



CONFERENCE
**“EU-CENTRAL ASIA: REACHING SUSTAINABLE
DEVELOPMENT GOALS”**

BRUSSELS, 18 MAY 2017

**“MAIN CHALLENGES OF SUSTAINABLE DEVELOPMENT IN
CENTRAL ASIA (FOCUS ON TAJIKISTAN)”**

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Dear Ministers, Ambassadors, Ladies and Gentlemen,

First of all, I would like to thank the organisers of this very important conference for the extended invitation and excellent organisation.

Today, we are here to discuss extremely important subject of implementation of Sustainable Development Goals in the context of Central Asia but with the specific focus on Tajikistan.

As the Secretary General of the International Energy Charter, it's very logical that I will focus on Goal 7 on Ensuring access to affordable, reliable, sustainable and modern energy for all. No doubt that energy is crucial for achieving almost all of the Sustainable Development Goals. In the context of Central Asia, inter-relation between water-energy-food-environment is therefore closely links Goal 7 with Goal 2: Food security, Goal 6: Clean water, Goal 8: Economic growth and Goal 13: Climate action.

Energy access is a major challenge worldwide. Nearly one person in five on the planet still lacks access to electricity. Almost three billion people, rely on wood, coal, charcoal or animal waste for cooking and heating. This is a major barrier to economic development and eradicating poverty. In Central Asia, Tajikistan in particular, almost all people connected to the power grid but due to lack generation capacities many people have no access to electricity during winter time.

As you know, all countries of Central Asia are full members of the Energy Charter Treaty. Moreover, countries are actively involved in the process, for example, Kazakhstan was chairing the Energy Charter Conference in 2014, while Turkmenistan holds the chairmanship in 2017. The Secretariat is regularly conducting in-depth energy efficiency reviews and investment climate and market structure reviews of the member countries. For example, we are working now on the energy efficiency review of the Kyrgyz Republic, the report on investment climate and market structure of Tajikistan is pending its finalisation

in cooperation with the Ministry of Energy and Water Resources. On top of this, we have been supporting the work of the Task Force on Regional Energy Cooperation since 2007 which encompasses not only Central Asia but South Asia as well. This is a political platform to promote regional cooperation and to facilitate capacity building based on the ECT principles. These meetings are hosted by the participating countries to address different topics chosen by the host which include exchange on developments in national strategies and infrastructure projects, sharing experiences on renewable technologies, energy efficiency measures as well as power sector reforms in general. One of these meetings was hosted by Tajikistan in Dushanbe in June 2012.

Against this background, I would like to share with you some of the lessons learnt and experiences which would be relevant to meet those Sustainable Developments Goals mentioned earlier. For this purpose, I would like to pick up some of the draft conclusions from the Investment Climate and Market Structure review for Tajikistan and put in a broader context of the recent Energy Charter study named “Towards Secure and Sustainable Energy Supply in Central Asia”.

One of the conclusions of the ICMS review of Tajikistan which is very much in line with the National Development Strategy for the period up to 2030 and is **“The government has prioritised development of the energy sector. It is critical to continue rehabilitation of existing infrastructure and add more generation capacities to ensure energy security of the country”**.

Indeed, most of the countries of Central Asia face a similar challenge of attracting investments in the modernisation of the existing electricity production infrastructure and in the development of additional capacity. These investments are needed in order to ensure secure and reliable electricity supply and to improve the efficiency of the national electricity systems – currently characterised by the use of obsolete equipment. Investments are also needed in

the modernisation and development of the centralised heating infrastructure, including the combined generation of heat and power.

Interruption of supply – with varying levels across the region – imposes an important social and economic cost. The obsolete state of the infrastructure, not only generation but transmission and distribution as well, also exercises pressure on the supply-demand adequacy. Electricity consumption patterns, especially in Kyrgyzstan and Tajikistan, which are characterised by heavy reliance on electric heating in the winter create additional problem.

