Message from the Chairman

The Industry Advisory Panel (IAP) of the Energy Charter Treaty was initiated by the Greek Presidency of the European Union in 2003 and I am very grateful to all those who gave their support at and since that time. The Panel currently has around 40 voluntary members from over 20 countries and from every part of the energy industry. Our role is to advise and support the Charter process from a practical industrial point of view.

Our interest is to see safe, secure, productive and efficient investment in all parts of the energy chain from upstream producer to end user. I am pleased that the IAP is now in its tenth year of operation and as well supported as ever.

In my view a good energy policy is one that is focused on achieving competiveness and reliability in the most sustainable manner possible. A good energy policy will attract investment both into the energy sector and the downstream industries that can add real value to the economy. In the experience of IAP members, a number of critical success criteria can be identified:

• markets should be allowed to do their work of allocating resources in the most effective way within a clear and consistent policy framework;
• a successful energy mix is likely to be diversified and avoid undue reliance on any one energy type or source;
• energy efficiency and technological development can have a huge positive impact on the economy; and
• investment will be attracted and supported by a stable and reliable legal framework covering the entire energy value chain.

The Energy Charter Treaty provides for strong international undertakings on the promotion and protection of energy investment and the resolution of disputes. It remains the only binding international framework designed for this purpose. Such a framework does not resolve all problems but it sets a clear and consistent standard for the treatment of energy investment by its signatories and can do much to support investment in all parts of the energy sector.

Howard Chase
The Dow Chemical Company
Chairman of the Industry Advisory Panel
Financing energy efficiency

The IAP underlines that energy efficiency is one of the most cost-effective ways of supporting security of supply, enhancing competitiveness and addressing climate change. Energy efficiency can be a profitable business opportunity within a robust commercial market for energy services, energy saving techniques and technologies and best practices. Energy efficiency can also contribute to delivering more affordable energy for customers and can make a significant impact in reducing carbon emissions in all sectors. However, there is a real challenge for the energy sector in addressing energy efficiency while integrating variable renewable energy sources and ensuring continuity of electricity supply.

The International Energy Agency (IEA) has estimated that on average, an additional US$1 spent on more efficient electrical equipment, appliances, and buildings avoids more than US$2 in investment in electricity supply. Additional investments required in end-use efficiency are $11.8 trillion over 2012-2035, saving consumers $17.5 trillion in energy expenditures in this period.

Energy efficiency finance has to be adapted to the national context. Reducing demand for energy through energy efficiency is the most cost effective way of reducing greenhouse gas emissions and improving the security of energy supply. At the same time it offers enduring costs savings and benefits to the economy.

The IAP notes that both energy efficiency and integration of renewable energy can be successfully undertaken through a market-based approach based on a sound and technology-neutral energy policy.
The Role of Natural Gas

The IAP notes that natural gas remains a fundamentally attractive part of the energy mix, offering substantial GHG mitigation relative to coal, and flexibility as a backup fuel for renewables and for balancing the power markets. However, commercial utilization and competitiveness can be significantly impacted by design features of the electricity market, including incentives for renewables supply. These require careful consideration in order to ensure that natural gas can play its full part in an affordable and reliable energy mix providing a cost-effective long-term GHG reduction path.

The role of midstream gas market players remains important to an effective market, offering valuable intermediation between upstream supply and downstream consumer interests. In Europe, gas pricing is still largely indexed on oil prices under long-term (LT) contracts with international suppliers but gas-hub based references are growing in importance. The natural gas prices in Europe have tendency to convergence.

The IAP supports freedom of choice by market participants as the basic principle governing commercial terms and conditions in the international gas trade, exercised within a framework of policy objectives including energy security, competitiveness and environmental sustainability. Regulation needs to take into account an analysis of long-term impact and the specificities of regional and national markets, in order to provide well-designed market conditions able to match the interests of suppliers and consumers in an efficient and effective manner.

