

**OSCE SPECIAL EXPERT MEETING ON ASSESSING THE
OSCE'S FUTURE CONTRIBUTION TO INTERNATIONAL
ENERGY SECURITY CO-OPERATION**

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**Presentation by Ambassador Vladimir Rakhmanin,
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Dear Colleagues,

First of all I would like to express my gratitude to the organisers of this important event. I would also like to thank our Lithuanian hosts for their hospitality.

A starting point on of any discussion on Energy Security 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.

These principles were supported by G8 countries in their Joint Statement adopted at the Summit in Saint-Petersburg in 2006.

How do these principles play out against the current debate over international energy security cooperation?

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 – when possible – the operation of international market mechanisms. And this, first of all, by putting in place predictable, transparent and non-discriminatory conditions for trade and investment. That 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 may help 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 and necessary (for development purposes) profit margins a resource-owning State can secure physical supply. Looking at the other end of the energy chain, an energy-importing State cannot guarantee physical demand, which – in increasing number of cases – 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. Predictability in this area can also be secured through an open dialogue between producers and consumers about their energy policies.

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 why, to our belief, the Energy Charter Treaty occupies 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 Energy Charter Treaty is a unique legally binding multilateral mechanism for cooperation in the energy sector, which brings together producers, transit countries and consumers of energy. The Treaty unites more than 50 countries. All OSCE members in one way or another participate in the Energy Charter activities. Its key strength is in providing the mechanisms to protect investments, encourage flows of energy, investment capital and technology across member countries to mutual benefit. It provides a foundation for harmonising the interests of all participants.

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. 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 regular multilateral dialogue on issues affecting the movement of energy across Eurasia.

Energy Charter Process should be flexible and dynamic. Being optimistic about the potential international energy cooperation, we recognise that there are significant challenges ahead. New energy players should be properly positioned in multilateral dialogue. New important proposals – like the one put forward by the President of the

Russian Federation – should be seriously analysed and incorporated in the ongoing discussions. There are many new international organisations dealing with energy issues – like International Renewable Energy Agency, International Energy Forum, Gas Exporting Countries Forum and others. New interest is emerging in the organisations, who were not dealing with those issues before – OSCE, United Nations, World Trade Organisation, Shanghai Cooperation Organisation.

Taking into account the drastic changes that have occurred in global energy relations since the 90s, in particular those implied by the growing share of non-OECD countries in global energy demand, the need for investments in the energy sector to meet global demand, the changed market balance between supply and demand, as well as measures to mitigate climate change, which dramatically affect the energy sector, ECT constituency initiated last year the modernisation of the Energy Charter Process. That decision was also strongly motivated by the Proposals of the President of the Russian Federation on Conceptual Approach to the New Legal Framework for Energy Cooperation.

There is a strong belief among Member States that Modernisation will facilitate long-term cooperation in the energy field as well as strengthen energy security, will make Energy Charter attractive for those major actors on the global energy market which are currently not part of its constituency, but with whom the current members share common interests in the areas covered by the ECT.

In order to intensify this work a new subsidiary body was established within the Energy Charter Conference – the Strategy Group, which has a mandate to work out the Road Map for the Modernisation of the Energy Charter Process as a strategic document to guide the work of the subsidiary bodies and the Secretariat.

The main areas for deliberation and implementation within Modernisation Process can be the following:

- Energy Charter policy on Expansion and Outreach;
- Transit issues, including the future of Transit Protocol;
- Response to Emergency situations;
- Further Measures for Investment Promotion and Protection;
- Energy Efficiency;
- Policy Forum, Interdependence, Energy Security.

Member States expressed their readiness to discuss the new proposals of the Russian Federation and invited representatives of the Russian Federation to take an active part in the coming deliberations.

We invite all interested parties to participate in this important work in order to reach concrete agreements. We rely on the political will of the States who are interested in using Energy Charter in the new environment, in expanding its substantive base, in attracting to the Process major energy players.

It is important 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.

All Energy Charter documents and publications are available at the website

www.encharter.org