A two-day Seminar on “Regional Energy Cooperation in Central Asia and the Role of the Energy Charter process” took place in Tashkent, Uzbekistan, on 23-24 September.

The Seminar, organized jointly by the Energy Charter Secretariat and the Government of Uzbekistan, with additional financial support from the Foreign and Commonwealth Office of the United Kingdom, brought together government representatives of the five states of Central Asia and other countries from the wider region, including Russia, China, Mongolia, Japan, Turkey and Iran, for discussions on the many challenges facing the Central Asian region in the energy sector, and how the governments of the region can cooperate in order to tackle them. Representatives of international organizations and the business community also participated. The Seminar was formally opened and concluded by Mr Elyor Ganiev, Deputy Prime Minister of Uzbekistan, and Dr Ria Kemper, Secretary General of the Energy Charter Secretariat.

During the Seminar, participants considered the need to create a more attractive climate for investments in the energy sectors of Central Asian states, to promote greater policy focus on energy efficiency in the region, and to establish a more stable legal regime for the transit of oil, gas and electricity through Central Asia and beyond it to external markets. Issues relating to the restructuring of domestic gas and electricity markets within Central Asia were also reviewed. In each of these contexts, attention was paid to the role of the Energy Charter Treaty (ECT) - a multilateral framework agreement promoting inter-governmental energy cooperation - as a legal basis for protecting investors’ rights, reducing political risks associated with cross-border energy transit and trade, and developing competitive energy markets. All five Central Asian states are Contracting Parties to the ECT.

“This was the first Seminar of its kind to be held, focusing specifically on the contribution of the Energy Charter process to regional cooperation in Central Asia. Uzbekistan has a major interest in developing good cooperation with its regional neighbours on energy issues, and we are therefore very pleased to have been able to host this important event”, commented Mr Ganiev.

According to Dr Kemper, cooperation on energy issues among the states of Central Asia will be a vital factor in ensuring the region’s long-term economic stability and prosperity. “For this reason, governments and investors need to know that all the countries of Central Asia subscribe to a common set of “rules of the game” for such cooperation, as contained in the ECT. Our Seminar in Tashkent has been extremely useful in raising awareness within the region of how the Treaty’s rules can help in this respect as a legal foundation for building open, competitive energy markets. The Energy Charter Secretariat is very grateful to the Government of Uzbekistan for making this event possible, and for their excellent hospitality and organizational support”, commented Dr Kemper.
The following is a selection of extracts from some of the key speeches delivered at the Seminar on “Regional Energy Cooperation in Central Asia and the Role of the Energy Charter Process” in Tashkent on 23-24 September. The full texts of all presentations made at the Seminar will shortly be made available on the Energy Charter web-site.

“In our view, only cooperation and fair competition will lead to stability, growth and security and thereby benefiting all players, people and states. Any attempt to exaggerate the differences and difficulties in resource holder regions simply leads to further complication of challenges that are decades long. Our hope is that the Energy Charter Treaty will play an important and beneficial role in promoting multilateralism and cooperation, thereby increasing the security of energy over the next decades.”

M.H. Nejad Hosseinian, Deputy Minister of Petroleum of the Islamic Republic of Iran

“It is our firm conviction that also under the conditions of market liberalization the high demand for imports of natural gas in European countries can only be covered on the basis of long-term contracts. The point is that gas resources are located primarily on Europe’s periphery or outside it, far away from the centres of consumption. In Russia the main gas fields are located to the north of the Ural’s range, and also on the continental shelf of the Arctic sea. As these fields become exhausted, it will be necessary to move ever further northwards, or to develop deeper gas-yielding strata. Both options, naturally, will lead to an increase in the cost of exploration, production and transportation, and consequently to an increase in gas prices for the consumer.”

Vladimir Volokitin, Director, “Gazinvest” (“Gazprom”)

“Central Asia has world-class energy reserves and it is important to facilitate the export of this energy to world markets to diversify world energy supplies. This would bring about a greater stability in international energy markets and enable Asia to become less dependent on any specific energy supplier. Central Asia is one of the largest non-OPEC source of energy production growth in the coming decades. But there are several issues that have to be resolved in order to smoothly promote the development of energy resources in this region. One of them is to ensure the development of energy resources in this region. One of them is to ensure export routes. This area is land-locked, therefore we should overcome challenges we face in order to make its energy resources more available to world markets.”

