Chairman’s Foreword

Since the foundation of the Industry Advisory Panel (IAP) in 2004, the energy industry has shown a remarkable interest in the activities within the framework of the Charter Process. The IAP has proved to be an effective venue for an efficient dialogue between the industry and the member states of the Energy Charter Treaty.

Over the years, the IAP has grown into an influential advisory body thanks to its balanced geographic coverage and the fact that its membership effectively represents a wide range of energy industry segments. This creative structuring of the IAP allows the energy industry to directly share its views with the ECT member states which then can use these insights in the formulation of public policies. At the same time, the industry gets a closer look at policies in preparation through open discussions with government representatives.

As Chairman of the IAP since its foundation, I feel honoured to be acting in this capacity and I am proud to say that the work of the Industry Advisory Panel proved to be beneficial to the Energy Charter Process and the industry. I am convinced that the IAP will continue to evolve and will become an even more dynamic entity within the Charter Process. It will remain an efficient intermediary platform towards ensuring productive outcomes in the energy sector.

This first issue of IAP Insights which you are now holding in your hands is intended to provide the public at large with an in-depth coverage of IAP activities throughout the course of the past year. My belief is that this publication will allow the Industry Advisory Panel to reach a wider audience and inform all interested parties of the IAP’s work in a transparent manner, which is a key point in the energy business.

We hope that your feedback to IAP Insights will let us further improve this publication and will contribute to the common objectives of the IAP and the Energy Charter Process.

Howard Chase
Chairman of the Industry Advisory Panel

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Message from the Director for Energy Efficiency and Investment

This year the Industry Advisory Panel celebrates its 5th anniversary. Over the relatively short period of time the IAP has become an important contributor to and collaborator with the Energy Charter Process.

My main message is very simple and straightforward, the Energy Charter is a dynamic process that requires maintaining a constant touch with the real life of the energy business sector. The IAP provides valuable advice on various business and policy matters reflecting the wide range of issues that the energy value chain and the geographic diversity of the ECT constituency have to offer.

In the past, the IAP mainly focused on the hydrocarbon sector, however, new challenges related to the global transition to a low-carbon economy have opened up new opportunities for cooperation in the field of renewable energy, energy efficiency and technology development. As a result, the Panel membership has been growing, covering more geographic regions and more aspects of the energy value chain.

In recent years, the IAP members and the Energy Charter have benefited from holding meetings in different countries of the ECT constituency. In-depth discussions on local conditions, experiences and challenges have proved to be beneficial in addressing the global turbulent economic and business issues in the energy sector.

The Energy Charter Process is now in a modernisation phase. And while it is true that we may face important challenges along the way, our cooperation with the IAP certainly creates new opportunities and I am confident that we have what it takes to overcome such difficulties and make the Energy Charter Process even stronger.

Dario Chello
Director Energy Efficiency and Investment
Energy Charter Secretariat
The Industry Advisory Panel at a Glance

The Industry Advisory Panel was set up by the Energy Charter Conference in 2004 as a means to build on existing contacts with industry, and to strengthen the dialogue with the private sector on the main directions of the Charter process, with a particular focus on risk mitigation and improvement of the business climate.

The Panel is intended as a consultative board to the Energy Charter Conference and to its various Groups, and provide advice on relevant issues related to energy investments, cross-border flows and energy efficiency. It presents its views to the members of the Energy Charter both in the Charter’s Groups and also in regular Communications to the Energy Charter Conference.

Members of the Industry Advisory Panel are selected on the basis of nominations from member countries and invitations from the Secretariat, with the overall aim to ensure that the Panel is broadly representative of the energy industry across the Energy Charter constituency, both in terms of geography and industry sectors. Today the IAP counts approximately 30 members from energy companies, international associations and institutions throughout the Charter constituency.

The Chairman of the Panel is Mr Howard Chase, Director of Government Affairs at BP Europe.

