

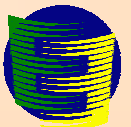
**ENERGY AND SECURITY:
THE ROLE OF THE INSTITUTIONAL STRUCTURES
WITHIN THE OSCE REGION
(with particular emphasis on the Energy Charter Process)**

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**OSCE Economic and Environmental Sub-Committee Meeting
Vienna, 26 November 2004**

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ENERGY SECURITY: CONCEPT

***ENERGY SECURITY* = stable, cheap & environmentally friendly energy cycle (primary supplies + transportation + refining + transformation + final consumption)**

***ENERGY SECURITY* =**

- (1) minimum volume risk +**
- (2) minimum price risk**

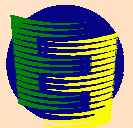
EVOLUTION OF SPECIFIC *ENERGY SECURITY* INSTRUMENTS:

- (1) colonies (non-energy raw materials),**
- (2) concession system,**
- (3) strategic reserves + stocks,**
- (4) international law instruments**

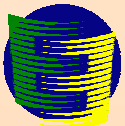
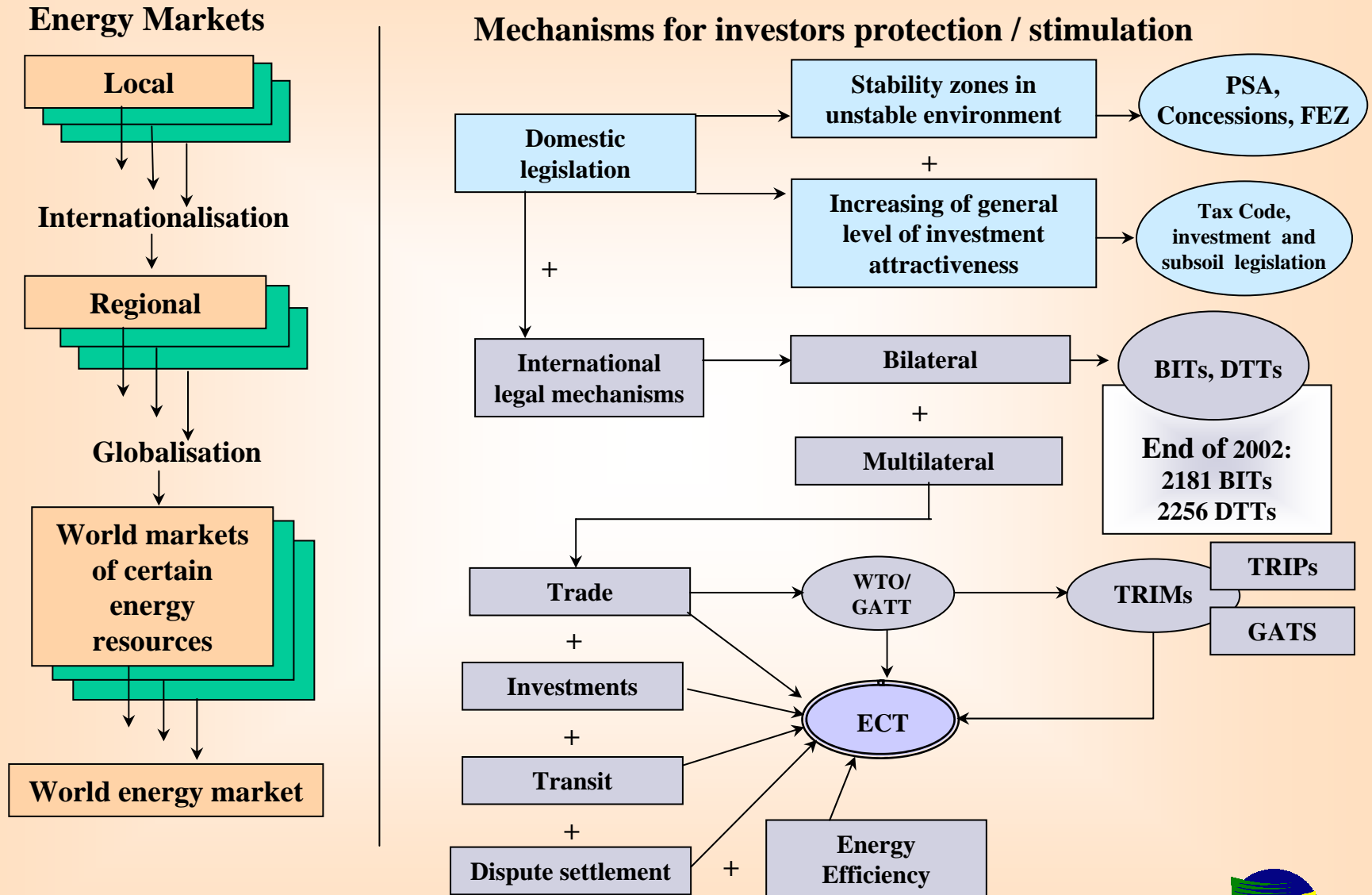
EFFECTIVE *ENERGY SECURITY* INSTRUMENTS are different at different stages of energy markets development:

- 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**

Further to growth of energy interdependence, international law becomes more and more effective (relatively cheap per unit of supplies/final consumption) instrument of providing *energy security*



DEVELOPMENT OF ENERGY MARKETS AND MECHANISMS FOR INVESTORS PROTECTION / STIMULATION



INTERNATIONAL ENERGY-RELATED ORGANISATIONS IN A GLOBAL FRAMEWORK

Q.: Are there any specific risks in energy to be addressed in a special forum / documents?

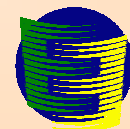
A.: Yes. Energy projects (compared to other industries):

- 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.**

So, a competitive niche exists for energy-related multilateral international organisations – at least to address specific character of energy risks.

Are these organisations complimentary or competitive to each other?

What is their optimal correlation?



MULTILATERAL ENERGY-RELATED ORGANISATIONS

- **Organisation of Petroleum Exporting Countries (Vienna):**
 - Formal (government oil export policies), but deals only with one – oil – market,
 - Crude oil export quotas mechanism,
 - Oil market research & analysis, etc.
- **International Energy Forum (Er-Ryadh):**
 - Purely informal minister-to-minister dialogue (?),
 - No legal consequences (?),
 - Strong intention of IEF leadership to prevent potential bureaucratisation, etc.
- **International Energy Agency (Paris):**
 - Partly formal – related to oil market (common IEA governments oil stocks policy),
 - Mostly informal (energy markets research & analysis, energy policy recommendations),
 - Quantitative assessments of future energy markets, etc.
- **United Nations Economic Commission for Europe (UN ECE) (Geneva):**
 - Policy debate, technical issues, coordinated policies (?),
 - The only “transatlantic” organisation that historically has been uniting both OECD and former USSR/COMECON states.
- **Energy Charter (Brussels):**
 - Formal (negotiations on legally-binding documents + their implementation),
 - Expanding and deepening the scope of international law in energy-related sphere
 - Add. Policy debate

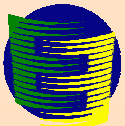
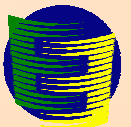