Mr Kazuyuki Katayama, Director, Energy Resources Division, Ministry of Foreign Affairs of Japan

“Access to transit facilities is crucial for gas trade. In this context, we very much hope that the Energy Charter Transit Protocol can be concluded soon. The Transit Protocol would improve third party access to energy transit facilities between its signatories, including of course Uzbekistan and other parts of Central Asia. Among other things, it would improve access to Western Europe for producer countries in the Caspian region. We see supplies from the region as playing an important role in contributing to diverse and transparent energy markets in the EU and elsewhere and we very much hope that these markets develop in a way that benefits both producers and consumers. Conclusion of the Transit Protocol will greatly facilitate this process.”

Dr. Ann Eggington, Director, International and Infrastructure Directorate, UK Department of Trade and Industry

“The work conducted by the Energy Charter Secretariat to expand energy cooperation between countries facilitates the strengthening of economic cooperation, and promotes dialogue between international organizations and energy companies. This seminar is no exception. The countries of Central Asia, being endowed with enormous energy potential, are of great interest, first and foremost, as major suppliers of energy to world markets and as countries that offer attractive investment opportunities.”

Vladimir Djangirov, Executive Secretary, CIS Electric Power Council

“The states of the Central Asian republic, in particular the Republic of Uzbekistan, are transit states for oil and gas by virtue of their geographic location, both to the east (China, Korea, Japan), to the south (Pakistan, India and other countries via the sea ports of Pakistan), and to European countries via the Russian Federation. Therefore, the issue of ensuring reliable, uninterrupted energy transit, and the establishment of a firm legal basis for transit at international level, are both topical today and of great importance in the future, given the Republic of Uzbekistan’s present and planned volumes of gas exports and the existing and potential future projects for transiting gas and oil through the states of Central Asia.”

Sh.Kh. Majitov, Chairman of “Uzbekneftegaz”

“Realizing the full potential of the energy industries of the Central Asian region will require substantial long-term investments, which will have to be mobilized from external sources. It therefore remains a priority for the governments of this region to reduce as far as possible the level of risk associated with such investments, by creating a stable and transparent legal climate within which foreign companies – both traditional partners and potential newcomers – can operate.”

Dr Ria Kemper, Secretary General, Energy Charter Secretariat
NEW PUBLICATION ON THIRD-PARTY FINANCING OF ENERGY EFFICIENCY PROJECTS

The latest in the Energy Charter Secretariat’s ongoing series of publications on specific subjects in the area of energy efficiency has recently been issued.

The report on “Third Party Financing – Achieving Its Potential” was discussed within the Energy Charter’s Working Group on Energy Efficiency and Related Environmental Aspects, and draws on valuable input provided by the Energy Charter’s member states. Its publication, in English and Russian, was made possible by financial support from the Ministry of Industry, Employment and Communication of Sweden.

Under the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA), its signatory states are committed among other things to “encourage the implementation of new approaches and methods for financing energy efficiency and energy-related environmental protection investments, such as joint venture arrangements between energy users and external investors” (Article 6(1) of PEEREA). This report was consequently undertaken in the context of assisting the Charter’s member states to fulfill their commitments under the Protocol, through the provision of advice on how third-party financing mechanisms can be applied in practice.

The essence of the concept of third-party financing is that some part of a contract awarded to an energy services company is based on that company’s performance in achieving energy savings. Third-party financing thus offers an innovative technique for financing energy efficiency and renewable energy projects.

Hitherto, however, implementation of this concept has in practice yielded patchy results, both within the European Union and in Central and Eastern Europe. This report considers the various ways of structuring third-party financing through energy performance contracting, assesses the barriers that exist to wider application of this concept, and provides a series of conclusions and policy recommendations on measures that governments might take to stimulate the wider usage of this method of encouraging investments in energy efficiency.

