Role of the Energy Charter in facilitating access to energy resources

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Outline

I. **What is the Energy Charter**

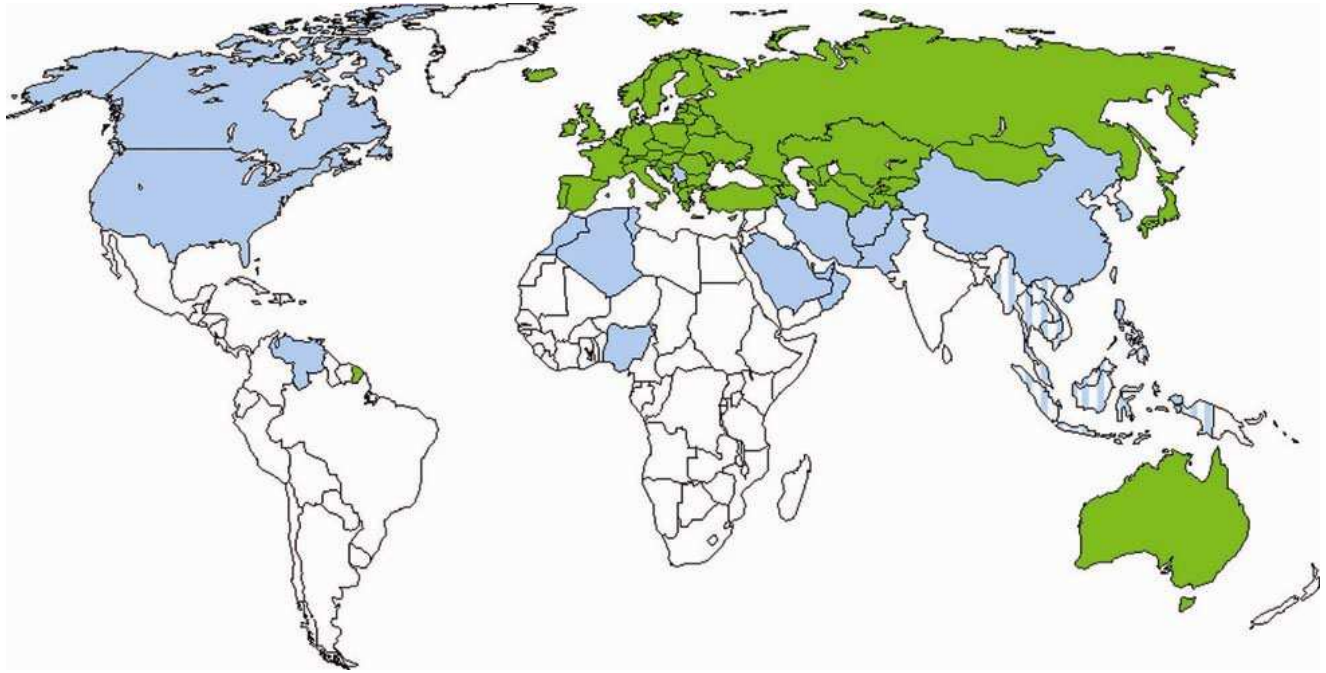
II. The Energy Charter's approach to resources access and national sovereignty

III. Global energy markets and the modernization of the Energy Charter Process

What is the Energy Charter?

1. **Energy Charter Treaty**
   - **Strengthen rule-of-law on energy issues**
   - **Reduce risk for energy investments and trade**
   - **Promote energy efficiency**
2. **Forum**
   - **Government, industry, other stakeholders**
   - **Discuss policies, strategies and instruments**
3. **Series of Activities**
   - **To negotiate additional provisions to the existing framework**
   - **To implement framework with the help of subsidiary working groups of the Energy Charter Conference and of the Industry Advisory Panel**

Energy Charter



- **51 Signatory Countries (green) represent:**
  - **Around 40% of global GDP**
  - **Around 40% of global gas production**
  - **Around 25% of global oil production**

Four Pillars of the Energy Charter Treaty

1. **Trade**
   - **Promotes international energy trade through WTO-based guidelines**
2. **Transit**
   - **Facilitates cross-border grid-bound energy flows using infrastructure**
3. **Investments**
   - **Protects existing investments and endeavours the creation of a favourable investment climate for new investments**
4. **Energy Efficiency**
   - **Encourages international cooperation in developing and implementing energy efficiency strategies and policies**