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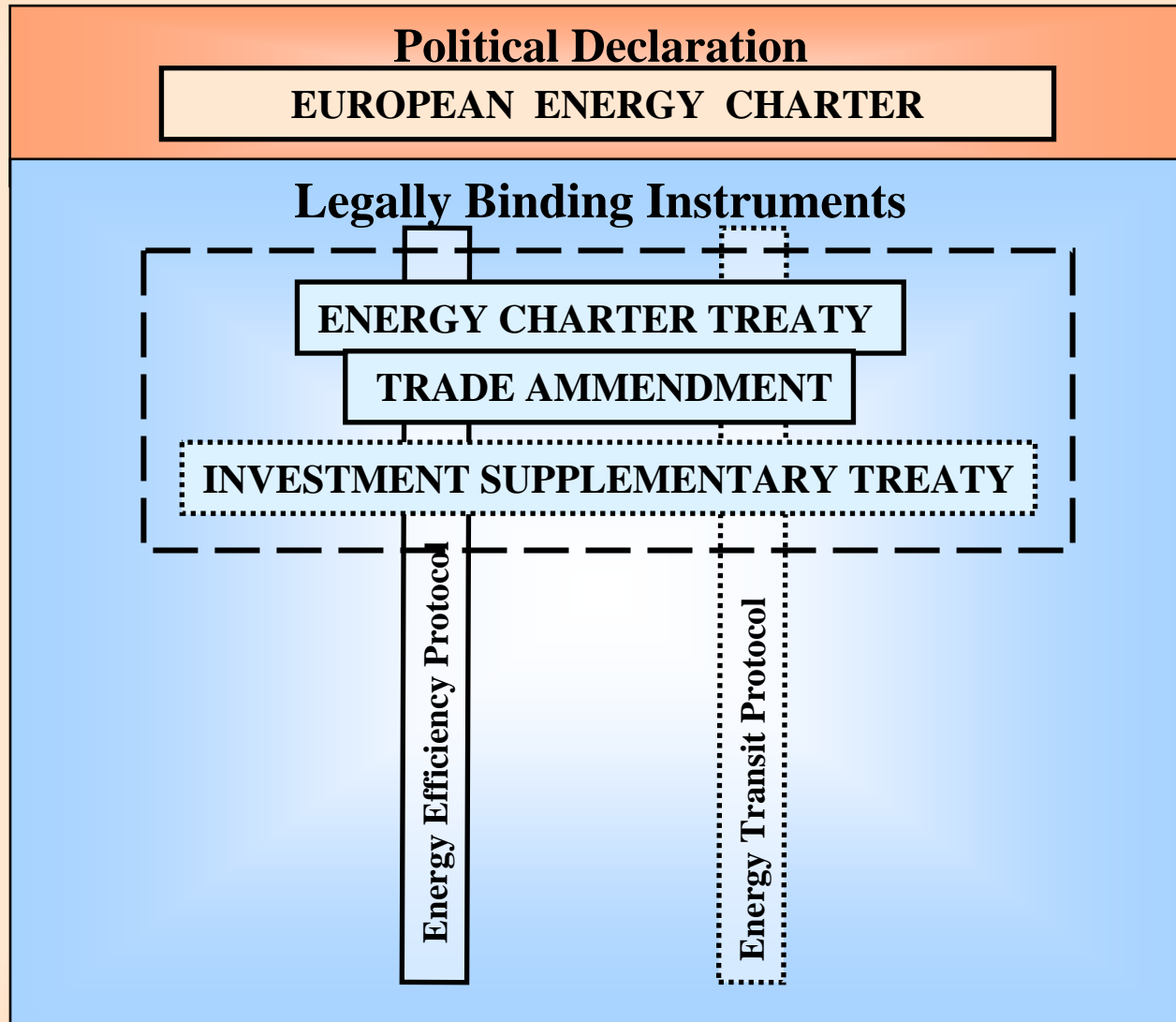


ENERGY CHARTER HISTORY

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• ECT ratified by 46 states + EC (excl. 5 countries: Russia, Belarus, Iceland, Australia, Norway)• Russia and Belarus : provisional application of ECT