At its meeting in September 2010 the Panel has also appointed Ms. Anastasia Kalkavoura, Director for International Government Affairs at Hellenic Petroleum, to the post of Deputy Chairman.

Another innovation introduced at the September 2010 meeting of the IAP, was the creation of a Steering Group which is intended to ensure a more efficient running of the Panel’s activities. Tom Therkildsen, Senior Advisor Strategy and Analysis at Statoil Natural Gas, and Marco Margheri, Head of EU Affairs at Edison, have become the first members of the Steering Group, which may eventually grow in size.
Climate Change and Effective Role for the Private Sector

Copenhagen Summit and its Aftermath: What Role Can the Private Sector Play?

Based on the presentation by Mr. Domenico Gaudioso, Institute for Environmental Protection and Research, IAP meeting in Brussels, April 2010

The Copenhagen summit did not produce a binding agreement but did result in an understanding that the increase in global temperature above pre-industrial levels should be below 2°C. The summit accords also envisaged fast-track financial resources from developed countries (USD30 billion over 2010-2012), and joint mobilisation of USD100 billion a year by 2020. As of 1 February 2010, the UNFCCC Secretariat has also received submissions of national pledges from 55 countries to cut and limit greenhouse gas emissions by 2020.

In 2009, the International Energy Agency has released the so-called 450 Scenario, which sets out an aggressive timetable of actions needed to limit the long-term concentration of greenhouse gases in the atmosphere to 450 parts per million of CO₂ equivalent and keep the global temperature rise to around 2°C above pre-industrial levels. The 450 Scenario estimates that a further USD10.5 trillion of investment in energy infrastructure and energy-related capital stock will be required globally between 2010 and 2030 compared to the IEA’s Reference Scenario for the same period.

The key question is how can governments design policies that effectively encourage private capital, know-how and engagement to deliver the solutions necessary to address climate change at the scale and pace needed?

Recognising the potential for closer collaboration between business and government, the Industry Advisory Panel engaged into discussions on the potential for effective private sector engagement in the process of developing and implementing international climate change agreements.

The IAP concluded that the success of the Copenhagen Accord mainly depends on the willingness and ability of governments to rapidly agree on clear definitions for all its provisions, in particular for monitoring, reporting and verification of actions. However, governments alone cannot mobilise all the financial resources which are needed for the implementation of the agreement, in particular as concerns the efforts by developing countries. Therefore, market approaches are necessary, and the energy sector needs a clear CO₂ price to make appropriate investment decisions. Some market predictability is essential for private investors and should be taken into consideration in policy formulation. Market mechanisms can reduce emissions cost-effectively, engage developing countries and mobilise large volumes of capital. Business should be engaged in the reform of existing and the design of new mechanisms, so that investments can grow and a wider array of countries can benefit.
Energy Sector Challenges

An Important Dimension in Energy Policy Discussions:
What Role for Coal in the Global Energy Mix?

Based on the presentation by Mr. Bernd Bogalla, Head of European Affairs of the German Coal Association and Mr. Miharu Kanai, Senior Expert at the Energy Charter Secretariat, IAP meeting in Brussels, April 2010

Coal will remain a major component of the global energy mix. It is currently number one in power generation globally, and represented 30% of EU-27 power generation in 2008. Indeed, between 2000 and 2007, coal was the first in terms of global consumption increase (31%), compared to the consumption increase for oil (11%), gas (20%) or hydro (16%).

Coal takes up 61% of estimated global recoverable fossil fuel reserves sufficient for 160 years at the current consumption rate; so its availability surpasses with a great margin of 50-60 years that of oil and gas. It is quite likely that coal will stay with us for a long time. Furthermore, coal reserves are more evenly scattered throughout the world than other fossil fuel resources, so countries have the option of relying on indigenous resources in the wake of concerns over energy supply security and heavy reliance on imports.

