

**The Energy Charter Treaty:
development of multilateral
energy transit cooperation
in Turkey and the Caspian Region**

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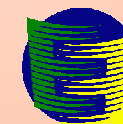
ENERGY CHARTER HISTORY AND ROLE OF TRANSIT ISSUES

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
As of today	<ul style="list-style-type: none"> • ECT signed by 51 states + European Communities = 52 ECT signatories • ECT ratified by 46 states + EC (excl. 5 countries: Russia, Belarus, Iceland, Australia, Norway) • Russia and Belarus : provisional application of ECT

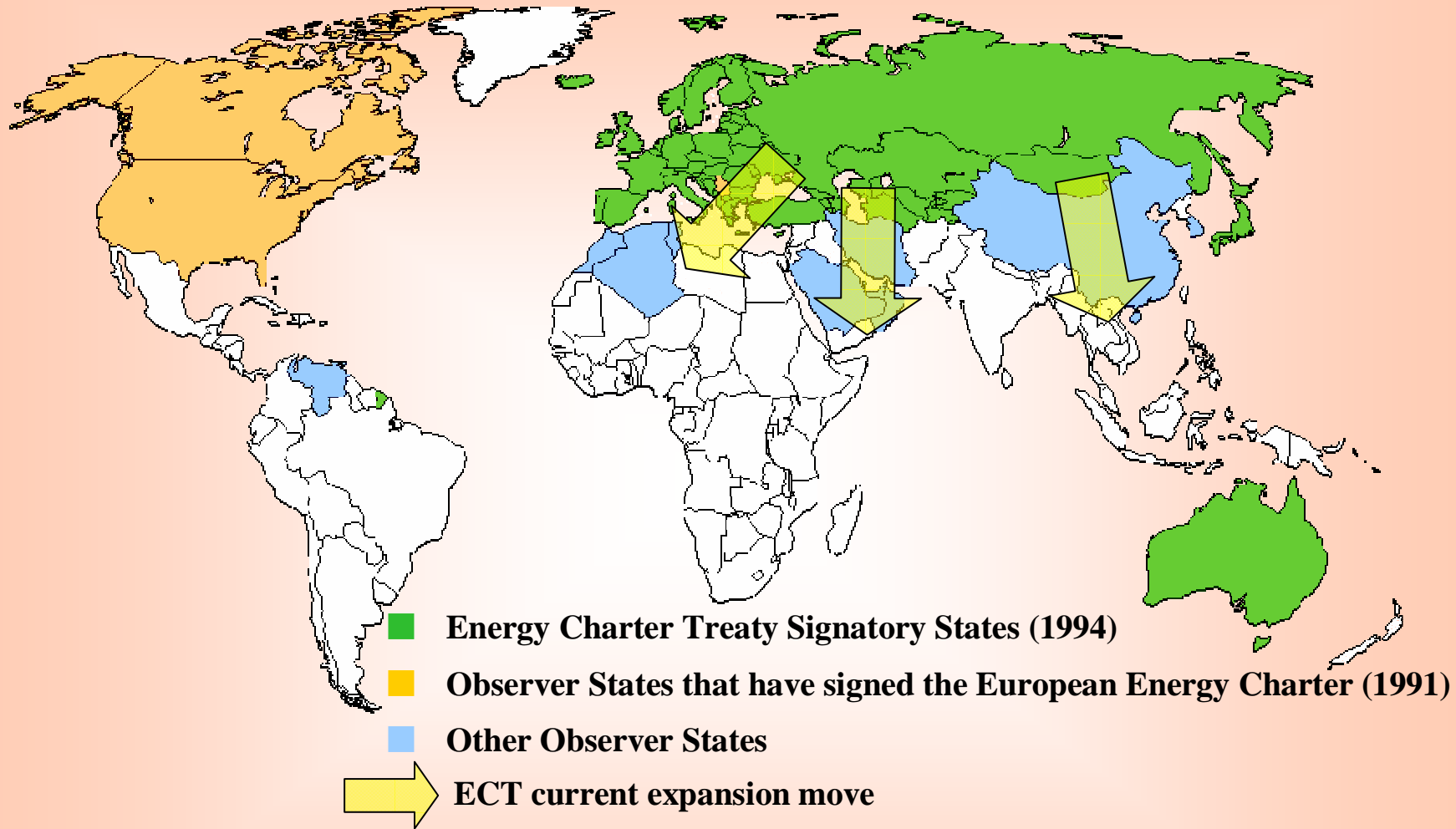
Russia has started ratification process in 1996

