania, a Facilitated Rail Travel Document (FRTD) would be obtainable on the basis of personal data submitted at the time of ticket purchase. This information would be forwarded in electronic, or any other agreed, form within time limits also to be agreed by the parties. Tickets would not be issued by the Russian authorities to those Russian citizens where the Republic of Lithuania had objections to their transit via Lithuanian territory. An FRTD would then be delivered by the competent Lithuanian authorities to the passenger at, or before, the Lithuanian border once the Republic of Lithuania had checked that the travel documentation carried by the passenger was in order. Bearers of an FRTD would not alight in Lithuania and the duration for each transit would be limited in time. The EU will provide assistance to Lithuania for any additional costs of this scheme.

8. The parties noted that the Republic of Lithuania has agreed to accept Russian internal passports as a basis for issuing both types of FTD until 31 December 2004. Thereafter, an FTD or FRTD would only be valid when accompanied by passport valid for international travel.

9. The European Union and the Russian Federation have agreed that they will begin work immediately, in cooperation with the relevant candidate countries, on the technical implementation of the FTD scheme with the goal of ensuring that the conditions are in place for the scheme to begin operation on 1 July 2003. The Russian Federation took note of the European Union's intention to review the operation of the FTD scheme no later than 2005.

10. The EU has taken note of the Russian proposal for visa free transit by high speed non-stop train. A decision to launch a feasibility study in 2003 by independent consultants will be taken by the EU with the agreement of Lithuania when there is agreement on the Terms of Reference for the study. The Commission will as soon as possible after the meeting of the European Council in Copenhagen initiate the process of developing Terms of Reference to be worked out by the Commission in cooperation with Lithuania. The recommendations of the feasibility study must be in accordance with the Schengen acquis. The feasibility study should be completed as soon as possible.

The Russian Federation takes note that a decision on the high speed non-stop train option could only be taken after Lithuania's accession to the EU, on the basis of a thorough evaluation of the political and legal aspects and once the technical obstacles have been overcome.

11. The Russian Federation confirmed its intention to conclude an intergovernmental readmission agreement with the Republic of Lithuania covering persons of all nationalities. Negotiations on this agreement shall start as early as possible and should be in place no later than 30 June 2003. From 2002, the Russian Federation and the European Union agree to launch negotiations for a bilateral readmission agreement.

12. The EU, the relevant candidate countries and Russia will co-operate on measures inter alia to expand consular offices and open new ones on each other's territories.

Russia will:

- approve before the end of 2002 the expansion of the Lithuanian Consulate General in Kaliningrad and the opening of a new consulate in Sovetsk.
- favourably consider requests to open consulates in the Kaliningrad Region from other EU and candidate countries.

13. The European Union notes the Russian Federation's intention to continue to make best endeavours with regard to speeding up the issuance of passports valid for international travel to its citizens.

14. The European Union and the Russian Federation agree that all of the above mentioned provisions are mutually complementary and are considered as a single package.

15. The Russian Federation and the European Union agree to continue discussions within the PCA framework on the appropriate technical modalities for the transit of goods.

DONE AT BRUSSELS ON 11 NOVEMBER 2002.

JOINT STATEMENT ON THE MIDDLE EAST

We, the leaders of the European Union and the Russian Federation express our grave concern about the current serious situation in the Middle East. We urge both parties to show maximum restraint and to do their utmost to bring an immediate end to violence. More than ever, a clear political perspective is needed in order to ease tensions. The Middle East Quartet, at its meeting on 17 September 2002 in New York, has committed itself to work on a concrete, three-phased road map towards a final Israeli-Palestinian settlement within three years, based on the vision of two States, Israel and independent, viable and democratic Palestine, living side by side in peace and security.

It is our hope that such a road map can be adopted at the Ministerial meeting of the Quartet in December of this year.

We continue to encourage all parties to live up to their responsibilities to seek a just and comprehensive settlement to the conflict, based on UN Security Council resolutions 242, 338, and 1397, the Madrid terms of reference, the principle of land for peace, and implementation of all existing agreements and understandings between the parties. We reaffirm the importance of the Arab Peace Initiative, endorsed at the Arab League Beirut Summit, which is a vital part of the foundation of international efforts to promote a comprehensive peace on all tracks, including the Syrian-Israeli and Lebanese-Israeli tracks.