Among these are that more focus should be placed on the need for capacity-building to train energy service companies in performance contracting techniques, and that tariff setting methodologies (e.g. for district heating) should be reviewed in countries where the present pricing approach can even discourage investment in energy efficiency.

The general analytical content of the report is supplemented by specific case-studies of third-party financing projects undertaken in the public and private sectors in a number of states both within the EU (Austria, Germany, Spain, United Kingdom) and in central and eastern Europe (Czech Republic, Hungary, Poland, Ukraine), assessing the results that have been obtained in each case in terms of energy efficiency gains. The respective roles of governments, energy efficiency agencies and, where appropriate, international financial institutions in the implementation of these projects are also assessed.

In her introductory preface to the report, Secretary General Ria Kemper underlines that one of the Energy Charter process’s primary goals is to promote dialogue and exchanges of experience among its member states in the wider Eurasian area on the optimal means of achieving energy efficiency.

"By publishing this report, we aim to disseminate the results of our studies in this area, and the resulting policy recommendations, to a wider audience", notes Dr Kemper. In particular, the report should provide valuable guidance for policymakers, industry, researchers and other interested parties concerning the practical application of third-party financing methods in various situations.

The text of the report can be downloaded from the Energy Charter web-site (http://www.encharter.org), and printed copies, in English and Russian, are also available from the Secretariat (see contact details on page 1).
Dr Helga Steeg enjoyed a lengthy and distinguished career working for the World Bank and the German Federal Ministry of Economics before serving as Executive Director of the International Energy Agency from 1984 to 1994. Since then she has worked as a visiting lecturer in International Energy Law and Politics at Ruhr-Universität in Bochum, Germany, and is a frequent writer and speaker on energy and trade issues.

From early 1999 until the end of 2002, Dr Steeg chaired the Energy Charter’s Transit Working Group, which was mandated to negotiate the text of an Energy Charter Protocol on Transit, a new legal instrument designed to amplify the Energy Charter Treaty’s existing provisions on transit. After several years of complicated multilateral negotiations among the Charter’s 51 member-countries, it is now hoped that the final text of the Transit Protocol will be adopted by the Energy Charter Conference at its next meeting in December 2003.

In this interview Dr Steeg looks back on the negotiation process and assesses the Protocol’s significance for international energy security.

**Several deadlines for the completion of the Transit Protocol negotiations have been missed in the past. What gives you grounds to believe that the Protocol will now finally be adopted in December?**

Firstly, neither I nor anyone else can guarantee a successful outcome in December – that will be a sovereign decision for the Energy Charter Conference to take. But I genuinely believe that we are now so close to full agreement that none of the parties involved wants to lose the momentum, after so much time and effort has been devoted to coming this far over the last three years.

Speaking frankly, I also have to say that a year ago there were serious doubts as to whether certain of our member-states were truly committed to completing the negotiations. More recently, I believe we have seen signs of a new commitment on all sides to finalise our work the Protocol. This gives me grounds to believe that the end result in December will be positive.

**Why, in your view, has it taken so long to complete the negotiation process?**

Primarily because the issues under negotiation are so serious in terms of their economic magnitude. Take the case of Russia as an example, since it is well known that Russia has had it is 100% sure that its legitimate interests as an exporter, and also as a transit country itself, have been taken into account.

Russia will only be ready to sign up to a multilateral agreement on energy transit once it

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**Russia will only be ready to sign up to a multilateral agreement on energy transit once it is 100% sure that its legitimate interests as an exporter, and also as a transit country itself, have been taken into account**

“...will only be ready to sign up to a multilateral agreement on energy transit once it is 100% sure that its legitimate interests as an exporter, and also as a transit country itself, have been taken into account”

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On many of the key issues that the Protocol covers – access to pipelines, the setting of transit tariffs - you have been obliged to find compromise solutions. Is there not a danger that, as a result, the final text of the Protocol will be “watered down”, and that it will fail to meet its original objectives?

