

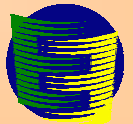
**RUSSIAN PRESIDENCY IN THE G-8,
ENERGY SECURITY AND
THE ENERGY CHARTER PROCESS**

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Deputy Secretary General,
Energy Charter Secretariat**

**Presentation at the Energy Committee,
Association of European Businesses in the Russian Federation,
Moscow, March 15, 2006**

OUTLINE:

- (1) Energy security = diversification + investment risk-mitigation : concept, evolution, instruments**
- (2) What is the Energy Charter Treaty and the Energy Charter process**
- (3) How does the ECT work (what is its practical role for business, especially in reducing investment risks)**
- (4) Energy Charter within other international organisations – and protection of energy investors**
- (5) Why Russia has not yet ratified the Treaty**
- (6) What are the prospects for and benefits of ECT ratification for Russia**
- (7) Energy Charter: the key to international energy security**



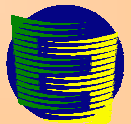
ENERGY SECURITY: CONCEPT (1)

ENERGY SECURITY = sustainable, reliable, environmental-friendly energy cycle/value chain (primary supplies + transportation + refining + transformation + final consumption) at reasonable cost (including cost of externalities).

ENERGY SECURITY has many dimensions, but two, regarding time-horizon, are very important:

1. Security of supply in the short run of the existing energy system (“physical” and “legal” protection of the existing infrastructure through the energy value chain, management, stocks, etc.);
2. Security of supply in the long run of the developing new energy system (new supply routes for existing energy resources, new energy technologies (both at the producer & consumer end of the energy value chain) in respond to new challenges (i.e. global warming), shifts in primary energy supplies for new energies => diversification in a broader sense)

The greatest risks are in “long-run” since the instruments deployed in “short-run” would provide diminishing return to investments rather soon (physical upper capacity limit of existing infrastructure) and thus are not sufficient to resolve insecurity in “long-run”.



ENERGY SECURITY: CONCEPT (2)

***ENERGY SECURITY* instruments evolve over time!**

Major historical stages:

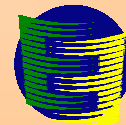
- (1) colonies,
- (2) concession system,
- (3) strategic reserves + stocks,
- (4) international law instruments

Effective *ENERGY SECURITY* instruments are different at different stages of energy markets development:

- from monopoly to competition as a driving force of energy markets development,
- from energy independence to energy interdependence,
- from local markets of individual energy resources to global energy market

As energy interdependence (globalization) grows, international law becomes a more effective instrument (relatively cheap per unit of supplies/final consumption) for providing *ENERGY SECURITY*.

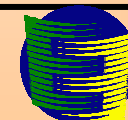
***ENERGY SECURITY* = (a) minimum volume risk + (b) minimum price risk**



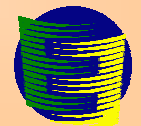
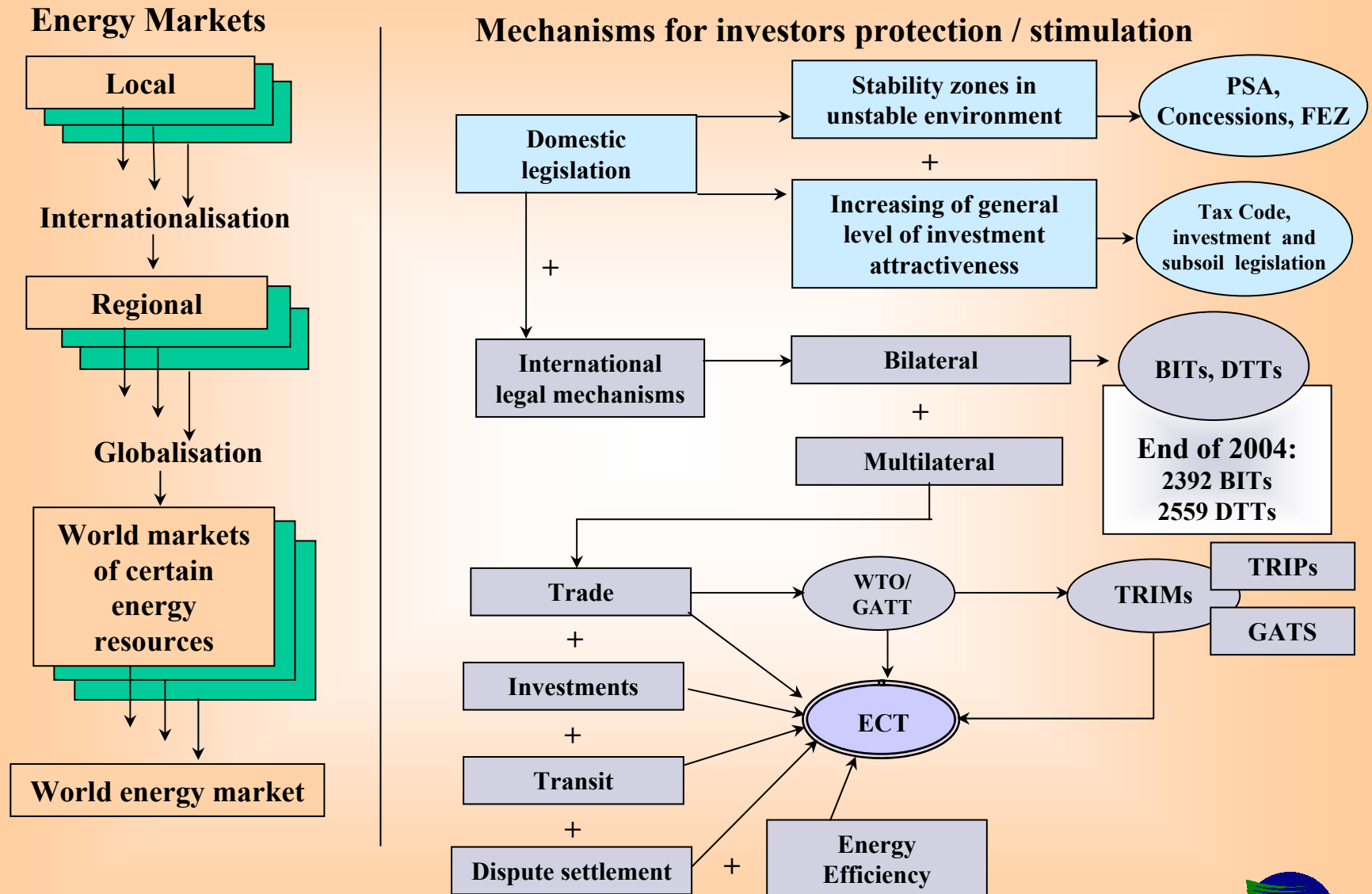
MITIGATING VOLUME AND PRICE RISKS BY DEPLOYING VARIOUS ENERGY SECURITY INSTRUMENTS OVER TIME

Mechanisms	Concession system	Strategic reserves + stocks	International law
- volume risk	Traditional & modernized concessions, PSAs, risk-service contracts (direct control of supplies via LTCs for duration of agreement between host-country & foreign company)	Producer states production & export quotas + strategic reserves + stocks in both producer and consumer states (idle producing capacities, floating (laid-up tanker) storage vs. SPR, government & company owned commercial stocks) + LTCs	Diversified energy supply infrastructure (multiple supplies concept) + consumers with switching (competitive supplies) + LTCs
- price risk	Stable & low posted prices + transfer pricing + cost-plus (isolated projects)	Spot + forward pricing = unstable prices; increased price volatility to be compensated by producers export quotas (major exporters = swing producers) + consumers stocks regulation policy + escalation formulas (based on replacement values)	Exchange pricing = futures + options = unstable prices; speculators vs. hedging (derivatives) + LTCs with escalation formulas
Basis for pricing (traded item)	Physical energy (oil, gas)	Physical energy (oil, gas)	Paper energy (oil, gas contracts) – even for physical energy (LTCs)
Driving force of market development	Monopoly (individual consumer states/cartel of private companies)	Monopoly (cartel of producer states/state companies)	Competition (both on supply & demand side of energy value chain)

Based on: A.Konoplianiuk. Energy Security and the Development of International Energy Markets. – in : “Energy Security. Managing Risk in a Dynamic Legal and Regulatory Environment”, Oxford University Press, 2004, p.66

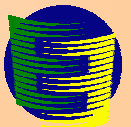


DEVELOPMENT OF ENERGY MARKETS AND MECHANISMS FOR INVESTORS PROTECTION / STIMULATION



ENERGY SECURITY, DIVERSIFICATION, INTERDEPENDENCE

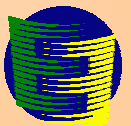
- **The biggest long-term risk to energy-supply security = inappropriate investment decisions
=>**
- **Aim: to establish supplies from a range of energy sources & to construct diversified transportation & distribution networks – to cope with local disruptions & any attempt to block energy flows**
- **That makes energy consumers & producers interdependent**



SECURITY OF ENERGY SUPPLY :

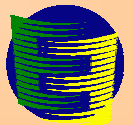
ENERGY FLOWS & ENERGY INVESTMENT

- **Producers & consumers linked not only by the flows of energy, but also by the investment flows needed to develop energy infrastructure & to establish new energy flows => supply chain security covers investment security**
- **Energy cycle involves a chain of interlinked energy projects with inherent risks & rewards**
- **Energy cycle becomes more & more complicated & risky (increased duration of energy chain & its cross-border character, increased number of economic entities involved, both domestic & foreign)**
- **Correct energy policy, therefore, supports the development of open & competitive global energy market capable of providing clear market signals to investors => Art. 3 ECT.**



OUTLINE:

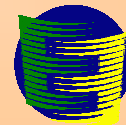
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FROM ENERGY CHARTER POLITICAL DECLARATION...

