

**Speech to Euro/Mashreq Gas Market Seminar
Thursday 19th June, Damascus**

Introduction

Mr Chairman, Ladies and Gentlemen

Thank you once again for the invitation to speak at this very welcome seminar today. The proceedings so far have been extremely interesting and I hope continue that trend.

May I also add my thanks to the initiators, organisers and sponsors of this excellent event?

My main perspective on the discussions today is as Chairman of the Industry Advisory Panel of the Energy Charter Treaty. I will cover this in the first part of my remarks.

However, as the Chairman has kindly mentioned, my career has also involved me in many major oil and gas projects around the world – while now I am responsible for the relationships between my company and the institutions of the European Union based in Brussels.

Thus I hope it might also be of interest if I also make some points from a business perspective about investment in the natural gas sector and then conclude with some thoughts on EU energy and climate change policy.

Industry Advisory Panel

In essence the Energy Charter provides a practical framework for international energy investment, trade and transport on a multilateral treaty basis.

I should emphasise the term multilateral.

Although the treaty initially evolved from the reshaping of European energy relations with the former Soviet Union in the early 1990s, the terms for successful international energy investment, trade and transport are in principle the same wherever they are applied around the globe.

It is this multilateral character which is of course of such great interest for energy investors, as well as for governments and for regional economic integration.

I should also add that the Energy Charter Treaty offers a considerable asset in the form of its expert Secretariat based in Brussels. You will hear more from them later today about the Treaty and its instruments and I will not go into more detail.

Instead let me enlarge a little on the industry perspective.

Recognising the long-standing industry interest in the Charter, the governing body of the Charter Treaty invited the energy sector in 2004 to set up an Industry Advisory Panel. It has been my great pleasure to chair the Panel since that point.

I believe that our working model is unique in bringing together senior experts from *all* parts of the energy industry to contribute their business experience and concerns to the Charter process. In nationality and language terms we have active members from a wide range of Charter member countries, including Japan, Australia, Central Asia, Russia, Turkey, Norway and the European Union.

Perhaps even more important, in sector terms we are not confined to oil and gas production and distribution but also have active members from the electricity, trading, equipment supply and banking sectors.

We aim to meet three times a year – normally in Brussels – but just last week we had an extremely successful working meeting in Baku at the invitation of the State Oil Company of Azerbaijan and we hope to develop this model further in the future.

Our working method is to take evidence from member companies and to present this to the governing body of the Treaty – the Energy Charter Conference – in a manner that can influence the strategy, priorities and work programme of the organisation.

Our experience is that the contribution is warmly welcomed by members as an important industrial perspective to the work of the Treaty.

Let me also say a few words about the substance of our work.

This can perhaps be seen most clearly in our strategy paper presented last December to the Charter Conference. This paper formed part of the official record of the Conference and copies are available in the room.

In this paper we underlined our view that global demand for oil and gas will continue to increase but there is not a fundamental problem with supply availability.

We concur with expert evidence that plentiful oil and natural gas resources remain to be economically extracted on a global basis.

However, it may be observed that the availability of lower cost resources will become increasingly concentrated in a limited number of geographic regions, while the cost of production from outside these regions is likely to increase.

This in turn points to the continued internationalisation of energy supply and a growing interdependence between energy producers and consumers in international markets.

The pressing need is for investment in all parts of the energy supply chain in order to assure future sustainability.

From this perspective the Industry Advisory Panel members believe that the principal risks to energy supply do not arise for the foreseeable future from resource availability - but are essentially 'above the ground' in terms of both origin and appropriate mitigation measures.

This is the area where we see that the Energy Charter Treaty can make a valuable contribution and this indeed will be an important subject of this afternoon's proceedings.

Supply, Demand and Infrastructure

Perhaps I can now shift focus a little towards the question of natural gas infrastructure.

Again in the words of the our strategy paper, the specific location of energy natural resources determines that transportation to market within sovereign territory and across international boundaries is a critical component of the energy supply chain.

Furthermore, the technical characteristics of energy resources – and also of electricity as an important energy carrier – determine the use of substantial fixed infrastructure to transmit and distribute energy to markets.

Access to fixed infrastructure is consequently of particular importance to the functioning of competitive and effective supply chains. In principal it may be observed that primary energy suppliers would in general prefer to invest in new infrastructure systems *only* if other capacity is not available.

