



CHARTER NEWS

A newsletter from the Energy Charter

Contents

ENERGY CHARTER SUBMITS REPORT ON ENERGY EFFICIENCY TO UN "ENVIRONMENT FOR EUROPE" MINISTERIAL

Energy Charter report for UN-ECE Ministerial *Page 1*

Publication on ECT's Trade Rules *Page 2*

In-depth Energy Efficiency reviews published *Page 3*

"The Road to an Energy-efficient Future" *Page 4-5*

Latest developments in Transit negotiations *Page 6*

UK Minister on Energy Charter's role *Page 6*

Views from Russia on Energy Charter issues *Page 7*

News in Brief *Page 8*

For more information, visit our web-site at www.encharter.org

For your comments: info@encharter.org

A major Energy Charter report focusing on energy efficiency in the Eurasian area will be submitted to the Fifth United Nations Economic Commission for Europe (UN-ECE) Ministerial Conference on "Environment for Europe", which takes place in Kiev on 21-23 May.

The report, compiled within the Energy Charter's Working Group on Energy Efficiency and Related Environmental Aspects, gives a comprehensive overview of the progress made by Energy Charter and UN-ECE member-states over the last five years in developing and implementing national energy efficiency legislation, strategies and programmes. Following up on the conclusions of the last UN-ECE "Environment for Europe" Ministerial in Aarhus in 1998, at which particular emphasis was placed on the importance of energy efficiency as a means of achieving environmental goals, the Energy Charter's report looks at the key issues that need to be addressed by governments in the Eurasian area in order to maximise the potential contribution of energy efficiency measures to the climate change agenda.

The report specifically addresses issues relating to the implementation of policies and programmes, the establishment and restructuring of specialised institutions, regulatory initiatives promoting energy efficiency, the development and

deployment of technologies, as well as international initiatives catalysing domestic action in the area of energy efficiency. It provides a series of best-practice examples as well as a comprehensive (although non-exhaustive) inventory of energy efficiency policies and measures applied by more than 50 countries.



ENVIRONMENT FOR EUROPE
UN ENVIRONNEMENT POUR L'EUROPE
ОКРУЖАЮЩАЯ СРЕДА ДЛЯ ЕВРОПЫ
ДОВКІЛЛЯ ДЛЯ ЄВРОПИ

MINISTERIAL CONFERENCE, KYIV, 21-23 MAY 2003

On pages 5-6 of this Newsletter, a more detailed description is given of the background to the Energy Charter's report to the Kiev Conference and the

conclusions it contains. The report itself will be published, in English and Russian, after the Conference, and advance orders for copies can be placed already with the Secretariat.

In the margins of the Conference, the Secretariat is organising a **Seminar in Kiev on 20 May**, in cooperation with the State Committee of Ukraine for Energy Conservation, on "Energy Efficiency—The Way from Aarhus to Kiev", with financial support from the governments of Denmark and Finland. The Seminar is targeted at an expert audience of energy efficiency specialists, with the aim of discussing progress achieved since 1998 in achieving a more coherent approach to promoting energy efficiency in the Eurasian area. For more information on this event, please contact the Energy Charter Secretariat (*see contact information below*).

"APPLICABLE TRADE PROVISIONS OF THE ENERGY CHARTER TREATY"

This publication issued by the Energy Charter Secretariat aims to increase the level of transparency over the exact rules that apply under the Energy Charter Treaty to trade in energy materials and products and energy-related equipment among its Signatory states.

In April 1998 an amendment to the Trade-related provisions of the Energy Charter Treaty (ECT) - the so-called Trade Amendment - was adopted by the Treaty's Contracting Parties and Signatories.

The effect of this amendment was to update the "by-reference" approach to the Treaty's coverage of energy trade issues. Under this approach, the trade rules of the World Trade Organization are automatically applied to energy-related trade with and among those countries that have signed the ECT but are not yet members of the WTO (*at present, there are nine states in this category: Azerbaijan, Belarus, Bosnia & Herzegovina, Kazakhstan, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan*).

As well as helping to extend the non-discriminatory, market-oriented principles of the WTO to trade with these countries in the important area of energy, the Treaty thus also serves as a "stepping stone" towards full WTO membership for all its Signatories: by implementing the applicable WTO provisions under the ECT, such countries become more familiar with the requirements and disciplines of WTO membership, thus

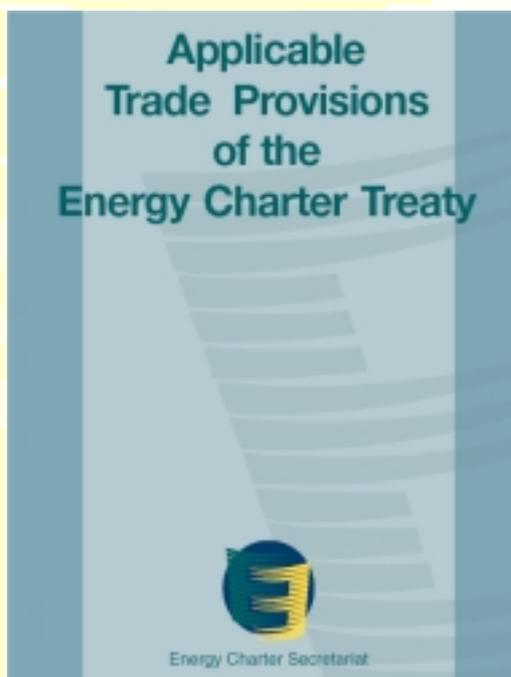
assisting their preparations for full WTO accession.