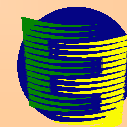
“The signatories are desirous of improving security of energy supply and of maximising the efficiency of production, conversion, transport, distribution and use of energy, to enhance safety and to minimise environmental problems ... Within the framework of State sovereignty and sovereign rights over energy resources and in a spirit of political and economic cooperation, they undertake to promote the development of an efficient energy market throughout Europe, and a better functioning global market, in both cases based on the principle of non-discrimination and on market-oriented price formation, taking into account environmental concerns. They are determined to create a climate favourable to the operation of enterprises and to the flow of investments and technologies by implementing market principles in the field of energy”

From the first paragraphs of the Energy Charter Declaration, signed by 55 states, *including all members of the G8*, on December 17, 1991.

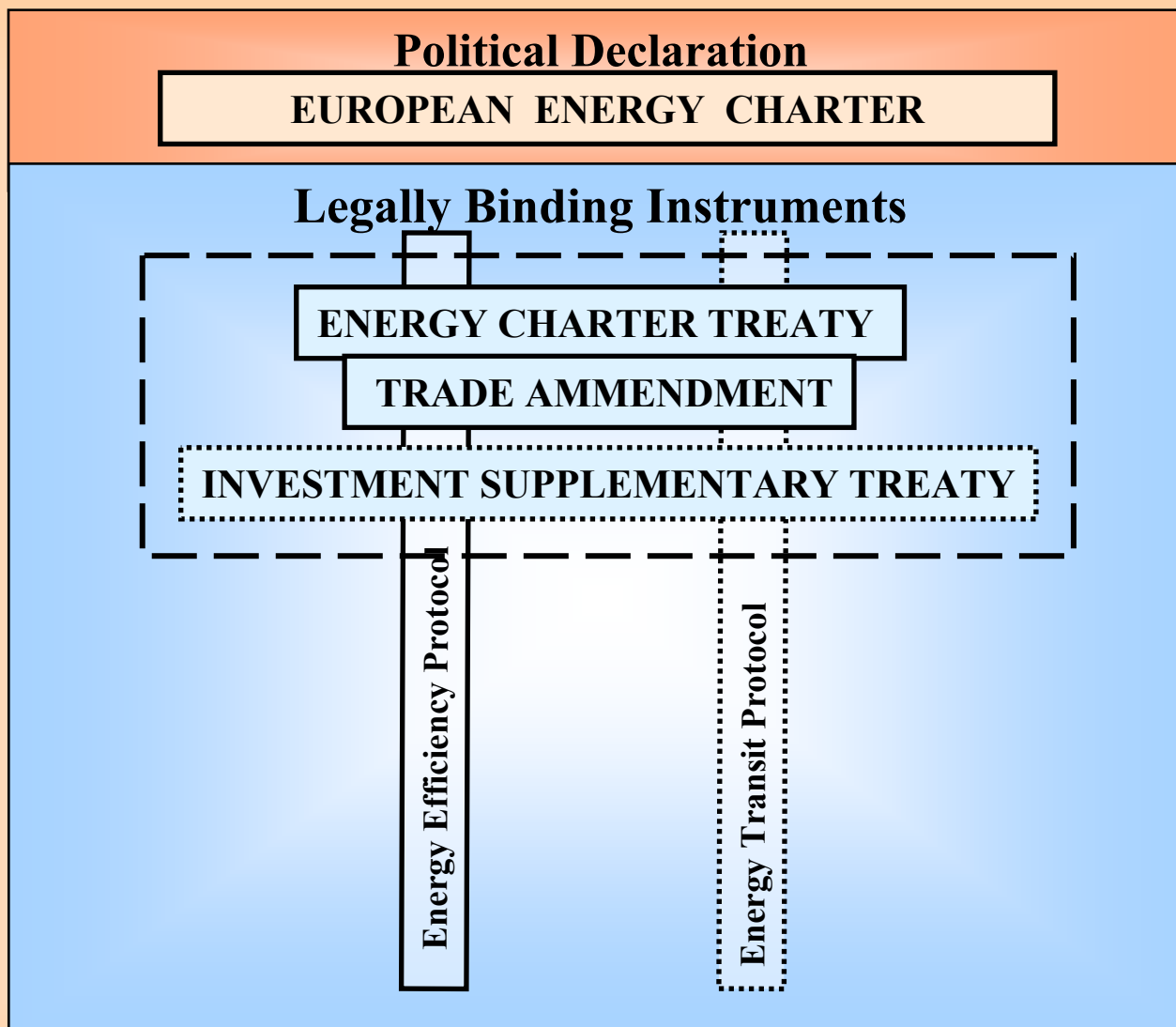


ENERGY CHARTER HISTORY

June 25, 1990	Lubbers' initiative on common broader European energy space presented to the European Council
December 17, 1991	European Energy Charter signed
December 17, 1994	Energy Charter Treaty (ECT) and Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) signed
16 April, 1998	ECT enters into force and became an integral part of international law
As of today	<ul style="list-style-type: none">• ECT signed by 51 states + European Communities = 52 ECT signatories + 18 observer-states• ECT ratified by 46 states + EC (excl. 5 countries: Russia, Belarus, Iceland, Australia, Norway)• Russia and Belarus : provisional application of ECT



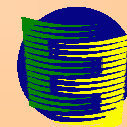
ENERGY CHARTER AND RELATED DOCUMENTS



- in force

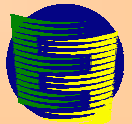


- negotiations continue or not finished



ECT SPECIFIC ROLE

- **Unique coverage of different areas for *energy* cooperation:**
 - investment, trade, transit, energy efficiency, dispute settlement,
 - EMP + energy-related equipment
 - 51 member-states + 18 observer-states
- **First and only one multilateral investment agreement with high standard of investment protection, incl. dispute settlement (*NB*: long-run energy security = diversification = investment protection)**
- **Energy Charter process = Specialized forum for “advanced” discussion of the issues of energy markets evolution that might create new risks for development of energy projects in ECT member-states = platform for preparation of new legally binding instruments to diminish such risks within ECT member-states.**



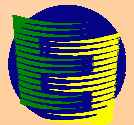
MAIN CONTENT OF SELECTED INTERNATIONAL INVESTMENT-RELATED AGREEMENTS

Organisation (member-states/CPs)	Legal Status	Scope	Investment	Trade	Transit	Energy Efficiency	Dispute Settlement
ECT (51/52)	LB	Energy	Yes	Yes	Yes	Yes	Yes
WTO (149)	LB	General	(Yes?) (Services)	Yes	Yes/No*	No	Yes
NAFTA (3)	LB	General	Yes	Yes	No	No	Yes
MERCOSUR (4)	LB	General	Yes	Yes	No	No	Yes
OECD (30)	LB	General	Yes	No	No	No	No
APEC (21)	Non-LB	General	Yes	Yes	No	No	No

* application of GATT Art.V to grid-bound transportation systems is under debate

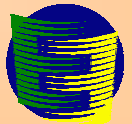
Plus specialised energy-related organisations: OPEC, IEA, IEF, UN ECE (partly), IAEA, ...

Plus specialised “regional” organisations: BSEC, BASREC, ...