RF State Duma (2001): Russia will ratify ECT, but not yet (depending on Transit Protocol)

Figure 1



ENERGY CHARTER TREATY: GEOGRAPHY



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

Figure 2



ENERGY CHARTER WORLD AND MAJOR ENERGY FLOWS IN THE EASTERN HEMISPHERE

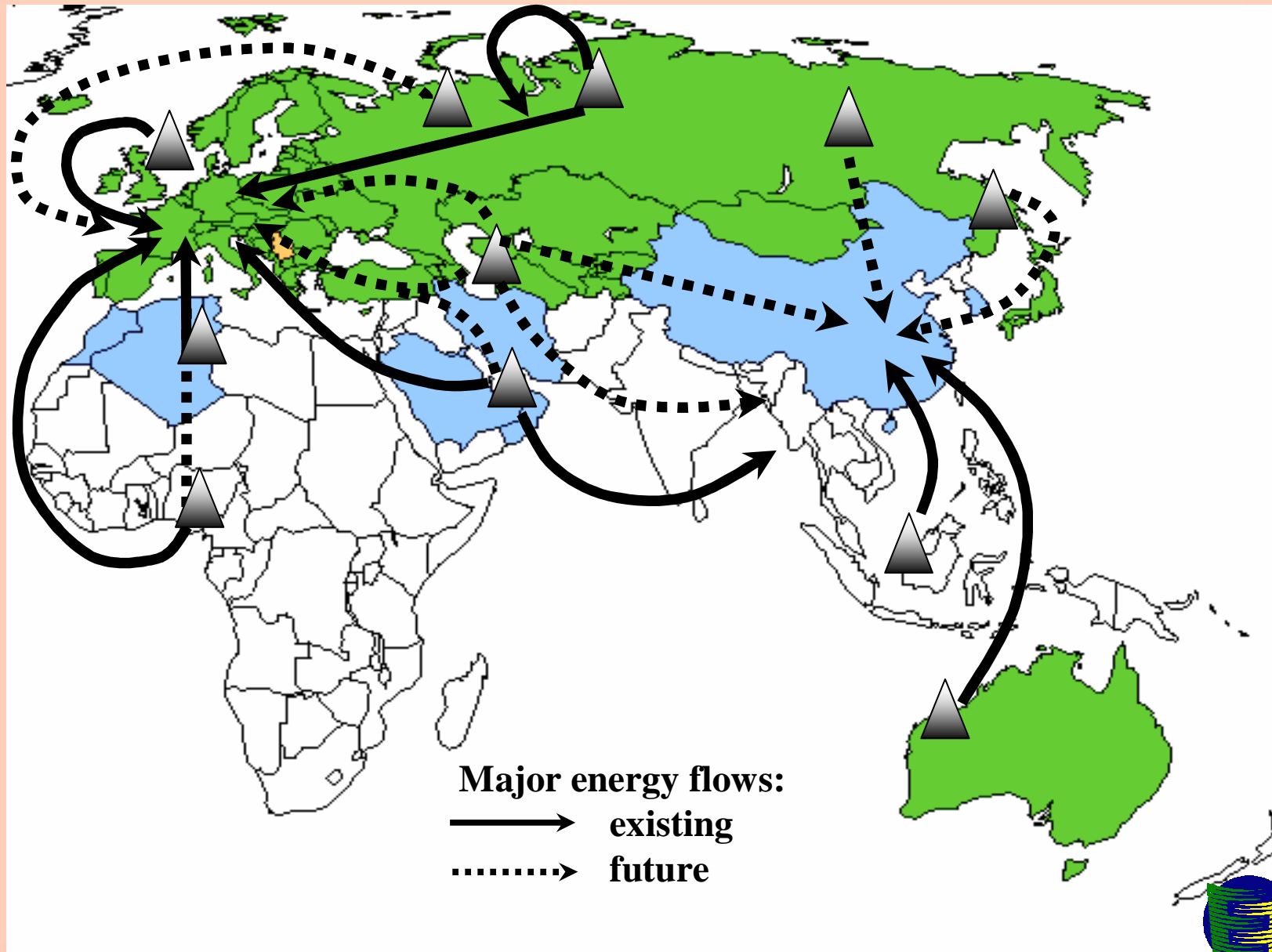


Figure 3