We call on the Palestinian Authority to work with the members of the Quartet and regional partners to promote all necessary reforms, including within its security services. Attention should be given to strengthened policing and law and order for the civilian population, and to fighting against the terror that has severely undermined the legitimate aspirations of the Palestinians. Israelis and Palestinians should re-establish security co-operation, and reciprocal steps should be taken by Israel as the Palestinians work to combat terrorism in all its forms. This would pave the way for Israeli withdrawal to pre 28 September 2000 positions as the security situation improves, and for the holding of free and democratic Palestinian national elections early in 2003.

Both the reform effort and the political process must include measures by Israel, consistent with its legitimate security concerns, to improve the lives of Palestinians. These should include allowing resumption of normal economic activity, facilitating the movement of goods, people, and essential services, and the lifting of curfews and closures. We call on Israel to re-establish regular monthly revenue transfers to the Palestinian Ministry of Finance. Consistent with the recommendations of the Mitchell Commission, Israeli settlement activities in the Occupied Territories must stop.

We also reaffirm our support to the convening of a ministerial-level meeting of the Ad Hoc Liaison Committee (AHLIC) before the end of the year to review the grave humanitarian situation in the occupied territories, and to identify priority areas for much needed donor assistance, including to the Palestinian reform process.

JOINT STATEMENT ON THE FIGHT AGAINST TERRORISM

1. The European Union and Russia, meeting in Brussels on 11 November 2002, reiterate our condemnation of all acts of terrorism as criminal and unjustifiable, irrespective of their motivation, forms and manifestations. We declare that we stand united in the fight against terrorism with due regard for the rule of law, for democratic principles and for the territorial integrity of states. Together we are part of the nucleus of the global coalition against terrorism.
2. We strongly condemn the hostage taking in the theatre on Melnikov Street in Moscow in October 2002 and agree that taking innocent civilian people hostage is a cowardly and criminal act of terrorism, which cannot be defended or justified for any cause.
3. We welcome the initiatives already taken in the fight against terrorism in the framework of EU-Russia co-operation on the basis of the EU-Russia Summit held in Brussels 3 October 2001 and the statement on international terrorism adopted at that meeting as well as the EU-Russia Summit held in Moscow 29 May 2002. The European Union and Russia reiterate our determination to combat in close co-operation by all appropriate means threats to international peace and security caused by terrorist acts.
4. We agree that the fight against terrorism is for the long haul, and emphasise that the challenge stemming from terrorism is global in nature, and that the response of the international community will also have to be global. The fight against terrorism requires a comprehensive approach by the international community, comprising political, economic, diplomatic, and military means. Together we will oppose all those who seek to impose their will through acts of terrorism, anywhere in the world.
5. We note with concern the connection between international terrorism and transnational organised crime, illicit drugs, money-laundering, illegal arms-trafficking, and illegal movements of nuclear, chemical, biological and other potentially deadly materials. In this regard, we emphasise the need to enhance co-ordination of efforts on national, sub regional, regional and international levels, in order to strengthen the global response to this serious challenge and threat to international security.
6. We declare our commitment
 - Individually and together to continue our international efforts in the fight against terrorism in all its forms and to underpin the broadest possible global coalition against terrorism,
 - To bring to justice the perpetrators, organisers and sponsors of terrorist attacks and to make sure that those responsible for hiding, supporting or harbouring such persons will be held accountable in accordance with international law, in particular on the basis of the principle *aut dedere aut judicare*.
 - To strengthen our co-operation to prevent and suppress terrorist acts including by full implementation of the relevant international anti-terrorism conventions and Security Council resolutions, in particular Security Council Resolution 1373 (2001).

7. Drawing on our common aims, we have decided further to develop the strategic partnership between the European Union and the Russian Federation, especially in the fight against terrorism. We will in particular:

- Finalise the agreement between EUROPOL and the Russian Federation on the exchange of technical and strategic information in order for the Director of EUROPOL and the Russian authorities to be able to sign it as soon as possible.
- Explore ways of further strengthening judicial co-operation to respond to terrorist and organised crime offences, including in due course examining the possibility of co-operation agreements.
- Intensify our work under the aegis of the UN.

