



ENERGY CHARTER CONFERENCE  
КОНФЕРЕНЦИЯ ПО ЭНЕРГЕТИЧЕСКОЙ ХАРТИИ

23<sup>rd</sup> Meeting of the Energy Charter Conference

**Ministerial Conference:  
“The Demands for Global Energy Governance and the Potential of  
the Energy Charter”**

Warsaw, 27 November 2012

**Discussion note**

Speakers and participants are invited on the basis of this discussion paper to address in their interventions the major challenges they face in their energy policies, and to outline solutions which can be offered through multilateral cooperation, particularly in the framework of the Energy Charter.

*Global energy challenges*

Governments around the globe face similar challenges in view of their energy policies. Developed and emerging countries need to address three complex and often contradictory objectives at the same time – energy security, economic development, and environmental sustainability. Developing countries face the additional objective of ensuring elimination of energy poverty. Amongst these objectives, difficult choices must be made. Such choices may result in fundamentally different priorities, depending in particular on whether the country is a producer or consumer of energy, whether it is an industrialised or a developing economy, and depending also on its commitment to environmental targets.

Governments need to build their energy policies against the background of major trends:

1. Global demand for energy is growing, and most of this growth is taking place in emerging economies. The dependence of large consuming countries on imported oil and gas is growing, leading to an increased interdependence with exporting countries.
2. Producers face increasing uncertainty over future energy demand, yet consumers expect them to make investments amounting to significant percentages of global GDP in order to cover that demand and ensure energy security.
3. A trend of increasing resource nationalism in the resource owning countries may be observed.
4. Countries, especially landlocked countries, face the special challenge of reliance on energy transport infrastructures.
5. Energy commodity trade has become part of financial trade. As a result, energy prices, in particular for crude oil, have become highly volatile. The market stutters instead of giving a clear price signal.
6. Energy plays a critical role for sustainable development, but according to UNDP about 1.4 billion people worldwide have currently no access to electricity.
7. Technological progress is changing the global energy sector patterns as regards producer technologies (e.g. shale gas) as well as consumer technologies (e.g. zero energy housing).
8. Certain renewable electricity production technologies such as wind and solar are reaching commercial viability faster than expected. With the development of smart grids and smart metering, electricity could become a high-tech industry, requiring the corresponding technology transfer and financial resources.
9. Climate change is recognised as a major threat. The transition to a low-carbon economy should be managed through collective mitigation of greenhouse gas emissions. Otherwise countries may face more expensive measures to adapt to the consequences of climate change.
10. The financial crisis has had an economic impact requiring active growth policies by more effective regulation. Through effective grid regulation, the energy sector may play a crucial role in generating sustainable growth.

### *Action required*

No country can find isolated solutions to the complex and interlinked energy challenges which know no borders. International cooperation is imperative to find effective, lasting and mutually beneficial solutions. The General Assembly of the UN has declared the year 2012 as the International Year of Sustainable Energy for All. At recent G8 and G20 Summits, world leaders have identified areas for joint action, including:

- Fossil fuel exporting, transit and importing countries to work together to increase stability and predictability of supply and demand patterns and to promote investments in the energy sector, including by supporting and developing predictable legal and regulatory frameworks.
- Improving transparency on global energy and related markets through joint data collection and analysis.
- Improving the investment climate in the energy sector by removing obstacles to the evolution of global energy infrastructure and reducing trade barriers.
- Increasing clean and renewable energy supplies, improving energy efficiency, promoting conservation, and stimulating related investments, research and development.
- Enhancing safety and sustainability of energy production.
- Ensuring physical security of critical energy infrastructure and of critical maritime straits.
- Diversifying energy supplies.
- Phasing out inefficient fossil fuel subsidies.
- Reducing energy poverty, pursuing universal access to diverse, reliable, affordable and clean energy.

### *Time to build effective governance*

Hardly any country can manage to cope with these challenges entirely on its own. The US Energy Independence and Security Act of 2007 might be an example of such an attempt. International policy makers are therefore required to take the necessary action. Within the G8 and G20, world leaders have repeatedly invited to review and update policies and promote them in light of the persistent energy challenges (e.g. G8 in 2006 and 2012, G20 in 2009 and 2011). There have also been calls to establish new frameworks for energy governance, e.g. by the former President of the Russian Federation in 2009 and the Chinese Premier in 2012. The EU has indirectly echoed this challenge by stepwise promoting a new policy on

engaging with partners beyond EU borders, published by the EU Commission in September 2011, discussed by the EU Council in November 2011 and the EU Parliament in May 2012.

The term “governance” refers to joint action based on a strong common commitment and the authority of shared institutions and rules of enforcement. Given the complexity of the multiple challenges related to global energy relations, there is currently no single organisation establishing a comprehensive system of global energy governance. Most organisations address problems only partially and are restricted in their membership.