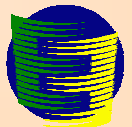
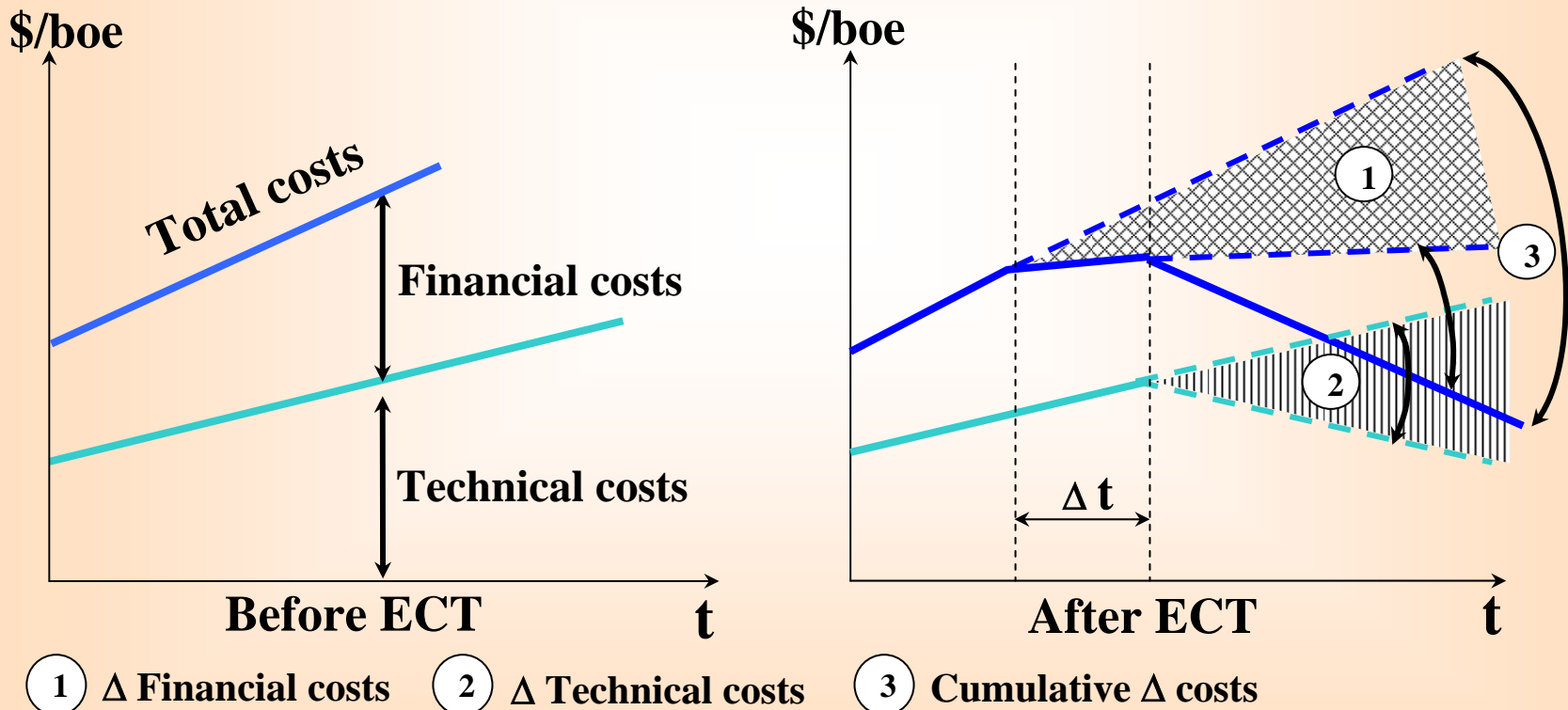
ENERGY CHARTER AND RELATED DOCUMENTS