Protecting our populations from the threat of international biological, chemical, and radio-nuclear incidents is a shared goal. We will further strengthen co-operation to this end.

8. In order to intensify EU-Russia co-operation related to counter-terrorism, we have agreed on areas of EU-Russia co-operation in the fight against terrorism.

AREAS OF EU-RUSSIA COOPERATION IN THE FIGHT AGAINST TERRORISM

At the EU-RUSSIA Summit on 3 October 2001 a joint statement on international terrorism was adopted.

As part of this statement it was decided to consider the conditions and detailed procedures for an exchange of information on:

- the activities and movements of individuals or groups belonging to terrorist networks or maintaining links with such networks;
- tickets of dubious authenticity;
- supplies of arms, explosives or dual-use goods;
- financial transactions likely to be used in support of terrorist intrigue;
- new forms of terrorist activity, including chemical, biological or nuclear threats.

To further deepen the co-operation in the fight against terrorism between the EU and Russia, we have agreed to increase co-operation on the following issues:

- enhanced co-operation in all relevant international and regional fora;

- early signature and ratification of relevant counter-terrorism conventions and protocols, and smooth and rapid implementation of relevant UN Security Council Resolutions;
- early finalisation of the UN Comprehensive Convention against International Terrorism and the international convention for the suppression of acts of nuclear terrorism;
- enhancing common efforts to stop the financing of terrorism, including freezing of funds and other financial assets of terrorist;
- Strengthening co-operation with and support to third countries in implementing UNSCR 1373 (2001), including reinforcement of technical co-operation to third countries for their capacity buildings in the field of counter-terrorism.

REPORT OF THE HIGH-LEVEL GROUP ON THE COMMON EUROPEAN ECONOMIC SPACE

1. Introduction

The EU-Russia Summit in May 2001 decided to establish a joint High-Level Group (HLG) on the common European economic space (CEES), chaired by Commissioner Patten for the EU and Deputy Prime Minister Khristenko for Russia. The EU-Russia Summit in October 2001 provided the HLG with a mandate to elaborate a concept for a closer economic relationship between Russia and the EU. This mandate and its implementation is to be reviewed not later than October 2003.

A first Report of the HLG was made to the EU-Russia Summit on 29 May 2002. This second Report details progress made since then and contains the request to the Summit to endorse the approach of the HLG in defining ultimate objectives. It fulfils the requirement of the HLG mandate that it should report the outcome of discussions to the EU-Russia Summit.

2. The approach of the HLG

The HLG at its second meeting in March 2002 adopted a work plan for the CEES, establishing a targeted approach. A list of key issues for work was agreed, with possible objectives and practical steps to achieve regulatory approximation. The list includes sectors where cooperation will boost trade and investment and where the trade interest of the EU and Russia is strong. It also reflects the achievements and experience of integration in the EU. The sectors include standards, technical regulations and conformity assessment, customs, financial services, accounting/auditing, transport, space launching services, public procurement, telecommunications, competition, industry (*inter alia*, ferrous and non-ferrous metals sectors) and agriculture (*inter alia*, the sectors of meat and meat products, grain production).

In terms of timing, the work plan sets out that the HLG should in a first stage (by the end of 2002) assess the potential impact of a CEES, both on the economy as a whole and across a range of its sectors; prepare the ground for - and launch, wherever possible - work to achieve regulatory approximation and consider the ultimate objectives of the CEES. In a second stage (to October 2003), the HLG is to consider other measures to implement the terms of reference; identify means and mechanisms to achieve common objectives and consider the time-scale for implementation.

This approach was endorsed by the Summit in May 2002.

3. Progress since the May 2002 Summit

Work since the May Summit has focussed on the priorities set out in the first stage of the work plan: impact assessment, regulatory convergence and consideration of ultimate objectives. Overall, good progress has been made and the work of the HLG is proceeding in line with the timetable of the work plan.

A third meeting of the HLG took place in Moscow on 17 October 2002 in order to address these priorities. At working level, meetings of support teams (experts on both sides) were held on 18-19 July in Moscow and on 1-2 October in Brussels.

In addition to the meetings of the HLG and its experts, the CEES was the subject of discussions at the seventh meeting of the Cooperation Committee on 23 October 2002.

The CEES has been discussed by industry and academics. The HLG welcomes statements of interest from the business community as well as representatives of civil society and intends to solicit input from such bodies by spring 2003.