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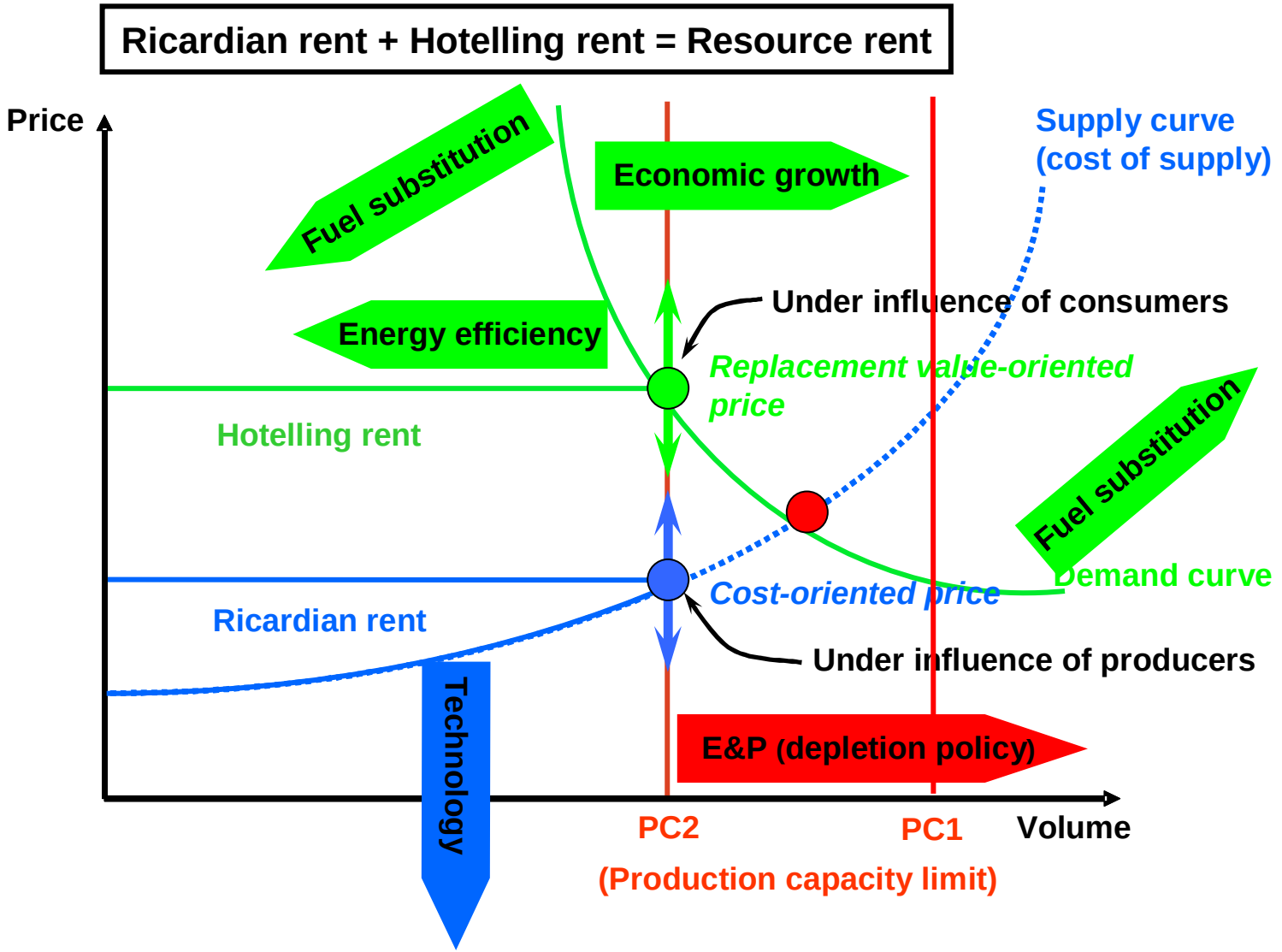
Factors influencing resource economics

Resource (and energy) economics are different from economics of industrial manufacturing ,e.g.:

1. The Character of a Natural Resource: Ricardian Rent
2. Finiteness of Resources: Hotelling's Theorem
3. Producing Companies and Resource Owners: Principal-Agent Theory
4. Inelastic Demand Combined with Supply Restrictions: Cournot-Nash-Formula
5. Market Imperfections/Externalities: Pigou Taxes and Coase Theorem
6. Risk and High Specificity of Oil and Gas Investment: Transaction Cost Theory

Pricing of Non-Renewable Energy Resources: RICARDIAN VS. HOTELLING RENT



Historical aspects (I)

1928-1947

- Vertical value chain for int. traded oil almost under the full control of the “Seven Sisters” Esso, Shell, BP, Mobile, Chevron, Gulf Oil and Texaco
- Most of oil received through long-term concession agreements with host (mostly developing) countries exported under long-term contr.
- Posted prices established by the majors as a basis to calculate the royalties to be paid to host states

Historical aspects (II)

1947 - 71

Independence of former colonial countries

1960

Creation of OPEC

1962

- UNGA Resolution 1803 on “Permanent sovereignty over natural resources”
  - …must be exercised in the interest of national development and well being of the state concerned
  - Nationalization, expropriation shall be based on grounds of public utility, security of national interest; owner shall be paid appropriate compensation

Historical aspects (III)

Since 1971: OPEC set prices

- Control over domestic oil economies in the producer countries acquired by the OPEC states
- Upstream assets of the international oil companies (IOC) in the major host (OPEC) countries nationalized, new National Oil Companies (NOCs) created
- 1973-74 First Oil Crisis
- 1974 Establishment of IEA
- 2007, Financial Times: “New Seven Sisters”, all outside OECD: Saudi Aramco (Saudiarabia), Gazprom (Russia), CNPC (China), NIOC (Iran), PDVSA (Venezuela), Petrobras (Brasil), Petronas (Malaysia).