With the aim of increasing the level of awareness among its member-states, and also general interested readers, of the trade regime that applies under the ECT following the adoption of the Trade Amendment, the Secretariat has issued a publication entitled "Applicable Trade Provisions of the Energy Charter Treaty", based on an earlier internal "transparency document" distributed to member countries.

The publication, available in English and Russian, contains the full texts of the specific ECT provisions relating to trade and those provisions of the 1994 Marrakesh Agreement Establishing the WTO (which includes GATT 1994) and the 1947 General Agreement on Tariffs and Trade (GATT 1947) that apply under the ECT following adoption of the 1998 Trade Amendment to the Treaty. These texts are preceded by a user's guide to the applicable trade provisions of the ECT.

In issuing this publication, the intention is to provide a

comprehensive volume, incorporating both the original ECT texts relating to trade, and a consolidated version including those WTO provisions made applicable "by reference". Those wishing to obtain a printed copy of the "Applicable Trade Provisions of the Energy Charter Treaty" in either English or Russian are invited to contact the Secretariat (*see contact details at the foot of page 1*).



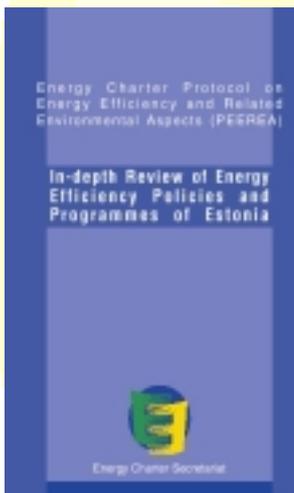
Cover page of the publication on the ECT's trade rules

CHARTER NEWS

A newsletter from the Energy Charter

NEW IN-DEPTH ENERGY EFFICIENCY REVIEWS PUBLISHED

Two of the latest in the Energy Charter's regular series of in-depth reviews of member-countries' energy efficiency policies and programmes have now been published. Both reviews, of Romania and Estonia, were conducted in 2002 by multi-national teams of energy efficiency experts, supported by the Secretariat. The aim of the reviews is to assess the reviewed country's progress in developing and implementing a national strategy for achieving energy efficiency objectives, in line with their commitments under the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA). Recommendations to the host government on possible improvements to its present energy efficiency policies and programmes are developed on the basis of these reviews for endorsement by the Energy Charter Conference. The printed texts of both the Estonia and Romania reviews, in English and Russian, together with the associated recommendations endorsed by the Charter Conference, can be ordered from the Secretariat, and are also available on the Energy Charter web-site.



The In-Depth Review of Estonia was conducted in cooperation with the Baltic Sea Region Energy Cooperation organization (BASREC), and is published with support from the European Union's Synergy programme. Its recommendations focus, inter alia, on the need for an improved institutional framework in Estonia to monitor implementation of the government's stated energy efficiency objectives, the advisability of establishing a support fund for energy efficiency initiatives at municipality levels, and the importance of improving energy efficiency in public buildings. The possibility of using energy tariff policies to encourage cogeneration and district heating projects in general is also recommended for consideration by the Estonian government. More generally, the report recommends that further attention be paid to the promoting of regional energy trade with other Baltic countries in order to increase the overall efficiency of the energy cycle and reduce the environmental impact of Estonia's usage of indigenous oil shale resources.

The In-Depth Review of Romania focuses in particular on the major scope for improving energy efficiency in the country's housing and district heating sectors, and recommends that political attention be refocused on these issues. The need for a more comprehensive national approach towards promoting energy efficiency in the transport sector is also discussed. Other recommendations in the review concern the importance of government measures to promote renewable energy resources; the need to identify further cost-effective means of reducing carbon emissions levels; and the longer-term strategic goal of ensuring a balance between foreign investments and the mobilisation of domestic capital in order to finance energy efficiency improvements.





"FROM AARHUS TO KIEV" - ENERGY CHARTER REPORTS ON THE ROAD TOWARDS AN ENERGY-EFFICIENT FUTURE



The United Nations Economic Commission for Europe's "Environment for Europe" programme was launched in 1991, and has been the subject of a series of Ministerial-level Conferences since that time. At the Fourth UN-ECE "Environment for Europe" Ministerial in Aarhus in 1998, political emphasis was for the first time placed on energy efficiency in the context of global environmental concerns. The Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) was recognised in Aarhus as being a key instrument for promoting energy efficiency policies in the Eurasian area (see box below). Under PEEREA, all of its signatory states are obliged to develop national strategies and domestic programmes for the promotion of energy efficiency objectives, as part of their common efforts to combat climate change.