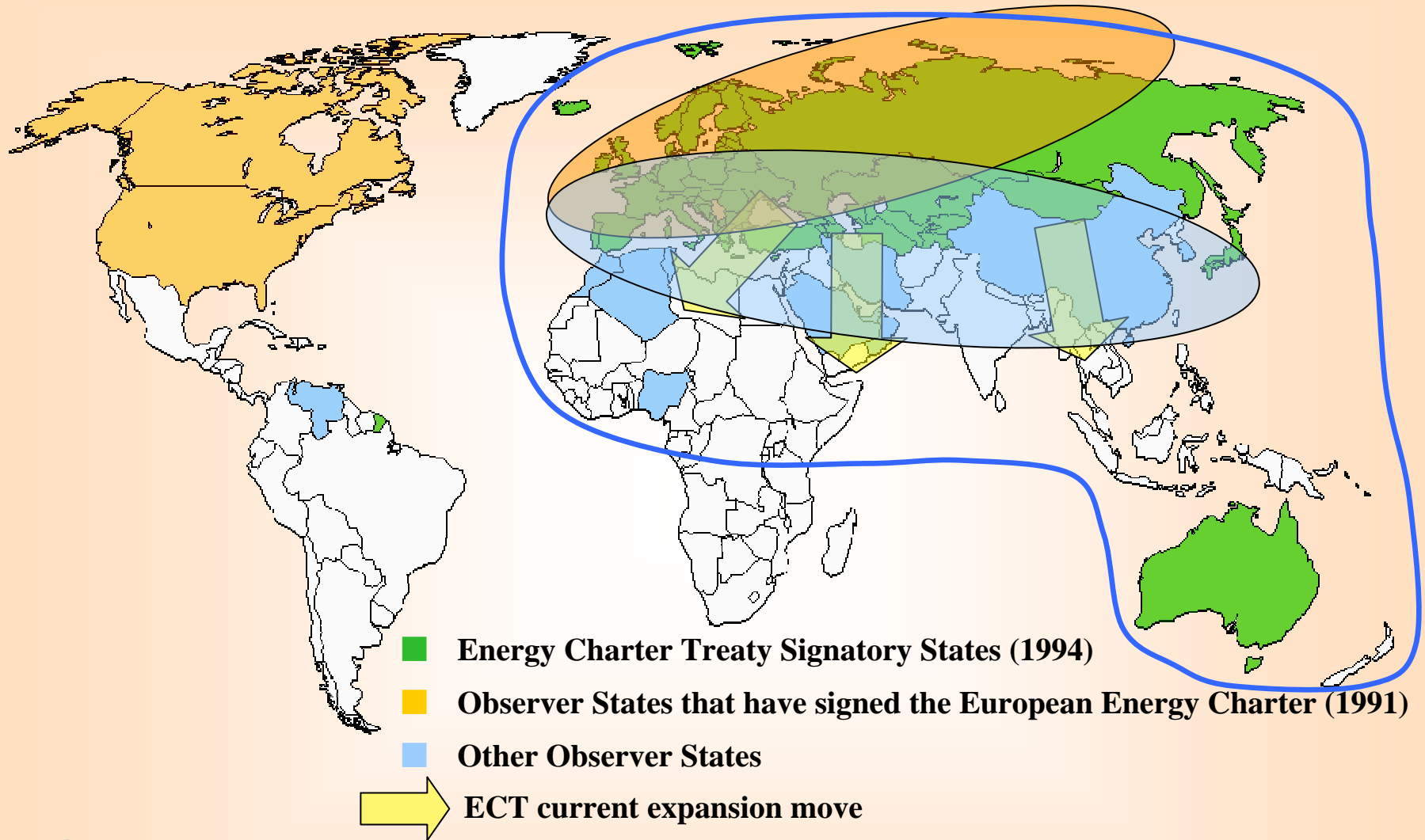
ECT IS BUSINESS-ORIENTED TREATY (how it works)

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



ENERGY CHARTER PROCESS: GEOGRAPHICAL DEVELOPMENT



Ⓛ A prospective area of broader Eurasian single energy market

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

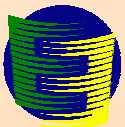
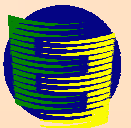