The primary objective of the Transit Protocol was, and remains, to introduce a clear set of legally-binding obligations, to which all member-states of the Energy Charter process subscribe, concerning the terms of access to pipelines and grids for transit shippers, and the criteria on which transit tariffs have to be based. Provided that the text in its present form is adopted and signed, as I anticipate, I consider that this objective will have been fulfilled.

Of course, there will always be those who would wish to have seen the Protocol go further, by introducing...
more far-reaching obligations that would lead to a greater degree of competition on the Eurasian energy market. But the Protocol does indeed represent a step in the direction of a more competitive environment for transit, even if it is not as great as some would have liked. Ultimately, any multilateral agreement has to reflect the fact that some countries are not ready to sign up to as much as others at a given point in time. Nonetheless, even allowing for this constraint, I consider that the Protocol’s adoption will represent a real achievement.

As a concrete illustration, take the Protocol’s provisions on transit tariffs. If adopted in their present form, these will place an obligation on all our member-states to ensure that tariffs charged for energy transit across their territory are non-discriminatory, cost-based, and free of distortions resulting from any abuse of a dominant market position by pipeline or grid owners. Such a rule does not exist under international law as of today. In itself, the introduction of this provision alone will certainly help to create a more transparent environment for energy transit in the Eurasian area.

Since the beginning of this year, consultations on the text of the Protocol have been held between two parties only, the EU and Russia. Why is this?

Because a situation was reached at the end of 2002 where agreement had been achieved at multilateral level on the vast majority of previously-unresolved issues in the draft text of the Protocol (it is worth recalling that at the beginning of 2002, the list of these unresolved issues was still a lengthy one). By the end of last year, only three issues in the text remained open, and the differences over these issues related exclusively to disagreements between the EU and Russia. This does not mean, of course, that these two parties can come up with any solution they like on these matters and expect all the others to agree. On the contrary, the task of the Conference Chairman, assisted by myself and the Secretariat, has been to find solutions on the three open issues that are both acceptable to the EU and Russia, and can be agreed to by all other member-states (based on their positions as stated over the last three years).

"The Transit Protocol does indeed represent a step in the direction of a more competitive environment for energy transit, even if it is not as great as some would have liked"

These issues are, firstly, the Russian proposal for a “right of first refusal” for incumbent transit shippers—the essence of this proposal is to ensure that energy exporters with long-term supply contracts, whose transit rights through third countries are covered only by short-term transit agreements, have the first opportunity to renew these latter agreements upon their expiry, but under competitive conditions (i.e. not necessarily under exactly the same commercial conditions as enjoyed previously). Secondly, the EU’s proposal for a clause on regional economic integration organizations. And, thirdly, the precise formulation to be used in the text concerning transit tariffs.

We are therefore not talking about solutions being “imposed” by the EU and Russia on our other member-states, but rather about finding solutions on a bilateral basis that fall within the clearly-delineated boundaries of what can be accepted at the level of the Charter Conference. Unfortunately, our hopes that this process would be completed by June turned out to be unfounded, and so bilateral consultations are having to continue into the autumn. Clearly, for the other member-states of the Charter process this is a frustrating situation, but I still believe that this was the correct approach. The Conference Chairman is now urging the two parties to find a solution that will ultimately bring us to a positive result.

Finally, now that your work in chairing the negotiations is over, how would you summarise the significance of the Transit Protocol for international energy markets?

Over the next twenty years, as the world’s leading economies become increasingly dependent on energy imports, there will be a growing requirement to develop new oil and gas production areas that are located far away from their main consumer markets. This means that new transportation infrastructure will be needed to deliver that oil and gas, often across several state boundaries. It also means that existing transportation infrastructure will need to be upgraded and utilized more efficiently.

For all of this to happen, one thing is needed – investments, which will come not from governments but from the private sector. And in such a capital-intensive area as the energy business, the risks associated with such investments need to be reduced to a minimum.

That is why the Transit Protocol is important for the energy markets, because it will establish binding rules that investors in cross-border energy projects can rely on. Its rules, together with those of the Energy Charter Treaty, offer the only multilateral framework in existence for energy transit within Eurasia. The importance of this framework will, I believe, only increase in future years, as global energy trade develops further.
The Energy Charter Secretariat has issued a new publication entitled “Regional Electricity Markets in the ECT Area”, aimed at providing a broad overview of the present status of inter-regional trade in electricity in the Energy Charter’s Eurasian constituency.