ENERGY CHARTER AND RELATED DOCUMENTS

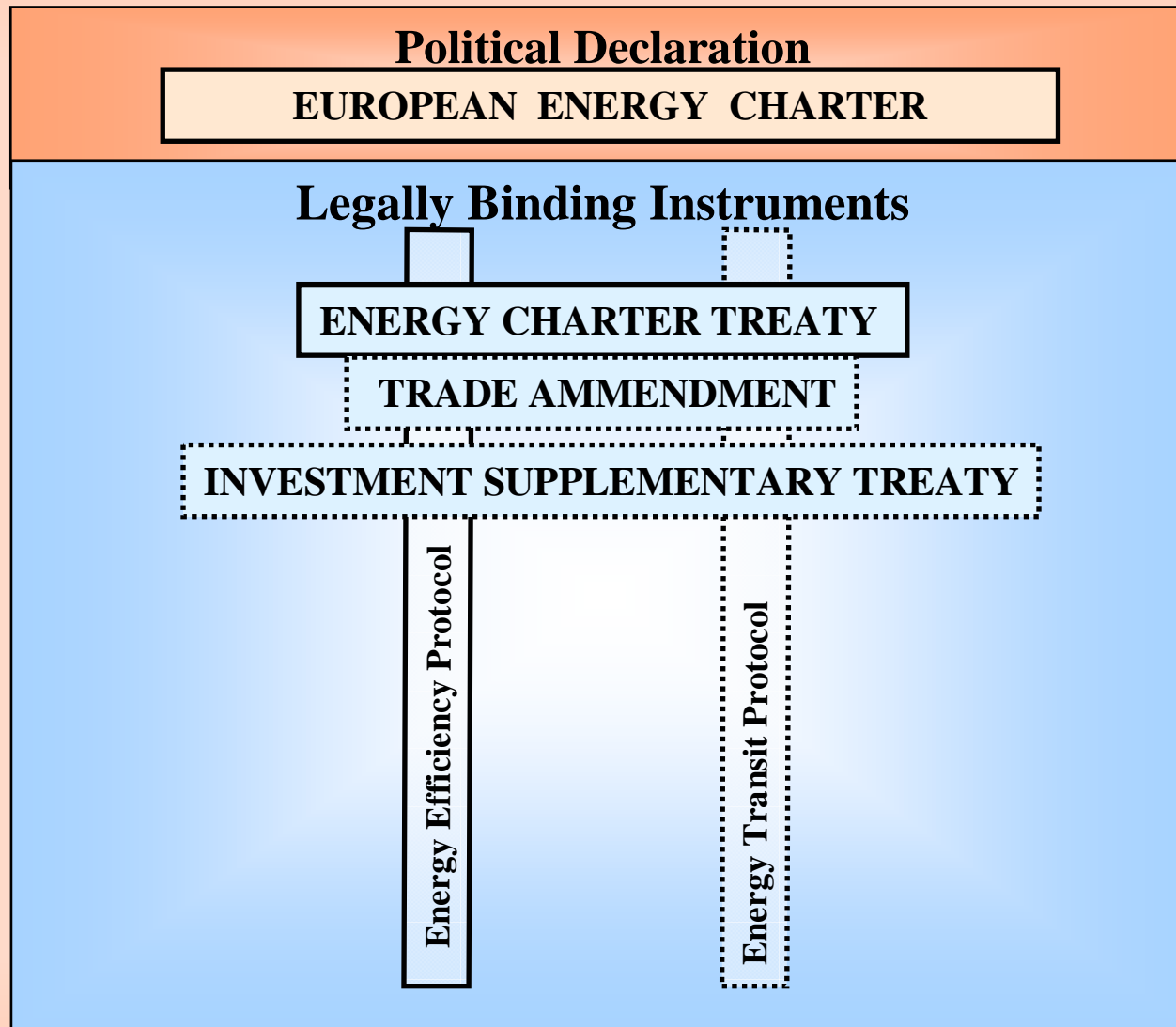
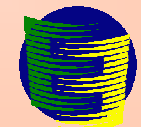
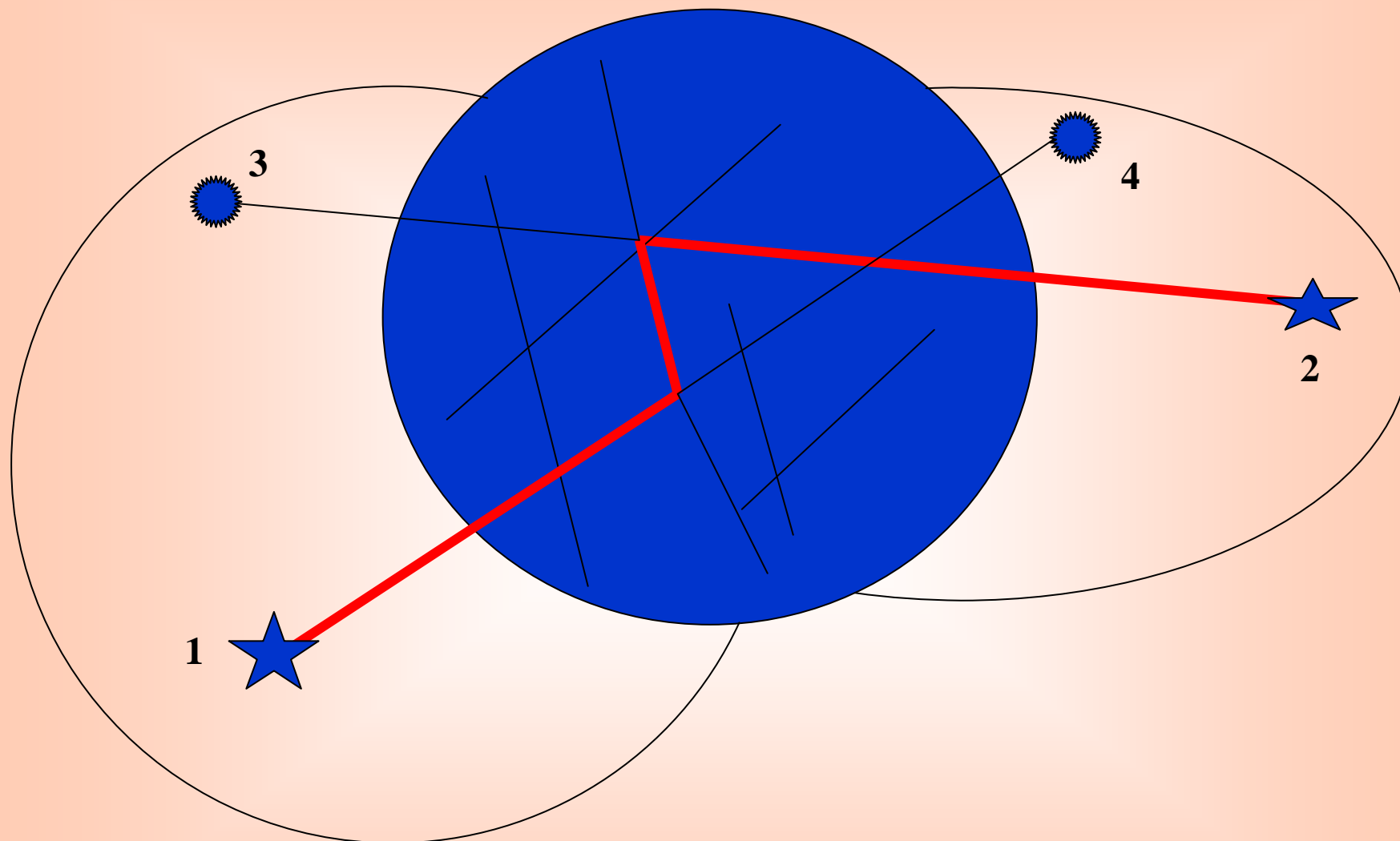