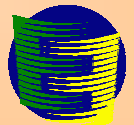
ENERGY SECURITY IN THE LONG-RUN: ECT = THE FIRST MULTILATERAL INVESTMENT AGREEMENT (1)

- **Based on:**
 - well-established practice of BITs (about 500 BITs as of early 1990's - around 2400 BITs as of today)
 - investment chapter XI of NAFTA (US, Canada, Mexico)
 - some interaction with then proposed “Multilateral Agreement for Investment” (MAI – aborted in 1998)
- **Within 51 ECT member-states equal to (substitutes) 1275 BITs**
- **MFN and National Treatment for investors:**
 - binding guarantee of non-discriminatory treatment for *post*-establishment phase,
 - soft-law obligations for *pre*-establishment phase (stage of making investment)

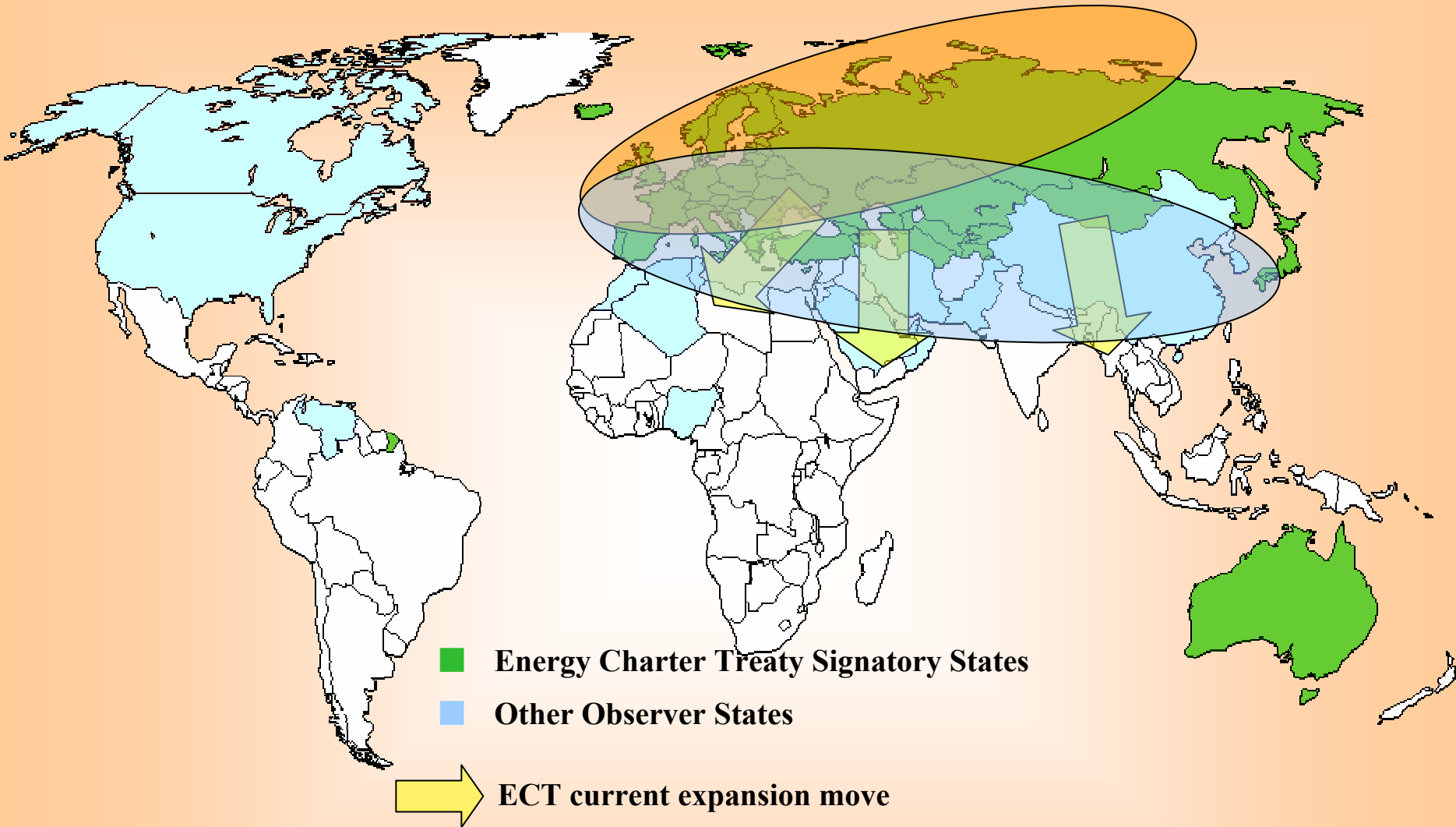


ENERGY SECURITY IN THE LONG-RUN: ECT = THE FIRST MULTILATERAL INVESTMENT AGREEMENT (2)

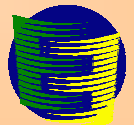
- **Protection against key political/regulatory risk:**
 - expropriation and nationalisation,
 - breach of individual investment contracts,
 - unjustified restrictions on transfer of funds
- **Reinforced by access to binding international arbitration in case of dispute:**
 - State-to-state, and **(NOVELTY!)** investor-to-state => direct dispute settlement at investor's choice at ICSID, UNCITRAL or ICC Stockholm,
 - Awards:
 - ✓ final and enforceable under NY convention,
 - ✓ usually as entitlement to payment (no risk of vicious circle for retaliating measures),
 - ✓ retroactive to start of dispute, may include interest (no incentive to delay process)



ENERGY CHARTER PROCESS: GEOGRAPHICAL DEVELOPMENT

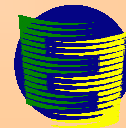


1. From trans-Atlantic political declaration to broader Eurasian single energy market
2. ECT expansion is an objective and logical process based on economic and financial reasons



ECT EXPANSION PROCESS: ASIAN DIMENSION DOMINATES

- **New ECT members:**
Mongolia - 1999
- **New ECT observers:**
China – 2001
Korea Rep. – 2002
Iran – 2002
Nigeria – 2003
ASEAN – 2003
Pakistan – 2005

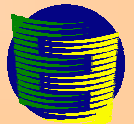
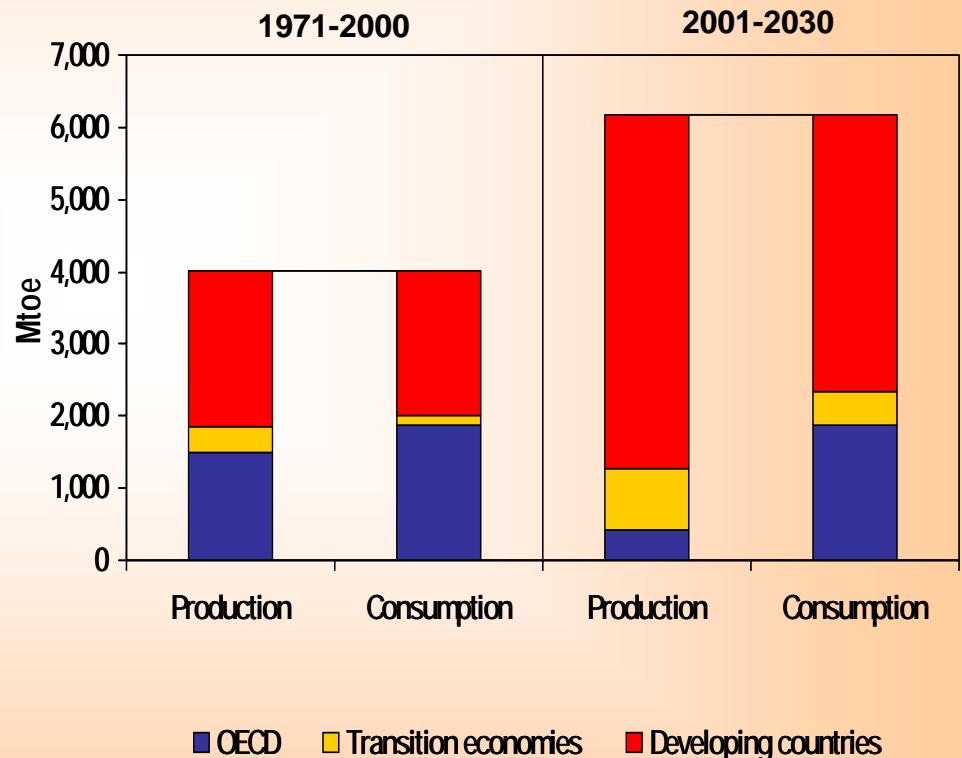


GLOBAL ENERGY TRENDS: WHY NON-OECD IMPORTANT

2001-2030:

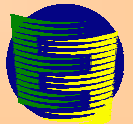
- **Increase in energy production:**
95% outside of OECD
- **Increase in energy consumption:**
70% outside of OECD
- **Cumulative energy investment:**
 - **50% from non-OECD to non-OECD markets, and**
 - **10% from non-OECD to OECD markets**

**Increase in World Energy
Production and Consumption**
(Source: IEA WEIO 2003)



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FINANCING ENERGY PROJECTS: FROM EQUITY TO DEBT FINANCING

Equity/debt financing ratio:

Pre-1970's = ~ 100 / ~ 0

Nowadays = ~ 20-40 / ~ 60-80,

f.i. most recent:

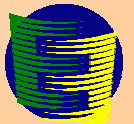
BTC pipeline = 30 / 70

Sakhalin-2 (PSA) = 20 / 80

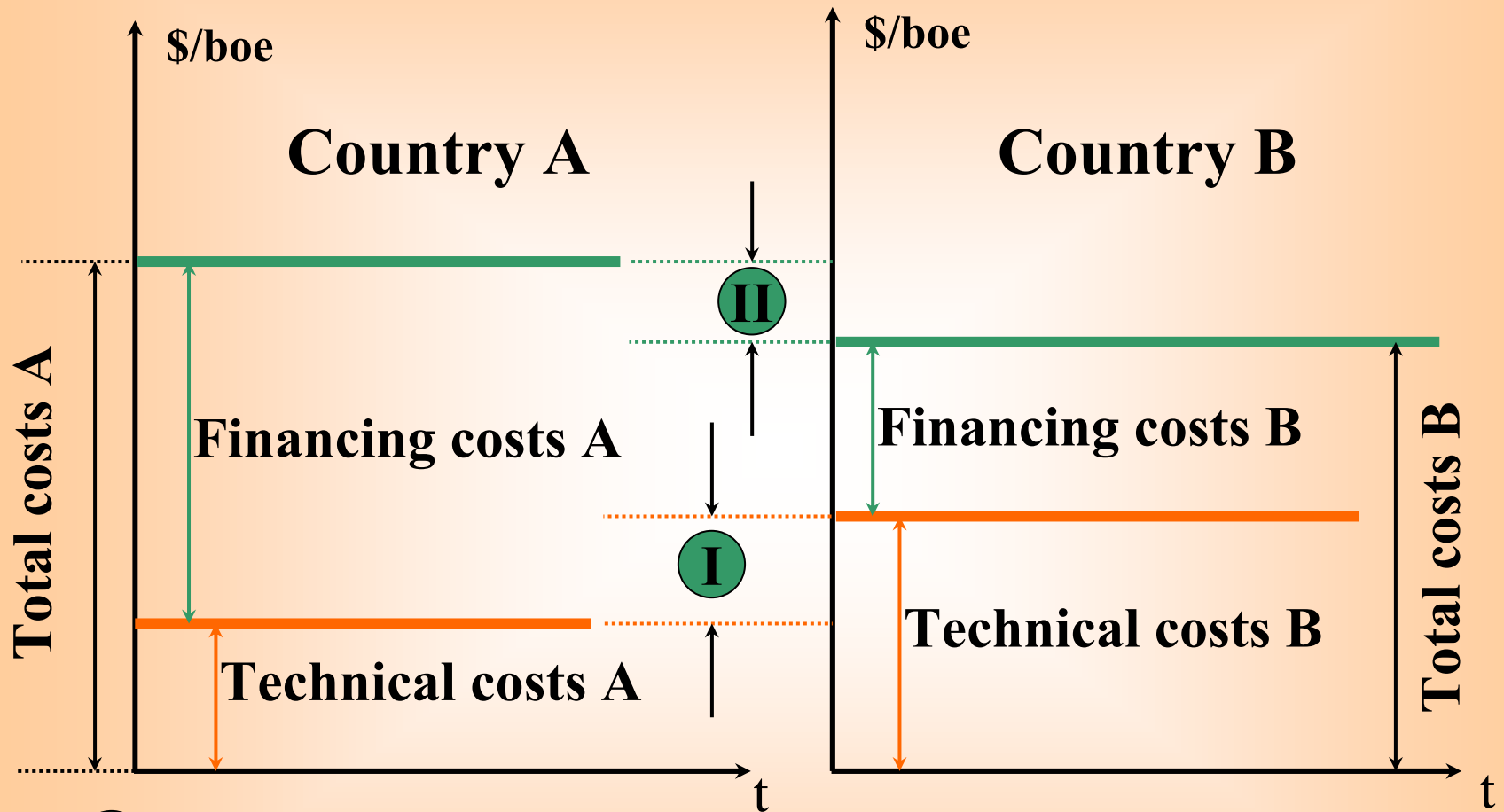
(2 fields+pipeline+LNG plant)

➔ Increased role of financial costs (cost of financing)
of the energy projects

➔ Availability and cost of raising capital = one of major
factors of competitiveness with growing importance
in time

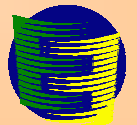


“NATURAL” VS. FINAL COMPETITIVE ADVANTAGES OF ENERGY PROJECTS



I “Natural advantage” of country A over country B

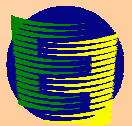
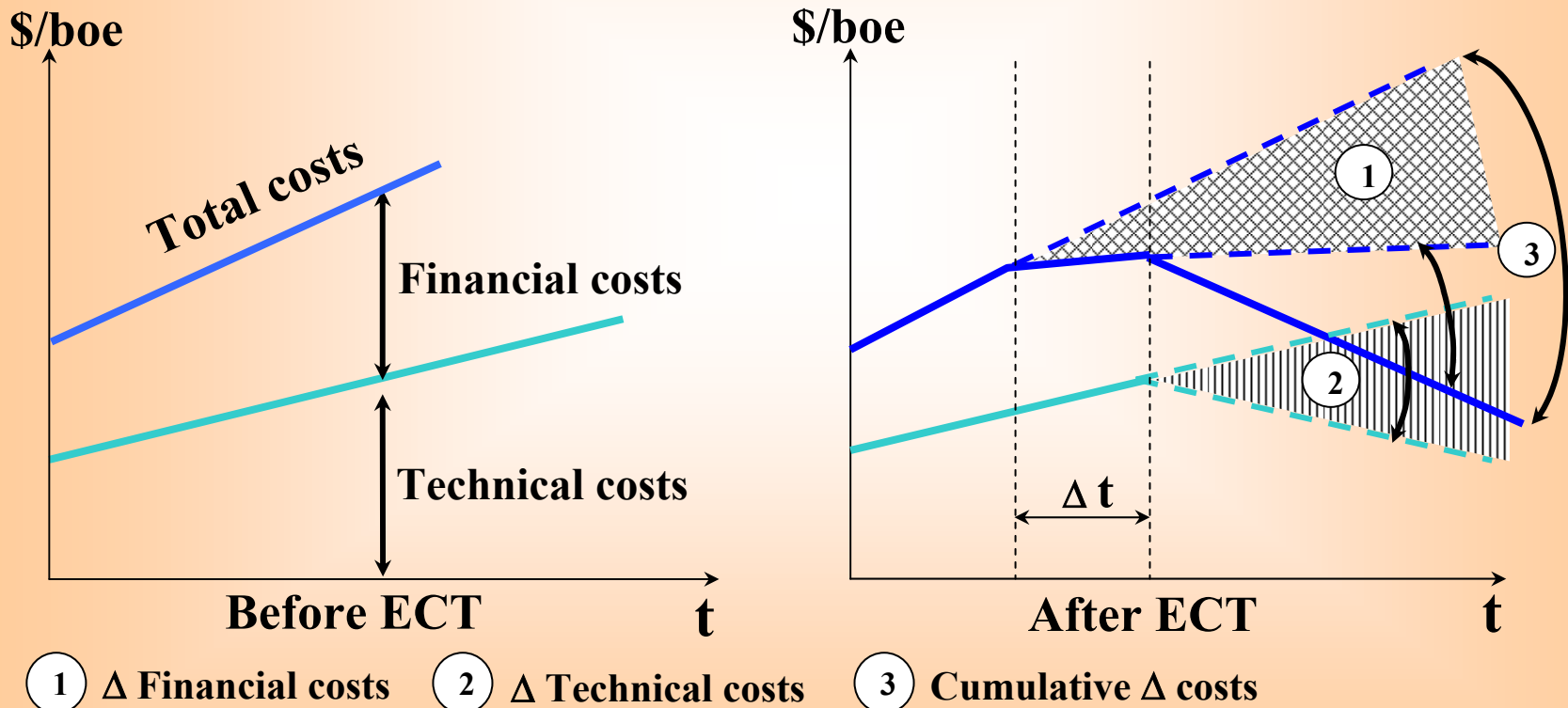
II Final competitive *disadvantage* of country A over country B



ECT IS BUSINESS-ORIENTED TREATY (how it works)

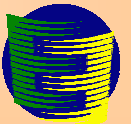
ECT/Legislation → ↓ risks → ↓ financial costs (cost of capital) = ① →
 ↑ inflow of investments (i.e. ↑ FDI, ↓ capital flight) → ↑ CAPEX → ↓ technical costs = ② →
 ① + ② = ③ → ↑ pre-tax profit → ↑ IRR (if adequate tax system) → ↑ competitiveness →
 ↑ market share → ↑ sales volumes → ↑ revenue volumes

