

**ENERGY CHARTER  
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Brussels, 26/27 November 2012

Related documents: CC 441, CC 458
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**DECISION OF THE ENERGY CHARTER CONFERENCE**

**Subject: Policy Conclusions and Recommendations with regards to Country Reports on Investment Climate and Market Structure of Lithuania and Kazakhstan**

At the request of the Chairman, [the Energy Charter Conference at its 23<sup>rd</sup> Meeting held on 26<sup>th</sup>/27<sup>th</sup> November 2012] *adopted* the Policy Conclusions and Recommendations with regards to Country Reports on Investment Climate and Market Structure of Lithuania and Kazakhstan, as contained in document CC 441 (Annex).

Keywords: Country Reports, Investment Climate, Market Structure, Lithuania, Kazakhstan

**THE CHARTER CONFERENCE,**

Having heard the report from the Investment Group with respect to the Reports on Investment Climate and Market Structure from Lithuania (ICMS-57) and Kazakhstan (ICMS-59)

**NOTED**

- a) That the reviews have shown that the member countries honour their commitments under the ECT and have undertaken broad reforms and investment policy measures towards improving legal frameworks for investors;
- b) That the reviews have helped to clarify the existence and content of nonconforming measures in accordance with Article 10 (5) of the Treaty, resulting in update of one non-conforming measure in Lithuania and two new non-conforming measures in Kazakhstan to be recorded in the “Blue Book” of the Energy Charter;
- c) In particular, with respect to:

*(i) Lithuania*

- Took note with satisfaction that Lithuania has created a favourable business climate that is essential for attracting foreign direct investment (FDI). The reform process could be continued in the following areas:
  - further improve favourable conditions for starting and developing a business;
  - reduce the administrative burden and simplify legal regulations;
  - increase the efficiency of the partnership between businesses and state entities;
  - strengthen the enforcement of equal competition rights for businesses.
- Noted that a significant challenge is the financing of various strategic projects to improve interconnections in the electricity and gas sectors, constructing of a liquefied natural gas (LNG) facility and new regional Nuclear Power Plant. As due to its scale, insufficient energy infrastructure cannot be tackled effectively by national measures alone, and as of meeting common EU targets for completing the internal energy market by 2014 and removing energy islands by 2015, the EU level political and financial support together with appliance of innovative financial instruments is requisite and substantial. Such assistance would stimulate rapid infrastructure development, determine timely project implementation, and could encourage investments from the private sector.

The Government of Lithuania may consider taking the following priority action directions:

- evenly adhere to the set priority to create functioning power and gas energy markets integral with the EU energy systems by continuing already established consistent and successive implementation of energy infrastructure projects;
  - consider where possible more widespread use of a public-private partnership in improving the infrastructure;
  - create a functioning gas market balancing the interests of the general public, government and foreign investors;
  - further strengthen the regulatory institutional framework to ensure more regulatory stability in the energy sector.
- Underlined that the development of renewable energy sources (RES) is an important alternative to traditional energy, which is helpful in not only addressing climate change issues but also increasing Lithuania's energy independence. To increase the use of RES, Lithuania may consider the following:
    - improve conditions for RES development in the areas of administrative regulation and infrastructure accessibility;
    - improve conditions for stimulating private investments in heating services;
    - involve local authorities in implementing the RES development policy;
    - support research and promote cooperation between science and business in the field of RES;
    - continue educating society on the issues of RES and energy consumption efficiency.
  - Draw attention to the fact that the potential to reduce greenhouse gas emissions in Lithuania is highly dependent on the course of energy sector development and the measures implemented to reduce climate change in other sectors.

(ii) *Kazakhstan*

- Took note with satisfaction that Kazakhstan has significantly improved the business climate over the last years which resulted in significant inflow of FDI. The Government of Kazakhstan may consider to take following steps to further improve the investment climate:
  - simplify procedures on construction permits;
  - improve the quality of trade-related institutions and streamlining procedures for complying with the local content requirements in the energy sector.

- Took note that Kazakhstan has significantly improved network of oil and gas pipelines throughout the region to promote international trade and cooperation in the energy sector. Increasing capacity of existing pipelines and construction of new infrastructure and ensure an adequate framework with third countries and companies for export of oil and natural gas is important factor in increasing the security of local, regional and global energy markets;
- Emphasized that Kazakhstan has adopted a number of development programs of individual industries of the energy sector. It is advised to consider preparation of a national energy strategy for a long term energy complex development. The energy strategy should not replace the programs but set clear priorities and guidelines to be consistent with the adopted programmes;
- Invited the Government of Kazakhstan to ratify the ECT Trade Amendment. Its ratification would allow the country to familiarise with the practices and disciplines that WTO membership entails, through application of its rules "by reference" to trade in energy materials and products and energy-related equipment;
- Underlined that taking into account large scale and importance of the energy sector in the overall economy it is advised to consider establishment of independent regulatory agency for the energy sector. A key objective of the regulator would be to facilitate further reforms aimed at establishment of competitive, efficient, transparent and sustainable energy market that works in the public interest;
- Draw attention that in order to attract private investors, the authorities shall reduce state interference in business processes and continue improving corporate governance in state-owned enterprises;
- Recommended to continue strengthening market-oriented energy policies and a predictable and transparent framework, implying liberalization, introduction of power capacity market and application of full cost recovery tariffs;
- Draw attention that new round of privatization through the People's IPO programme has a high potential to positively contribute to the improved competition, transparency and sustainability of the Kazakh economy and the energy sector.
- Draw attention that reducing energy intensity constitutes another key priority. This requires technological modernisation, reinforcement of consumption monitoring, education and public awareness regarding energy efficiency programs, appropriate tariff policies and further commercialisation of utilities.

- Noted that at present the market for investing in RES does not seem favourable due to low tariffs and lack of incentives. Taking into account that the electricity sector is heavily dependent on coal and international commitments of the Kazakhstan related to mitigation of climate change, the Government shall further promote development of renewable energy sources and facilitate implementation of energy efficiency programme. To enable investment in renewable energy, a comprehensive legislative and regulatory framework needs to be developed that includes feed-in tariffs and connection charges, as well as reducing administrative barriers, mainly creating adequate licensing projects and easier procedures for small projects.