Historical aspects (IV)

Development of liquid market

- Appearance of new contractual forms in the oil trade
- increase in volumes traded on the spot market
- Sharp fluctuations in spot oil prices stimulate the introduction of risk management techniques into oil operations
- Introduction of contracts for oil and petroleum products at the existing commodities exchanges (NYMEX) and establishment of specialized oil exchanges (IPE).

1991 First producer-consumer dialogue (IEF)

Energy Charter signed

1994 Energy Charter Treaty signed

ECT: Sovereignty over resources (Art. 18)

1. Contracting parties recognize state sovereignty and sovereign rights over energy resources.
2. Treaty shall in no way prejudice the rules in Contracting Parties governing the system of property ownership of energy resources
3. Each state continues to hold in particular the rights to decide geographical area, recovery rate, any taxes, royalties or other payments, regulate environmental and safety aspects and to participate in exploration and exploitation
4. Contracting Parties undertake to facilitate access to resources, inter alia by allocating authorizations and licenses in a non-discriminate manner

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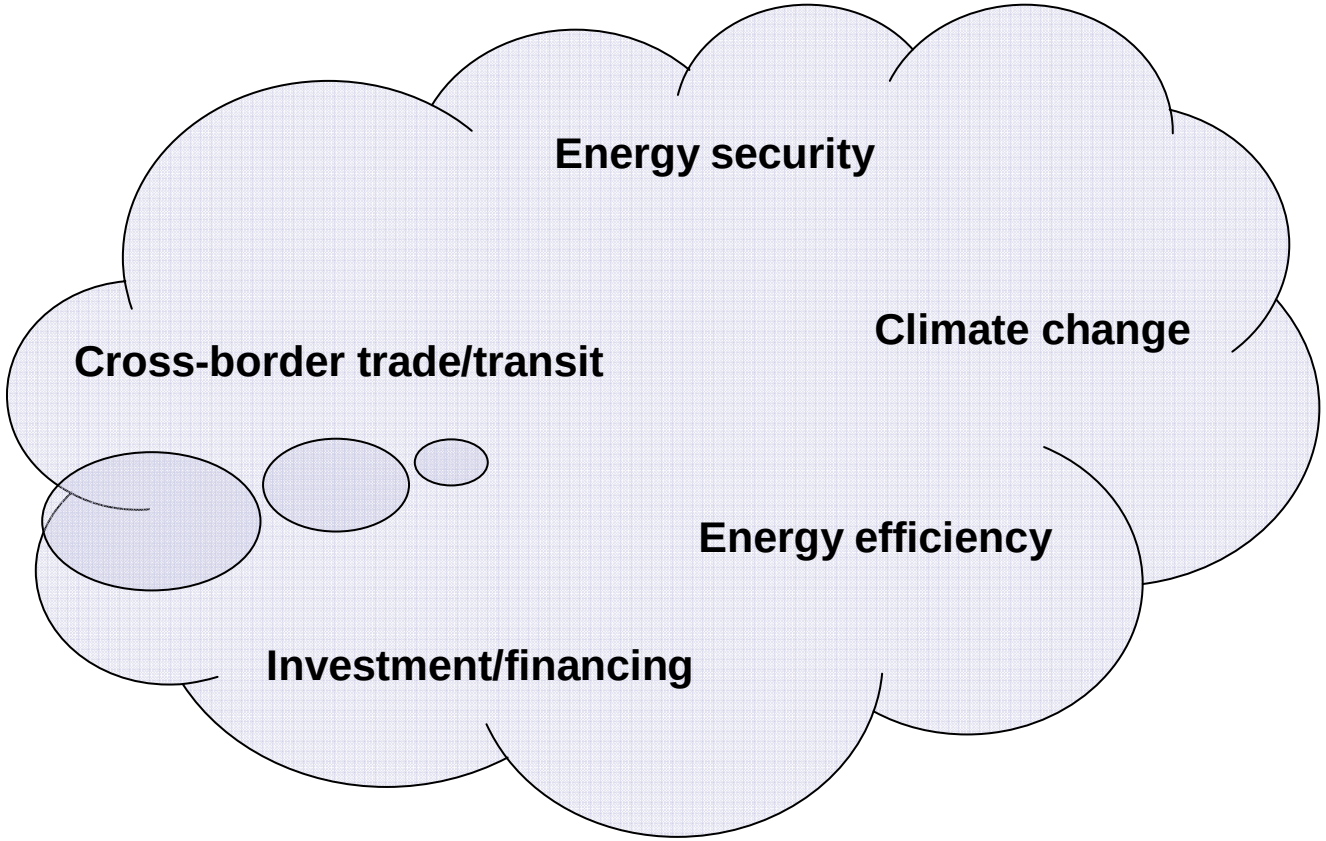
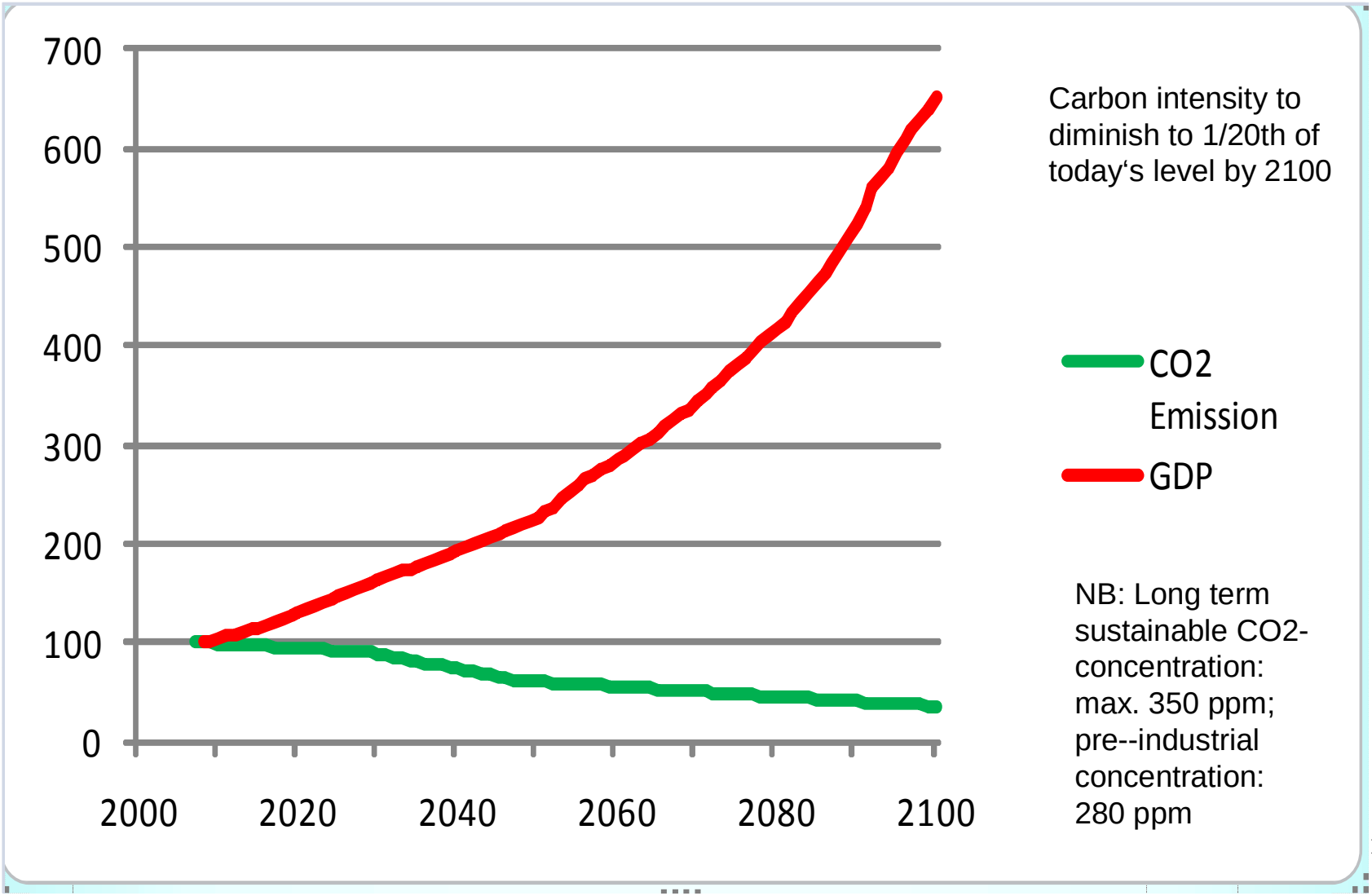
Global challenges (5-year-review 2009)