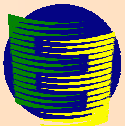
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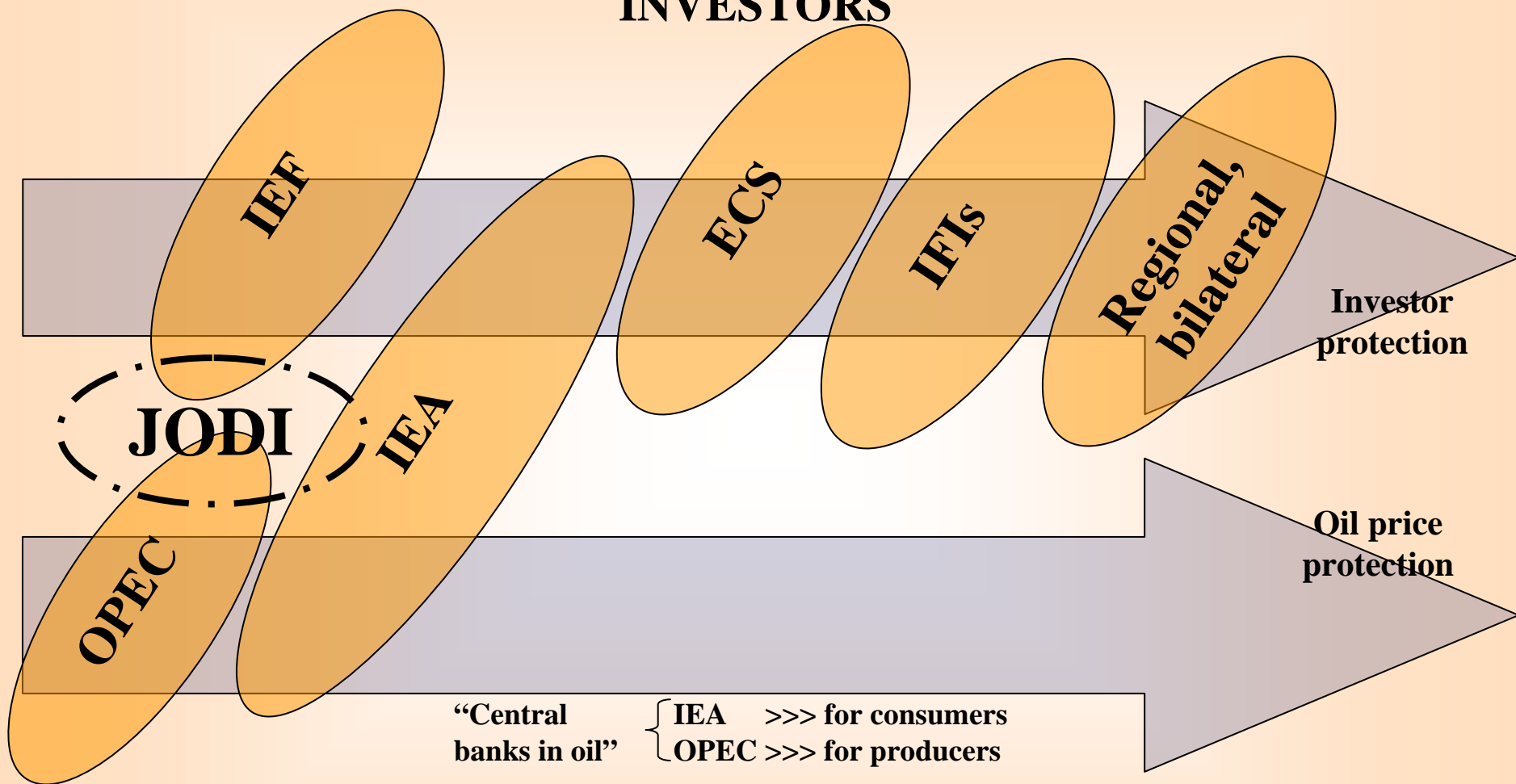


ENERGY-RELATED INTERNATIONAL ORGANISATIONS: SCOPE OF ACTIVITIES

- **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 (IFIs = EBRD, ADB, ...):**
 - Lead-financiers in FDI inflows in transition economies (pilot actors), lower cost of capital (debt financing),
- **Regional organisations (BSEC, BASREC), bilateral processes (RF-EU energy dialogue):**
 - Incremental political, economic (?), financial (?) support to the “projects of common interest”



ENERGY-RELATED INTERNATIONAL ORGANISATIONS AND THEIR COMPETITIVE NICHE IN PROTECTING ENERGY INVESTORS



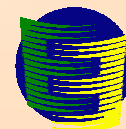
“Central banks in oil” { IEA >>> for consumers
 { OPEC >>> for producers

Policy: interventions (supply/demand regulation)

Influence on prices:

OPEC – up/down

IEA - down



ENERGY SECURITY AND INTERNATIONAL ENERGY INVESTMENTS

International energy security in the long-run depends on improved energy efficiency, diversified energy supplies, and thus on international energy investments and on the effective management and minimization of risks to such investments.

Effective cooperation of international energy-related organizations adds synergy to improving energy security, provided that each one of them effectively exploiting its competitive niche.