The IAP notes that there is a strong need for new infrastructures (including storage) within Europe and for development of new gas transportation routes from the Caspian region, Russia, North Africa and other suppliers, to ensure security of supply in the European region through partnerships between producers and consumers.
RES must achieve three goals to overcome market constrains:
- cost reduction
- grid integration improvement
- environmental impact reduction

Role of Research and Technological Development in the RES Sector

The IAP notes that while new transmission and storage technologies may be helpful to mitigate the intermittency of renewable resources, the commercial integration of renewable and conventional resources (grid integration, reduction of overall system costs, improved quality and security of supply) is also likely to be a key consideration in supporting a reliable and affordable electricity market offering a cost-effective GHG reduction path.

Continued technological development over the next ten years is expected to support growing competitiveness of renewably sourced energy. Renewables are themselves not devoid of environmental impact and mitigating the environmental footprint and dealing with decommissioning will become part of R&D activities in this field. The IAP members noted the importance of closely following technology developments and their implications for energy market development.

Market competition between RES and conventional energy is taking place depending on specific location and grid conditions. The industry notes that extending competitiveness will need more technological development and intensive R&D efforts on a world-wide basis.

The IAP underlines the importance of innovative technologies to produce and store energy from renewables and to optimize the supply/demand balance through the development of smart grids. Continued Research & Development focused in these areas will be particularly crucial for strengthening the competitiveness of the renewables sector.
Promoting Regional Energy Cooperation

In 2013, the IAP discussed cooperation strategy for Europe, the Middle East and North Africa (EUMENA) with a focus on renewables and the role of the ECT. According to Dii GmbH, renewables projects in the MENA region could be implemented without off-take support, provided that non-economic barriers can be addressed through to 2020. Limited monetary support but high commitment is needed to reach the RES shares necessary for effective climate action beyond 2020. International processes and key institutions have been created to support the ongoing planning phase leading towards effective actions.

National regulation in most MENA countries foresees the development of RES projects. Most MENA countries have adopted ambitious renewable energy targets:

- Algeria 22,000 MW by 2030
- Saudi Arabia 54,000 MW by 2032
- Morocco 2,000 MW by 2020

However, despite continuing improvements, investors still face challenges when investing in the MENA region including: legal uncertainty, the relationship with state national utilities, land access, local content and screening requirements, administrative barriers, contract enforcement, grid access and unclear transmission costs. A stable and comprehensive regulatory framework is essential for RES investments.

A regional approach could improve key aspects of the investment environment for the development of renewables projects in the MENA region. The ECT can provide a legal framework to enhance legal certainty and strengthen security and protection of international investments. Common rules are required for interconnected systems and cross border trade in an integrated power system. The IAP underlines that a common legal framework covering investment and energy trade and transit, could significantly assist the development of large scale renewables projects in the MENA region.

The IAP notes that the ECT could play an important role in establishing a common legal framework across EUMENA to improve transparency of energy markets, strengthen legal certainty, reduce barriers to investment and promote competitive energy supply projects.
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Promoting Regional Energy Cooperation

The IAP notes that the ECT could play an important role in establishing a common legal framework covering investment and energy trade and transit, could significantly assist the development of large scale renewables projects in the MENA region. The ECT can be addressed through to 2020. The ECT can provide a legal framework designed for this purpose. Such a framework does not resolve all problems but it sets a clear and consistent standard for the treatment of energy investment by its signatories and can do much to support investment in a sustainable manner possible. A good energy policy will attract investment both into the energy sector and the energy industry across the Energy Charter constituency, both in terms of geography and industry sectors.

The Industry Advisory Panel (IAP) of the Energy Charter Treaty was initiated by the Greek Presidency of the European Union in 2003 and I am very grateful to all those who gave their support at and since that time. The IAP was set up by the Energy Charter Conference 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 provides advice on relevant issues related to energy investments, cross-border flows and energy efficiency.

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 of ensuring that the Panel is broadly representative of the energy industry across the Energy Charter constituency, both in terms of geography and industry sectors. The members of the Panel are drawn from Energy Charter members and observer states.

The Chairman of the Panel is Mr. Howard Chase, Director of Government Affairs at Dow Europe GmbH. Ms. Anastasia Kalkavoura, Director for International Government Affairs at Hellenic Petroleum, is Deputy Chairman of the IAP.

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