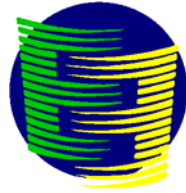


Round Table
ACCESS OF TURKMEN ENERGY RESOURCES TO
INTERNATIONAL MARKETS

2-3 MARCH 2005



OPENING REMARKS BY DR RIA KEMPER,
SECRETARY GENERAL, ENERGY CHARTER SECRETARIAT

Mr Chairman, Ladies and Gentlemen, it is a great pleasure to be in Turkmenistan for this Roundtable, on my second visit to Ashgabat as Secretary General of the Energy Charter. Before making a few opening remarks, I would like to express my gratitude to the President of Turkmenistan for his support to this event and for his warm words of welcome. I would also like to thank Mr Gourbanmuradov and the Government of Turkmenistan, and to the European Commission for their excellent cooperation in the organisation of this event.

Our topic over the next day and a half is access for Turkmen energy resources to international markets. The background to this debate is provided by inescapable facts of geography, geology and of energy demand. As we are all aware, Turkmenistan has very significant resources of energy but no direct access to the main international markets. Access to the European market depends either on the existing Russian network, or on the emerging infrastructure to the south of the Black Sea through Turkey and South East Europe. Prospects for export to the large markets to the south – India and Pakistan – and to the east – China – are likewise dependent on arrangements with the countries that lie in between. Therefore, the realisation of this country's great potential as an exporter of hydrocarbons depends to a large extent on the existence of stable long-term arrangements for investment and for the transport of its energy resources to consumer markets via the territory of neighbouring states.

This immediately gives rise to a question. How are these stable long-term arrangements to be assured, and what common principles will govern their negotiation and implementation?

I hope that our discussions during this roundtable will bring us closer to answering this question. In saying this, I acknowledge straight away that investments in energy production and infrastructure – and access to markets – are issues of profound political and strategic importance. It would be naïve to claim that the operation of the energy industry in this part of the world, or indeed in any part of the world, will ever be dissociated from politics.

But at the same time, it is important to recall that states across the emerging Eurasian energy market, including producers such as Turkmenistan and also transit and consumer countries, can recognise their complementary interests in the energy sector and come together to agree some common ‘rules of the game’.

This is precisely what fifty-one countries across Europe and Asia have already done by signing the Energy Charter Treaty. The Treaty provides a comprehensive multilateral framework for cooperation between states in the energy sector; Turkmenistan is one of the original signatories of the Treaty and a full participant in this framework.

I will not go into detail at this stage about the Treaty’s provisions and the way that it can facilitate investment and access to international markets; this will be the subject for detailed presentations during this roundtable. What I would like to do, however, is to introduce some ideas and concepts that I think are relevant to our discussion.

To begin with, I would like to underline a key principle that underpins the Energy Charter process – the belief that long-term security of supply, and security of revenue for producing countries, can best be served by the existence of a foundation of common multilateral rules to secure investment and energy flows, and by the spread of more open and competitive markets across Eurasia.

It is also important to remember that Turkmenistan is competing not only for access to international consumer markets, but also for access to the capital markets that can finance investments in its energy sector. The bulk of the investments necessary for the development of Eurasia’s energy infrastructure will be made not by governments, but by private industry, based on a commercial assessment of the risks and opportunities involved and financed by competitive international markets.

The task of governments, and also of inter-governmental organisations such as the Energy Charter, is to facilitate this process by creating a stable set of rules creating confidence for investors and financiers. Producer states like Turkmenistan need to provide a predictable legislative environment in order to foster the confidence necessary for major investment decisions.

The Energy Charter Treaty does not prescribe a particular structure for national energy markets. Indeed, the Treaty's starting point is the confirmation that each Contracting Party retains the sovereign right to decide how, and to what extent, its national energy resources will be developed, and also the extent to which its national market will be opened to foreign investments.

These are all matters for Turkmenistan to decide. However – once a foreign investor from another Contracting Party invests in the Turkmen energy sector – then Turkmenistan is obliged by the Energy Charter Treaty to offer certain guarantees, which are supported by access to binding international arbitration in case of disputes. We will be dealing in more detail with investment climate issues in session II tomorrow morning, and I look forward to this debate.

Prospects for foreign investment in Turkmenistan are not only linked to the domestic legislative environment. It is abundantly clear that any long-term commitments regarding oil and gas exploration and production projects must be accompanied by the certainty that the resulting product can be delivered to paying markets.

It is well known that various new export routes for Turkmen hydrocarbons have been under consideration in recent years, and that these options – whether via Iran, across the Caspian Sea, south towards India and Pakistan or east towards China – offer the prospect of greater diversity in the future for Turkmenistan in accessing world energy markets. For the moment, however, the fact remains that Turkmenistan is largely reliant for its exports on the energy transportation systems of Russia, and – to a lesser extent – upon Iran.

There is a need for clarity and transparency over the conditions that govern the use of such fixed systems along the whole 'chain' of countries from producers to consumers. Given its strategic interest in this issue, it was very understandable that Turkmenistan itself put forward the initiative in 1998 for a new multilateral agreement governing international energy transit issues,

in order to mitigate the risks associated with investments in projects involving cross-border energy flows.

The Energy Charter process has made substantial efforts to meet this challenge by developing an operational legal instrument, the Energy Charter Transit Protocol, aimed at clarifying these ‘rules of the game’ in relation to energy transit. This builds on the existing provisions of the Energy Charter Treaty, and a large degree of consensus both on the need for this instrument and also on the text itself has already been found among our member states. However three points still await finalisation in bilateral negotiations between the EU and Russia.

We shall be returning to this issue in more detail tomorrow. For the moment I would just like to underline that energy transit, by its nature, is a multilateral activity, which cannot be regulated adequately through bilateral channels alone, and the Energy Charter process is the most developed multilateral mechanism in existence through which governments can cooperate in this area.

Finally, I would like to mention the prospects for expansion of the Charter process and accession to the Treaty by other countries of this region. The Charter process is not a ‘closed shop’; it is open to any country willing to take on the obligations of the Treaty. Aside from our existing Contracting Parties in the Caspian region, there is growing involvement in the Charter process from the Islamic Republic of Iran, which became an observer in December 2002, and from the People’s Republic of China. I have also recently returned from a visit to India, where the discussions on potential new regional pipelines has stimulated renewed interest in the principles and protection that the Energy Charter Treaty can provide.

Turkmenistan has much to gain from the spread of more open, rule-based and competitive markets in this region and across Eurasia, and therefore much to gain from the Energy Charter process as a whole. I encourage all of you to participate actively in the discussions over the next day and a half, and wish this Roundtable every success.

Thank you for your attention.