Figure 4



TRANSIT DEFINITION (Art.7 ECT)




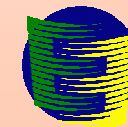
- Transit from 1 to 2: red line
- Cross-border energy swap delivery points 3 and 4: 

Figure 5



GAS TRANSIT ROLE FOR MAIN EXISTING (1999) AND PROSPECTIVE EXPORTERS TO EUROPE

Country-exporter	Direct supplies, % of volume of exports	Transit through the territory of: % of volume of exports			
		one country	two countries	three countries	four countries
EXISTING EXPORTERS					
Netherlands	76,2	13,8	10,0	-	-
Norway	67,7	7,5	21,4	3,4	-
Algeria	44,9	14,8	9,6	24,3	6,4
Russia	39,5	9,4	11,4	28,1	11,6
PROSPECTIVE EXPORTERS					
Turkmenistan:					
- NW bound	√	--	--	--	--
- SW bound (x)	--	√	√	√	√
Kazakhstan:					
- NW bound	√	--	--	--	--
- SW bound (x)	--	--	--	--	?
Azerbaijan (x)	--	√	√	√	√
Iran (x)	√	√	√	√	√
Nigeria	--	--	√	√	√

(x) Turkey = market and transit hub

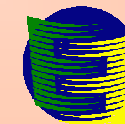


Figure 6

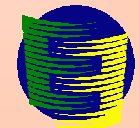
ECT TRANSIT PROTOCOL

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

Result:

- risks & costs related to transit diminishes**
- competitiveness of transit supplies increases**
- improves “energy security” (“security of supplies”+”security of demand”+”security of infrastructure”)**

Figure 7



ECT IS BUSINESS-ORIENTED TREATY

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

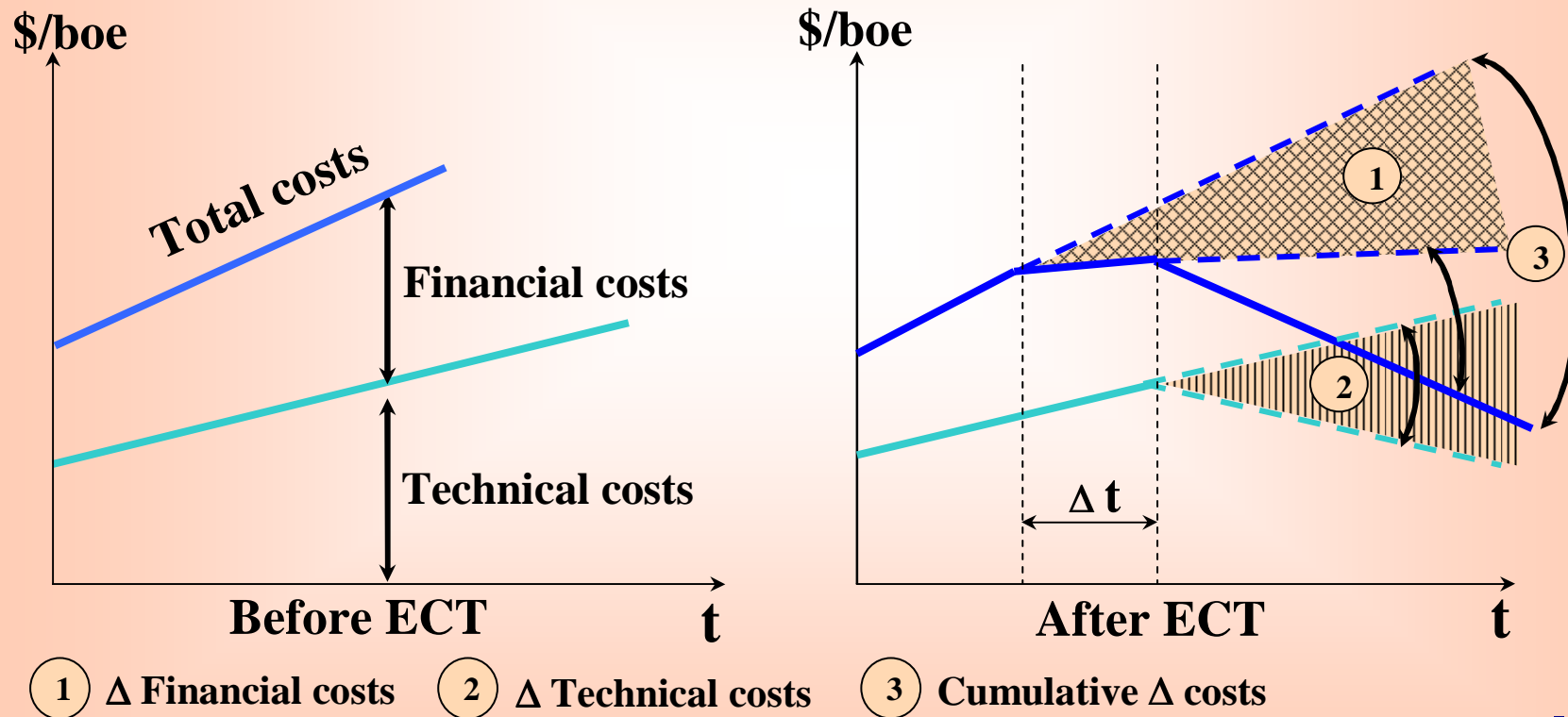


Figure 8

