

**Speaking Notes of A.V.Gorban'
at the International Conference on the Role of Governments
and International Organizations in Ensuring Energy Security
(Brussels, October 25, 2006)**

Ladies and Gentlemen,

I am grateful for this opportunity to speak before you and provide a brief overview of the Russia's views on some priority issues related to energy security. The urgency of this theme is quite obvious. Energy sector is a key industry for a sustainable development of the world economy. Fuel and energy industries represent an important factor of the national security in general, and of its economic element, in particular. Energy security issues are widely discussed by our governments and international organizations. One of the recent and eloquent examples of this is the discussions at the recent informal European Union Summit in Finland with the participation of the President of the Russian Federation V.V.Putin. The exchange of views at the Summit level has shown once again the desire of both sides to make energy cooperation mutually advantageous and equal. The results of this meeting are also encouraging in the sense that, given mutual desire, Russia and the European Union have ample opportunities to reach agreement on all issues related to energy.

We clearly realize that the energy interests of the members of international community do not always coincide. At the same time, in our joint efforts with other interested states, we are keen on developing a model of energy security cooperation and implementation mechanisms that serve the interests of all partners.

We understand that for net consumer countries energy security means primarily an uninterrupted long term energy supply from external sources on acceptable terms and conditions, as well as reduction of political, economic, and other risks.

For energy exporting countries, energy security priorities are focused on maintaining sovereignty over its energy resources, stable and long-term energy export revenues; their contribution to economic development through an active utilization of industrial, technological, financial and economic potential of fuel and energy complex; on minimizing environmental consequences of the hydrocarbons development.

In this respect, Russia is in a unique situation vis-à-vis international energy security. We belong to a club of developed industrial countries, most of which are also worlds largest energy consumers. At the same time, Russian energy exports continue to be an important currency source for this country – the fact that objectively makes us closer to hydrocarbon exporters. With all this in mind, Russia aims at being a sort of intermediary between hydrocarbon suppliers and consumers, able to take on board opinions of all parties concerned.

Internationalization and globalization give additional strength to an idea that no individual country, however large and economically strong, is in a position ensure its national energy security individually. Obviously, in different regions of the energy sector develops in substantially different ways, especially in terms of industrial composition and fuel mix; and it would be difficult to ensure such development without correlating an overall concept of such development internationally.

Solution to the problem is not found in egotistic policies. Unfair competition for access to energy under a motto "our allies and us come first" would only enhance political risks in the global energy sector. Any ideas to internationalize any country's natural resources would not work, those are utopian, to say the least.

A solution is only to be found within the framework of extensive international cooperation based on generally accepted principles of equality and mutual benefit.

We believe that global energy security can only be reached through the implementation of joint action by the international community in the three major areas -- reliable supply of traditional energy resources to the world economy, better efficiency in their use, and protection of environment, as well as utilization of new types of energy. Here one needs a common-sense approach, taking into account the interests of all – both consumer-, supplier-, and transit countries.

Guided by these considerations, Russia initiated inclusion of Global Energy Security as a key agenda item for its G8 presidency. Active and constructive negotiations held in the past year within the G8 format helped the sides to achieve a closer convergence of the views and to develop a common approach to the most forward-looking avenues of the world energy policies.

The Saint-Petersburg G8 Summit saw the adoption of a convincing Statement of the G8 Leaders on the Energy Security where major avenues were identified for the long term work of this influential forum and for specialized multilateral structures and mechanisms. In essence, the Statement represents an agreed G8 Strategy of Sustainable Development of the World Energy System for years to come, and a specific plan of action, including measures to enhance transparency, predictability and stability of the energy markets, improve investment climate in the energy sector, promote energy efficiency and energy saving, diversify types of energy, ensure security of vital energy infrastructure, fight energy poverty and address issues of climate change and sustainable development.

The Statement clearly stipulates the principle of common responsibility of producers and consumers for stable and sustainable development of the world energy sector, including through security of demand and supply, and stresses the importance of asset sharing throughout the energy chain. The role of peaceful uses of nuclear energy was reiterated as an economically efficient and environmentally safe energy source, practical steps were agreed with a view to finding practical solutions for issues related to access to the technologies of "peaceful atom" subject to meticulous observance of the non-proliferation principles.

Energy security will also become one of the priorities within energy dialogue between Russia and leading energy consumers.

This is particularly true for the European Union and its members such as the United Kingdom, Germany, Netherlands, Italy and France. Moreover, considerable importance is attached to this issue in Russia's bilateral contacts with the United States, Japan, China, India and South Korea. It also present in our dialogue with the Saudi Arabia, Algiers, Venezuela, Norway, Mexico, Canada and other major energy producers.

We also intend to devote serious attention to environmental aspects of energy development. Therefore, it is no coincidence that Russia has recently tightened the State environmental controls regarding a number of large energy projects, including the Sakhalin projects. We consider such an

approach as being fully in line with the international practices and with the spirit and letter of the Saint Petersburg Summit.

At the same, in the course of Russian Presidency my country was often criticized for supposedly having designs to strengthen the State controls over the fuel and energy complex, crowd out foreign companies, and create various barriers for foreign investors. Some of our partners tend to be oversensitive also regarding a transition of energy trade to market principles and, in particular, with regard to pricing of the supplied natural gas according to prevailing world market levels.

At the same time, under the pretext of "national security" some European Union countries discriminate against Russian companies participating in auctions and tenders because, it is claimed, their presence in the energy sectors of these countries is undesirable and would threaten their national interests. For example Lukoil has faced such a treatment in such EU countries as Greece, Poland, and Lithuania.

As soon as rumors emerged of a possible Gazprom purchase of the U.K. Centrica gas company shares, the British Government immediately initiated reexamination of merger transaction control procedures with a view to a possible blocking of such deals if they threaten "national security".

