

**Meeting of Energy Ministers of the Members of the Organisation for
BLACK SEA ECONOMIC COOPERATION**

Sochi, 26-27 September 2006



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Mr Chairman, dear Ministers, distinguished delegates,

I would like to begin by expressing my thanks to the Russian Presidency of the BSEC and to Minister Khristenko for the invitation to the Energy Charter to this meeting and for the chance to make this brief intervention. And I would also like to use this opportunity to congratulate once more our Chairman with his recent high award – Russian “Order for the Services to the Fatherland” – that he received for contribution to the international technological and economic cooperation. And energy cooperation – which we are discussing today - is major part of the economic cooperation in the Black Sea region.

Much has been said over this year – and during this meeting – about global and regional energy security. I would like to commend in particular the work done in the G8 and the St Petersburg Action Plan on Energy Security and to say a few words on what we in the Energy Charter are doing in this regard highlighting the contribution that the Energy Charter can make to support regional cooperation across the Black Sea region (as explicitly recognised by the Baku, Alexandropoulos [and Sochi] declarations).

The discussions on energy security during the Russian G8 presidency have once more underlined that investment is a key to international energy security.

It is generally recognised that diversification is the synonym of energy security. This is only true though when the term ‘diversification’ is interpreted in the broad sense and reflects the balance of interests of players representing all units of the energy value chain. That involves not only diversification of energy supply routs from today’s suppliers to historically developed markets (the concept of ‘multiple pipelines’) and not only diversification sources of energy supply for existing consumers (the concept of ‘multiple suppliers’). It also involves diversification of markets and routs to access them for suppliers. This multifaceted diversification (growing interrelations of suppliers, transit parties and consumers, to the point of participation in each other’s businesses along the

energy value chain) will make our energy world increasingly interdependent, which means a higher level of energy security.

Diversification in the energy area requires creating new energy (and often also general economic) infrastructure, hence is related to investments, mostly the large-scale ones. Any and especially large-scale investments are aimed at establishing stable long-term relations to the mutual benefit of suppliers and consumers - relations, which are balanced and based on clear, predictable and enforceable rules.

Such rules are needed to mitigate risks, and it means stimulating not only investments as such in all parts of the trans-border energy value chain – from exploration and development to final consumption of energy. They are needed to mitigate risks of trans-border energy flows from suppliers to consumers. As well as to mitigate the reverse risks – related to flow of income going from consumers to suppliers for the energy delivered. Only in case of reduced risks and ensuring transparency, predictability and reliability of all three types of flows related to the energy business – investment flows, energy flows and income flows – one can talk about a balanced approach to the issue of ensuring energy security. It is in this context that we in the Energy Charter interpret the concept of ‘energy security’ as a triad of concepts: security of supplies, security of infrastructure, security of demand.

Thus, to pursue trans-border investments and trade one needs reliable, consistent and transparent legal frameworks irrespective of which companies in which states and under which level of current energy prices would undertake energy projects in any parts of trans-border energy value chains. In energy area demands to the “quality” of such legal and regulatory framework are among the highest compared to other industries - due to longest lead-times, highest unit capital intensity of energy projects, together with broadest nomenclature of risks and immobile character of energy infrastructure.

The Energy Charter does not pick projects to support; it is not a political organisation (though such regional organisations as BSEC can choose the projects of “mutual interest” to provide them with “addressed” support). The Energy Charter Treaty (ECT) does provide and promote an environment of legal security that facilitates investment in the energy sector of its member-states. This is particularly important for large-scale oil and gas infrastructure projects that cross multiple national boundaries. As international energy trade increases across Eurasia, the strategic value of the Charter framework will increase both for consumers and for producers seeking long-term access to the main international markets.

Today the Energy Charter Treaty is the only multilateral investment treaty, which is energy-specific (covering the group of sub-sectors where investment risks are especially high) and provides broadest geographical coverage. ECT includes today 51 member-states and 19 observer states. The country with the most recent observer status is Afghanistan (since August 2006). We expect Pakistan, who became an observer in December 2005, to

become full member of the ECT at the November 2006 Energy Charter Conference. 10 international organisations are observers to ECT including BSEC.

The Black Sea region is often described as an ‘energy corridor’, but this does not do justice to the multiple projects and transport routes that bring energy resources along different trajectories across this region. The infrastructure projects across the Black Sea region demonstrate diversity maybe even more than in other regions in the world. Those economic objectives are underlining and improving BSEC’s strong political support to the Energy Charter, reflected in the Declarations of its Ministerial Meetings.

All member states of BSEC are also members of the Energy Charter – the sole exception is the Republic of Serbia – which has indicated its wish to accede¹. Of course, the Treaty would be strengthened by completion of ratification by Russia. That is why we continue our technical discussions on questions which the Russian side would like to see clarified.

I would like to underline that Russia is an active participant in our work, and welcome the renewed commitment from Russia as Chairman of the G8 to the principles of the Charter as a basis for international energy cooperation. This is also reflected in the text of the G8 Action Plan and of the Chairman’s Statement, Final Document of G8 Summit, which not only refers to the spirit of the Charter, but also uses the same approaches and wording, as in the Energy Charter Treaty, on a number of key institutional issues such as development of open and competitive energy markets, investment protection, energy efficiency, etc.

I would also like to emphasise the practical work of the Energy Charter in promoting transparency and knowledge-sharing all along the energy value chain. For example, today in Bratislava the Energy Charter, as part of its transit transparency initiative, is holding an expert discussion on operational aspects of reliable gas transit, in which representatives from many BSEC member states, including Russia and Ukraine, are participating. Such meetings of technical and operational experts do help to promote mutual understanding along the main energy transportation routes, and they can make a tangible contribution to energy security. On the other hand, and again today, but in Brussels, the regular meeting of the Energy Charter Industry Advisory Panel takes place aimed to discuss the issues of access to transportation and to the markets – key elements of integral concept of energy security.

Mr Chairman, the Energy Charter is based on the philosophy that meaningful energy cooperation must involve the entire energy value chain, from producer through transit countries to consumers, working on an equal footing. I think that this is a strength that is shared by an organisation like BSEC, and so our objectives are naturally complementary.

Given the increasing international nature of the challenges of energy production, transport and consumption international rules are needed more than before to provide longer-term

¹ Meeting of Minister of Energy and Mining of Serbia Naumov with the Secretary General Mernier in Brussels, June 2006

³ Договор к Энергетической Хартии (справочная информация), 25.11.2005, from www.mid.ru/ /
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transparency, stability and predictability of the “rules of the game” for cross-border energy flows and investment. If the Energy Charter Treaty and its rules did not already exist, then it would be high time to invent them. Except that agreeing on such a treaty might even be more difficult now than it was in 1994.

Finding an international consensus on issues of energy is not always an easy task, especially when the objective is to conclude a binding instrument of international law. And the task became much more difficult when this binding instrument need to be a multilateral one. The Energy Charter Treaty is therefore a unique achievement in international cooperation, representing – as the Russian Ministry of Foreign Affairs pointed out in an explanatory document last year –“the result of mutual compromises and ‘give and take’ ... and the aim of the negotiating parties to find a balance of interest”³. This Treaty has now been in force for eight years, and its instruments have by now been tested and approved to work. As the energy world is continually evolving, the Energy Charter is responding to new challenges – be it high or low prices - and I remain convinced that the ‘balance of interest’ found in the Treaty remains the right one and the best one to serve as a legal fundament to promote our common energy security.

Thank you for your attention