The speech of the Energy Charter Deputy Secretary General Amb. Vladimir Rakhmanin

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Thank you Mr. Chairman, I am very pleased to address this prestigious forum.

Challenges for energy security in the recent years are truly becoming global. We are all facing rapid changes in the energy environment:

- Energy price environment has become very volatile;
- Producing countries seek stronger participation downstream;
- Global energy demand is more and more driven by the rapidly growing economies outside the traditional OECD area;
- We see greater state involvement in the global energy markets;
- Environmental protection, which used to focus on prevention of pollution, is now increasingly focusing on reducing global greenhouse gas emissions and mitigating their climate change impact.

It has become obvious that our current policy course is not sustainable. The problem is not that sources of energy are unavailable. But there is a real risk that our use of these resources, which has been the engine for so many improvements in human welfare, could ultimately propel us towards environmental degradation and conflict. It does not have to be this way. But putting the global energy economy on a secure path of development will require renewed and joint efforts from governments and international organisations.

Meeting policy goals in relation to energy security therefore requires a recognition of our interdependence in matters of energy, and an understanding that genuine security and stability need to be based on mutual benefits and advantages - as well as strong communication - all along the energy value chain.

I would like to underline the importance of an inclusive debate involving all participants in the energy value chain - producers, consumers and transit countries. It is also my personal conviction that current tensions in international energy markets can be attributed, at least in part, to poor communication and information, and a lack of transparency over policy intentions and actions. Channels for dialogue are therefore very important.

The balance of benefits and advantages between producers and consumers of energy is not a static one. High energy prices in recent years have strengthened the position of the relatively small number of resource-owning and exporting countries. The consequent concern that energy could become even more of a strategic and political commodity than it has always been has prompted a variety of supply and demand-side measures in consumer countries, designed to lessen dependence on

energy imports. Such measures can improve efficiency or increase diversity of supply, but in a world where technology is locked in to the use of hydrocarbons, they are not likely to alter the underlying facts of mutual dependence between buyers and sellers for the next couple of decades.

In my view, it would be a mistake if current challenges led to the emergence of new barriers to international trade and cooperation, under the banner of energy independence.

Given the global distribution of energy resources, current technologies and projections of demand, the priority for policymakers should be on how to manage interdependence most effectively, and how to create functioning and balanced international frameworks that can mitigate the associated risks.

A starting point is to find common principles that can underpin international cooperation. For the Energy Charter these are expressed in a political declaration from 1991, signed by almost 60 countries across the world. These countries include major energy producers as well as transit countries and net energy importers, all of whom have subscribed to certain core principles:

- national sovereignty over energy resources, respect for contract and property;
- stable and open frameworks for flows of energy, capital, technology and investment;
- an orientation towards market solutions;
- non-discrimination;
- transparency;
- energy efficiency and sustainable development.

How do these principles play out against the current debate over energy security and climate change? The first point is to underline that the main mechanism for managing interdependence is through the operation of an international energy market.

The main task for governments must be to ensure the operation of international market mechanisms. And this by putting in place predictable, transparent and non-discriminatory conditions for trade and investment. In this way, they can help to ensure that flows across borders of capital investment, of technology, and, ultimately, of energy itself are directed in the most efficient way.

More broadly, governments along the energy value chain have to create an environment that will allow the right mix of new energy technologies to emerge for use of fossil fuels and alternative energy sources.

While some interests are shared by all countries, each player along the energy value chain has interests that need to be taken into account.

The reality demonstrates that there is a mismatch between security of supply and security of demand. Within existing technology limits a resource-owning state can secure physical supply. Security of supply implies that an exporting state keeps its

promises linked to supply deals and backs them. And does not misuse its sovereign position to interfere with supply deals.

Looking at the other end of the energy chain, an energy importing state cannot guarantee physical demand, which is ultimately the result of individual consumer decisions. However, exporting states will at least ask for predictability of the market framework and the rules under which energy is imported into a country. Long-term contracts with a minimum pay provision were and still are a successful model of a fair balance between security of supply and security of demand.

In addition to the efforts of national governments, an interdependent energy world needs institutions to promote coordination and to provide a stable framework for cooperation. This is precisely why the Energy Charter Treaty occupies such a valuable and distinctive place in the international legal architecture. It demonstrates that it is possible to bring a large, diverse group of countries together within a legally binding framework on the basis of common principles and mutual interest.

The Treaty is a unique legally binding multilateral mechanism for cooperation in the energy sector, which brings together producers, transit countries and consumers of energy. Its key strength is in protecting investment and encouraging flows of energy, investment capital and technology across member countries, to mutual benefit. It provides a serious foundation for harmonising the interests of all participants, gives us - so to say - universal alphabet for energy cooperation. I would like to take a moment to present the Charter's distinctive contribution to international energy security.

The need for massive investment to meet future energy demand is well documented. But in time of global financial crisis and of extreme volatility of energy prices this represents an extremely difficult and dangerous challenge. Uncertainty about future return of investment is a very bad thing for investors, certainly when investments, as it is the case in energy, are huge and made on a long term basis. This will in no doubt scare not only the traditional actors of the energy sector, but also the financial community which in the past was positive and is now disconcerted.

Low prices, if permanent, will jeopardise some existing investments, can put a halt to planned major investments.

Those investments are nevertheless absolutely necessary for the decades to come. Their cancellation or even postponement will endanger the security of supply and in consequence the economy as a whole. In this gloomy context, long-term decisions in the energy sector need assurances that contracts and property will be respected. The Energy Charter Treaty's original binding mechanisms for investor protection, including the tested option of investor-state arbitration, are designed to provide this legal security.

The promotion of reliable transit is a key component of the Charter's work. The Charter has become a leading inter-governmental forum for exchanging information on issues such as access to transit pipelines, tariff-setting, congestion management and investment in new transit infrastructure. This is complemented by work on non-

binding instruments that can facilitate new cross-border infrastructure projects, such as the Charter's Model Agreements for Cross-border Pipelines.

The Charter's work on energy efficiency is based on a special Protocol. This protocol requires its signatories to formulate strategies and policy aims, to establish appropriate legal frameworks, and to develop specific programmes for the promotion of efficient energy use and the reduction of harmful environmental practices.

Additionally, the Charter's work brings an important element of transparency to Eurasian energy markets. The Charter provides an accessible multilateral policy forum for a very diverse group of countries, provides a valuable platform for a regulatory dialogue on issues affecting the movement of energy across Eurasia.

We are optimistic about the potential international energy cooperation. There are nevertheless significant challenges ahead. We need to bring new energy players into this cooperative dialogue. And we need to ensure that policies pursued by governments and international organisations provide the right bridge to a sustainable energy future, so that energy can continue to be synonymous with human development and opportunity. We need "win-win" solutions in the energy cooperation and not a zero-sum game. Mutual benefit, recognition of and respect to each other's interests will secure not temporary, but long-term and stable solutions.

Thank you for your attention.