What is most surprising, similar things happen also between the EU partners. When mergers place, they usually happen within one country (EON and Ruhrgas in Germany, Exxon and Mobil, Chevron and Texaco in the United States, plans to merge Suez and Gaz de France), or, rather an exception for the closest allies (BP - Amoco, and, later, Arco merger). Attempts to achieve a position of substance in the energy sectors of other countries are met with rigid opposition even in the neighbor countries of the European Union, which has always been presented to us as a role model. An attempt by the Italian EnEl to by the French-Belgian Suez represents a shining example. Immediately the state-owned Gaz de France declared its merger with the Suez; and the French even changed their law to make this possible.

At the same time Russia criticized by everyone for lack of transparency allowed BP to acquire 50% stake, which in practical terms means full control, over the TNK-BP: the second largest Russian oil company in terms of reserves and production.

That is why it seems extremely important to avoid fanning mutual admonitions and bitterness but, rather, to try and find a balance of interests between energy producers and consumers. Of course, that is not an easy task for it is aggravated by mutual mistrust, but I do not see any other solution.

In its energy policies Russia today leans toward a tactical approach used by all of its main competitors in the global energy market. Main assets should be controlled by national corporations, which, in return of a minority stake in these assets, should receive some stakes in marketing and transportation companies abroad.

One may rest assured in this connection that we would not acquire a decision-making portfolio. Such are the rules of the game by which the modern energy market lives. Moreover, for us the important thing is to ensure on a long term basis a stable market for Russian energy. In this connection, in addition to access to final consumers, agreed market liberalization objectives and long term reliability of supply play an important role.

What could be the role for the Energy Charter Process in this context? Unfortunately, the answer is not so obvious for us.

After the signature of the Energy Charter Treaty in 1994 the world have undergone considerable changes, which, as it seems to us, has put on our agenda the need for an appropriate correction of the Treaty, which in its present form is in many respects at odds with the prevailing realities.

1. Transition economies, which in the early 1990s were in dire need of experience in building a market oriented model, to-day have become full partners in the international economic cooperation. Domestic laws of these states were brought in line with relevant international standards enabling them to considerably strengthen and expand their trade, investment and financial ties. In the new circumstances transition economies are no longer satisfied with the "energy for investments" framework and are more interested in mutual investments, including application of various asset swap schemes. The ECT in its present form does not protect us from discrimination during the pre-establishment phase.

2. The process of accession to the WTO of those ECT countries who are not yet WTO members has almost completed. Which renders unnecessary the ECT trade provisions developed specifically to cater for this group of countries. Russia did not make use these provisions because it would otherwise complicate its WTO accession negotiations. The Energy Charter Conference as an international organization could have facilitated acceleration of the WTO accession process for its members, but it has never addressed the issue. On the other hand, the Organization could assume some new functions related to development of more detailed than in GATT/WTO rules, guarantees and trade regimes applicable to trade in energy and energy related equipment.

3. A new higher level of energy cooperation calls for changes in the Treaty application mechanism.

Non-binding promises like «...the Parties shall endeavor...» should be replaced by formulations that envisage strict commitments of the parties. In this connection, the scope of such strict legal obligations is to be extended to encompass also some provisions that set the framework conditions for the development of cooperation in the energy sectors and for trade in the Energy Materials and Products. Also, principle of securing a balance of interests of the Parties through a system of reciprocal commitments should become uncontestable. For example, commitments to ensure access to resources should envisage reciprocal commitments on access to financial sources, distribution networks, port storage facilities, refineries etc.

4. Over the same period the European Union membership has enlarged substantially, and as of January 1, 2007 the EU would comprise of 27 out of 51 current ECT signatories. Moreover, a number of countries of the South-East Europe signed the Agreement of the Accession to the Energy Community with the European Union (entered into force on July 1, 2006) by which they agreed to adapt their domestic energy legislation to the EU rules. To-day, out of all ECT signatories only CIS countries, Turkey, Switzerland and such countries remote from Europe and its problems as Japan, Mongolia, and Australia found themselves beyond the legal space of the European Union.

5. Despite repeated arguments of the Russian delegation in favor of accelerating the work to resuscitate such dormant ECT articles as "Transfer of Technology" (Article 8) and "Access to Capital" (Article 9), the Secretariat has embarked on finding solutions to these problems in 2006 only. Moreover, the Article dealing with environmental issues, provisions related to conciliation in connection with transit disputes, ECT amendment system etc. call for new approaches.

6. No solution has yet been found within the ECT to transit problems of primary importance to my country. As you know, the main precondition for the Russia's ratification of the Energy Charter

Treaty is a successful finalization of negotiations on the Energy Charter Protocol on Transit. Informal consultations between the delegations of Russia and the European Union in an attempt to find an agreed solution to a number of contentious provisions did not yielded any results. The Europeans continue to insist on the absolute priority of the European Communities law throughout the European Union territory, and on non-applicability of the Protocol within its area, while preserving the right to participate in addressing transit issues in the area of other Protocol member-countries. The main tool missing in the ECT machinery is a means to promote both, security of supply and security of demand, to establish a balance of interests between producers, consumers, and transit countries and to find "a golden medium" between market liberalization and strengthening the long-term contractual relations.

Nonetheless, the ECT continues to be important for Russia as the only prevailing instrument establishing rules of the game in the international fuel and energy complex. The Treaty has undoubtedly played an important role in the past, but today it needs to be adapted to new prevailing realities.

We do hope that this Conference would make a tangible contribution to better understanding of the current state the energy security, identify new challenges and threats in this area, and highlight the role of governments and international organizations in dealing with them.

By way of conclusion, I'd like to wish the Conference success in its deliberations.

Thank you.