

Energy Investment Risk Assessment 2019 (#EIRA2019)

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Speech Urban Rusnák

Secretary General of the Energy Charter Secretariat

only the spoken word counts

Your Excellencies, ladies and gentlemen,

I warmly welcome all of you to the launch of the Energy Investment Risk Assessment Report 2019, or in short: EIRA 2019. I would like to thank Dominique Ristori, Former Director General for Energy at the European Commission and Deputy Minister Ilir Bejtja, for their encouraging words. We are grateful that you have found time to join us at this event. We appreciate the support received from the whole Energy Charter constituency throughout the preparation of the EIRA Report.

Your Excellencies, ladies and gentlemen,

The Energy Charter Secretariat was established in the nineties, to monitor the application of the Energy Charter Treaty, and serve its 56 Contracting Parties and Signatories and 42 observer countries. Over the years, the Secretariat has sought ways to actively assist its

Members and Observers in ways that are meaningful to them. In this context, it is my honour to present the second edition of our publication, the Energy Investment Risk Assessment, designed by the Secretariat for the benefit of governments, policy-makers and investors.

Your Excellencies, ladies and gentlemen,

In recent times, the urgency of transitioning to low carbon resources has increased, as has the need to protect incumbent investments. In the middle of this growing dilemma, the Energy Charter Secretariat inaugurated the Energy Investment Risk Assessment – EIRA – last year. The objective was for EIRA to be a timely and effective analytical tool that would assist policymakers navigate these multiple objectives and the inevitable energy transition.

EIRA is a publication aimed at helping countries develop effective strategies to ensure investors' confidence is established and retained over time. EIRA contains individual country profiles which highlight specific policy, legal and regulatory risks related to energy investment, and how these risks can be mitigated through government action.

EIRA is based on the core values of the Energy Charter Process: building confidence, promoting open markets, and strengthening the rule of law.

That said, it is important to remember EIRA is not an economic analysis; nor does it assess geopolitical or technological issues, or natural hazards. One cannot assess country risk by using EIRA only. EIRA provides a specific perspective, which complements other perspectives like other economic and political publications do.

While the scope of EIRA is quite specific, its application is very comprehensive covering investment across the entire spectrum of the energy sector.

Your Excellencies, ladies and gentlemen,

The three risk areas assessed by EIRA are:

1. unpredictable policy and regulatory change
2. discrimination between domestic and foreign investors
3. breach of State obligations

As you can see on the slide, Four indicators were selected to assess the risks I mentioned. These four indicators are the pillars of the methodology. They reward countries for taking positive measures for sound regulation and efficient processes. They capture the ability to

cope with the risks through various positive measures such as the adoption of predictable policy objectives, transparent decision-making, the establishment of strong public institutions, and the successful resolution of disputes with foreign investors.

Your Excellencies, ladies and gentlemen,

Now in its second year, the geographical coverage of EIRA has increased, as has the number of its participants. 9 countries participated in the 2017 pilot version of EIRA. The number has increased to 34 in the 2019 edition. The geographical reach of EIRA has also expanded and now spans countries in Africa, Asia, the Americas, and Europe.

EIRA 2019 expands and builds on the findings of its predecessor and gives deeper insights into the participating countries. Apart from highlighting the key strengths and areas for improvement in each country, the profiles of the recurrent participants include a year-on-year comparison table. Through this, the countries can now benchmark their performance and take stock of any changes to their risk level.

The accuracy and depth of the EIRA assessment has also improved because participating countries have a better understanding of the

report. To add to this, EIRA now has a vast network of globally renowned law firms, industry associations, academia and financial institutions that actively participate in the project and promote it on a voluntary and pro bono basis. I would like to take this opportunity to express my sincere gratitude to the countries and external parties that participated in EIRA this year.

EIRA 2019 tries to give a clearer picture regarding the application of laws and policies in the 34 participating countries. The country profiles better reflect the implementation of the existing framework. They highlight the progress made in translating commitments to actions. Attention is given to the implementation of projects, programmes and secondary regulations between 2018 and 2019.

Your Excellencies, ladies and gentlemen,

EIRA 2019 is a source of latest information. All legal and regulatory changes affecting the energy sector in the participating countries were tracked and recorded, to the greatest extent possible. For some countries, EIRA is one of the first reports to analyse these changes.