As acknowledged by the European Commission, coal still remains an essential component of Europe’s domestic energy supply and constitutes 80% of EU fossil fuel reserves, with Poland taking the lead. The Commission projects that coal and lignite will continue to be used extensively in power generation in throughout Europe.

Both in the case of Europe and globally, it is believed that eventually this practice will become compatible with climate change mitigation policies when highly efficient coal-powered generation plant are deployed and the carbon capture and storage (CCS) technology becomes widely available. However, at present various obstacles still have to be overcome, including the lack of public awareness, in order for CCS technology to become fully commercially viable.

There is already significant progress in the field of clean coal – the new generation of coal-fired power plant reaches efficiency levels of over 50% and the whole coal-fired generation sector is undergoing continuous modernisation.

A recent study by the IEA reveals that China is on its way to significantly improving the efficiency of its coal-fired power sector, to the point of freeing up some of its abundant coal resources for export. This will likely bring down global coal prices making coal-fired plants more competitive and possibly affecting the share of gas-fired generation. However, such factors as emission trading schemes and carbon pricing will continue to influence the market price and overall commercial attractiveness of coal for the power sector.

Note the publication released by the Energy Charter Secretariat in mid-2010:

Putting a Price on Energy: International Coal Pricing
Industry News

Norwegian Petroleum Resource Management System

Based on the presentation by Mr. Jan Bygdevoll, Director of the Norwegian Petroleum Directorate, IAP meeting in Stavanger, September 2010

Participants of the IAP meeting on 7 September 2010 which was held in Stavanger, Norway, have enjoyed a detailed briefing on the hydrocarbon resources management system of Norway. The presentation was delivered by Mr. Jan Bygdevoll, Director of the Norwegian Petroleum Directorate (NPD) established in 1972 with management authority. NPD monitors the activities of companies, both state-owned and private, assumes responsibility of all relevant data management and information provision, and is the advisory body to the Ministry of Petroleum and Energy (MPE).

In Norway, there are several governmental agencies related to hydrocarbons and each has separate responsibilities and functions. Following the Nordic tradition, Norwegian ministries are structured in a minimalist manner whereas several independent directorates are created around them. While the NPD works independently, it reports to the Ministry of Energy and Petroleum.

Norway, ranking the sixth in oil and the second in gas exports worldwide in 2008, has sound technical, safety and environmental policies regarding hydrocarbon extraction activities. According to the Norwegian Petroleum Law, production takes place in accordance with prudent technical and sound economic principles and in such a manner that waste of petroleum or reservoir energy is avoided. Indeed, the country ranks the first in the world among producing countries in avoiding gas flaring. The licensee is required by regulations to carry out continuous evaluation of the production strategy and technical solutions and to take all necessary measures.

Norway constantly evaluates and updates its hydrocarbon reserves figures, taking into account the United Nations Framework Classification (UNFC) principles. There is greater uncertainty in the Barents Sea as regards the availability of hydrocarbons. Overall, currently available data show that production will reach its peak by around 2025, this including all reserves, proven, probable and possible.

A level playing field in upstream investment activities, including, inter alia, licensing of operations, is a priority in Norway and access to information is available to all interested. Yet when it comes to the evaluation of applications for licenses or concessions, naturally there are firm criteria for evaluating the reliability of applicant companies. Accordingly the MPE does not issue concessions/licenses based only on competition grounds. Furthermore, sometimes licensees may be required to cooperate with other license holders when necessary.