#### *The landscape of existing organisations*

While some organisations are based exclusively on loose cooperation frameworks, others rely on binding and enforceable rules. The more inclusive a forum is, the more difficult it normally is to agree such rules among a diverse membership. An inclusive and comprehensive rules-based organisation representing a proper balance of interest would correspond best to the requirements of global governance. At the same time, cooperative approaches may sometimes offer effective responses as well.

The established system of international energy cooperation has a strong emphasis on oil security. With the Organisation of Petroleum Exporting Countries (OPEC) and the International Energy Agency (IEA), producers and consumers have established separate fora based on solidarity within their respective interest group. In the last two decades, the IEA has adopted a more comprehensive approach to energy security, allowing it to reach out to non-members.

The International Energy Forum (IEF) demonstrates that producers and consumers are today keen to engage in mutual dialogue and cooperation. The IEF promotes transparency in oil and gas markets by hosting the Joint Oil Data Initiative (JODI). Since 2011, the IEF has established institutions, but it does not impose binding obligations on the parties. In the last decade, the Gas Exporting Countries Forum (GECF) has been created, mirroring the activities OPEC has in oil.

The Energy Charter Treaty (ECT) is unique in so far as it provides a legally binding framework for energy cooperation for a rather large and diverse membership. The ECT aims at promoting cooperation on the basis of mutual

benefits, promoting open energy markets and investments, while fully respecting national sovereignty over resources. Its effectiveness is ensured through the acceptance of its rules within an enlarged member constituency. The objective of an ongoing modernisation process aims at consolidating and strengthening the framework covering the expansion of the Energy Charter Treaty's geographical scope, transit and cross-border trade, emergency response, investment promotion and protection, energy efficiency, energy security and interdependence, and the effectiveness of the Charter's institutions.

Another organisation based on binding commitments is the UN Framework Convention on Climate Change (UNFCCC). Its top-down approach to promote climate-friendly sustainability in energy policies would represent a powerful instrument of global energy governance, but the balancing of interest among industrialised, emerging and developing countries represents a major challenge to be overcome before binding emission targets can be agreed upon.

A number of new organisations have been set up recently to promote efficient and low-carbon energy among developed and developing countries: International Renewable Energy Agency (IRENA), International Partnership for Energy Efficiency Cooperation (IPEEC), Renewable Energy and Energy Efficiency Partnership (REEEP). The development aspect of energy is addressed by a variety of UN organisations such as the UN Development Programme (UNDP), the UN Environmental Programme (UNEP), the UN Industrial Development Organisation (UNIDO), the Food and Agricultural Organisation (FAO), the UN Energy Network as well as by all international financial institutions.

Regional cooperation and integration may provide a powerful tool for countries to achieve their energy policy objectives. Examples of regional frameworks having an energy component are e.g. the European Union (EU), the Energy Community Treaty (EnCT), the Eurasian Economic Commission (EAEC), the North American Free Trade Area (NAFTA), the Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC), the Organización Latinoamericana de Energía (OLADE) and the Economic Community of West African States (ECOWAS).

Besides governmental organisations, an increasing number of non-governmental organisations have started to play a role in energy policy. The World Energy Council (WEC), founded in 1923, includes affiliated national committees in 93

countries. The International Gas Union (IGU), created in 1931, has become an active network for the worldwide gas industry operating in 78 countries. Since 2004 electricity grid operators cooperate in the framework of the Very Large Power Grid Operators (VLPGO) covering more than 70% of world electricity demand. In the last decade, the Extractive Industries Transparency Initiative (EITI) has created a global standard ensuring transparency of payments from natural resources to which 15 countries comply and 21 are candidates.

In summary, existing organisations cover many aspects related to global energy challenges, but all of them are either limited in their membership or, if that is not the case, lack powerful executive institutions. It needs to be acknowledged that most organisations are taking steps to accommodate new challenges.

#### *The new system of global energy governance and the role of the Energy Charter*

Global leadership is required in order to make the current system of international cooperation more coherent and effective. The UN and the G20 are global bodies that could provide such leadership.

The establishment of a new comprehensive global energy organisation is an unlikely scenario. However, the G20 could set strategic priorities and targets and coordinate among the activities of existing organisations. The Energy Charter provides some important advantages, which may encourage the G20 to rely more on this organisation in the future. The Energy Charter

- is undergoing a modernisation process, offering opportunities to react flexibly to requests from the global level;
- offers a unique legally binding framework based on mutual benefits;
- promotes multilateral cooperation and good governance;
- has a broad membership, involving developed and developing, energy exporting, importing and transiting countries;
- is open for new members irrespective of market structure;
- respects sovereignty over resources;
- addresses major concerns of the private sector by providing a reliable framework for investments in exploration and infrastructure;
- is well suited to facilitate the evolution of a low-carbon economy, based on its investment and trade rules as well as its energy efficiency programme.