Climate Change vs. GDP Growth

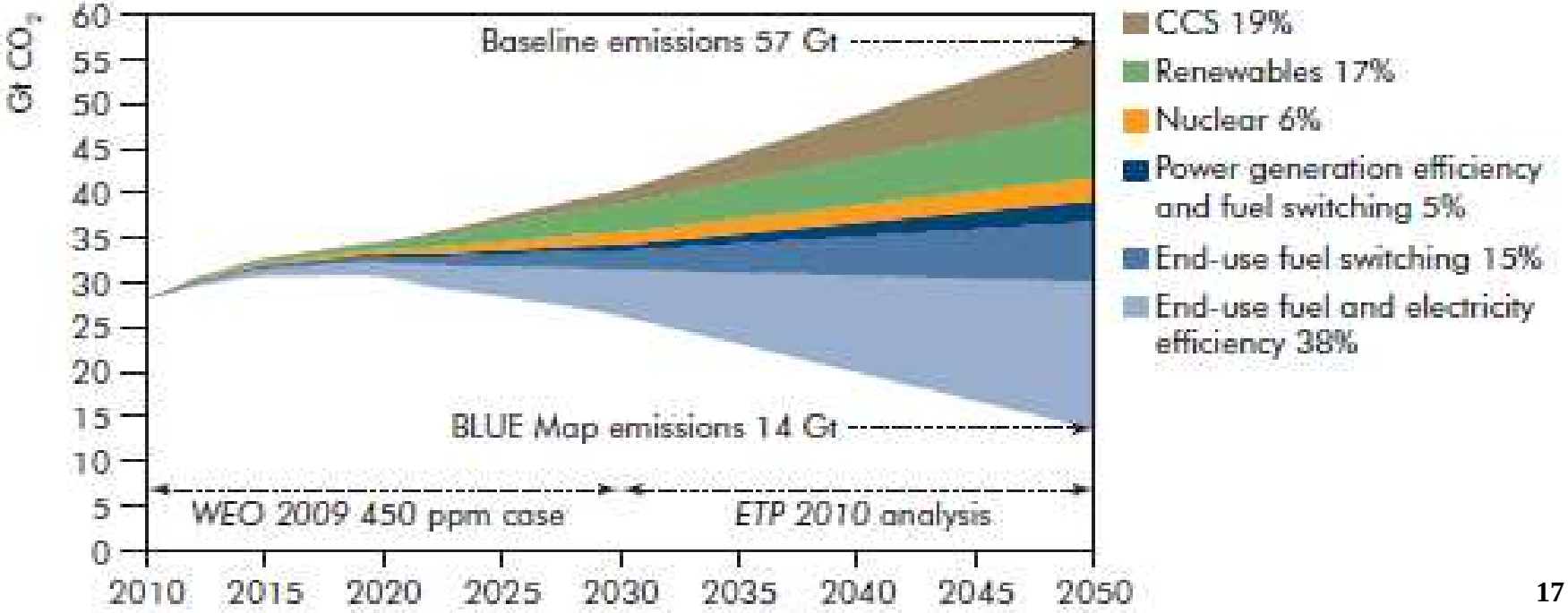
Making global economic growth (e.g. 2%) compatible with the max. temperature increase of +2°C (e.g. 450 ppm CO2) until 2100