ECT provides multiplier legal effect in diminishing risks with consequential economic results in cost reduction and increase of revenues and profits



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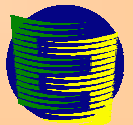


ENERGY CHARTER PROCESS: TO ADDRESS SPECIFIC ENERGY RISKS IN A GLOBAL CONTEXT

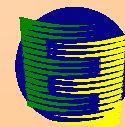
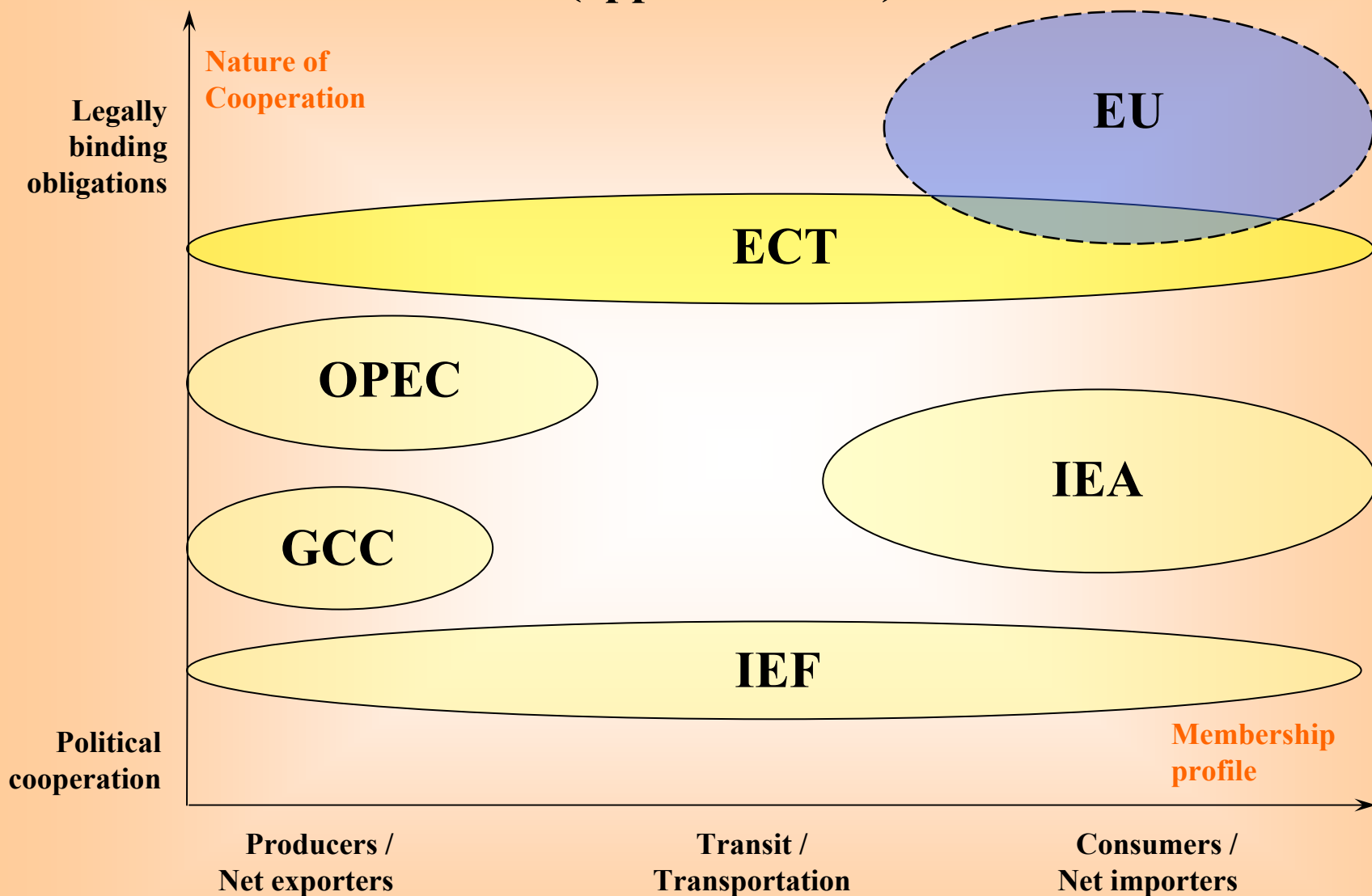
Energy projects (compared to other industries):

- Highest capital intensity (absolute & unit CAPEX per project),**
- Longest project life-cycle,**
- Longest pay-back periods,**
- Geology risks (+ immobile infrastructure, etc.),**
- Highest demand for legal & tax stability,**
- Role of risk management.**

A competitive niche exists for energy-related multilateral international organisations and for each one of them - to address specific character of energy risks.

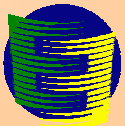


SOME ENERGY-RELATED INTERNATIONAL ORGANISATIONS (approximation)

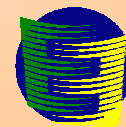
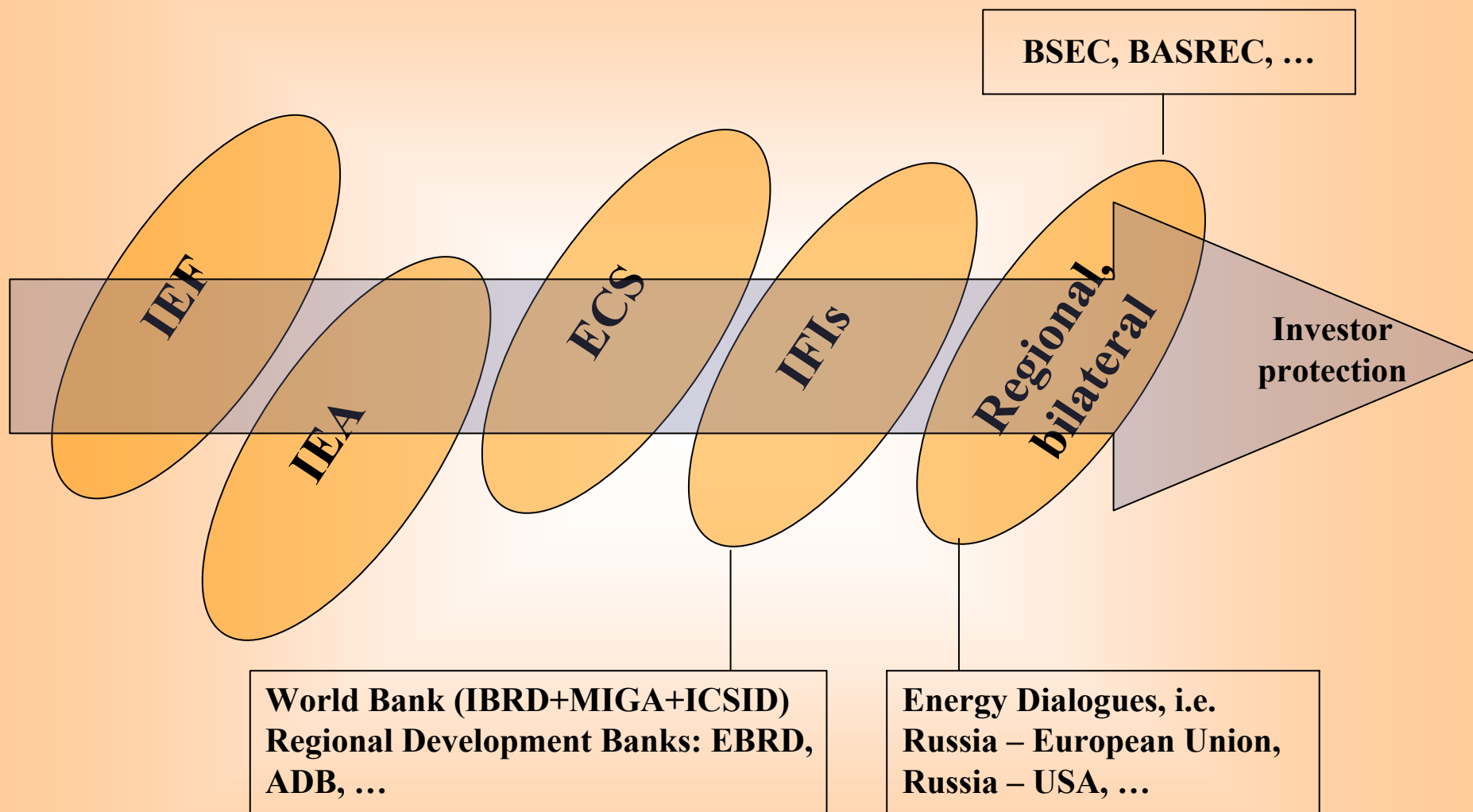


