Energy Transit and Updated Energy Charter

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Energy trade and fixed infrastructure

What is special about energy transit?

- Reliance of energy trade on fixed infrastructure – built specifically for transporting energy
- High up-front investments; large economies of scale, natural monopolies
- Capacity constraints
- Pipelines often controlled by incumbent companies, natural monopoly
- Sensitive for energy security
Cross-border and transit pipelines

Conditions to make an international pipeline project viable (financeable):

- **Economic viability:**
  - Supply/ demand commitments/ depth of the market
  - Pricing

- **Reliable framework conditions**
  - Investment protection
  - Freedom, non-discrimination of energy in transit
  - Facilitation of transit, favourable treatment
  - Non-interruption in case of disputes, dispute settlement
  - Conditions of access, tariffs, taxes
  - Right of way, approval procedures, licensing, standards

- **Political support**
  - Build confidence, trust, political support for projects
  - Political, regulatory framework
  - Credit guarantees, public loans, projects of public interest

Market, Contracts, policy coordination

GATT, ECT, dTP IGAs HGAs

Energy Charter Policy forum
Experience from Transit Protocol negotiations

- Negotiations on Transit Protocol were suspended in 2011, reset possible if there is genuine interest from important number of stakeholders.

- Basic principles reflected industry standard.
- Challenge to reconcile interests of energy producing, consuming and transit countries.
- Challenge of different regulatory environments.
- Parallel regional integration processes.
Relevance

- Cross-border and transit energy infrastructure crucial in view of the main energy policy goals
  - Growing dependence of consuming countries on imported energy
  - Emergence of new energy producers, often in land-locked countries
  - Increasing volumes of energy traded across borders, often involving transit

- Transit remains special case due to the different interests of producers, consumers and transit countries.
- But also construction of new bypass pipelines
- Need for better emergency response mechanisms
Early warning and emergency response

- Conciliator for Transit Disputes in Energy Charter Treaty was not used in 2009
- Work ongoing to enhance Conciliation mechanism
- Possible role of the Charter in confidence building, early warning and crisis response
- Early Warning Mechanism proposed by Energy Charter Secretariat in April 2014
  - Permanent neutral platform for any future emergencies, verification through Monitoring Groups
  - Complementary to EU-Russia EWM
Modernisation of the Energy Charter Process

- Road Map for the Modernisation of the Energy Charter Process (November 2010)
  - Expansion of the geographical scope of the Energy Charter Treaty and Process identified as strategic task

- Policy on Consolidation, Expansion and Outreach (CONEXO, August 2012)

- Mandate to update the European Energy Charter (November 2012, “Warsaw mandate”)
International/ World Energy Charter

- What is to be negotiated?
  - Multilateral political declaration on common principles and areas for joint work in the energy field

- Who is participating in the negotiations?
  - Signatories of the *European Energy Charter* invited states

- What is the basis of negotiations?
  - Updated version of the *European Energy Charter* of 1991
European Energy Charter principles

- State sovereignty over energy resources
- Political and economic co-operation
- Development of efficient energy markets
- Non-discrimination
- Promotion of a climate favourable to the operation of enterprises and the flow of investments and technologies
- Taking due account of environmental concerns
Thank you for your attention!
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