A number of studies have been commissioned by the Parties from external research institutes in order to **assess the impact of economic integration**. Consideration has been given to the impact of regulatory convergence on a number of sectors identified in the CEES work plan and on the impact of the removal of barriers to trade and investment for the EU and Russian economies more generally.

The EU's preliminary external study has taken a global approach, looking at the impact of economic integration on the economy as a whole. Results have been presented to the HLG.

Russia is assessing the impact of the removal of barriers to trade and investment for each of the key sectors in the work plan. In a first phase, experts from Russia's side concentrated on the pilot sectors of accounting and auditing, standards, technical regulations and conformity assessment and the aluminium sector, in line with the report of the HLG to the Summit in May. A second phase of studies has now been launched and will address customs, competition, transport, ferrous and non-ferrous metals, space launching services and agriculture. The final phase – financial services, telecommunication and public procurement – will be finalised in 2003. The preliminary results of studies have been shared.

Useful work has also been undertaken by other research centres.

The HLG is satisfied with this approach and has noted that the preliminary results are positive. It has noted that particular emphasis is placed by the studies on the relevance of regulatory approximation and removal of non-tariff barriers to trade and investment, in the context of identifying obstacles to integration and elements, which will promote long-term sustained economic growth. Work will continue in 2003 with the aim of reaching a comprehensive assessment of the economic impact of the CEES.

The HLG has agreed that the overall aim of the CEES, in broad terms, is to link the EU and Russia in a privileged relationship, focussing on **regulatory and legislative convergence and trade and investment facilitation**. The HLG confirms that the broad objective of regulatory convergence is in itself a desirable goal that should bring substantial benefits to both the EU and Russia, not least in permitting economic agents to operate subject to common rules and conditions.

Work on this priority has thus far focussed on preparing the ground for regulatory approximation in the key sectors of the work plan. Impact assessment work, once completed, will permit the HLG to better gauge possible ambitions for regulatory convergence and include a realistic assessment of benefits, in the final concept of the CEES.

For each of the key sectors, the HLG has discussed objectives for integration, including regulatory approximation. Although good progress has been made in certain sectors, the nature and complexity of regulatory convergence is such that concrete results are likely to be apparent only in the medium-term. The focus on work has been on the sectors of accounting and auditing and standards, technical regulations and conformity assessment.

The HLG has launched discussion of the **ultimate objectives** of the CEES. The HLG has agreed that the overall aim is to bring the EU and Russian economies - including the rules and regulations within which they operate - closer together. This, so as to form the basis for an EU-Russia medium/long term economic integration commensurate with the size and complementarity of the EU and Russian economies, as well as their geographical proximity and the overall EU-Russia strategic partnership. This process will take into account relevant aspects of the PCA, the impact of EU enlargement on EU-Russia relations and the economic interests of both Parties as well as the priority placed on Russia's accession to the WTO.

The discussion in the HLG was prepared by means of input from Russia in the form of an expert paper. The EU has proposed objectives for each sector as well as a list of questions to be further discussed. The HLG has instructed the support teams to further consider the ultimate objectives of the CEES and to develop options for content, architecture, implementation etc.

4. Next steps

The HLG has underlined the importance of continuing – and finalising where possible – the planned expert studies in the remaining key sectors of the work plan. The results of completed studies will be exchanged between the Parties and will also be circulated to relevant officials and ministries of both sides, where this is not already the case. This will help the HLG elaborate an agreed strategy for work in each sector and for the CEES as a whole.

Discussions on the concept of the CEES will continue, in order to further consider ultimate objectives. These discussions will take into account the results of completed studies, when such become available.

A fourth meeting of the HLG will take place in spring 2003 to evaluate work carried out under the present work plan, review the results of studies on impact assessment, guide efforts to complete the mandate of the HLG and consider steps to be taken thereafter.

The HLG plans to define the concept of the CEES by October 2003, in line with its mandate.

Chris Patten

Victor Khristenko

Third Progress Report



Presented by

Russian Vice-Prime Minister Victor Khristenko

and

European Commission Director-General François Lamoureux

Brussels/Moscow November 2002

In the framework of the Energy Dialogue, this third report clarifies the status of the work on the themes identified at the EU-Russia Summits of October 2001 and May 2002.