Adding to this, the new EIRA website is being launched today. It will offer extensive and updated information on the legal and regulatory environment of the assessed countries.

To facilitate data collection, the website allows the participating governments and external parties to fill in the EIRA questionnaire online. It also has an interactive webpage that projects the year on-year trajectory of the country on different EIRA parameters. The website hosts a “question explorer” that provides detailed findings on each question and highlights the key changes observed on them. Finally, it has an online library that contains over 1,500 primary policy and legal documents for the 34 participating countries. Some of these documents are exclusively available on the EIRA website.

Your Excellencies, ladies and gentlemen,

As EIRA is evolving, the addition of these new aspects brings it a step closer to one of its key objectives – tracking the progress of countries over time.

At this point, I would like to highlight some key reflections that we can derive from EIRA 2019:

1. Firstly, energy transition is an inevitable reality. EIRA aims to help governments accept this reality and encourages them to deal with the uncertainties linked to such a transition. Through EIRA 2019 we can see that countries across the globe are already taking steps in this direction by integrating energy transition in their

long-term policy planning. In 21 of the 26 recurrent EIRA participants, significant changes were made to the legal and policy frameworks. Some countries, such as Kenya and Uganda, enacted new energy and investment laws to modernise their existing regime and to introduce best practices. Albania, Greece, and Bosnia and Herzegovina updated their national energy policies and plans to give investors clarity on the future trajectory of their energy sectors. In all countries, the policy thrust is largely on migrating to renewable energy systems and clean technologies.

2. Secondly, we observed that countries are pursuing energy transition in diverse ways. This is mainly because the policy objectives of countries, their natural resource endowment, energy consumption patterns, emission levels and socio-economic setups vary significantly. Despite the divergence in approach, we find that the underlying commonality is that all countries are making positive efforts to actually transform their energy and investment landscape in line with the ongoing transition.
3. Another issue that has received much attention from policy-makers is transparency. 33 of the 34 EIRA countries have an established legal framework on transparency and information access. Legislative initiatives are now geared towards strengthening the accountability of public and private actors. It

has also been observed that countries with rich extractive industries such as Nigeria and Ukraine are adopting international best practices and higher standards of public disclosure.

4. I would also like to highlight the positive role of the basic principles of the Energy Charter Treaty, which are also reflected in EU practices, in shaping energy sector policies across various countries. For instance, various EU neighbouring states are espousing these principles to improve their respective investment climates. Indeed, some principles, such as granting energy regulators financial and operational independence, have also been subscribed to by countries in other corners of the world.

Your Excellencies, ladies and gentlemen,

While there have been a number of positive developments, through EIRA we also identify the massive amount of work that still needs to be done. As a starting point, it is noted that the link between sustainable energy targets and long-term resource planning will need to be strengthened across countries. Similarly, investment in energy infrastructure will need more coherent long-term policy planning. It is also important to note that investors, just as policymakers, will have to align themselves with the changing national objectives. To

avoid an abrupt abandonment of incumbent energy investments, companies will have to review their long-term strategies, seriously consider diversifying their portfolios and adapt business models to be in line with a low-carbon energy transition.

Your Excellencies, ladies and gentlemen,

I hope that countries will utilise the findings of our report, so next year we can see progress and identify trends based on our continued cooperation with governments already taking part and new countries joining the publication.

What are the next steps?

EIRA is intended to be an annually recurring publication. By continuing their participation countries can track their individual progress over time.

It is my personal intention to also grow the number of countries participating. Countries participate in EIRA on a voluntary basis, thereby showing their intention to enhance their investment climate for the energy sector.

Currently we are facing a risk of under-investment in the energy sector. As countries are transitioning to sustainable energy systems, new demands are being placed upon regulatory structures. Policies have to be well-communicated and predictable enough to deal with

the uncertainties and risks. We all know that Government policies play a big role not only for public, but also in private spending. I do not claim that EIRA offers a panacea to the problem of under-investment in the energy sector. But I would like to believe it helps governments to work in the right direction, in particular as the publication will develop over time.

I am looking forward to the discussions today and to receiving your reactions on EIRA 2019.

A word of thanks to the EIRA team of the Secretariat. And once again, thank you to the participating governments and all external parties involved.

I thank you for your attention and wish you joyful discussions. I am happy to answer some first questions.