

**ENERGY CHARTER  
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Brussels, 9 December 2005

Related documents: CC 295, CC 298, CC 300, CC 301, CC 303, CC 304, CC 309, RD 1 (ECC of 09 12 2005)
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**DECISION OF THE ENERGY CHARTER CONFERENCE**

**Subject: Reports submitted to the 16<sup>th</sup> Meeting of the Energy Charter Conference held on 9 December 2005**

- The Conference took note of the Financial Statements and the Auditor's Report for 2004 (as circulated in CC 295) and approved the recommendation of the Budget Committee to discharge the Secretary General from her management and administrative responsibility in respect of the 2004 Budget, in accordance with Article 32(4) of the Financial Rules.

- **Ratification and Relations with Non-Signatories. Report by the Secretary General**

The Conference took note of the Secretary General's report on ratification of the Treaty and relations with non-signatories. Regarding ratification, the Secretary General shared the concern of member states about the lack of progress, but added that this continued to be an important priority in the Secretariat's work. In relation to Russia, the Secretary General recalled that the Russian position on ratification refers in the first instance to the conclusion of the Transit Protocol, and that this provides an additional reason for the concerted efforts of the Secretariat to facilitate progress in this area. With regard to other countries where ratification of the Treaty is outstanding, the Secretariat had organised a workshop on the Treaty in Belarus in June, and the Secretary General also informed the Conference about her meetings on this issue with the ministers responsible for energy in Norway and Iceland.

Turning to the question of relations with non-signatories, the Secretary General reported on positive developments in developing the Asian dimension of the Charter process. She confirmed that the Secretariat has paid particular attention in 2005 to relations with China, South Korea, the countries of South Asia and also to the ASEAN group of countries, and that there was a strong interest in all of these areas in a close and constructive relationship with the Charter process.

Keywords: Ratification Progress, Energy Charter Review, IAP, Industry Advisory Panel

Finally, the Secretary General outlined the Secretariat's overall approach to relations with signatories and non-signatories, emphasising the commitment to a balanced approach pursuing both the ratification of the Charter's instruments by all Signatory States, and also encouraging potential new signatories to the Treaty. The Secretary General also explained how the Secretariat intends to encourage active participation by observers in the work of the organisation. On this point, she stated that the Secretariat has felt it preferable to emphasise the positive benefits associated with full participation in the Treaty, rather than to impose a time limit on observer status.

Following the Secretary General's report, the Chairman re-iterated his concern at the overall lack of progress towards ratification in the countries concerned, and strongly encouraged these countries to redouble their efforts in order to complete their national ratification processes. The Chairman welcomed and encouraged the further strengthening of the Asian dimension of the Charter process.

- Implementation of the 2004 Review Conclusions

The Secretary General introduced the report on implementation of the 2004 Review conclusions, which had been made available to delegations as CC 298. She underlined that implementation of these conclusions had been a major priority for the Secretariat in Secretary General referred to the main changes arising from the Review, in particular the creation of a merged Trade and Transit Group and efforts to increase the efficiency of the Charter process. These efforts have involved a renewed focus on compliance with Treaty provisions, and an emphasis on tangible results for each activity and cooperation with other relevant international organisations.

The Secretary General noted the new areas of activity that had been introduced in 2005. These included the dialogue on risk reduction, an issue where input from the Industry Advisory Panel had been particularly valuable, and also the growing interest in the Charter process as a mechanism for facilitating investment and cross-border energy flows in Northeast Asia. The Secretary General recalled the need for continued efforts to raise awareness about the Treaty and the Charter's activities. She concluded by emphasising that the Review is a multi-year process and that the task of implementing its conclusions should continue to be a priority in the years to come.

Delegations welcomed the Secretariat's report, and in particular the emphasis on tangible outputs, implementation of the Treaty and a strong dialogue with industry. There were a number of additional comments on ways to increase awareness about the Charter and to work closely with other international organisations, notably with the IEA and WTO. One delegation welcomed in particular the Charter's attention to energy cooperation in Northeast Asia, and urged the Secretariat to intensify its efforts in this area. This delegation noted that in order for the Charter's potential to be realised, it would be very helpful for the Russian Federation to continue to give serious thought to ratification of the Treaty. Another delegation urged greater attention to the issue of access to capital, which was mentioned in the Review conclusions but has not found prominent reflection in the Secretariat's plans for future activities. Another delegation underlined the importance accorded to transit questions in the Review and of the conclusion of the draft Transit Protocol.

Following the discussion, the Chairman concluded that the Conference had taken note of the Secretariat's report and endorsed the overall direction of Review implementation. At the same time, he noted the comments from delegations and said that the Secretariat should take these into account in its continued implementation of the Review conclusions.

- Industry Advisory Panel

[The report on the work of the Panel and the Communication on Investment Promotion within the Energy Charter Treaty Area had been made available to delegations in document CC 300.

The IAP Chairman] outlined to the Conference the structure and operation of the Panel in 2005, and went on to consider some of the main challenges facing the energy industries in developing energy trade and investment. He recalled that energy investors take a careful and methodical approach to risk assessment in their investment planning and capital allocation activities. In this way, perceptions of risk in the regulatory, fiscal and political environment feed back directly into real investment decisions, and Mr Chase underlined to the Conference that investor perceptions of risk are directly related to real investment flows.