NPD also ensures that state and private companies receive equal treatment, including in the case of inspections and controls. Also, companies have an incentive to self-regulate and adhere to the rules set by the NPD in order to be eligible for any future licensing rounds.
Industry News

Looking into the Future of the Norwegian Continental Shelf: Focusing on New Areas and the Arctic Challenges

Based on the presentation by Hege Marie Norheim, Senior Vice-President Corporate Initiative Northern Areas, Statoil ASA, IAP meeting in Stavanger, September 2010

The industry has great faith in the petroleum resources under the Arctic seas. There are only few sources that cite estimates for the remaining and undiscovered oil and gas reserves throughout the world. Although probably overly optimistic, the estimates prepared by the US Geological Survey indicate that the world’s total undiscovered oil and gas reserves are equivalent to 1500 years of the current Norwegian oil and gas production of 4.5 billion barrels a day. It is expected that more than 20% of these reserves are found north of the Arctic Circle – that is to say, in Arctic and sub-Arctic areas. This equals nearly 300 years of production from the Norwegian shelf at the current rate. Nearly 85% of Arctic oil and gas are expected to be found offshore. It is estimated that over two-thirds of this volume is probably natural gas.

The clarification of potential new acreage through the new demarcation line with Russia is of great interest to Norway. In terms of exploration, this is an attractive but very immature area, with a high level of success uncertainty. A major discovery in this area may be far from shore and potentially face technological challenges associated with working in icy conditions and Arctic darkness. The primary factor that makes activities in the Arctic unique is, of course, ice – in many different forms, closely followed by long periods of continuous darkness, cold temperatures, very little available infrastructure, vast distances at sea, and rich, important ecosystems. Developing a new potential oil and gas project will take many years.

The key to what Statoil has achieved in the past and can achieve in the future in the Arctic’s petroleum resources development, lies in technology and knowledge. The Norwegian petroleum industry is the world leader in many technology aspects which will be essential in the further development of the resources in Arctic areas. It is a fundamental pre-requisite for the petroleum industry that exploration and production must be conducted in a sustainable manner with zero emissions and no unacceptable risk to the people, the environment and the rightful activities of other industries.

The European power sector is facing imminent decisions that will frame important guidelines for its future energy mix. Significant new power capacity must be built in the near future to replace existing aging infrastructure and to meet new environmental requirements. Gas is the obvious energy choice for the power sector because of its competitiveness in terms of price, supply security and “green credentials” – it produces relatively low greenhouse gas emissions and has significant long-term potential. Statoil believes that LNG is in the process of gaining a strong position in the market. As more LNG becomes available globally, it is gradually moving from being an occasional supplementary source of gas in established pipeline gas markets to a robust, independent market position.
Industry News

Macroeconomics for Oil and Gas and Effective Management of Natural Resource Revenues: the Case of the Norwegian Pension Fund

Based on the presentation by Mr. Klaus Mohn, Statoil Chief Economist, IAP meeting in Stavanger, September 2010

News of petroleum resources is generally welcomed by the public as a blessing, however sometimes there are concerns that petroleum revenues could prove to be a curse for the society. These concerns are clearly demonstrated through the concept of ‘Dutch disease’. A sudden generous inflow of revenue, such as oil revenue, into an economy may lead to unintended economic consequences and sometimes economic backlash. Many oil-rich countries have learned their lesson from earlier experience and created effective management systems for hydrocarbon revenues. Hydrocarbons are naturally finite resources and therefore such revenues need to be spent wisely, taking into account the interests of future generations.

Norway is one of the leading countries in ensuring that its oil and gas resources remain a blessing, and to this end it has established a petroleum resource management system. Mr. Klaus Mohn, Statoil Chief Economist, made a detailed presentation at the Industry Advisory Panel meeting in September 2010 explaining the structure and mechanism of this system, as well as the macroeconomic implications of natural resource revenues for Norway’s economy.

Norway’s economic growth has been favourable for many decades, and the per capita income is among the highest in the world. An abundance of natural resources and openness to trade and capital movements are important reasons for this.

Petroleum was discovered in the North Sea in 1969. Production began on 15 June 1971, and in the following years a number of major discoveries were made. Over the years, petroleum activities have contributed significantly to Norway’s economic growth, and to the financing of the Norwegian welfare state. Through over forty years of operations, the oil and gas industry has created value in excess of 1,000 billion USD in current terms. Through direct and indirect taxes and direct ownership, the state receives a high share of the value created by petroleum activities. In 2009, the petroleum sector accounted for 27% of state revenues and 47% of the country’s total exports. Norway’s energy sector employs approximately 220,000 persons in production, processing and supply.