The Panel believes that the development of fair, non-discriminatory rules for access to fixed infrastructure across national borders – in accordance with the principles of the Energy Charter - produces the twin benefits of:

- more efficient use of existing infrastructure
- avoidance of the construction of redundant facilities where adequate capacity is in principle already available

Where new infrastructure is required, then it is essential that development is fully conceived in terms of the economic fundamentals – meaning demand, supply and price.

Too often - in my view – the analysis is reduced to a partial debate about infrastructure cost, when the real issue is the value of the natural resources

and how to preserve that value in bringing them efficiently and securely to market.

Let me give you a practical example from the experience of my company.

As you may know, BP is the leader of the international consortium developing the highly productive Azeri-Chirag-Gunnashli (ACG) oil fields in the Caspian Sea offshore Azerbaijan. Total investment in the offshore production facilities is now in excess of \$20 billion and the revenues are making a substantial contribution to the rapid economic development of the Republic of Azerbaijan.

With anticipated plateau production of over one million barrels per day of good quality crude oil, the key to realising the value of the offshore resource was to establish a secure route to international markets that would preserve the competitive value of the product and ensure reliable long term delivery.

Given the geography of the Caspian and Black Sea region, there was particular concern about committing additional very large volumes of additional oil on a long term basis through the sensitive urban and environmental area of the Turkish Straits.

On a commercial basis the decision was consequently made to build the Baku-Tbilisi-Ceyhan (BTC) pipeline to move the oil from Azerbaijan through Georgia to the deep water port of Ceyhan on the Turkish Mediterranean coast (not so far from here).

Running through mountainous regions up to 2,800 metres in elevation, the construction and now successful operation of the 1,780 kilometre BTC pipeline is one of the great commercial and engineering stories of our time. However, it is not just a huge commercial and engineering success.

The BTC project is also an extraordinary story of inter-governmental cooperation on a large scale, to structure the rights and obligations of both the commercial and sovereign parties to the project and to ensure a stable and reliable long-term investment environment.

These rights and obligations are expressed up to the highest level in the related governmental and inter-governmental agreements. These agreements are the key to the project and represent a great tribute to the governments and state companies of the countries concerned.

The three countries involved - Azerbaijan, Georgia and Turkey - are all parties to the Energy Charter Treaty and the principal agreements make appropriate reference to the Treaty provisions.

I should add that the success of the BTC project has since served as the starting point for the successful construction of the parallel South Caucasus (SCP) natural gas pipeline now beginning to deliver gas from Azerbaijan to Georgia and then to Turkey.

As natural gas production from the South Caspian region continues to expand, this pipeline can deliver increasing quantities of gas to the Georgian and Turkish markets and - if transportation terms across Turkey are sufficiently competitive - can also provide a basis for onward delivery of gas to the European markets.

On the basis that a few words of practical experience can be worth many pages of theory, I trust that it was of interest to touch in this way on the BTC and SCP projects.

European Union Energy Policies

Perhaps I can conclude by making a few remarks – with my Brussels hat on – regarding the energy and climate change policy of the European Union.

In our view the EU has an inherently diverse energy base and is well positioned to attract future energy supply resources on a global market basis.

There is much said in Europe about energy supply dependency on Russia but even here the share of total European primary energy consumption is only around 16%. In reality the market takes in a wide range of both energy types – including increasingly from renewables – and geographic supply locations including indigenous resources.

In our view the key policy requirement is to ensure an open and competitive market that can continue to attract a wide diversity and range of future suppliers at an attractive price for both sellers and purchasers. From this perspective we fully support the continuing work of the European Union to ensure the completion of an effective and competitive single European energy market.

In addition the continued development of stable international economic and trade relations between the European Union and adjacent energy markets and supply regions can only be in the interests of all parties.

As we move forward, it is our strong view that effective energy markets are also the key to the innovations and efficiencies necessary to address in a practical way the growing concerns over climate change.

It is clear there will be room in the future global energy markets for all sources and types of energy, to be used in the most efficient way possible.

Together we can be confident that we have the technologies and opportunities to address the challenges of both energy security and climate change. As underlined in all of the work of the Industry Advisory Panel, the key is partnership and a shared approach to the capabilities, knowledge and skills needed to secure all our futures.

This seminar is a notable contribution to this process and I hope my remarks have made a useful contribution.

Thank you for listening.

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**Chairman Industry Advisory Panel
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(1900 words)