PROGRESS ON THE THEMES AGREED

1. ENERGY PROJECTS OF COMMON INTEREST.

The October 2001 Summit identified a number of projects of “common interest”. While these projects will remain a matter for private sector decisions based upon economic and commercial judgements and on the authorities of the States involved, it is necessary to facilitate their practical realisation.

A joint group of independent experts has been mandated to assess projects of “common interest” and has carried out consultations with representatives of the major Russian and EU companies involved in the energy sector, as well as with legal, financial and insurance specialists. As a result of the work carried out, the experts note that the projects of common interest previously identified remain of mutual strategic interest and worthy of the support of the EU and Russian authorities. The experts recommend that the list be expanded by including new projects that they believe can also be included into the list of potential projects of “common interest”. In order to mobilise the appropriate funding, the joint group of independent experts recommend the creation of an arbitral award guarantee fund which would help to protect investors and other parties against the risk of non-enforceability of their contractual rights. The creation of such a fund would involve the appropriate International Financial Institutions and regional banks, export credit agencies, the authorities of participating countries and private sector insurers and investors.

The Parties note the validity of recommendations provided by the group of independent experts about giving special attention to the implementation of projects of common interest, that is to say the northern trans-European gas pipeline, the Shtokman field, the Yamal gas pipeline and the Adria/Druzhba network and the necessity to carry on the work of experts in the framework of the projects of common interest.

2. IMPROVEMENT OF THE ENERGY PRODUCTION AND TRANSPORT LEGAL FRAMEWORK.

The Parties welcome the progress which has been achieved in the work on the Tax Code as it applies to Production Sharing Agreements (PSA). An important element for improving the legal framework in this field could be the work on the remaining outstanding normative acts, the dispute settlement procedures, access to foreign markets, the hydrocarbon reserves available for development via PSAs and the further development of the “one stop shop” investors’ facility.

Given the importance, over the medium term, of also using other legal frameworks such as concessions and joint ventures for investments, it is important to ensure appropriate access to the energy transport networks. An important precondition for significantly increasing investments are appropriate rules providing a stable framework to ensure non-discriminatory access to the energy transport networks. As it is clearly a commercial imperative for investing companies that at least the capital and operating costs can be recovered, it is important that energy prices reflect this.

The application by the parties of the Energy Charter Treaty contributes to improving the climate for investments.

3. ALLEGED LIMITATION ON EU IMPORTS OF FOSSIL FUELS.

Russia has expressed repeated concerns with respect to a possible EU or Member State legal requirement to limit natural gas imports from a single non-EU supplier to 30% of consumption. The European Commission has organised a meeting with experts from the EU Member states in order to assess these concerns. The conclusion is that in the EU there is no such requirement on quantitative limits for importing different kinds of fossil fuels from Russia.

The Parties note, with satisfaction, that a further meeting of officials from the Russian administration and the European Commission on the general issues of energy markets and policies took place on 4 October 2002 in Brussels. They stress that continuing such consultations are important for contributing to the transparency of the energy markets of Russia and the EU in the framework of opening them to competition and for discussing concerns as they arise, including in the context of the enlargement of the EU.

Russia asks for an indication that the EU's policy of opening up the electricity and natural gas markets to competition is not being conceived in a way that would limit the presence of Russian supplies in the EU.

4. LEGAL SECURITY FOR LONG TERM SUPPLIES.

The Parties note the importance of the existence of a secure legal framework and regulatory environment for the supply of gas from Russia to the EU. Both the EU and Russia recognise that long term gas contracts played and still play an important role in developing the European gas market by providing a risk sharing arrangement between producers and buyers. They will continue to remain important for financing major new investment projects in the future.

Russia believes that the conclusion and implementation of long-term gas supply contracts do not contradict Community law.

The European Commission underlines that all long-term contracts need to be in conformity with Community law.

The legal environment adopted in the context of the creation of the Internal Gas Market will ensure the continued existence of such contracts. In addition, we take note that the European Commission has proposed, for adoption by the EU Council of Ministers, additional measures which could, if necessary, be taken to guarantee the existence of an arrangement for ensuring security of energy supplies in the context of an increasingly globalised market. Both the EU and Russia have underlined the importance of reaching a mutually agreeable solution on so-called "destination clauses" that respects Russia's interests as well as EU competition law and the EU's other legitimate interests.