The state-owned limited company Petoro AS manages the State’s Direct Financial Interest (SDFI). Petoro’s principal responsibility is to create the largest possible economic value from Norway’s oil and gas portfolio on a commercial basis, while also taking account the state’s overall financial interests.

The company’s key duties are accordingly:

- management of the SDFI assets held by the government in joint ventures at any given time;
- monitoring Statoil’s marketing and sales of the petroleum produced from the SDFI, in line with the instruction issued to Statoil by the Ministry of Petroleum and Energy;
- financial management for the SDFI, including the keeping of accounts.
The oil age in Norway has already spanned forty years and it appears that it will continue for many years ahead. Petroleum activities give Norway an economic advantage that is not available to many other countries. But this advantage comes with certain challenges. The establishment of the Government Pension Fund and the spending guidelines for petroleum revenues together with the monetary policy regulation are intended to meet these challenges.

The Norwegian Government Petroleum Fund was formally established in 1990 when the Norwegian parliament (Stortinget) adopted the Act on the Government Petroleum Fund. In order to strengthen the public's sense of ownership of the Fund and make it easier to accumulate financial assets for the state, the Petroleum Fund was renamed the Government Pension Fund – Global as from 1 January 2006.

The Ministry of Finance is the owner of the Fund on behalf of the Norwegian people, while Norway's central bank manages the Fund's activities. The ministry determines the Fund's investment strategy, the capital is invested abroad, to avoid overheating the Norwegian economy and to shield it from the effects of oil price fluctuations.

The Fund is an integrated part of the government's annual budget. The Fund's capital, transferred by the Ministry of Finance, consists of all government petroleum revenue, net financial transactions related to petroleum activities, net of what is spent to balance the state's non-oil budget deficit. In fact, net allocations to the Fund reflect the total budget surplus, including petroleum revenue.

In the context of resource and revenue management in Norway, the following key messages seem to be appropriate:

- oil and gas play a key role in the Norwegian economy;
- activities, revenues and wealth have been managed well;
- oil and gas activities have so far provided a buffer against the current financial crisis and its repercussions;
- the long-term challenge of pressure for real appreciation ('Dutch disease') may well re-emerge.
Industry News


Based on the presentation by Mr. Paul Appleby, Head of Global Market Analysis, BP, IAP meeting in Brussels, November 2010

It has almost become an annual tradition at IAP meetings to make a presentation on global trends in the energy sector. Each year such a presentation enables the IAP members to enjoy a lively debate on the sector’s outlook and prospects for the following year, based on the annual Statistical Review produced by BP.

The presentation by BP at the IAP meeting in November 2010 was also based on the BP Statistical Review released in June. The main theme was the effects of the global economic recession on energy markets. While we are emerging from this first global economic crisis since the Second World War, the new allocation of global economic growth will have implications for global energy strategies. For example, last year energy consumption in developing economies was higher than in OECD countries. This led to an overall increase in global energy intensity, for only the third time over the past twenty years.

As for fuel-based analysis, we witnessed in 2009 the hardest year for natural gas, partly due to the development of the unconventional gas industry in the US. However, this is not the only factor that needs to be taken into account. It is important to note that global gas markets are shaped by structural and cyclical changes. Crude oil prices stayed around $80/bbl throughout the year due to sustained OPEC production discipline. Coal remains an important primary energy source for power generation, most notably in China (last year the country became a net coal importer for the first time) and the US and this, naturally, has important environmental implications. Finally, renewable energy is high on the agenda of many countries, particularly in Europe, while its input in the global energy mix is still relatively small.