ENERGY-RELATED INTERNATIONAL ORGANISATIONS: SCOPE OF ACTIVITIES

- **International Energy Forum (IEF):**
 - Indication of issues of interest/concern, “raising the questions”
- **International Energy Agency (IEA):**
 - In-depth analysis, quantitative assessments, scenarios-forecasts
- **Energy Charter:**
 - *Policy debate* – development of common approach to identified challenges and risks of future energy markets development,
 - *Negotiations & implementation* – establishing new legal instruments that would address newly identified risks, and/or amendments to (revisions of) existing legal instruments to update them (when/if necessary) to the new state of the energy markets developments
- **International Financial Institutions (e.g. IFIs = WB (IBRD, MIGA,...), EBRD, ADB, ...):**
 - Lead-financiers in FDI inflows in transition economies (pilot actors), lower cost of capital (debt financing),
- **Regional organisations (e.g. BSEC, BASREC), bilateral processes (e.g. RF-EU, RF-USA, etc. energy dialogues):**
 - Incremental political, economic (?), financial (?) support to the “projects of common interest”

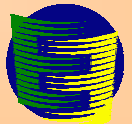


COMPLIMENTARITY OF ENERGY-RELATED INTERNATIONAL ORGANISATIONS IN PROTECTION OF ENERGY INVESTMENTS



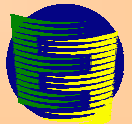
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RUSSIA'S ECT RATIFICATION HISTORY

- **Russia started ratification procedure in 1996**
- **Evolution of RF State Duma position:**
 - **1997: No – but linked to WTO accession,**
 - **2001: Russia will ratify ECT, but not yet (depending on Transit Protocol)**
- **Major Russia's concerns regarding ECT ratification relates to gas transit issues or to the issues outside the scope of the ECT**
- **Successful finalisation of Transit Protocol = key to reopen ECT ratification issue**

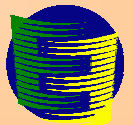


KEY ARGUMENTS AGAINST ECT RATIFICATION IN RUSSIA

– related to the substance of ECT

Opponents, as if:

- **ECT demands mandatory TPA to Gazprom's pipelines for cheap gas from Central Asia**
 - No such obligation. ECT excludes mandatory TPA (ECT Understanding IV.1(b)(i)). Transit is only one of the available options (+ on-border purchases, swaps)
- **Obligation to transit Central Asian gas through Russia at low (subsidised) domestic transportation tariffs**
 - No such obligations (ECT Article 7(3)). Transit and transportation are different in non-EU states (it being further clarified in draft Transit Protocol)
- **ECT will “kill” LTCs**
 - Not true. ECT documents do not deal with LTC as such at all. Economic niche for LTCs will become more narrow due to objective reasons, but they will continue to exist as a major instrument of financing Greenfield oil & gas projects. ECT supports LTC by diminishing political and regulatory risks.

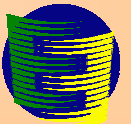


KEY ARGUMENTS AGAINST ECT RATIFICATION IN RUSSIA

– *non*-related to the substance of ECT

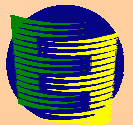
Opponents: ECT does *not* address/solve/regulate problems of:

- **Bilateral RF-EU trade in nuclear materials**
 - Prior to ECT signing in Dec.1994, RF and EU has agreed in July 1994 to regulate nuclear trade on a bilateral basis (RUF-EU Partnership & Cooperation Agreement).
- **Black Sea straits**
 - 1936 Montreaux Convention on the regime of the Turkish Straits sets forth freedom of passage and navigation,
- **Maritime transit of oil & products**
 - Maritime transportation is covered by the UN Convention on the Law of the Sea



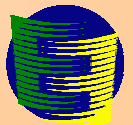
ENERGY CHARTER PROTOCOL ON TRANSIT – AND G-8 JULY'2006 SUMMIT (1)

- **G-8 states call upon Russia to ratify ECT – and to state this at G-8 July'06 Summit. But: Russia's decision on ratification depends on Transit Protocol finalisation.**
- **Multilateral phase of negotiations finished December 2002**
- **Three outstanding issues are left between Russia and EU to be solved first on bilateral level:**
 - **Contractual mismatch (supply vs. transit arrangements),**
 - **Implementation of TP within the REIO (within EU),**
 - **Transit tariffs: correlation between cost-reflectiveness and auctions as congestion management mechanisms**



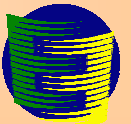
ENERGY CHARTER PROTOCOL ON TRANSIT – AND G-8 JULY'2006 SUMMIT (2)

- **Bilateral consultations resumed in October 2004, four rounds of unofficial expert meetings in 2004-2005, new draft version of Transit Protocol presented to the parties on October 28, 2005**
- **Energy Charter Conference, 9 Dec'05 + Chairman's letter to Russia and EU, 10 Jan'06: to provide before end-Febr'06 schedule for TP finalisation in 2006**
- **Expert meeting on March 10, 2006 + some more before mid-June planned**
- **Any material success before July G-8 Summit? Depends on both Russia & EU...**



OUTLINE:

- (1) Energy security = diversification + investment risk-mitigation : concept, evolution, instruments**
- (2) What is the Energy Charter Treaty and the Energy Charter process**
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- (7) Energy Charter: the key to international energy security**



INVESTMENTS ON IMPLEMENTATION OF RUSSIAN ENERGY STRATEGY UP TO 2020 (1)

