

CONFERENCE “RISK REDUCTION IN THE ENERGY SECTOR”,

Brussels, 26 October 2005



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

Ladies and Gentlemen:

It is a great pleasure for me to welcome you all to this Conference on “Risk Reduction in the Energy Sector”, organised by the Energy Charter Secretariat in cooperation with the International Energy Agency in Paris. I am very pleased that we have been able to hold this event jointly with the IEA, and I would like to extend a special welcome to Noé Van Hulst, the Director of the IEA’s Office of Long-Term Cooperation and Policy Analysis, and to his colleagues for their presence here today and for their active involvement in this event. I would also like to thank all the speakers and session chairs that have agreed to participate, and am pleased to note that these include an impressive range of representatives from governments, international organisations and from the energy industry.

This is the fourth Conference in what has become a series of autumn policy conferences on Eurasian energy issues organised by the Energy Charter. In previous years, we have examined the prospects for liberalising trade and investment in the electricity sector, the opportunities and risks facing gas markets, and – last year – the important strategic question of energy transit. In each case, we have tried not only to explore the relevant policy challenges but also to identify appropriate responses, both for governments and for international organisations.

The theme for this year’s conference is risk reduction in the energy sector, with a particular focus on upstream oil and gas, and in these brief opening words I would

like to explain our thinking behind this choice of theme and our hopes for the discussions today.

Our starting point is a global energy scene characterised by strong demand, tight capacity and high prices. In this situation, one could expect high prices to temper demand while stimulating additional supply. Yet, the signs are that demand growth is remaining strong while – as yet – the response on the supply side has been relatively limited. One of our main aims during this Conference is to investigate some possible constraints on investment in new energy supply.

I would like from the outset to discount one line of enquiry. I do not believe that the world faces at present a shortage of hydrocarbon reserves or resources. Data from the 2005 BP Statistical Review continues to show that every barrel of oil and cubic metre of gas that is produced is replaced by at least the equivalent amount in newly proved energy. Oil still has a reserves-to-production ratio of over 40 years, gas of 67 years and coal of 164 years.

What we observe today is rather a shortage of production capacity in oil and gas, alongside some bottlenecks in transportation and refining. Removing these constraints will require massive long-term investment – the IEA has estimated the investment needs of the oil and gas sectors between 2003 and 2030 at around USD 6 trillion. Most of the world's current production capacity in these sectors will need to be replaced during this period.

What are the main considerations that will shape these investments in the future? There are clear technological challenges, as the energy industry looks to improve recovery rates and faces ever more difficult climatic and geological conditions for its work. There is also the imperative to reduce to a minimum the environmental impact of energy production and use. Here again technology can play a critical role, for example through carbon sequestration, together with coordinated government actions to reduce harmful emissions.

But another essential consideration is the overall legal and political environment that will determine where – and at what pace – investments are made. It is this issue that I hope we will be able to explore today, in order to improve our understanding of the current risks facing energy investors and also to identify ways in which these risks can be mitigated or removed.

I would like to say a few words in this regard about the role of the Energy Charter process. As most of you will be aware, the basis for our work is the 1994 Energy Charter Treaty, which has been signed by fifty-one governments across Eurasia. This Treaty represents a distinctive attempt by governments to increase their energy security through a binding instrument of international law, and its relevance to today's energy challenges is underlined by the interest that it continues to provoke among new non-signatory states. Although the process was originally conceived in Europe as a forum for East-West cooperation, it has taken on a much broader perspective since 2000 as China, Korea, Iran and the ASEAN group of countries have taken on observer status. I hope very much that this Asian dimension of the Charter will be further strengthened in the coming months with the first steps towards accession by Pakistan and India, which will be brought forward to the Energy Charter Conference in December for approval.

Turning to the aims of the Treaty, it is well recognised that investment projects in the energy sector are highly strategic and capital intensive, often requiring the cooperation of a large number of commercial partners and also – in the case of cross-border infrastructure projects – the consent and support of multiple governments. Risks in the energy sector are magnified by the huge capital costs associated with projects, and also by the long-term horizon over which risks must be assessed.

A primary objective of the Treaty is to minimise specific non-commercial risks that can arise over the course of project implementation, such as the possibility of discriminatory treatment, direct or indirect expropriation, and the breach of individual investment contracts. Protection in these areas is enforceable by energy investors through access to international arbitration.

But alongside the Treaty's legal provisions, the Charter process also provides a valuable forum for discussion and dialogue on energy policy issues. Over the last year, we have been developing a specific dialogue on the theme of risk reduction, both with our member governments and also with the Industry Advisory Panel. I would like to take this opportunity to commend in particular the work of this newly established Panel, and underline my satisfaction at the high-ranking and active participation that it has attracted from the energy industry.

This dialogue has focused not only on the political risks that are directly covered by the Treaty, but also on broader regulatory issues affecting the investment climate. In

this respect, I should underline that the Treaty itself does not include substantive obligations relating to the structure of national energy markets in its member countries. Indeed, it is explicit in confirming the principle of national sovereignty over energy resources.

However, we do have a general mandate to promote open, transparent and sustainable energy markets, and on this basis we will continue to work with all of our participating states to remove technical, administrative and other barriers to investment. Today's Conference is an important part of this process, and I hope that by the end of the day we will be a little closer to a common understanding of the challenges that we face in this area, and of ways to tackle them.

Thank you for your attention. I would now like to hand over to the Chairman of our first session, Mr Jean-Patrick Marquet, Senior Banker from the EBRD. Mr Chairman, the floor is yours, and it remains for me only to encourage all of you to participate actively in our discussions today, and to wish you a successful and enjoyable Conference.