

**COMMUNICATION FROM THE INDUSTRY ADVISORY PANEL
TO THE ENERGY CHARTER CONFERENCE**

26 November 2012

1. Introduction

Mandate, membership and working method of IAP

The objective of the IAP is to support cooperation and dialogue between the energy industry and the Contracting Parties and to promote the use of the ECT.

The IAP has members from 38 energy companies, international associations and institutions from 20 countries and covers the full scope of energy supply, distribution and financing activities. In accordance with the revised ToR, the IAP membership can include representative of energy companies from the observer states to the ECT. The IAP welcomes new members from the observer states in order to enlarge the knowledge base and expertise, thus contributing to the objectives of the Charter regarding international cooperation and expansion strategy.

The IAP seeks to advise the Energy Charter Conference on the basis of expert input from members (both private and state-owned companies) and through examination from a business perspective of the relevant work of the Energy Charter Secretariat.

Date of formation and number of meetings to date

Since its inception in late 2004, the IAP has held 23 meetings, principally in Brussels at the premises of the Secretariat, but also during the last four years in Baku, Athens, Milan, Amman, Stavanger, Prague and Rabat at the invitation of members and other interested parties. The meetings outside Brussels have provided outstanding opportunities to engage with industry operators and to understand and comment on important regional energy issues.

Meetings in 2012

The IAP held three meetings in 2012. The first meeting was held on 27 March in Brussels with a focus on developments in the natural gas sector and promotion of low carbon investment under the ECT. The second meeting was held on 20 September within the framework of Rabat Energy Forum in Morocco. The meeting provided an excellent opportunity to familiarise with regional energy policies and promote the ECT to the business sector of the MENA region. The third meeting was held in Brussels on 7 November with a focus on promoting access to finance in the energy sector and consideration of the future work programme of the IAP.

Working Method

The IAP continues to work on the basis of:

- case studies provided by its members with subsequent comment and discussion on the issues raised
- review of expert work presented by the Secretariat or other invited authorities

- inviting guest speakers addressing specific topic of interest for the IAP and the Energy Charter

It is rewarding to note that meetings continue to be well attended and members show great willingness to present case studies based on their relevant company or trade association experience. The expert input of the Secretariat is also greatly appreciated.

2. Main Issues Considered and Observations for 2012

Gas Market Developments

The energy industry considers that natural gas is abundant, affordable and environmentally acceptable. Global natural gas consumption is forecast to overtake coal before 2030 and to meet one quarter of global energy demand by 2035. It is estimated that demand for natural gas will grow by 2% annually, compared with just 1.2% for total energy. Demand for natural gas is principally driven by the electrical power generation and industry sectors and non - OECD countries are expected to account for 80% of future demand growth.

Known conventional and unconventional recoverable gas resources can supply over 250 years of current global gas production. Unconventional gas is transforming the global gas market. Europe is within economic reach of 70% of global gas reserves but delivery requires the construction of extensive infrastructure. The future development of gas as a source of fuel will be related to renewable energy, in that wind power is intermittent and gas presents perhaps the most cost effective and flexible back-up option.

The IAP brings wishes to note the following key messages on natural gas for the attention of the ECT constituency:

- replacement of coal with gas offers an efficient and cost effective route to meeting near term CO2 emission targets
- natural gas requires no subsidies and can lock-in near term reductions in CO2 emissions while the cost of renewables is brought down
- wide diversity of natural gas supply sources, including LNG flexibility, can significantly mitigate security of supply concerns
- natural gas provides a cost effective and flexible complement to intermittent renewables supply
- natural gas remains a convenient and flexible fuel for domestic and commercial applications
- together with Carbon Capture and Storage, natural gas can be part of the long term lower carbon economy, that is, a destination as well as transition fuel

Taking into account the above, the IAP encourages the ECT member countries and observer states to continue international cooperation on promoting access to natural gas, including promotion of investment and transit, expediting of environmental and social impact assessments and streamlined procedures for approval and implementation of beneficial infrastructure projects.

Promoting low-carbon investment

The energy sector is beginning to make the transition to a lower carbon economy, as governments around the globe put in place frameworks to address climate change.

In 2012, the IAP had the opportunity to advise the Energy Charter Secretariat through responses to the questionnaire on “Assessment of the ECT with regards to promoting low-carbon investment”. The results of the assessment were also discussed with the IAP. The IAP recognised that both national and international responses are required to progress towards a lower carbon economy and welcomed the Energy Charter’s work on low carbon in this context.

That there is a strong need everywhere for balanced energy policy to ensure the delivery of affordable, sustainable and secure energy.

IAP members participating in the consultation process noted that provisions for investment promotion and protection are important in attracting investment in all energy sectors including lower carbon development. This also applies to facilitation of international energy trade through removal of barriers, promotion of access to capital and technology transfer.

Low carbon policies should be assessed at both national and international level. Shale gas developments in the USA are contributing to emissions reduction but also have an impact on coal prices, fuel mix and investment decisions in Europe. The adoption of different approaches (such as carbon markets or direct subsidies) for promoting low carbon technologies can have a significant impact on relative energy prices. However, the use of market based mechanisms for carbon pricing, at both national and international level, continues to offer the opportunity for reduction of CO₂ emissions at lowest cost to the economy as a whole.

For these reasons it is suggested that a thorough assessment be carried out of the interaction between market-led and support-based approaches to low carbon investments. The impact on access to and costs of capital should be a central consideration in this assessment.