Index 2010 = 100

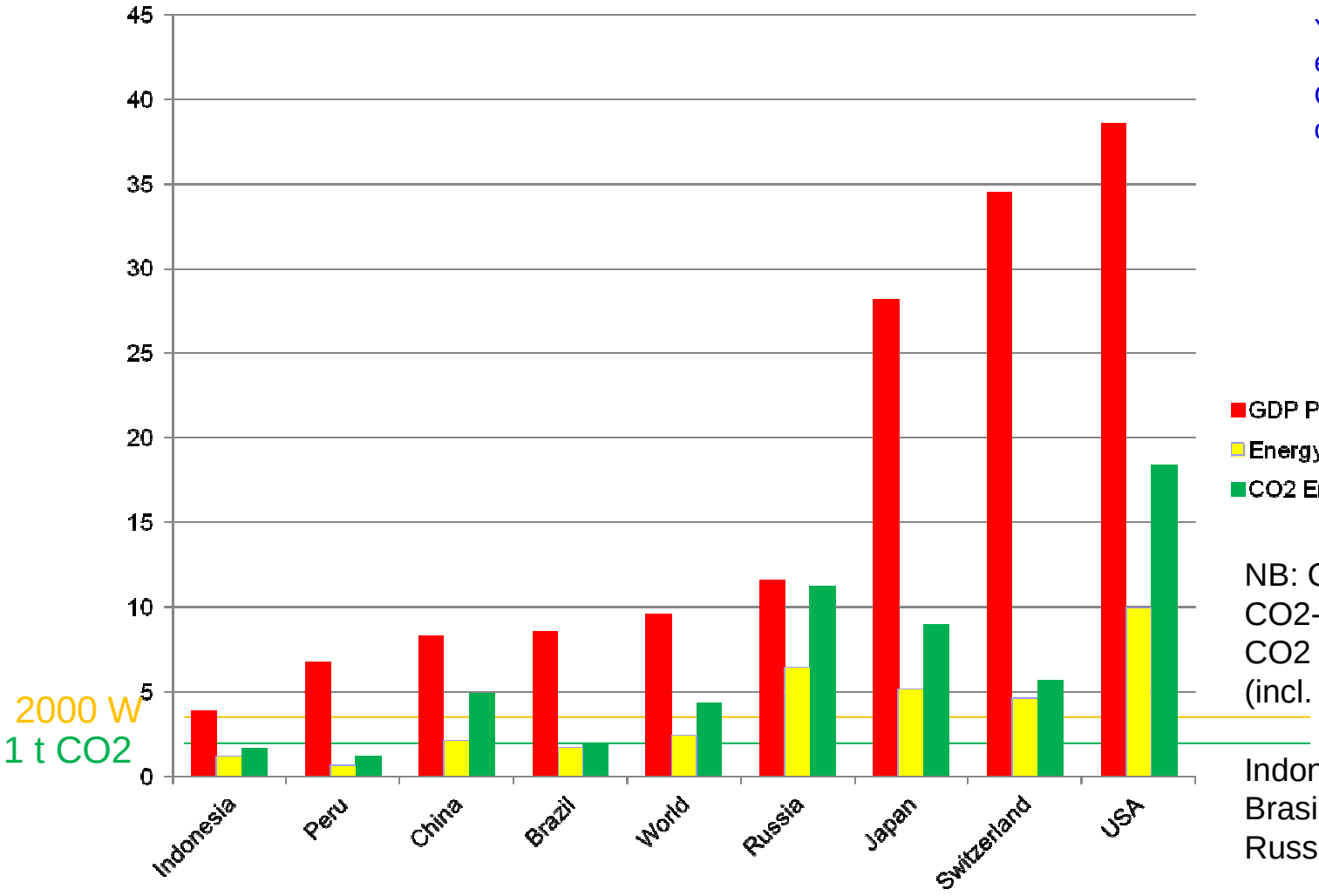


How to address climate change

- Energy efficiency to bring 58% of CO2 savings by 2050 (IEA ETP 2010)
- CCS: 19%, Renewables: 17%, Nuclear: 6%



Energy Efficiency Disparities



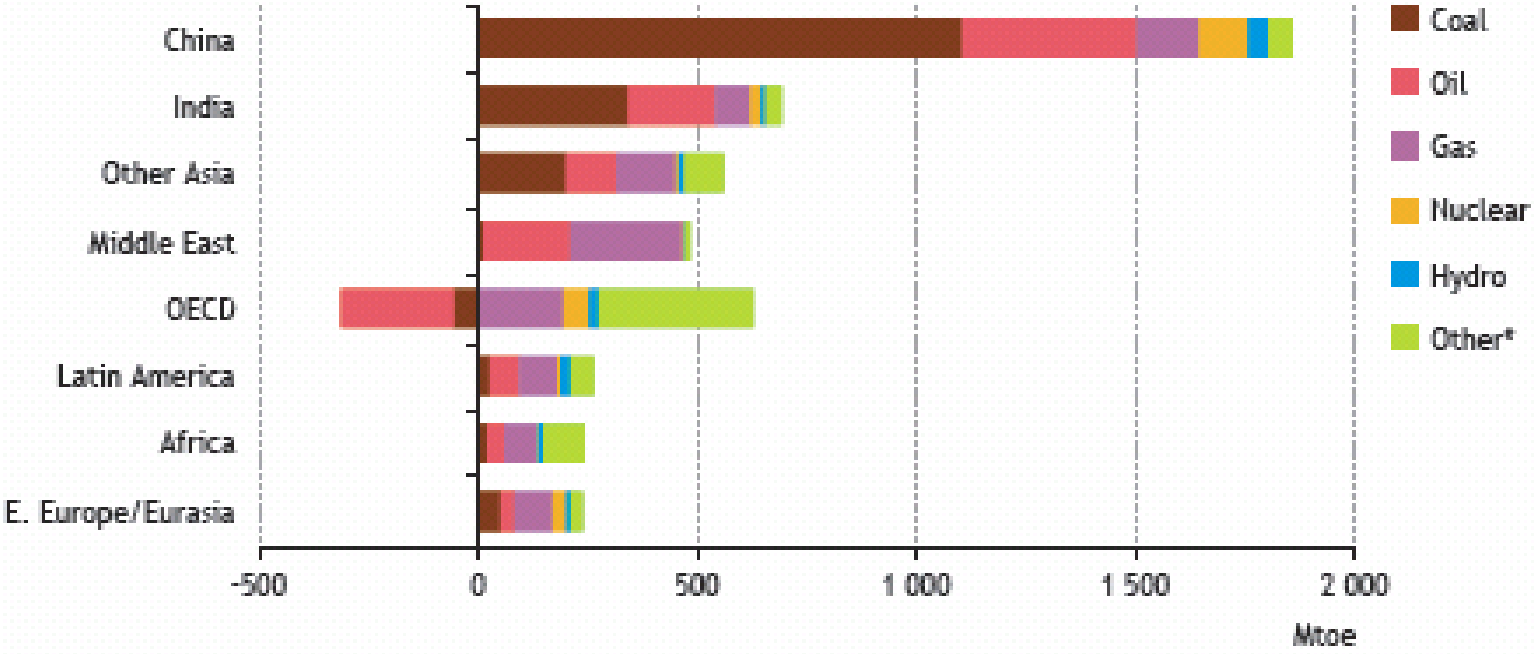
Yellow to Red:
energy intensity
Green to Red:
carbon intensity

NB: Only energy related CO2-Emissions shown; CO2 per capita in total (incl. Land und Forest):