As for the coming year, the expectation is that despite the uncertainty surrounding the global economic situation and market volatility, long-term energy trends that we are observing will persist, with the caveat that from the industry’s point of view, the main risks will still stay ‘above the ground’, that is, regulatory frameworks will remain the major determinants of investments in the energy sector in addition to such overall market-oriented factors as the global economic situation.
There is an ongoing discussion within the European Commission regarding energy infrastructure in Europe. In the context of overall EU energy policy, the provision of an efficient and adequate energy infrastructure is of paramount importance. This is also to be evaluated in the framework of the stimulus packages in the EU aimed at tackling the negative impacts of the global economic crisis. During its meeting in November 2010, the IAP has benefitted from a briefing delivered on behalf of the European Commission by Ms. Catharina Sikow-Magny, Deputy Head of Unit, Directorate General for Energy.

The current approach to EU energy infrastructure that is under discussion is in fact closely related to the EU energy policy target of 20-20-20, which envisages ensuring an effective internal market and security of energy supply and encouraging energy efficiency and renewable energy use, with an emphasis on sustainability and the promotion of energy networks interconnection. Within these parameters the Third Energy Package which is under implementation calls for joint and consistent investment planning through EU-wide 10-year network development plans. This target for developing EU energy infrastructure was also endorsed by the European Council in its Conclusions released in June 2010.

According to the current action plan, the European Commission will announce its roadmap for the development of EU energy infrastructure later in November 2010 in which it will suggest priority actions, then in 2011 it will submit a legislative proposal. This approach entails determining the possible effects of markets on the infrastructure business and the eventual difficulties that will need to be overcome. The Commission will take a look at what will be needed from the public side, including, but not limited to, public funding requirements. As regards the financing of these new investments, the plan envisages identifying a reasonable framework that would leverage private investment through innovative financing mechanisms that would include such financial instruments as guarantees and equity participation, working with international financial institutions and, finally, providing EU funds when necessary.

This new approach is attracting a lot of attention in the business circles. While it is certain that the details of the Commission’s action plan are still taking their final shape, the year 2011 promises to be very dynamic for the industry.
Charter News

Protection against Expropriation under the ECT: Complementarities or Conflicts with Domestic Legal Regimes?

Based on the presentation by the Energy Charter Secretariat, IAP meeting in Brussels, November 2010

Investment protection is one of the most important features of the Energy Charter Treaty. There is no doubt that it constitutes an indispensable function of the Energy Charter Process. Protection of foreign investments against expropriation is a noteworthy topic, which is specifically addressed in the Treaty. Under the ECT rules expropriation is permissible only when it is made in the public interest, under due process of law and promptly compensated at fair market value. These provisions are further reinforced by giving the involved parties recourse to international arbitral mechanisms available under the ECT.

A study prepared by the Secretariat provides a detailed comparison and analysis of provisions on expropriation contained in the Energy Charter Treaty and the domestic legislation of several of its member states. Kazakhstan, Turkey and the UK were selected as case studies, as they represent a diverse range of legal disciplines and different economic structures.

The study finds that the domestic laws and processes relating to expropriation tend to retain greater discretion in according compensation in the event of an expropriation in comparison to the ECT. The study also demonstrates that it is important for the member states to appreciate that their domestic law regimes reflect their commitments under international treaties and vice versa. This policy coherence is critical in that it ensures that government institutions act in line with their countries’ international obligations and that investors are effectively encouraged to take their disputes to domestic courts, reducing their own costs and at the same time contributing to the building up of expertise within domestic legal systems.

Fully recognising the importance and sensitive nature of issues related to expropriation, the Industry Advisory Panel welcomed the study and supported its conclusions. The Energy Charter Treaty provisions on expropriation are a crucial legal tool that ensures adequate protection of energy investments, and improving the coherence of national and international legislation in this field would certainly lead to an overall healthier investment climate throughout the ECT constituency.
Modernisation of the Energy Charter Process: What Lies beyond the Horizon?

