

**Main points of the address by
Andrei I. Denisov to the
international conference
"The Challenges of a Changing
International Energy Market"**

(Vienna, 8 November 2007)

Mr. Chairman,

Participants to the Conference,

Ladies and Gentlemen,

It is common knowledge that the energy industry is a key sector affecting sustainable development of the world economy. Over the past years challenges to international energy security have been of concern for the key countries involved in the energy chain, including within the G8 format, as well as for specialized international organizations, such as the IEA, OPEC, International Energy Forum, Energy Charter Conference and many others – the UN, OSCE, SOC, APEC and even NATO.

Energy problems are the subject of multilateral and bilateral diplomatic talks.

It is no secret that energy security does not mean the same thing for various actors of the world energy market. For the countries that are net consumers, energy security means, in the first place, uninterrupted long-term supply on acceptable terms of energy resources from exterior sources as well as lower political, economic and other risks. Priorities of exporting countries in the area of energy security are aimed at preserving sovereignty in this area, ensuring regular and long-term revenues from export of resources, facilitating economic development through active use of production and technical potential of the fuel and energy sector, as well as its financial and economic potential, and minimizing the damage caused to the environment through exploitation of hydrocarbon potential.

Transit countries, in their turn, are interested in stable and reasonable profit from transit with limited environmental damage.

Russia, being a major energy resources supplier to the world markets, makes its contribution to strengthened energy security mainly through varied transit routes of energy resources and their safe and secure supplies in the amounts our partners need. In this regard, one can hardly overestimate so far the role of long-term contracts as a guarantee of supply stability and predictability, as well as the

role of new energy pipeline routes and projects, such as, in particular, Burgas-Alexandroupolis oil pipeline and Nord Stream gas pipeline.

The global energy security means, in our opinion, a long-term, secure and adequate supply of optimum mix of different types of energy for the purpose of sustainable economic and social development of the world.

The implementation of the set of measures on three main tracks – secure supply of the traditional energy resources to the world economy, enhanced efficiency of their use and environment protection, as well as development and use of the new energy sources – would facilitate achieving global energy security.

Chairing G8 in 2006, Russia put forward global energy security as the central issue of the St.-Petersburg Summit.

We realize that the interests of G8 members do not coincide in all the respects. At the same time, the members of this club have agreed that it is impossible to fulfill the task of ensuring global energy security for the sake of sustainable growth of the world economy without maintaining the balance of interests among all those involved in the energy chain, no matter how different their interests would seem. Readiness to compromise, the ability to listen to partners suggesting their opinion – this is the success formula to be used in the process of interaction in the world energy industry.

Russia, in its energy policy today tends to favor the tactics used by all its main competitors in the global energy market. The capital assets should be controlled by national corporations, which should be getting their shares in supply and transport companies abroad in exchange for relevant minority shares in these assets. One can be sure that we as well will not get a controlling share in significant foreign companies either.

These are the rules of the game, followed by all the players in the modern energy market.

We observe how both in the European Union, and at the same time in some other countries legislative initiatives are emerging out in the sphere of energy, the character of which gives rise to certain questions and concerns. On September 19, 2007, the European Commission presented for public consideration a so-called third "Energy Package" – new draft energy directives aimed at further liberalization of the European Union energy market. The key provisions of these papers include principles of imperative separation of extracting or power generating components of companies operating in the European Union from their transport component (gas transportation networks) and restrictions on investment activity of third countries' companies in the sphere of gas transmission networks. The response of major energy operators to the new legislative initiatives can only be characterized as disturbing, and this is quite obvious since such innovations can significantly change their activities in Europe. Such instruments, in our view, require a thorough analysis of possible consequences of their implementation, as well as a quest for compromises acceptable for all. I am convinced that constructive dialogue is possible here.

A well-known American bill which also caused an ambiguous reaction is the so-called "anti-OPEC bill" suggesting legislative prohibition of cartel associations and energy resource producer alliances. Without going into details of this bill which are equivocal in terms of the international law, it may

be said that it at least does not take into account the interests of energy resource exporters' community, and therefore any discussion of the future of the bill also requires a balanced and responsible approach.

Let us keep in mind that the final documents of the G8 St. Petersburg Summit clearly establish the principle of shared responsibility borne by both producers and consumers for a stable and sustainable development of the world energy industry, including by ensuring security of demand and supply.

That is why it is now essential to seek a balance of interests of those who produce and consume energy resources. Of course, it is not easy, but I see no other solution.

It is with regard to everything mentioned above that Russia suggests that the Energy Charter Treaty (ECT), a unique multilateral international legal instrument, be improved and updated to take account of the present-day realities.

This Conference focuses on challenges. We believe that they lie in the very dynamics of change in global energy markets. The main thing is to timely respond to the challenges through joint efforts.

It is clear to everyone that since 1994, when the ECT was signed, the world has changed considerably: economies in transition that in the early 1990s were badly in need of experience to develop the market model today act as equal partners in international economic cooperation. Under the new conditions, they can no longer be content with the pattern of exchanging energy resources for investments, but rather are interested in mutual investments, including various asset swap schemes. However, the ECT in its present wording can hardly protect such economies from discrimination.

The provisions covering trade and transit, as well as other parts of the Treaty, need to be updated. Russia could present detailed proposals concerning the entire ECT text and looks forward to a productive work in this respect together with other parties to the Treaty.

The key point of my statement is as follows: the prospects of the world energy industry and of the entire world economy, as well as the prosperity of all countries, depend on our ability not just to proclaim the principle of shared responsibility, but to act in strict compliance with it.

We hope that this Conference would make a major contribution to a better understanding of the current state of energy security and help identify the main challenges and threats in this field.

In conclusion, I would like to wish success to the Conference.

Thank you.