Indonesia: 6.014 t CO2
Brasili: 10.555 t CO2
Russia: 17.495 t CO2

Energy Demand Increase by 2030

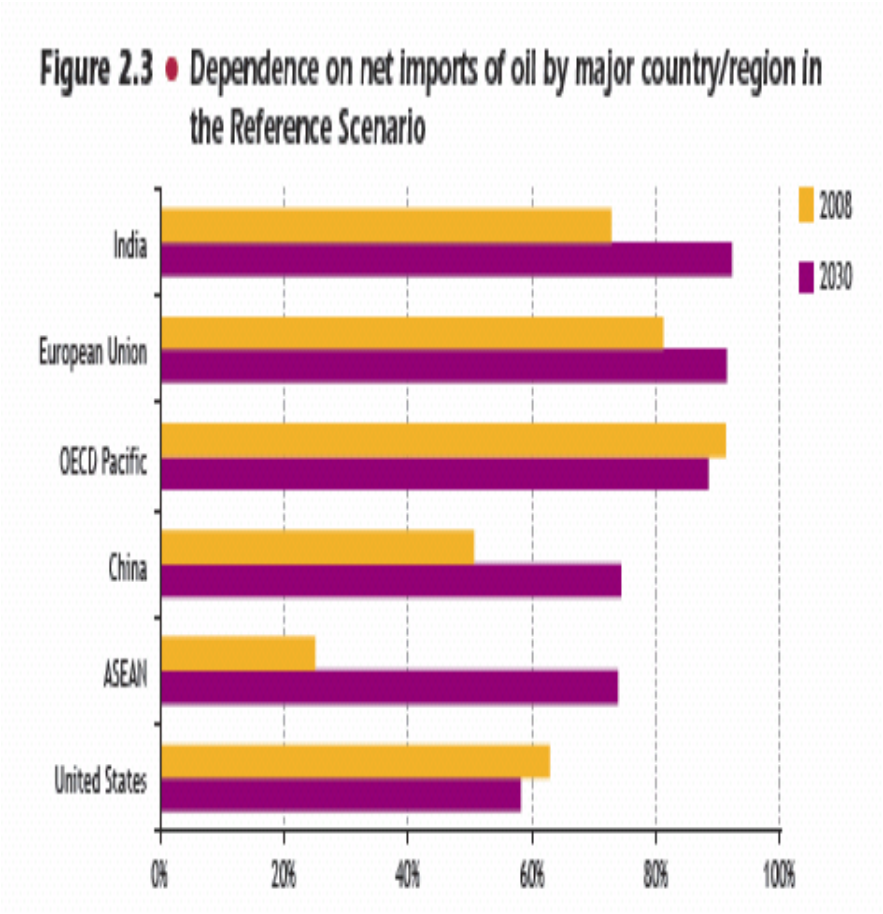
Figure 1.2 • Incremental primary energy demand by fuel and region in the Reference Scenario, 2007-2030

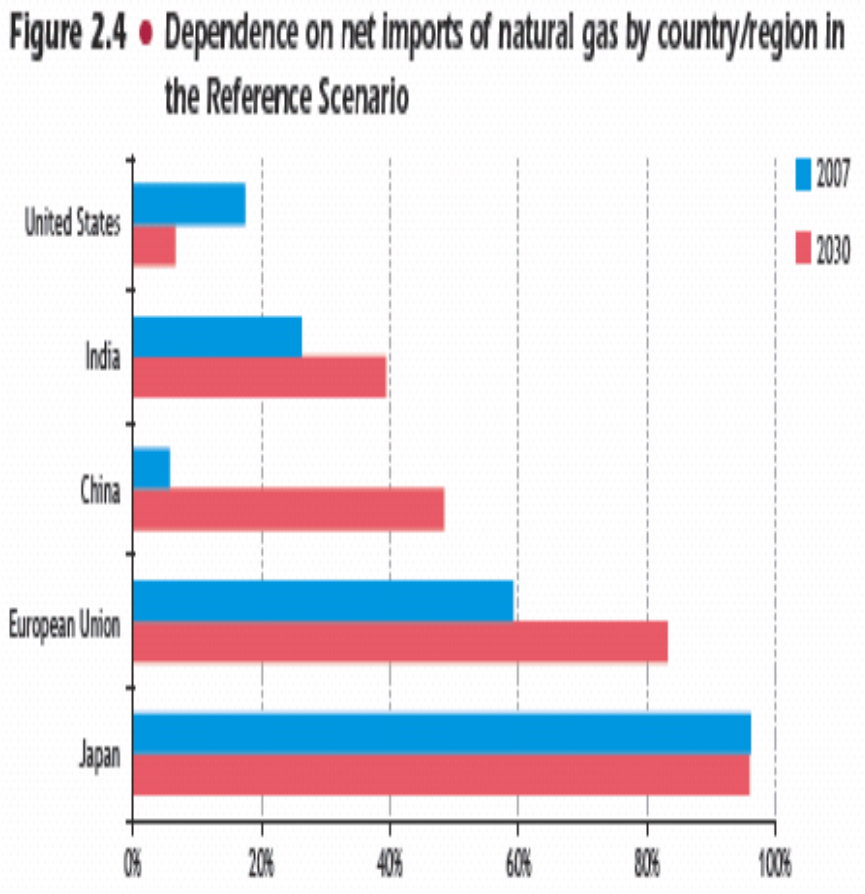


* Includes biomass and waste, wind, geothermal, solar, and tide and wave.