Discussion of the existing barriers to regional electricity trade, and possible means of addressing them through multilateral cooperation among governments, has been a central feature of the work of the Energy Charter Conference and its subsidiary Trade Group over the last two years. The report on “Regional Electricity Markets in the ECT Area” was prepared by the Secretariat in order to facilitate this discussion and to provide background information in support of it. The text of the report has been reviewed extensively by the Trade Group, and has benefited from numerous comments and suggestions from the Energy Charter’s member-states and from relevant international organizations, most notably the Union of the European Electricity Industry (Eurelectric) and the Electric Power Council of the Commonwealth of Independent States.

The report analyses the present structure of national electricity markets in various parts of the Energy Charter’s constituency, and assesses the present volume and growth dynamics of trade in electricity across national boundaries. Existing restrictions to trade in electricity – of a physical, legal and regulatory nature – are examined, including in the context of relevant international trade obligations applying to the Charter’s member-states through the WTO and the Energy Charter Treaty. Consideration is then given to how these barriers might be removed, and what economic benefits stand to be gained as a result. As part of its analysis, the report looks at how electricity is priced in various parts of the Energy Charter’s constituency, how access to national electricity grids is regulated, and what plans are currently in existence for the expansion of electricity generating and transmission capacity in the Eurasian area.

Among the report’s overall conclusions are that inter-regional electricity trade is very modest, despite the fact that the countries of Eurasia constitute a natural trading area for electricity. Taken as a whole, this area is, and will remain, self-sufficient in electricity, but it is economically inefficient and unnecessary to strive for self-sufficiency of each individual country. The report argues that improved arrangements for electricity trade and investment could increase economic efficiency (i.e. through economies of scale, reductions in peak loads, delayed need for expansion) without compromising the security of supply.

The report also emphasizes that despite recent progress, a lot remains to be done to achieve complete liberalization of trade and investment in the Eurasian electricity market. Liberalization of electricity trade across the ECT area would require that all the countries involved adopt regulations securing third-party access based on non-discriminatory, transparent and predictable conditions, and that such treatment be made legally-binding at international levels. The need to tackle other important barriers to trade such as monopolies and exclusive rights, and explicit import restrictions, is also discussed.

As a long-term goal, the report stresses the desirability of establishing a fully open and integrated Eurasian electricity market. In this context, the Energy Charter process has the potential to make an important contribution, through establishing common rules for international energy relations and ensuring that these rules are implemented. Such rules already exist under the Energy Charter Treaty, which extends WTO-based trade rules to energy-related trade among all its signatory states. These rules are also in the process of being reinforced through the coverage of all grid-bound energy forms, including electricity, in the Energy Charter Transit Protocol currently under negotiation.

The text of the report on “Regional Electricity Markets in the ECT Area” is available on the Energy Charter website, and hard copies can be ordered from the Secretariat (see contact details on p. 1).

* Note: the above report is issued by the Secretariat under its own authority, and does not represent the official position either of the Energy Charter Conference or its individual member-states.
Access to oil and gas transit pipelines should be allocated in a transparent and non-discriminatory manner. International experience suggests that it may ultimately be necessary for the incumbent monopolist to divest itself of the pipeline as a means of enforcing genuine non-discriminatory access, although this would need to be carefully sequenced with other reforms. All CIS countries should ratify the Energy Charter Treaty and implement measures sufficient to ensure that the Treaty's provisions regarding non-discriminatory, free access to regional transit facilities are observed.


The G8 should consider ways to strengthen the legal regime for international energy investment. A great deal has been done in this area over the last 15 years. More is needed, however, as most of the energy-rich regions are plagued with defective governance and especially defective security for investments, which especially hinders the flow of foreign investments.