IAP members also noted that a high share of renewables in the energy mix may lead to challenging issues of electricity load management. Multilateral cooperation between countries with different energy generation and storage capabilities could assist in providing cost effective solutions for secure energy supply from intermittent sources. This could involve longer term capacity contracts for relevant facilities and corresponding cross border capacities. The ECT provisions would be particularly relevant in this respect.

The IAP welcomes and is open to the possibility of discussing and assessing the value of additional legal instruments and other activities within the Energy Charter for promoting low-carbon investments.

Key messages from the IAP presented at the Rabat Energy Forum

The Rabat Energy Forum focused on North Africa’s growing indigenous energy markets, the importance of oil and gas supplies to European and global markets and the huge potential for renewable energy generation and transmission from North African sources. Attention was also drawn to the advantaged geographic position adjacent to key markets, the substantial energy infrastructure already in existence and the strong track record of international collaboration over many years in various parts of the energy sector. The ability to attract international finance and technologies and the continued expansion of international infrastructure, will remain crucial both to continued energy sector development in the region and wider economic growth.

The development of large scale renewable technologies, including wind and concentrated solar power, can also be supported by many of the advanced technology solutions available from the chemical and other industrial sectors. Examples include high performance materials and innovative techniques of water management. Technology will be crucial in all areas to

ensuring the long-run competitiveness of renewable energies. These stakeholders also share an interest in stable, secure and productive investment conditions.

The growing internationalisation of the energy sector underlines the value of the Energy Charter framework for both national economies and investors. Support for the Energy Charter principles would undoubtedly be seen as a positive signal by prospective investors in the entire North African energy sector.

The Energy Charter can play a significant role in promoting and securing the infrastructure investment needed for cross border electricity trade and wider energy market development in North Africa. Likewise the Energy Charter can play a valuable role in promoting the technologies, networks and policy frameworks needed to accelerate energy efficiency and large scale renewable energy development in the North African economies.

Promoting Access to Finance in the Energy Sector

The International Financial Institutions (IFIs), including the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), are extensively involved in energy sector investment in the Energy Charter area. The availability of IFIs financing may be of particular value in the current economic context of more limited private sector financing capacity for individual infrastructure projects. The IFIs have an extensive range of financing instruments at their disposal and co-financing may also assist in attracting commercial investments and managing the overall risk profile of energy projects.

The IFIs have considerable experience of financing high profile projects across the energy sector, including in energy production, transportation, storage and distribution. Over the last decade there has been an increased emphasis on investments that mitigate greenhouse gas emissions and on climate-resilient projects. The banks have developed a range of financial instruments, including loans, equity funds and other innovative financial instruments, to finance and participate in such projects. The IFIs are also supporting energy infrastructure investment through substantial technical and financial advisory programmes.

The IAP believes it is useful to underline the continuing important role of the IFIs in promoting access to finance in the energy sector. The IFIs can also bring substantial experience of the management of sustainability, social and environmental aspects of energy infrastructure development and can assist both the public and private sectors in building successful Public Private Partnerships (PPP) through development of organisational capacity and sharing of experience and good practice.

Role of the Energy Charter Treaty

The energy industries have taken a consistent, long term interest in the role of the Energy Charter Treaty. The Charter provides a balanced and widely recognised multilateral framework for the management of investor risk, including the protection of energy investments and provisions for energy trade, transportation and technology transfer.

The Charter process is based on a balance of interests between the key stakeholders, including sovereign governments and energy investors, in a spirit of partnership and collaboration.

The multilateral structure of the Energy Charter Treaty directly addresses the continuing need for a reliable framework for international energy cooperation. The provisions of the Treaty,

including the availability of dispute resolution proceedings, provide a robust international framework which can do much to underpin both government and investor confidence in major energy sector development.

The role of the Energy Charter Secretariat in providing expertise and visibility for the ECT and in coordinating with other relevant international organizations is also fully recognised.

Based on the experience of its members in energy investment and development, the IAP continues to strongly support the Energy Charter process and the principles of the ECT in international energy practice. The IAP would welcome a revised strategy for the Energy Charter to consolidate its constituency and expand application of the Energy Charter Treaty to new geographical areas.

3. Work Programme for 2013

It is proposed that the IAP will meet on three occasions in 2013, with the first meeting scheduled for February 2013 in Algeria. This is in line with the objective of promoting Energy Charter principles in the MENA region and thereby contributing both to the regional cooperation and the Energy Charter expansion process.

The second meeting of 2013 will be held in May/June 2013 in Italy at the kind invitation of the Edison Company. The proposed scope of this meeting is new developments in the power sector, hydrocarbons and renewable energy.

The third IAP meeting is scheduled for November 2013, hosted by the Energy Charter Secretariat. Other items for consideration during 2013 may include:

- global challenges in energy security
- development of shale gas
- electricity systems development including smart grids
- promotion of low-carbon investment
- role of Public Private Partnerships (PPP)
- exchange of business assets among energy companies
- financing energy efficiency
- energy research and technology

The IAP would be interested to further interact with the different subsidiary bodies of the Energy Charter, to promote the principles of the Energy Charter at relevant international *fora*, to extend industry advice to the modernisation process of the Energy Charter Treaty and to provide expertise and share industry experience at the Energy Charter Policy Conference.