The IAP Chairman concluded by outlining some of the elements of the Panel's planned work programme for 2006: these include a close focus on experience in the financing of major energy developments, issues of access to infrastructure and facilities, and a more methodical benchmarking of investment and regulatory regimes and their impact on investment flows and performance.

Delegations welcomed the Chairman's report and the Panel's Communication. The delegation of the European Union noted that the importance of strong links to industry and the work of the IAP had been specifically highlighted in the speech of Commissioner Piebalgs [Annex]. The Chairman thanked Mr Chase for his willingness to chair the IAP, and complimented the Panel on its work. The Conference took note of the Panel's Communication, invited the Panel to continue its work and encouraged the Working Groups of the Charter to consider the issues raised in the Communication.

- Report by the Chairman of the Investment Group

The Conference noted the report from the Chairman of the Investment Group (circulated as CC 301). The Chairman highlighted the in-depth report on Uzbekistan, follow-up reports on Poland and Croatia, and the initiatives in the Group to provide information on energy policies and restructuring in OECD countries. He expressed the view that the exchange of experiences and of lessons learned between countries in widely different environments has proved useful and productive. The Chairman also pointed to the Group's dialogue on risk reduction in the energy sector, and the renewed initiative to reduce the number of exceptions to national treatment in the pre-investment phase, as recorded in the 'Blue Book'.

- Report by the Chairman of the Trade and Transit Group

The Conference took note of the report submitted and presented by the Chairman of the newly merged Trade and Transit Group (circulated as CC 303), which outlined the main aspects of the Group's work during its first year of operation. The Chairman expressed the view that the merger had been useful in consolidating the Charter's work on trade and transit issues, and he highlighted in particular the Group's attention to implementation of the Treaty's transit provisions and the presentations on new and planned cross-border oil and gas projects. The Chairman stressed the importance of ratification of the Trade Amendment by those countries where this remains outstanding.

- Report by the Chairman of the Working Group on Energy Efficiency and Related Environmental Aspects

The Conference noted the report from the Chairman of the PEEREA Group (circulated as CC 304), which covered the activities of the Group during 2005. Alongside the in-depth review of Georgia, the Group had follow-up reports on Lithuania and Poland, and regular reviews from Armenia, Hungary, Iceland, Kyrgyzstan and Sweden. The Chairman also referred to discussions in the Group on three horizontal issues: energy efficiency in the residential sector; the integration of policies on energy efficiency and on renewable energy sources; and energy efficiency and renewables in the transition process.

**ADDRESS BY THE EUROPEAN COMMISSIONER FOR ENERGY, MR ANDRIS PIEBALGS,  
TO THE 16<sup>TH</sup> MEETING OF THE ENERGY CHARTER CONFERENCE,  
FRIDAY, 9<sup>TH</sup> DECEMBER 2005, BRUSSELS**

Ministers, Excellencies, ladies and gentlemen,

I was kindly invited to make an address to your Conference today but unfortunately I have had to attend another engagement away from Brussels. I thought nevertheless that it would be useful to set out our views on the Energy Charter process as well as the main energy policy initiatives of the European Community and our thinking on energy policy in general.

May I begin my address however by welcoming you to Brussels and to the Commission's conference facilities for the now annual meeting of the Energy Charter Conference. Your meeting here today is of course an opportunity to report to the Conference as a whole on the work carried out over the last year on the Charter process and notably by the different working groups, ably assisted by the Charter Secretariat.

These reports indeed testify to the extensive work which has been carried out on behalf of the participating countries in the areas covered by the Energy Charter process, including on the investment climate in different countries, their energy trade and transit legislation and practices, and activities and policies for energy efficiency. I would also like to make a special mention of the newly formed Industry Advisory Panel, which began its work this year and which can only further strengthen the participation of industry in the Energy Charter process.

Your work over the past year is also beginning to incorporate the recommendations from last years review of the Energy Charter process carried out for the Charter Conference, and this will undoubtedly further increase the value of your output. To give one example, I understand that the Secretariat now takes a more central role in reviewing practices and policies on investment and market structures and on energy efficiency, and this will certainly make the review reports more focused and useful. Greater cooperation with other relevant organisations is another recommendation the Charter Secretariat is implementing, including on its review work. More generally, it is recognised that the results of the Charter review should be incorporated in a continuous fashion, in order to make the Charter process as effective as possible.

This is important, because the whole value of the process lies in its legally binding rules being known and respected, and in the effective exchange of experiences and policies between its participating countries and other actors. A great deal has already been achieved and we will continue to contribute to the consideration of how to best use the extensive work carried out, in order to maximise its impact on policy makers and on the energy industry. This includes of course potential investors who need to assure the future massive investments needed in the energy sector.