The United States favours bilateral approaches as well as a regional scheme that would be part of the Free Trade Area of the Americas (FTAA). The Energy Charter Treaty, the only multilateral energy-specific international legal instrument, already has 50 parties and perhaps more in the near future. The United States, by far the largest "exporter of energy capital", has not signed it. The G8 should endorse the Energy Charter Treaty process and encourage its enlargement to both new capital-importing and capital-exporting countries.

Extract from Recommendations made by the Preparatory Conference of the "Shadow G8" (comprised of leading independent experts from G8 countries, including former US Secretary of State Henry A. Kissinger, former Russian Finance Minister Boris Fedorov, and former EU Commissioner Leon Brittan) to the G8 Leaders' Summit in Evian, France, June 2003.

The Ministers of Energy of the BSEC Member States, having gathered in Baku on 19th September 2003... being aware of the provisions of the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency signed in December 1994 and entered into force in April 1998... have agreed... to promote the objectives stipulated in the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency; and to undertake required steps in order to resolve any problems obstructing full adherence to its Protocols.

Extract from the "Baku Declaration" adopted at the meeting of Energy Ministers of the Black Sea Economic Cooperation organization (BSEC) in Baku on 19th September 2003. The member-countries of the BSEC are Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine.
ENERGY CHARTER CD-ROM ISSUED

The Energy Charter Secretariat has issued a new CD-ROM containing comprehensive information about the Energy Charter process. Included on the CD-ROM are the full texts in English, French, German, Italian, Russian and Spanish of the Energy Charter Treaty, Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects, and the 1998 Amendment to the Treaty’s trade-related provisions. The CD-ROM also includes (in English only) information about the various “pillars” of the Energy Charter process (trade, transit, energy efficiency, investment issues and dispute settlement), the status of ratification of the Energy Charter Treaty by itsSignatory States, and a full list of publications issued by the Energy Charter Secretariat, together with the respective texts in downloadable form (PDF files).

The CD-ROM is designed to provide an information tool for government representatives, researchers, energy companies, journalists and others with an interest in the Energy Charter process. Those wishing to receive a copy should contact the Secretariat (see details on p. 1).

SECRETARY GENERAL VISITS KYRGYZSTAN

Following on from her visit to Tashkent on 23-24 September (see report on p. 1), Secretary General Ria Kemper paid her first official visit to Kyrgyzstan on 25-29 September at the invitation of the Kyrgyz government. During her stay in Bishkek, meetings were held with Prime Minister Tanaev, Foreign Minister Aitmatov, State Energy Agency Director Mateev, as well as representatives of the Kyrgyz parliament and the Chairmen of various energy companies.

Discussions during these meetings focused on the ongoing process of energy market restructuring in Kyrgyzstan, the present situation concerning regional trade of electricity and gas in Central Asia (Kyrgyzstan is dependent on supplies of the latter from neighbouring countries), the Kyrgyz government’s plans for attracting increasing foreign investment into its energy sector, the need to raise the level of energy efficiency of the Kyrgyz economy, and Kyrgyzstan’s potential to increase its exports of electricity to neighbouring countries, including China.

Dr Kemper underlined the strategic importance for Kyrgyzstan in this context of both the Energy Charter Treaty (which Kyrgyzstan ratified in 1997) and the Transit Protocol currently under development, as legal instruments designed to set common rules for energy trade, including in the Central Asian region, thus helping to reduce the risks associated with investments in cross-border energy projects.

DON’T FORGET!

CONFERENCE ON “EURASIAN NATURAL GAS: OPPORTUNITIES AND RISKS”, BRUSSELS, 12-13 NOVEMBER 2003

As announced in issue no. 15 of “Charter News”, the above Conference is to be held at the Sodehotel in Brussels on 12-13 November, organized by the Secretariat jointly with the European Union of the Natural Gas Industry (Eurogas) and the International Association of Oil & Gas Producers (OGP).

High-level speakers from industry and governments have confirmed their participation, and a full programme is now available on the Energy Charter web-site (http://www.encharter.org).

A limited number of places are still available for those interested in participating in the Conference, which will be held under the “Chatham House Rule”. Participation is free of charge, and those wishing to attend are requested to register their interest with the Secretariat as soon as possible.

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