Chairman’s Foreword

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 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. Based on the experience of its members in energy investment and development, the Industry Advisory Panel (IAP) continues to strongly support the Energy Charter process and the principles of the ECT in international energy practice.

In 2012, the agenda of the IAP reflected various interests. Our work and interactions with the Energy Charter included regional and global gas market developments, discussions on promotion of low-carbon within the Energy Charter process, focus on North Africa’s growing indigenous energy markets, promoting access to finance in the energy sector and continued discussions on the role of the Energy Charter Treaty.

The IAP currently has over thirty members from around twenty countries. It covers all aspects of the energy industry, from supply and transportation to financing and end use. This year the IAP convened two times in Brussels, at the headquarters of the Energy Charter Secretariat. One meeting was conducted within the framework of Rabat Energy Forum which allowed the Panel members to acquire in-depth and first-hand information on the energy sector challenges and prospects in Morocco as well as of the and Middle East and North Africa region.

Taking this opportunity I wish to express our appreciation to Dr. Dario Chello for his excellent contribution to the work of the IAP during his tenure as Director Energy Efficiency and Investment in the Energy Charter Secretariat.

This is the third issue of the IAP Insights and we are delighted to inform you of our activities and policy advice throughout 2012. Taking this opportunity, I would like to thank all Energy Charter countries and the Energy Charter Secretariat for their constant and constructive support of the IAP activities.

Howard Chase
Chairman of the Industry Advisory Panel

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Ten years on: the Origins and Establishment of the Industry Advisory Panel

At the tenth anniversary Special Session of the ECT Conference in December 2001, it was agreed that a key objective of the ECT process was to promote long-term cooperation in the energy field and this would be better achieved through developing the ECT as a policy forum for energy matters, including a dialogue between governments and the business community.

In line with this agreement, initial discussions with the ECT Secretariat about inviting the industry to undertake a specific role within the ECT process were originated 10 years ago, in autumn 2002, during the preparatory meetings of the upcoming Greek Presidency of the EU (1H 2003). Based on the conviction that long-term cooperation in the energy field could be fundamentally supported by a permanent dialogue between the ECT process and the energy industry, the creation of an Industry Advisory Panel was identified as the most appropriate vehicle to strengthen this dialogue. The initiative to create the IAP was then launched during the Greek Presidency of the EU in the first half 2003.

The proposal for the establishment of an IAP was presented at the ECT Conference in June 2003 by the ECT Secretary General, who underlined that the primary goal behind this idea was to strengthen the dialogue between the ECT process and the business community. The Panel would also serve to enhance the policy orientation of the ECT activities, in line with the policy direction approved by the ECT Conference at its Special 10th Anniversary Session in December 2001.

Although no decision was adopted at the ECT Conference in June 2003, the discussions confirmed a broad degree of support for the idea of establishing closer ties between the ECT process and the business community. Further discussions followed to clarify how an IAP would be structured,
including details on the mandate, the tasks and the areas of IAP activity, in preparation for bringing this issue back for consideration at the next meeting of the ECT Conference.

The next ECT Conference in December 2003 supported the direction taken and approved the establishment of a preparatory group, comprised of business representatives and in cooperation with the Secretariat, to prepare a more detailed proposal concerning the IAP “modus operandi” for consideration by the next ECT Conference meeting in June 2004.

The June 2004 ECT Conference duly approved the establishment of the IAP under the revised terms of reference, and the Secretariat subsequently invited all ECT member states to submit candidates for IAP membership.

The initial composition of the IAP of 24 members, with broad coverage of ECT constituency and industry sectors, was officially approved by the ECT Conference in December 2004.

The IAP held its first meeting in April 2005 and since then the business community has shown consistent support for its work, offering input based on practical experience across a wide range of subjects related to the promotion of energy investment in the ECT area. Over eight years of operation, the IAP has proved to be an effective venue for a focused and productive dialogue between the industry and the ECT member states.

Today the IAP includes 38 members from energy companies, international associations and institutions in 20 countries and covers the full scope of energy supply, distribution, financing and regulatory activities.

Anastasia Kalkavoura
Director International Government Affairs
HELLENIC PETROLEUM S.A.
Vice Chairman of the Industry Advisory Panel

Brussels Meeting of the Industry Advisory Panel, November 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:

- 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 the intermittent supply of renewables
- 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

There is a strong need 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 CO$_2$ 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.
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.
Key Messages from the IAP Presented at the Rabat Energy Forum

The Rabat Energy Forum of 2012 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.

Rabat Meeting of the Industry Advisory Panel, September 2012
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 dark blue): 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 medium blue): Afghanistan, Canada, Indonesia, Jordan, Montenegro, Morocco, Pakistan, Serbia, Syria, United States of America.

Observers by invitation, without signing the 1991 Energy Charter (marked in light blue): Algeria, Bahrain, China, Egypt, Iran, Korea, Kuwait, Nigeria, Oman, Palestinian National Authority, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, Venezuela, Yemen.

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