The electricity sector is a capital intensive sector. Investments in energy efficient power plants and network infrastructure require very high capital expenses. The benefits of participation of foreign capital and technology in the modernisation of the Central Asian electricity sector are clear - besides know how and operational efficiency, foreign investments are needed to compensate limited financial resources within the region.

However, for foreign companies, the benefits of investing in the Central Asian electricity sector are not that self-evident. Political sensitivity of price increases – in connection to the relative instability and unpredictability of the investment climate, weaknesses of regulatory framework and concerns regarding the rule of law and good governance – exposes investors to considerable risks. All these issues create a highly challenging environment for foreign investors.

The next conclusion of the draft review is **“In order to attract more investors and add generation capacities the government is advised to consider opening a third party access to electricity networks to all electricity producers which will provide opportunities to reach directly large customers and increase exports of electricity in summer time”**.

Again, this conclusion is relevant for the most of the countries of the region. But what I would like to highlight here is not the organisation of the national power markets but the importance of regional electricity cooperation. Despite the clear

benefits of regional electricity cooperation such as economic, technical and environmental, the first priority is still national energy independence but not regional cooperation.

The states themselves have repeatedly acknowledged these benefits in the intergovernmental agreements concerning electricity supply and water-energy issues in Central Asia. However, in practice, the priority is on national energy independence and self-sufficiency which has already affected the functioning of the Central Asia Unified Power System. Regional electricity cooperation is mainly seen as a mechanism to achieve export opportunities. The International Energy Charter as a multilateral organisation for energy cooperation believes that there is a need to re-conceptualise the notion of energy security in Central Asia. The EU approach of diversification of energy supply – instead of self-sufficiency or autonomy – can provide an interesting starting point to develop a new national and regional approach towards security of electricity supply in Central Asia.

There are more technical conclusions of our draft Tajikistan review which refer to **regulatory frameworks, tariff methodologies and alternative supply options** like renewable energy sources. All these issues are very much inter-linked.

To keep long story short, I would like to say that current regulatory practices and tariff policies in Central Asia represent challenges to the sustainable development of energy sector in Central Asia. Insufficient implementation of the “rules of the game” is one of the main deficiencies affecting the functioning of the national and regional electricity markets in the region. Investment regime of the ECT provides foreign investors with an independent mechanism to ensure the implementation of the regulatory and contractual commitments that states make to induce investments in the electricity sector. However, the ECT can only play its stabilising role if states create an adequate regulatory framework for

investments and provide clear regulatory and contractual commitments concerning the financial basis of such investments. In this respect, Central Asian governments clearly recognise the need for further reform of the energy sectors, including electricity tariff increases to cost reflective prices.

To conclude with, I would like to express my appreciation to the organisers once again because this Conference is a very important milestone in cooperation between the European Union and the region of Central Asia. I believe that, on one hand, energy resources of Central Asia represent a potential for diversification of energy supply sources and routes for the European Union. As you all know, the European Union is the largest energy importer in the world and is vulnerable to supply disruptions, that is why energy security is one of the key priority areas of the of the European Energy Union. European Union is renown for its valuable experiences and best practices in terms of integrating power markets, deploying energy efficiency and clean technologies in order to tackle global climate change.

On the other hand, there is a clear need for the EU technical assistance in order to implement Sustainable Development Goals. I think that sustainable energy should be one of the priorities of cooperation between the EU and Central Asia. The contribution of the European Union to the governance of the energy sectors and reform process in Central Asia based on best international practices would help to achieve political and social security as well economic growth both at the national and the regional level.

The Energy Charter Secretariat as an intergovernmental organisation for multilateral energy cooperation, which includes in its constituency both the states of the European Union and of Central Asia, is ready to play an active role in order to match the strategic interests of the EU in Central Asia and specific needs of the countries of the region in enhancing their energy security.

Thank you very much for your attention and I look forward to a very productive discussions.