5. TECHNOLOGY CO-OPERATION.

The EU-Russia Energy Technology Centre was inaugurated on 5th November 2002 in Moscow with the support of both the European Commission and the Russian authorities.

This Centre will provide a forum for the exchange of ideas and information and, through the creation of a network linking the existing sectorally-focused energy technology centres, to facilitate a more structured framework for co-operation. The Centre will provide training to specific target groups on energy technologies, technical assistance for the introduction of advanced energy technologies and undertake information dissemination and communication activities.

The main areas of activity will be split by sector – hydrocarbons, coal and electricity, renewables, energy savings and efficiency.

The Centre will be led by two co-directors, one from the European Commission and the other from the Russian Federation. The Centre is a joint project of the Government of the Russian Federation and the European Commission. The principles of the management of the Centre, its internal structure, its functioning as well as its working programme has to be agreed by the two sole interlocutors. The implementation of specific projects will be developed under the responsibility of the two co-directors. Each sole interlocutor will appoint its respective co-director.

6. SECURITY OF THE ENERGY TRANSPORT NETWORKS.

Technical assistance under the TACIS National Action Programme for 2003 has been identified to initiate the agreed joint evaluation of the rehabilitation of energy transport networks and the level of investments needed. An overall budget of 10 million Euro is foreseen under TACIS to initiate this work in the hydrocarbons sector.

In the framework of energy security, the European Commission intends to establish an observatory in Brussels, in which Russia could be associated.

7. ENERGY EFFICIENCY.

Technical work has begun in order to launch an important energy efficiency project in Kaliningrad, in the light of the considerable energy savings which could be made in this Oblast (potentially 40%). On 15-16 October 2002, a team of officials from the European Commission went to Kaliningrad in order to evaluate the needs and elaborate concrete proposals. An integrated demonstration project targeting a population of 30,000 people will be considered with a view to identifying the technological, economic and institutional improvements needed to reduce energy losses and optimise energy efficiency. Work is ongoing in preparing the technical specifications for the pilot projects in the Archangelsk and Astrakhan regions.

8. INTERCONNECTION OF ELECTRICITY NETWORKS AND TRADE IN ELECTRICITY.

Technical studies will be initiated to examine the physical requirements for interconnecting the networks, involving the Union for the Co-ordination of Transmission of Electricity (UCTE) from the EU and the Unified Power System/Interconnected Power System (IPS/UPS) from Russia. The Trans-European Networks (TEN's) will contribute to these studies. Russia believes that a synchronous operation is the best technological solution.

Both parties believe it is important to jointly analyse the potential for electricity trade between the EU and Russia. If results of these studies are positive, the conditions for non-discriminatory access to markets should be addressed to assist system flexibility and exchanges of electricity. The European Commission indicates that nuclear safety and environment should also be addressed.

9. JOINT ASSESSMENT OF THE OIL MARKET

With the EU being Russia's most important external market for oil and with Russia being the single most important external supplier of oil into the EU, it is clear that we must enhance the scope of our dialogue on oil matters to examine ways to jointly promote energy security and market stability on the European continent. The Parties wish to reinforce the exchange information on the oil market and regret its continued volatility, believing that a better co-operation could be developed, inter alia, with respect to energy emergency measures.

10. TRADE IN NUCLEAR MATERIALS

The last two Summits agreed to reach a mutually acceptable solution to the issue of trade in nuclear materials in accordance with Article 22 of the PCA and in the context of EU enlargement. The European Commission is therefore requesting from the Council a mandate to negotiate in order to update its current supply policy in this area.

Russia believes that the objective of the negotiations should be to bring the existing EURATOM supply policy into compliance with the intergovernmental agreements and long-term contracts in the supply of nuclear materials from Russia to applicant countries and to ensure conditions for extending the general treatment for trade in common goods to cover the trade in nuclear materials.

The European Commission stresses the importance of reaching a mutually acceptable agreement in conformity with the relevant provisions of the EURATOM Treaty and the necessity for ensuring reliable, secure and safe supplies for the enlarged EU. In this context, the European Commission will take into account the evolution in the market.

François Lamoureux

Victor Khristenko