Source: IEA

Increasing Import Dependence

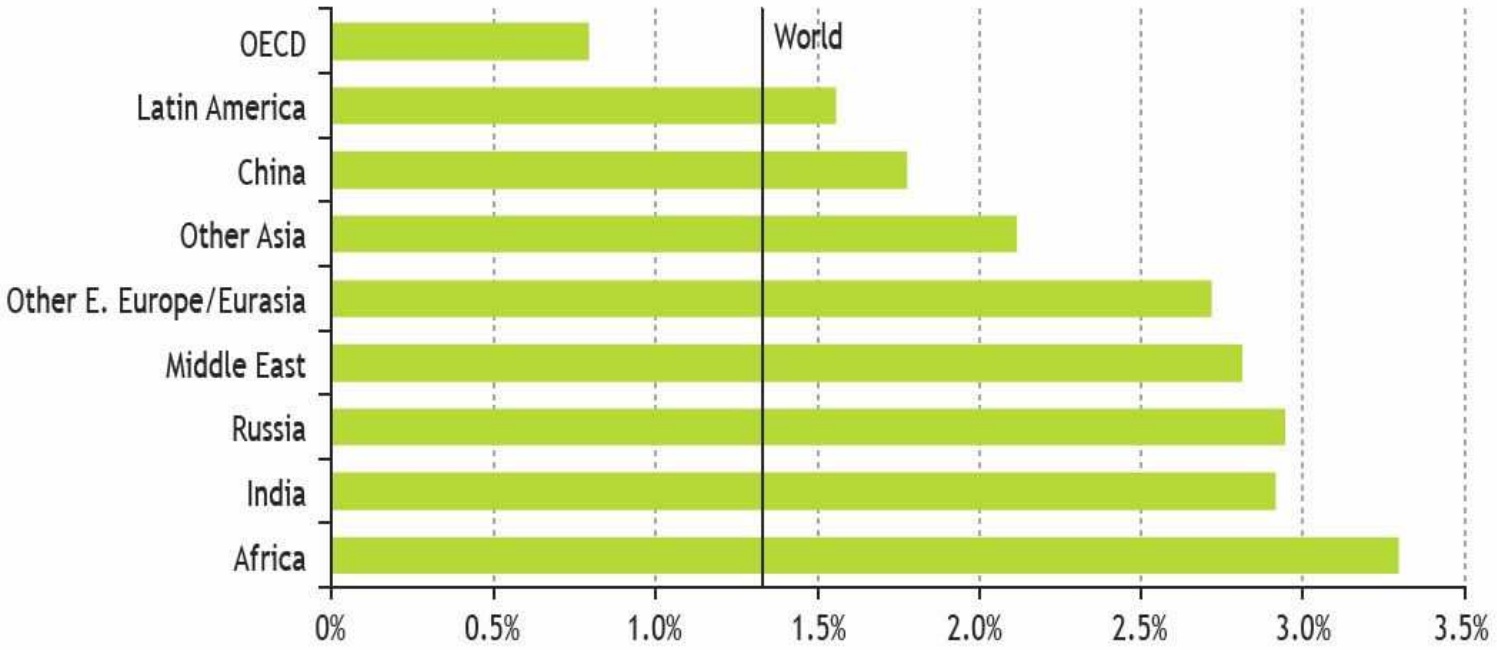




Source: IEA

Investment and Financing

Figure 1.21 ● Share of energy investment in GDP by region in the Reference Scenario, 2008-2030



Note: GDP expressed in year-2008 dollars at market exchange rates.

Source: IEA WEO 2010

Modernization

- 2008 / 2010: Creation of the Energy Charter Strategy Group
- November 2010: Adoption of Road Map for the Modernization, horizon 2014
- 2011 / 2012 (expected): Integrated Energy Charter Policy on Outreach, Expansion and Consolidation
- Long term: Energy Charter to become global

Energy Security

- Working towards an early warning & emergency prevention mechanism
- Scope: gas and electricity, special use to connect land locked countries
- Outreach: global, including members and non-members
- Develop soft tools: information, negotiation, mediation, keep „hard“ legal tools

Transit and cross-border trade

- Refocus Transit Protocol negotiations, include signatories of the 1991 Charter
- Taking account of new cross-border infrastructure projects (electricity, gas)
- Task Force for regional cooperation, including with non-members
- For non-WTO members: Start discussing binding customs tariffs regime

Low Carbon Economy

- Mandate to assess the Treaty provisions for relevance to decarbonization of economy
- Assess trade and investment provisions
- Decarbonization may include energy efficiency, renewables and carbon capture and storage
- No competition to UNFCCC, but fine tune UNFCCC

Thank you for your attention

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Energy Charter Secretariat

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