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**OIL AND GAS IN TURKMENISTAN
INSTITUTE OF DIRECTORS**

LONDON 17-18 APRIL 2008

INTERVENTION IN THE “DIVERSIFYING EXPORT OPTIONS” PANEL SESSION

Mr Chairman, Dear colleagues, Distinguished guests, it is a genuine pleasure for me to be here at the Institute of Directors in London today and to participate in what is turning out to be a very vital and most interesting forum on Turkmenistan's oil and gas industry. I extend my gratitude to the organisers for giving me the opportunity to say some words about Turkmenistan's energy export routes as seen from the Energy Charter perspective.

Turkmenistan's energy challenge and the role of the Energy Charter

We are all well aware that Turkmenistan has very substantial energy resources, particularly its reserves of natural gas. However, no country can escape its own geography and we should note that Turkmenistan only has indirect access to the main international markets. Turkmenistan's connection to the European market for natural gas is dependent either on a route via Russia along the existing Russian gas pipeline network (to and via which the bulk of Turkmenistan's gas is presently exported), or on new export infrastructure along the corridor linking the Caspian with the Black Sea through Turkey, and onward to the EU via South-East Europe. Turkmenistan's prospects for export to the dynamic consumer markets of South Asia (such as India and Pakistan), and those even further in Asia's East (such as China), are likewise dependent on arrangements with the countries that lie in between.

Thus the realisation of Turkmenistan's vast potential as an exporter of hydrocarbons is largely dependent on the transit of its energy through the territories of neighbouring countries, which requires stable legal agreements governing such energy transit. The more Turkmenistan seeks to diversify its export routes, the more national borders its energy exports will cross. It is, therefore, of vital importance for landlocked countries like Turkmenistan that a common set of rules governing transit issues is in place in order to establish secure transit for its energy exports and ensure their uninterrupted flow across national borders to international markets.

This is indeed an area where the legally binding Energy Charter Treaty, of which Turkmenistan is a long-standing member, can assist – through its existing provisions on transit, as well as its disciplines designed to protect long-term energy investments, particularly those into transport infrastructure, as these provide security for long-term supply agreements. The Treaty seeks to remove barriers to trade and transit of energy materials in general, and its transit provisions contained in Article 7 are based on the principle of ‘freedom of transit’ and specifically address the reliability of cross-border flows.

Turkmenistan is one of 51 member countries of the Energy Charter Treaty, making the Treaty the only comprehensive multinational legal instrument applying specifically to the energy sector and encompassing producer, transit and consumer countries alike. This is of particular importance for

issues relating to energy transit, which, by their nature, are best covered on a multilateral basis. The Energy Charter process is the most developed multilateral mechanism we have available, through which national governments can cooperate in this area. The Energy Charter does not favour any particular export or transit solution, but it creates a level playing field by providing rules for opening and securing transit through all member states.

As westbound energy export routes are considered to link Central Asia via the Caspian and Turkey to the European markets, the Energy Charter Treaty's relevance for countries like Turkmenistan – particularly its embracement of a common foundation of rules to secure investments and energy flows – will become yet even more significant. We should note that the transit countries along Turkmenistan's potential westbound export routes – Azerbaijan, Georgia, Turkey and nearly all of the South-East European states – are already members of the Energy Charter Treaty.

The same can be said about Turkmenistan's neighbouring Central Asian republics immediately to the east, and these would be vital transit territories for any of Turkmenistan's future energy exports to China. The importance of the eastbound routes for Turkmenistan's diversification strategy is underscored by its recent agreements with China, which envisage the construction of a pipeline intended to deliver substantial annual volumes of natural gas to China.

Further, it may be less well known to the audience that Afghanistan and Pakistan were both recently invited to accede to the Energy Charter Treaty. Both of these countries are potentially important transit territories for possible natural gas exports from Turkmenistan to Pakistan and India and it is our hope that they will embrace the international rules of the Energy Charter Treaty which would secure further export options for Turkmenistan in the future.

A final point I would like to very briefly touch upon is investment – particularly the need to protect the investment linked to cross-border pipeline projects. Diversification of export routes for Turkmenistan's hydrocarbons – be it through the Turkish corridor on to Europe, through Iran or via eastbound routes to China – will require billions of Euros of investment, most of which will need to be mobilised by private industry and be based on commercial decisions. Such investments will be supported by the binding disciplines of the Treaty designed to protect these long-term investment decisions.

Although the Treaty does not prescribe a particular structure within a national energy market, and upholds state sovereignty over national energy resources, one of its key features is the protection of energy investments against undue political intervention. Indeed, several of the inter-state agreements for investment into prominent export-oriented pipeline projects in the region – including the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline – were drawn on the principles contained in the ECT and explicitly refer to the Treaty.

I would like to finish my remarks by saying that Turkmenistan (and Eurasia as a whole) has much to gain from continued engagement with the Energy Charter process, as this will help the country to diversify its export options and fulfil the role of a reliable and stable supplier of energy to an increasing spectrum of market alternatives.

Thank you.