Based on the presentation by the Energy Charter Secretariat, IAP meeting in Brussels, November 2010

The Energy Charter Conference at its meeting in Rome in 2009 has adopted a Joint Statement on developing further the Energy Charter Process, taking into account the conclusions of the regular Review of the Energy Charter carried out the same year. Against this background, there was a Road Map drafted for modernising the Energy Charter Process. It is expected that this Road Map will be endorsed by the Energy Charter Conference at its meeting in Brussels on 24 November 2010.

The draft Road Map focuses on strengthening the implementation of the Energy Charter Treaty. It calls for identifying ways to improve the effectiveness of the Energy Charter Process and to examine the possible options for its modernisation. Once approved by the member states, the Road Map will serve as a strategic document which will provide guidance for the work of the Charter until the next regular Review scheduled for 2014.

The draft also reflects the need for a wider scope of international governance in the energy sector in view of the new developments and challenges in international energy markets. In this respect, it takes into account the Conceptual Approach to the New Legal Framework for Energy Cooperation presented by the Russian President in April 2009 as an important contribution to global energy governance. The Road Map further acknowledges that the Charter Process should be more flexible in responding to broader changes across the ECT constituency.

Overall, the Road Map envisages the expansion and consolidation of the Charter’s geographic scope, the finalisation of the draft transit protocol and the possible introduction of an emergency response mechanism mainly for cross-border transit dispute issues. The aim is to ensure the security of energy flows and therefore overall energy security, to increase the effectiveness of the Energy Charter Treaty’s existing provisions on the promotion and protection of investments, and to improve cooperation with other international organisations on matters related to energy efficiency and sustainable energy. Finally, the Road Map specifically highlights the importance that the Charter Process attaches to the dialogue with the industry through the Industry Advisory Panel and recognises the prominent role of the IAP ever since its establishment in 2004.
Global Governance in the Energy Sector

A Blueprint for Oil Price Stabilisation: Is There Any Feasible Option for Ensuring Price Stability?

Based on the presentation by Mr. Dario Speranza, Vice President, Eni, IAP meeting in Brussels, April 2010

Is there a possible option to ensure against extreme price hikes and, with that, the instability of oil prices which hampers business decisions in the energy sector? This new approach, initiated by Eni, is rather assertive and thought-provoking. One of the main goals of this initiative is to prevent negative expectations in the market that harm business in general, since high peaks in oil prices, the lack of predictability in the market and a shortfall in investment produce price cycles that harm the global economy. This idea is based on the principles of transparency and predictability of the oil market, reducing oil price volatility, creating stable investment conditions and ensuring sustainable development. It aims to launch a discussion in government as well as business circles, stressing the need for a new cooperation paradigm.

One may see the proposal as contrary to market principles, and may even suggest that the oil market is already excessively regulated, yet it may also be suggested that the initiative envisions more predictability rather than price controls. Basically, the initiative foresees the creation of a global stability fund and the establishment of a spare capacity market towards stability in the medium term, while global oil stocks may address short-term concerns. And more importantly, the proposal is assumed to address stability but not volatility, which is viewed by the industry as more of a commercial risk issue. The proposal also calls for the creation of a global energy agency, which would collect energy statistics and data, leading to greater transparency for business players and thus creating more opportunities for stability.

Improving Transparency in the Energy Sector:
the EITI Initiative and its Implications

Based on the presentation by Jonas Moberg, Head of the EITI Secretariat, and Zafar Samadov, Senior Expert, Energy Charter Secretariat, IAP meeting in Stavanger, September 2010

In October of 2002, Tony Blair announced the Extractive Industries Transparency Initiative (EITI) at the World Summit for Sustainable Development in Johannesburg to try and improve governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. Since that time the Initiative has grown into an international coalition of governments, companies and civil society which sets a global standard for managing revenues from natural resources. Today, it is implemented by thirty resource-rich countries. Among them are six countries which are members of the Energy Charter Treaty: Azerbaijan, Albania, Kazakhstan, Kyrgyzstan, Mongolia and Norway. There are many more countries of the Charter that provide political, financial and technical support to the EITI. The Energy Charter intends to become a supporting multilateral institution to the EITI by approving a statement with a clear public endorsement of the Initiative at its next Energy Charter Conference meeting in November 2010.

