

Brussels, 11 November 2013

**24<sup>TH</sup> MEETING OF THE ENERGY CHARTER CONFERENCE**  
**on 5 and 6 December 2013**

**Subject: Dialogue with the Energy Industry**  
**Draft Communication of the Chairman of the Industry Advisory Panel**

The Industry Advisory Panel (IAP) held three meetings<sup>1</sup> in 2013 and submits the attached Communication on its work for the attention of the Energy Charter Conference.

**The Energy Charter Conference is invited to take note of the Communication from the IAP, to support the ongoing contribution of the IAP to the work of the Energy Charter, and to ask the Secretariat to incorporate its findings in relevant Energy Charter activities.**

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<sup>1</sup> The attached draft Communication to the Charter Conference will be revised and updated based on discussions of the IAP meeting held on October 29

**COMMUNICATION FROM THE INDUSTRY ADVISORY PANEL  
TO THE ENERGY CHARTER CONFERENCE**

*6 December 2013*

***CHECK AGAINST DELIVERY***

**1. Introduction**

*Mandate and membership*

The objective of the IAP is to support cooperation and dialogue between the energy industry and the Contracting Parties and to promote the use of the ECT.

The Energy Charter Conference at its 23<sup>rd</sup> meeting on 26 November 2012 renewed the mandate of the IAP for a further period of three years from 2013 to 2015.

Currently the IAP has members from 38 energy companies, international associations and institutions from 20 countries and covers the full scope of energy supply, distribution and financing activities. In 2013, the IAP welcomed Mr. Asensio from ACS Company (Spain) and Mr. Kuś from GAZ-SYSTEM S.A. (Poland) as new members in the panel. The Czech Gas Association informed the Secretariat about its decision to withdraw its representative from the panel.

The IAP seeks to advise the Energy Charter Conference on the basis of expert input from members (both private and state-owned companies) and through examination from a business perspective of the relevant work of the Energy Charter Secretariat.

*Date of formation and number of meetings to date*

The proposal for the establishment of an IAP was presented at the ECT Conference in June 2003 by the ECT Secretary General, who underlined that the primary goal behind this idea was to strengthen the dialogue between the ECT process and the business community.

Since its inception in late 2004, the IAP has held 29 meetings in Brussels at the premises of the Secretariat and different countries upon the invitation of members and other interested parties.

The IAP held three meetings in 2013. The first meeting was held on 19 February in Brussels and reviewed developments at the Energy Charter and the challenges of energy security and financing energy efficiency.

The second meeting was held on 28 June upon the invitation by Edison Company in Rome, Italy. The meeting addressed the role of natural gas, research and technological development in the renewable energies sector and issues related to designing a regulatory framework for an integrated EUMENA power system.

The third meeting in the European Parliament in Brussels on 29 October combined the IAP sessions with the Energy Charter Executive Training Program for Young Energy Leaders “Rising to the Energy Security Challenges of Tomorrow by applying Effective Investment Protection Strategies Today”. This meeting discussed global energy trends, relations between sovereign states and investors in the global energy sector, framework conditions for mutual exchanges of business assets in the energy sector and consideration of the investment impact of the use of long-term supply contracts and hub trading in the natural gas sector.

### *Working Method*

The IAP continues to work on the basis of:

- case studies provided by its members with subsequent comment and discussion on the issues raised
- review of expert work presented by the Secretariat or other invited authorities
- inviting guest speakers addressing specific topic of interest for the IAP and the Energy Charter

The IAP meetings are well attended and members show great willingness to present case studies based on their relevant company or trade association experience.

The IAP continues to strengthen dialogue with regional and international organisations on the main directions of the Energy Charter Process. In 2013, Mr. Howard Chase, Chairman of the IAP and other IAP members, actively supported the Energy Charter process and spoke at several high profile events. These included a WTO workshop on the role of intergovernmental agreements in energy policy on 29 April 2013 in Geneva, Switzerland; a workshop on contractual issue related to energy trade on 20 March 2013 in Hungary; the Krynica Economic Forum in Poland on 3-5 September 2013; and two sessions of the Energy Charter Executive Training Programme in May and October 2013 in Brussels.

Supported by the Secretariat, the activities of the IAP are reported via an annual publication “IAP Insights”, which is published on the web site of the Secretariat and distributed in hard and electronic copies to interested stakeholders.

## **2. Main Issues Considered and Observations for 2013**

### *Global challenges in energy security/ Energy Governance*

The IAP was updated by the Secretariat about the ongoing modernisation process of the Energy Charter Declaration 1991 and implementation of the Energy Charter Policy on Consolidation, Expansion and Outreach (CONEXO). Discussions confirmed the interest and commitment of the IAP in the modernisation process and the updating of the Energy Charter. In this context it was noted that the energy sector has undergone major transformation over the last decade.

***The growing internationalisation of the energy sector underlines the value of the Energy Charter framework for both national economies and investors. Implementation of CONEXO Policy and support for the Energy Charter principles will be seen as a positive signal by prospective investors in the energy sector. The IAP is ready to continue its support of the Charter process concerning new developments and challenges in international energy markets.***

### *Financing energy efficiency*

The IAP underlines that energy efficiency is one of the most cost-effective ways of supporting security of supply, enhancing competitiveness and addressing climate change. Energy efficiency can be a profitable business opportunity within a robust commercial market for energy services, energy saving techniques and technologies and best practices. Energy efficiency can also contribute to delivering more affordable energy for customers and can make a significant impact in reducing carbon emissions in all sectors. However, there is a real challenge for the energy sector in addressing energy efficiency while integrating variable renewable energy sources and ensuring continuity of electricity supply.