Investment is one of the key areas of the Energy Charter process, with the investment protection provisions going beyond those of the WTO for example. This fact, along with the work examining the investment climate and market structures in practice, as well as the Charter's provisions on trade and transit, is very important for the foreign investor and the whole fundamental objective of encouraging international trade and investment in the energy sector. And this still applies even though the European Community has grown considerably with last year's enlargement as well as through the use of Community legislation by the European Economic Area and more recently through the "Energy Community", to which I return below. It

is also for these reasons that we feel it would be in the interests of all signatories who have not yet done so to ratify the Energy Charter Treaty.

I must also say a word on the Transit Protocol to the Energy Charter, on which we have been working now for several years. We consider that this is an important instrument, to supplement the existing provisions in the Charter Treaty, in particular giving the necessary modalities to facilitate transit agreements. We have worked very hard on this, doing our best to find solutions to the different points, consistent with the spirit and provisions of the Charter Treaty itself. Following a series of informal meetings over the last year with representatives of the Russian Federation and under the auspices of the Charter Secretariat, some good progress has been made in trying to resolve the main differences between us. That is why we consider it so important to continue these discussions, so that the result of our work, which still needs some further development, can be concluded and put to all participating countries.

Let me now say something on the European Community's major policy initiatives and thinking. For a long time, energy policy had largely been taken for granted, with abundant supplies and relatively stable prices. But the situation has changed, with a much tighter energy market and significantly higher prices. It is clear therefore that we need together a more coherent strategy and I would like to set out our thinking on this for three main areas: how to secure sustainable energy supplies in the longer term; the role played by international relations in our energy strategy; and, briefly, our thinking on how to respond to higher energy prices.

Under our "business as usual" scenarios, by 2030, almost 70% of the energy we use will be imported. Energy demand will rise by 1% to 2% per year and the share of fossil fuels in our energy supply could rise to almost 90%, substantially increasing greenhouse emissions. To respond to this, a first essential step is to tackle rising energy demand and I have begun this process by insisting that energy efficiency should be made a central plank of the Commission's economic and sustainable development policies, including the Lisbon agenda, our strategy for growth and jobs, and for achieving our Kyoto and UN development objectives. My recent Green Paper on energy efficiency identified the potential for Europe to save 20% of its existing energy use in a cost-effective manner.

The second step is to make our energy supply more sustainable and to help facilitate this process; I have set up a new Forum on sustainable energy which held its first meeting last month in Amsterdam. The Amsterdam forum could become a central venue for sustainable energy matters in Europe.

A third step is to make it possible to use fossil fuels more cleanly and efficiently, with clean coal technology a priority, particularly with coal still providing more than one quarter of power in the EU. The interest in clean coal technology is thus growing, both within the EU, notably as a result of emissions trading, and internationally. Other technologies, such as carbon sequestration, should also be explored and developed.

Nuclear energy also has a role to play in those countries which choose to keep this option open, though this means assuring safe decommissioning, responsible waste management and adequate measures to prevent proliferation. These have always been areas of concern to the Commission and will be the central themes of new proposals I am preparing for this area.

The completion of a genuine internal energy market can also contribute to ensuring stable and competitive energy supplies, and now that our legislation is in place, my next concern is to ensure that the internal markets for electricity and gas works as effectively as possible, in the interests of environmental protection, investment and consumers.

My second main theme on energy policy is to further strengthen our international energy relations. The EU-Russia Energy Dialogue has now been in place for five years and has successfully tackled a number of issues and launched a number of important initiatives of a bilateral nature, and complementary to the Energy Charter process. And we are also strengthening our relations more generally with all our neighbouring countries and with energy suppliers further afield, including for example with the Caspian region, with the Mediterranean region, with OPEC and with the Gulf Cooperation Council. All these relations of course are underscored by initiatives to ensure the necessary energy transport infrastructure is realised. And lastly, relations on energy are also being deepened with major energy consuming regions and countries, including the US and China, and including on the need to work together more effectively on the environmental challenges facing the world.

I would like to make a special mention of the recent signature of the Treaty for the Energy Community currently covering South East Europe. This Treaty, which extends the benefits of the internal energy market to nine partners in South East Europe, is the first multilateral treaty ever signed for this region, and will foster reconciliation in the region as well as strengthen security of supply.

Lastly, I would like to look at how we should respond to recent energy price rises, which threaten to jeopardise economic growth and confidence, to the detriment of all of us. I think the most logical response is to put even more effort into energy efficiency, energy savings and other energy forms including the renewable energies, with these policies also having the advantages of reducing emissions of greenhouse gases. My other proposals relate to increasing the transparency and predictability of the oil market in particular, which can be achieved through a number of initiatives we are developing, including the creation of a market observation system. We are also looking at how best to establish an effective EU mechanism to react to emergency situations with regard to oil stocks.

My intention is to address the challenge of the development of a secure, competitive and sustainable EU energy policy in a comprehensive Green paper to be issued next spring. This is how I will reply to the recent call of the Hampton Court summit to re-launch the debate on the possible development of an EU energy policy.

To conclude, I hope my address has outlined how the work of the Charter process and our own initiatives in the European Community on energy policy are complementary, with the same objectives of securing stable trade in energy and the investments necessary for its production, transport, and efficient use, consistent with our environmental objectives, and that we must all work together more closely to achieve these objectives. Thank you.