

Appendix II

REPORT ON SECTION 304 OF THE FREEDOM SUPPORT ACT OF 1992

The TPCC Interagency Working Group on Energy

The rapid, safe, and environmentally-sensitive development of energy resources is a key objective for U.S. economic and commercial cooperation with the New Independent States (NIS) of the former Soviet Union. Business Development Committees (BDC's) with Russia, Ukraine, and Kazakhstan are working to promote and facilitate U.S. trade and investment in the energy sector by identifying and working to eliminate barriers.

Activities in Russia

The U.S.-Russia BDC works directly through the Ombudsman mechanism and the Oil and Gas Working Group to promote and facilitate U.S. trade and investment in the Russian oil and gas sector. The BDC's Interministerial Working Group on Oil Industry Taxation made up of representatives of appropriate U.S. Departments and Russian Ministries focuses on energy taxation, oil transportation, production sharing legislation and enhanced coordination in the promotion of energy investment projects.

The BDC's most recent achievement is the completion of a joint report on oil and gas projects in Russia, which focuses on possible solutions for problems associated with five of the major GCC Production Sharing Agreement (PSA) projects. As a result of the BDC's joint efforts, at least three of the five projects will move forward. The BDC's Oil and Gas Working Group also advocates for and monitors U.S. priority projects in Russia, intervening on several occasions to preserve tax treatment and export pipeline access and urging the Russian government to adopt a law allowing for the creation of production sharing agreements critical to U.S. companies investing in Russia's energy sector.

Activities in the Non-Russian NIS Area

A major effort has been launched to advance U.S. policy regarding energy development and transportation in the Caspian region. A central focus of this effort is the engagement of U.S. companies through the interagency Caspian Commercial Energy Policy Working Group, co-chaired by the Departments of Commerce and Energy. The working group regularly updates industry on the Administration's activities in this area and receives feedback. The process has led to the signing of several major commercial agreements including the initial production of Azerbaijani oil by the Azerbaijan International Operating Company and the development of oil pipeline and intermodal routes through an East-West Corridor. In addition, the Energy Working Group of the U.S.-Ukraine Binational Commission, chaired by the Department of Energy, has focused on reforms necessary to unlock Ukraine's energy resources, including upstream sector and gas transit and attraction of private sector investment in electric power generation. The Energy Working Group participates in the work of the Committee on Trade and Investment to facilitate U.S. trade and investment in Ukraine's energy sector.

The U.S.-Kazakhstan BDC's Oil and Gas Working Group provides a bilateral forum for the discussion of barriers to commercial business. At its last meeting, the group agreed that Kazakhstan needs to improve the consistency of legal statutes, clarify the responsibilities of ministries, and ensure transparency in the bidding process. The U.S.-Uzbekistan Joint Commission held its inaugural meeting early in 1998 in

Washington, D.C. Central to the Joint Commission's Trade, Investment, and Energy Committee was a discussion of the existing impediments to foreign investment in Uzbekistan and of joint ventures and production sharing agreements in the energy sector.

Outreach to Expand U.S. Business Participation in the Energy Sector

As discussed in the Report on Implementation of Section 303 of the Freedom Support Act (Appendix 1) many of the tools to promote and strengthen U.S. commercial ties with the NIS have components that specifically target the energy sector.

The U.S. Department of Commerce

The U.S. Ombudsman for Energy and Commercial Cooperation with the NIS is the focus of Commerce Department and interagency efforts to increase trade and investment in the NIS. Appointed by the White House, the Ombudsman is responsible for leading our efforts to press for commercial reforms, advocating for and protecting the commercial interests of U.S. firms, and coordinating overall interagency and private sector outreach. The Ombudsman works in conjunction with counterpart officials in the NIS.

- *Business Information Service for the Newly Independent States (BISNIS)* handles hundreds of thousands of inquiries annually, including many in the energy sector.
- *Special American Business Internship Training (SABIT)* program awards grants to U.S. firms to help defray the costs of training NIS government officials, managers and scientists in the United States. The program is geared towards economic transition in the NIS and focuses on ten sectors, including energy.
- *American Business Centers (ABCs)* are a network of logistical service facilities located throughout the NIS. While the ABCs are not industry-specific, the Centers in Nizhnevartovsk and Yuzhno-Sakhalinsk serve many oil and gas-related firms.

The U.S. Department of Energy

The Center for Energy Efficiency (CENEF) in Moscow facilitates U.S.-Russian energy efficiency joint ventures. A similar center in Kiev, Ukraine was established with the help of the U.S. Agency for International Development (USAID).

The *Office of Policy Analysis, Trade and Investment for Europe, the NIS and the Middle East*, in cooperation with USAID, the Federal Energy Regulatory Commission and U.S. industry, sponsors seminars and workshops for the Russian Federal Energy Commission on the development of fair, transparent and consistent regulations.