***The IAP notes that both energy efficiency and integration of renewable energy can be successfully undertaken through a market-based approach based on a sound and technology neutral energy policy.***

### *The Role of Natural Gas*

The IAP notes that natural gas remains a fundamentally attractive part of the energy mix, offering substantial GHG mitigation relative to coal, and flexibility as a backup fuel for renewables and for balancing the power markets. However, commercial utilization and competitiveness can be significantly impacted by design features of the electricity market, including incentives for renewables supply. These require careful consideration in order to ensure that natural gas can play its full part in an affordable and reliable energy mix offering a cost-effective long-term GHG reduction path.

The role of midstream gas market players remains important to an effective market, offering valuable intermediation between upstream supply and downstream consumer interests. In Europe, gas pricing is still largely indexed on oil prices under long-term (LT) contracts with international suppliers but gas-hub based references are growing in importance. Oil indexed gas LT supply contracts may be under pressure due to the development of unconventional gas, economic pressures and changes in market structures and many operators are understood to be renegotiating such agreements.

The IAP supports freedom of choice by market participants as the basic principle governing commercial terms and conditions in the international gas trade, exercised within a framework of policy objectives promoted by government including energy security, competitiveness and environmental sustainability. Regulation needs to take into account an analysis of long-term impact and the specificities of regional and national markets, in order to provide well-designed market conditions able to match the interests of suppliers and consumers in an efficient and effective manner.

***The IAP welcomes discussion on LT contracts and pricing mechanisms within the Charter process. The IAP brings to the attention of the ECT constituency that there is a strong need for new infrastructures (including storage) within Europe and for development of new gas transportation routes from the Caspian region, Russia, North Africa and other suppliers, to ensure security of supply in the European region through partnerships between producers and consumers. Due to the long investment lead times, policy and regulatory clarity is paramount to the realisation of such infrastructure projects.***

## *Role of Research and Technological Development in the RES Sector*

The IAP notes that wind and solar technologies are able to address competitive market considerations through cost reduction, grid integration and environmental impact reduction.

While new transmission and storage technology may be helpful to mitigate the intermittency of renewable resources, the commercial integration of renewable and conventional resources (grid integration, reduction of overall system costs, improved quality and security of supply) is also likely to be a key consideration in supporting a reliable and affordable electricity market offering a cost-effective GHG reduction path.

Continued technological development over the next ten years is expected to support growing competitiveness of renewably sourced energy. Renewables are themselves not devoid of environmental impact and mitigating the environmental footprint and dealing with decommissioning will become part of R&D activities in this field. The IAP members noted the importance of closely following technology developments and their implications for energy market development.

***The IAP underlines the importance of innovative technologies to produce and store energy from renewables and to optimize the supply/demand balance through the development of smart grids. Continued Research & Development focused in these areas will be crucial for strengthening the competitiveness of the renewables sector.***

### *Exchanges of business assets within investment activities in the energy*

The IAP reviewed a study on the subject of asset exchanges prepared in the framework of the Energy Charter Knowledge Center. It was noted that many national and international energy companies have implemented or given consideration to asset exchanges across borders, in order to extend geographic reach and/or integrate their operations along the supply chain.

The study confirmed that asset exchange between commercial companies can offer a mechanism of risk mitigation for:

- international investment activities
- implementation of internationalisation/globalisation strategies
- establishment of reciprocal market access in desired market segments

***The IAP members appreciate the study which addresses an important subject of international cooperation among energy companies. The IAP encourages the Secretariat to disseminate and further discuss the results of the study among interested stakeholders.***

### *Promoting Regional Energy Cooperation*

The IAP discussed cooperation strategy for Europe, the Middle East and North Africa (EUMENA) with a focus on renewables and the role of the Energy Charter Treaty (ECT). It is foreseen that renewables projects in the MENA region could be implemented without off-take support, provided that non-economic barriers can be addressed. International processes and key institutions have been created to support the ongoing planning phase leading towards effective actions.

However, despite continuing improvements, investors still face challenges when investing in the MENA region including: legal uncertainty, the relationship with state national utilities, land access, local content and screening requirements, administrative barriers, contract enforcement, grid access and unclear transmission costs.

A regional approach could improve key aspects of the investment environment for the development of renewables projects in the MENA region. The ECT can provide a legal framework to enhance legal certainty and strengthen security and protection of international investments. Common rules are required for interconnected systems and cross border trade in an integrated power system. It was noted that a common legal framework covering investment and energy trade and transit, could significantly encourage the development of large scale renewables projects in the MENA region.

***The IAP notes that the ECT could play an important role in establishing a common legal framework across EUMENA to improve transparency of energy markets, strengthen legal certainty, reduce barriers to investment and promote competitive energy supply projects.***

### **3. Work Programme for 2014**

It is proposed that the IAP will meet on three occasions in 2014, with the first meeting scheduled for February-March 2014 in an ECT observer country in MENA region. The scope of the meeting would be to provide industry views on the Energy Charter and facilitate accession of new countries to the ECT framework.

The second meeting of 2014 will be held in May/June 2014 in Spain at the kind invitation of ACS Company. The meeting will discuss renewable energy and new technology development.

The third IAP meeting is scheduled for November 2014, hosted by the Energy Charter Secretariat to discuss development of energy markets and address issues of cooperation between business sector and the ECT constituency. Other items for consideration during 2014 may include:

- development of the gas sector
- construction of super grid transmission lines using new technologies
- development of smart grids and integration of renewable energy
- promotion of regional cooperation and low-carbon investment
- energy research and technology

The IAP remains committed to strengthening interaction with the different subsidiary bodies of the Energy Charter, to promoting the principles of the Energy Charter at relevant international fora, to extending industry advice to the modernisation process of the Energy Charter and to providing expertise and sharing industry experience at Energy Charter events.