A growing number of companies worldwide support the transparency principles. The benefits for the implementing countries include an improved investment climate which provides a clear positive signal to investors and international financial institutions. The EITI also assists in strengthening accountability and good governance, as well as promoting greater economic and political stability. This, in turn, can contribute to the prevention of conflicts related to oil, mining and gas.
On 8 September 2010, the Industry Advisory Panel members and Energy Charter Secretariat staff were invited by Statoil to one of Norway’s best attended places of interest – the Norwegian Petroleum Museum. The museum is situated in Stavanger, on the west coast of Norway – at the heart of the country’s petroleum industry. The museum building was designed by the architects Lunde and Løvseth and is an attraction in its own right. Its architecture is a scenographic interpretation of the Norwegian bedrock, the open coastal landscape and the offshore oil installations. Architectural reviews have said that there was hardly a building in Norway which signalled its function as obviously as the Norwegian Petroleum Museum. It was opened by HM King Harald in 1999.

The museum’s exhibits explain in a very informative and entertaining way how oil and gas are created, discovered and produced, and what they are used for. The museum also provides information about the technological advances over the years ever since the inception of Norway’s petroleum industry, and the way petroleum influences the Norwegian society. Original objects, models, films and interactive exhibits illustrate in detail all possible aspects of the oil and gas world, from everyday life on an offshore rig in the past and today to the dramatic incidents which have shaken the industry over the years. The exhibitions provide a fascinating insight into the geological, political, economic and technical factors that affect the petroleum sector.

IAP members, most of them experienced energy industry professionals, were delighted to see the Museum’s impressive collection. The visit to the Norwegian Petroleum Museum was a very welcome and successful addition to the meeting of the Panel.
Energy Charter Treaty

The Energy Charter Treaty is a unique legally-binding multilateral instrument covering investment protection, liberalisation of trade, freedom of transit, dispute settlement and environmental aspects in the energy sector. It is designed to promote energy security through the operation of more open and competitive energy markets, while respecting the principles of sustainable development and sovereignty over energy resources. The Treaty is the only agreement of its kind dealing with intergovernmental cooperation in the energy sector, covering the whole energy value chain (from exploration to end use) and all energy products and energy-related equipment.

Based on the Energy Charter of 1991, which was a political declaration signalling the intent to strengthen international energy ties, the Energy Charter Treaty was signed in December 1994 and entered into force in April 1998. To date, the Treaty’s membership covers fifty-one states plus the European Communities, which together represent nearly 40% of global GDP. There are also twenty-four observers, as well as ten international organisations with observer status.

The Energy Charter Conference, an inter-governmental organisation, is the governing and decision-making body for the Energy Charter Process. It was established by the 1994 Energy Charter Treaty, all states who have signed or acceded to the Treaty are members of the Conference, which is serviced by a small Secretariat based in Brussels.

Members (marked in green): Albania, Armenia, Australia, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, European Communities, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Kazakhstan, Kyrgyzstan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Mongolia, the Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, Tajikistan, The former Yugoslav Republic of Macedonia, Turkey, Turkmenistan, Ukraine, United Kingdom, Uzbekistan

Observers (marked in blue): Afghanistan, Algeria, Bahrain, Canada, China, Egypt, Indonesia, Iran, Jordan, Korea, Kuwait, Morocco, Nigeria, Oman, Pakistan, Palestinian National Authority, Qatar, Saudi Arabia, Serbia, Syria, Tunisia, United Arab Emirates, United States of America, Venezuela

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