- **Annual oil & gas investments (huge and upward trend within time-frame):**

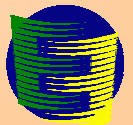
RES, 2001 (2001-2020): \$ 16-18,5 bln

RES, 2003 (2001-2020): \$ 20-22 bln

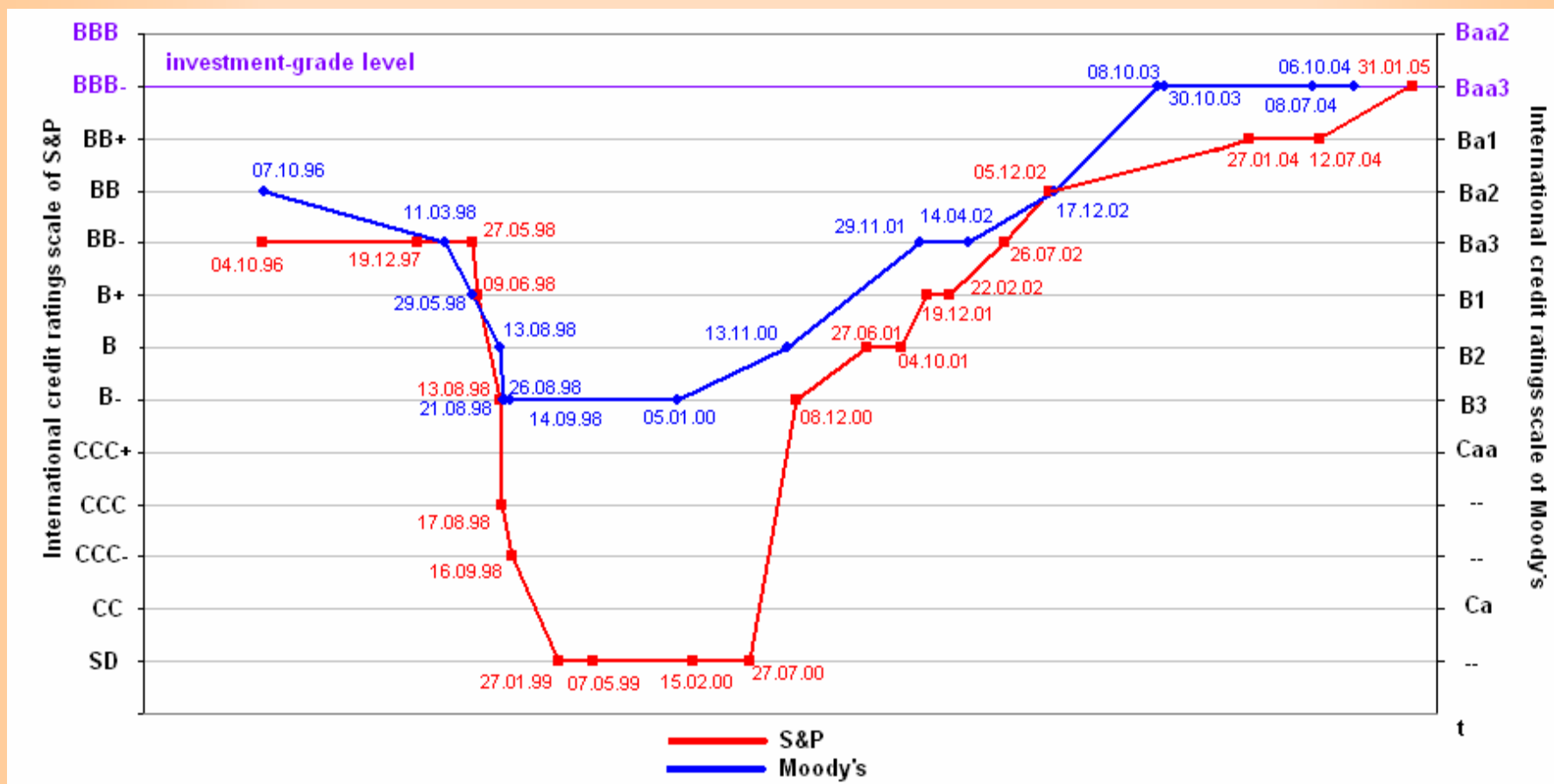
IEA, 2004 (2003-2030): \$ 24 bln

RO&GDS, 2005 (2005-2015): \$ 27-37 bln

Sources: RES-2020 (2001), p.144-149; RES-2020 (2003), p. 193-196; IEA WEO (2004), p.325; RO&GDS 2010-2015 (2005), p.43



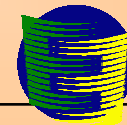
COMPARATIVE RATING HISTORY OF RUSSIA (Standard & Poor's and Moody's)



RUSSIA'S LONG-TERM CREDIT RATINGS

	Moody's	Standard & Poor's	Fitch IBCA	Short description	LIBOR+	
“Investment” ratings	Aaa	AAA	AAA	Maximum security level	Up to 4,25%	
	Aa1	AA+	AA+	High security level		
	Aa2	AA	AA			
	Aa3	AA-	AA-			
	A1	A+	A+	Upper middle security level		
	A2	A	A			
	A3	A-	A-			
	Baa1	BBB+	BBB+	Lower middle security level		Up to 6%
	Baa2	BBB	BBB (Russia: rating was assigned 03.08.2005)			
	Baa3 (Russia: rating was assigned 08.10.2003)	BBB-(Russia: rating was assigned 31.01.2005)	BBB-			
“Speculative” ratings	Ba1	BB+	BB+	Non-investment, speculative level	Up to 14%	
	Ba2	BB	BB			
	Ba3	BB-	BB-			
	B1	B+	B+	High speculative level	Up to 19%	
	B2	B	B			
	B3	B-	B-			
	Caa	CCC+	CCC	Significant risk, issuer is facing hard difficulties		
	--	CCC	--			
	--	CCC-	--			
	Ca	CC	--	Highest speculative level, possibility of default		
	C	C	--			
	--	--	DDD	Default	Up to 204%	
	--	SD	DD			
	--	D	D			
--	--	--				
--	--	--				

ЭНИПuПФ



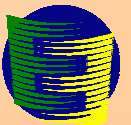
RUSSIA'S SOVEREIGN RATINGS ARE WITHIN "INVESTMENT RATINGS" ZONE, *BUT* CREDIT RATINGS OF RUSSIAN PROJECTS ARE WITHIN "SPECULATIVE RATINGS" ZONE

Rule of project financing:

Cumulative long-term credit rating of the project = sovereign rating + company/investor rating + project rating;

Cumulative long-term credit rating of the project can not usually be better than the sovereign rating of the host state;

If Russia's long-term credit rating is at the bottom of "investment ratings" zone – that means that long-term credit ratings of Russian investment projects are placed within "speculative ratings" zone with corresponding LIBOR+ values for debt/project financing



NON-RATIFICATION OF ECT BY RUSSIA = ITS COMPETITIVE DISADVANTAGE

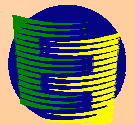
Russia's objective competitive disadvantages: longest distances to markets + falling production at major fields + more complex geology (from Senoman gas of W.Siberia to Valanzhin, Achimov, offshore, Yamal gas) + harsh natural conditions of new areas

Russia: Highest stimuli to diminish technical and financial costs of production and transportation:

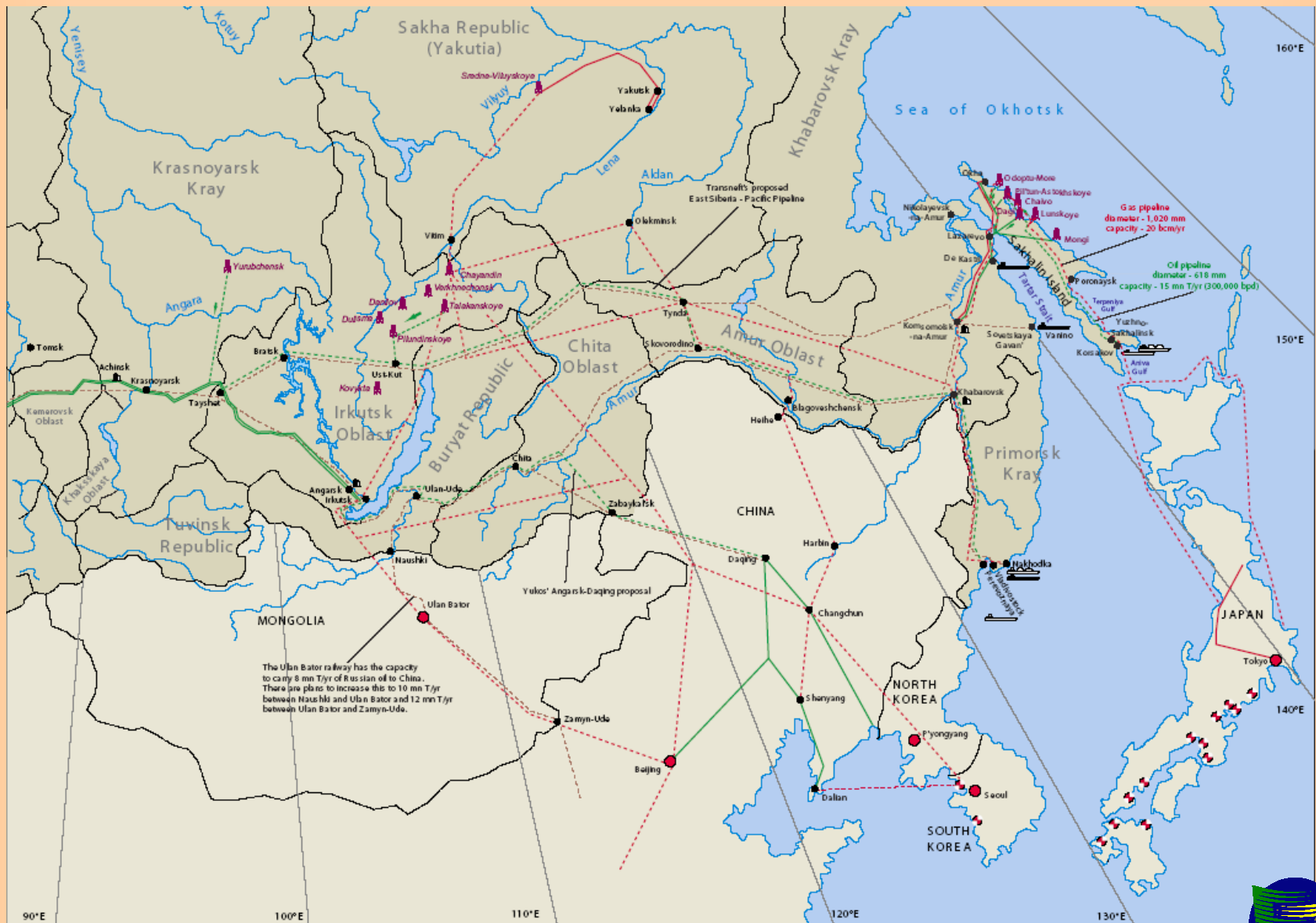
- (a) technical costs ← investments ← legal environment in host and transit countries (risks)**
- (b) financial costs ← cost of capital ← credit ratings (sovereign, corporate, project) ← legal environment in host and transit countries (risks)**

ECT and related documents (when ratified) = common legal environment minimizing risks and technical & financial costs for investors from ECT member-states in ECT member-states

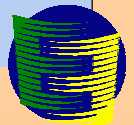
Incremental stimuli for ECT ratification by Russia



