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Opening Plenary:
**“Setting the Context - Energy Security, Efficiency, Access
and Governance: Government and Intergovernmental
Organizations’ Perspective”**



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Energy Charter View

Ladies and Gentlemen,

The discussions on energy security, being intensified during the 2006 Russian G-8 Presidency, have once more underlined that investment is a key to international energy security.

It is generally recognized that diversification is the synonym of energy security. This is only true though when the term ‘diversification’ is interpreted in the broad sense and reflects the balance of interests of players representing all units of the energy value chain. That involves not only diversification of energy supply routes

from today's suppliers to historically developed markets (the concept of 'multiple pipelines') and not only diversification of sources of energy supply for existing consumers (the concept of 'multiple suppliers'). It also involves diversification of markets and routes to access them for suppliers. This multifaceted diversification will make our energy world increasingly interdependent, which would lead to a higher level of energy security.

Diversification in the energy area requires creating new infrastructure, hence is related to investments, mostly the large-scale ones. Any - and especially large-scale - investments are aimed at establishing stable long-term relations to the mutual benefit of suppliers and consumers, investor and host-state - relations, which are balanced and are based on clear, predictable and enforceable rules.

Such rules are needed to mitigate risks, and it means stimulating not only investments as such in all parts of the cross-border energy value chain – from exploration and development to final consumption of energy. They are needed to mitigate risks of cross-border energy flows from suppliers to consumers. As well as to mitigate the reverse risks – related to flow of income going from consumers to suppliers for the energy delivered. Only in case of reduced risks and ensuring transparency, predictability and reliability of all three types of flows related to the energy business (or to the full investment cycle in energy) – investment flows, energy flows and revenue flows – one can talk about a balanced approach to the issue of ensuring energy security. It is in this context that we in the Energy Charter interpret the concept of 'energy security' as a triad consisting of security of supplies, security of infrastructure, security of demand, including, thereafter, the issues of access to the resources, infrastructure and markets.

Thus, to pursue cross-border investments and trade one needs reliable, consistent and transparent legal frameworks irrespective of which companies in which states and under which level of current energy prices would undertake energy projects in any parts of cross-border energy value chains. In energy area demands to the “quality” of such legal and regulatory framework are among the highest compared to other industries - due to longest lead-times, highest unit capital value of energy projects, together with broadest nomenclature of risks and immobile character of energy infrastructure.

Within the globalizing energy world with growing interdependence of the players, their challenges become common, and common challenges require common approaches and rules.

There is an increasing need for a common framework – agreed by all states along the energy value chain – to provide a necessary degree of legal security for investment and reliable cross-border flows and to promote the efficient production and use of energy. There is also a continuous need for a dialogue with partners all along this chain. The balance of interest provides the basis for stable international cooperation. And this is the philosophy that lies at the heart of the Energy Charter process based on the shared belief of its member-states that long-term international energy security can best be served by a binding multilateral framework for energy cooperation. That is the substance of the legally-binding Energy Charter Treaty (ECT) which establishes common obligations to which all member countries subscribe. Moreover, ECT is the only one multilateral investment treaty worldwide as of today.

Energy Charter (both in its political and legal dimensions) support and help to develop policies that remove barriers to the flow of international energy

investment and promote fair access to the markets. ECT and its instruments provide a legal framework for investments, reducing risk by lowering technical and financing costs and maximizing the economic potential of projects. And energy projects, through their direct and multiplier effects, bring economic development into corresponding areas and add to economic growth – which is especially important for developing nations and economies in transition. Economic growth and implementation of the “rule of law”, as well known, pave the way for the increasing demand for democracy and development of democratic institutions, including of civil society.

The major benefit of the ECT is that this single multilateral treaty provides common “rules of the game” within its constituency. In the given ECT composition comprising of 51 member-states it substitutes 1275 bilateral investment treaties which would be needed to provide the same level of protection among the whole ECT community. In this respect, one can say that ECT, to some extent, streamlines the way to democracy.

Energy Charter unites both energy producers, consumers and transit states representing developed, developing and transition economies. Moreover, Energy Charter political declaration is the only document establishing common approaches to providing energy security that was signed (in December 1991) by all member-states of the G-8. So common denominator to promote international energy security was established already 15 years ago – and we are glad that at this July’s Summit G-8 member-states has reconfirmed their support to Energy Charter principles.

But Energy Charter is not the only one energy-related multilateral international organization in the current world. These organizations present different composition of energy producers, consumers and transit states, energy exporters

and importers, some of them are more policy-oriented, others have more legally-binding character. However, none is comparable with the Energy Charter in terms of legally binding nature of its provisions.

In the sphere of investment protection, the Energy Charter process forms part of a chain of energy-related international organizations, whose activities are mutually complimentary and which can and already collaborate to improve international energy security:

- **The International Energy Forum** – the logical starting point - provides the Energy Ministers of both energy-producing and consuming states with twice-a-year opportunity to outline their long-term vision of national and international energy developments and prospects;
- **The International Energy Agency** – the second element in this chain - most effectively quantifies those visions in terms of global energy demand and supply projections and investments needed to implement these projections;
- **The Energy Charter** – the third element in this chain – provides a forum for the discussion of common approaches within its multilateral community to risks involved in future energy-markets development. Energy Charter develops corresponding multilateral legal instruments that will mitigate risks related to international energy investments (as quantified by IEA and/or by member-states), ultimately promoting cross-border energy flows within Eurasia;
- **International financial institutions** (the World Bank and regional development banks such as EBRD, ADB) – the fourth element in the chain – assist in attracting private capital to finance capital-intensive energy projects in the economies in transition and Greenfield areas;
- **Bilateral** organizations (including “energy dialogues”, such as Russia-EU,

Russia-USA) and organizations for **regional** economic cooperation (such as BSEC or BASREC) provide additional support, including political and financial support, to the projects of mutual interest to their members.

A structured approach to the international energy cooperation along these lines, reducing international energy-related investment risks, would create positive multiplier effects for all the states within the energy value chain. Without cooperation between energy producers and consumers, or more broadly – without international energy cooperation, it is not possible to improve international energy security.

Thank you for your attention.