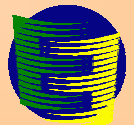
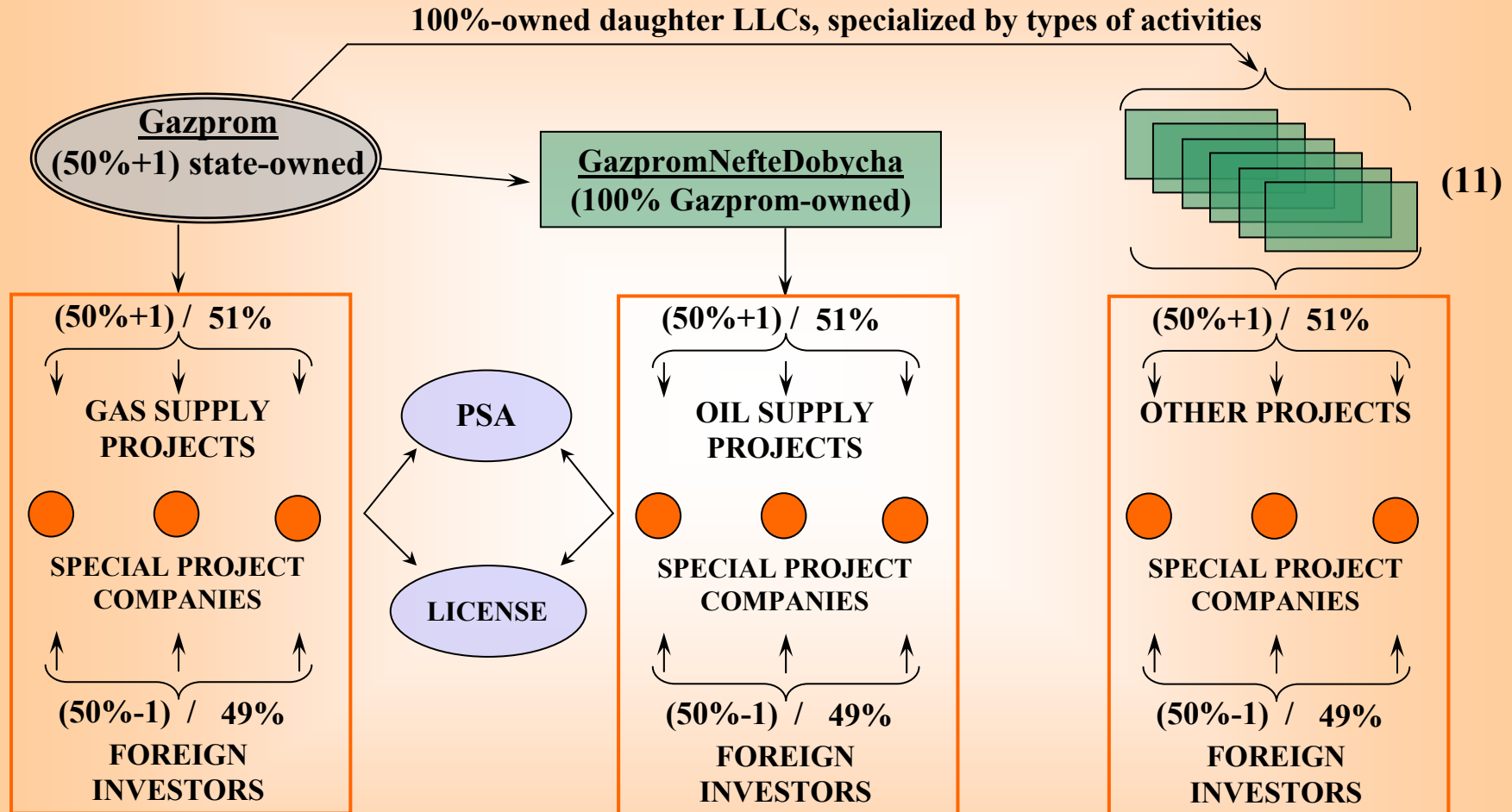
EXISTING AND PROJECTED ENERGY INFRASTRUCTURE IN THE RUSSIAN EASTERN SIBERIA AND FAR EAST



Dr. A. Konoplianiuk, AEB Energy Committee, Moscow, 15.03.2006 - Figure 34



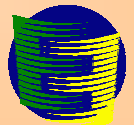
STATE-OWNED GASPROM AND FOREIGN INVESTORS: HOW IT WOULD WORK



INVESTMENTS SOURCES FOR RUSSIAN GAS SECTOR

	2005	2010	2015
Investments (bln USD)	9.8-10.9	14.9-17.0	21.1-36.6
Equity (net profit + depreciation) (bln USD)	9.4-9.5	11.2-12.2	11.2-13.5
Debt (bln USD)	0.4-1.4	3.7-4.8	9.9-23.1
Debt/equity (%/%)	$\frac{4-13}{96-87}$	$\frac{25-28}{75-72}$	$\frac{47-63}{53-37}$

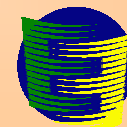
Source: RO&GDS 2010-2015 (2005), p.42 (calculations based on marginal parameters of “basic”, “investment” and “target/innovation” scenarios, in current prices)



INVESTMENTS IN GAS SECTOR OF RUSSIA: POSSIBLE ROLE OF THE ECT («cost» of the ECT non-ratification by Russia)

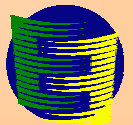
	2005	2010	2015
Investments (bln. USD)	9.8-10.9	14.9-17.0	21.1-36.6
Debt (bln. USD)	0.4-1.4	3.7-4.8	9.9-23.1
Δ LIBOR = (mln.USD/year):			
1%	4-14	37-48	99-231
5%	20-70	185-240	495-1155

- **Decisions for 2015 investments are to be taken & documentation to be drafted soon**
- **Due to development of new fields of Yamal, East Siberia and offshore, and access to Asian market “gas interests” of Russia are now even more linked with tasks and objectives of the Energy Charter**



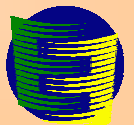
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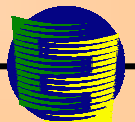
FROM 1998 G8 ENERGY MINISTERIAL CONCLUSIONS

- **We recognise that open and competitive energy markets:**
 - offer the best way to provide secure, reliable and affordable energy to consumers, and that transparent, non-discriminatory, market-based legal and regulatory frameworks, including those governing the transit and transport of energy products, are essential to attract the significant new investment which is required to meet the future energy needs of our countries;
 - are crucial for attracting private sector investment, promoting sustainable development of the energy sector... Such markets require stable, transparent, non-discriminatory legal, fiscal and regulatory structures creating a favourable investment climate... *Ratification and implementation by signatories of the Energy Charter Treaty* and production sharing agreement legislation are important examples.
- ...governments must play a role in creating the appropriate framework conditions which favour the mobilisation of private investment capital. In this light, *transit provisions such as those of the Energy Charter Treaty provide an effective framework on which to develop such conditions.*



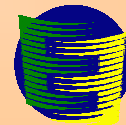
V.PUTIN ON G-8 ENERGY SECURITY vs. ECT

V.Putin (Rossiyskaya Gazeta, 01.03.06)	ECT
1. “Real threat to global energy supply ... instability in hydrocarbons markets. In particular increasing gap between demand & supply”	Gap = result of under-investment. To diminish it – invest in increase of supply & in diminishment of demand (energy efficiency). ECT investment provisions!
2. “To “flatten” situation in this sphere coordinated activities of all international community is needed”	ECT is the best available instrument with the broadest geographical coverage (51 members + 18 observers)
3. “Since energy became global, energy security is indivisible. Common energy destiny means common responsibility, common risks & rewards”	ECT provides common legally-binding rules of the game in energy within its expanding area, aimed at diminishing risks
4. “More close cooperation of ... all international community in developing innovative technologies”	ECT Art.8 “Transfer of Technology” (POW 2006/ Item 5.2)
5. “To develop complex approach to increase energy efficiency...To adopt Action Plan aimed on encouragement of innovations, energy saving and protection of environment”	PEEREA is in force since 1998. Ratify & implement ECT.



RUSSIA'S 2006 G-8 PRESIDENCY AND ECT

- **“Energy security” – key topic for Russia’s 2006 G-8 Presidency. ECT is effective (cost/benefit) instrument of providing “energy security” throughout all cross-border energy value chains,**
- **Energy Charter – the only international organisation dealing with energy issues which decisions are legally binding, where Russia is full member,**
- **All G-8 countries have signed Energy Charter political declaration in 1991. That is good basis for developing energy cooperation within G-8 states - common political fundament is already there for 15 years, nothing need to be invented,**
- **ECT ratification by Russia (or: new start of ratification procedure) may act as valuable input of my country in implementing “energy security” philosophy within Eurasia and as culmination of Russia’s G-8 Presidency.**



Thank you for your attention!

www.encharter.org