Since 1998, a series of regular and in-depth reviews has been conducted within the Energy Charter process, reviewing member-countries' implementation of their commitments under PEEREA. Based on this work, at the invitation of UN-ECE a comprehensive report has been submitted by the Energy Charter Secretariat to the Environmental Ministerial Conference in Kiev in May 2003, analysing the findings of this review process and drawing conclusions as to future priorities for political attention in the area of energy efficiency.

Major Findings

The Charter's report, "The Road Towards an Energy-Efficient Future", is able to record substantial progress since 1998 in terms of setting national frameworks for promoting energy efficiency. Whereas in 1998 many signatories to PEEREA still did not have a specific national strategy for developing energy efficiency, as of now this only applies in the case of a handful of states. In particular, considerable progress in creating the necessary state structures and programmes to achieve energy efficiency objectives has been made by those states in central and eastern Europe that have applied for membership of the European Union, in

the context of their efforts to adopt the EU's *acquis communautaire* in the area of energy efficiency. But other transition economies – Armenia and Kyrgyzstan, for example – are also taking important steps forward, including through targeted efforts to raise public awareness of the importance of energy efficiency.

At the same time, the report notes that much remains to be done overall to translate the energy efficiency objectives that Ministers subscribed to in Aarhus in 1998 into reality throughout the Eurasian area. The energy intensity (taking into account all the limitations that this broad statistic has) of non-OECD economies in this region remains on average around twice as high as that of OECD states in Europe. Energy efficiency measures have the potential to play a major role in reducing this discrepancy, but this requires a long-term political focus on the importance of such measures, and also a coordinated national approach to their implementation. In particular, the report underlines the close link between promoting energy efficiency and the process of reforming domestic energy markets, with the aim of creating a more competitive, market-oriented environment, that is under way in many parts of the Energy Charter's

"We agree to promote action to strengthen international cooperation in monitoring the implementation of energy efficiency policies... to urge those Governments that have ratified the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) to implement its provisions fully.... and to urge Governments to work vigorously and cooperatively to achieve the objectives of the Kyoto Protocol and PEEREA, e.g. by speeding up, as appropriate, the process to sign and ratify them."

Extract from Policy Statement on Energy Efficiency, endorsed by the Fourth UN-ECE "Environment for Europe" Ministerial Conference in Aarhus, Denmark, June 1998

CHARTER NEWS

A newsletter from the Energy Charter

constituency.

More specifically, the report looks at a number of concrete instruments for achieving energy efficient policies, such as energy labelling, certification of buildings, and voluntary agreements with industry to develop energy efficiency in particular sectors (such as industrial production and the transport sector, where such voluntary agreements are operating already in several countries, e.g. France, Germany, The Netherlands and Finland).

International financing arrangements for energy efficiency projects are also discussed in the report, based on an assessment of the relevant activities in this area of such bodies as the EBRD, EIB, IFC, GEF and the EU, through its PHARE and TACIS programmes. Among the advantages of such international initiatives, notes the report, are their influence as a catalyst for mobilising domestic finance, and their role in demonstrating that despite the risks associated with energy efficiency projects, they nonetheless offer a high cost-effective potential. At the same time, the report flags the danger of transition economies becoming too reliant on multilateral/bilateral financial support for national energy efficiency structures and programmes, and underlines the need for greater internal coordination to be introduced at national levels, including between national Finance, Energy and Environment Ministries, to ensure a coherent approach towards energy efficiency objectives.

Key Conclusions

Drawing together the findings of the Energy Charter's comprehensive series of energy efficiency country reviews over the last five years, the report proposes the following main conclusions for consideration by Ministers in Kiev:

- Progress has been made in all countries towards meeting obligations under the 1998 Aarhus Declaration and its *Policy Statement on Energy Efficiency* and the *Guidelines on Energy Conservation*. But the extent of such progress has varied, from considerable in some cases to minimal in others.

- Improvements in energy efficiency have yet to realise their full potential, notably on the demand side. In the absence of higher political priority being given to energy efficiency measures over the next decade, their potential benefits will not be realised.

- Energy pricing reforms with the aim of motivating consumers and reflecting costs have yet to be carried out in many countries. In particular, energy and environmental taxes may provide additional incentives for energy efficiency.

- Although the development of national energy efficiency strategies in the Charter's area is progressing, more needs to be done to set quantitative targets and realistic action plans, particularly at regional and municipal levels.

- The flexible mechanisms under the Kyoto Protocol offer an important opportunity for cooperation and mutual benefits between industrialised and transition countries; new energy-efficient and renewable energy technology investments in transition countries could be seen as complementing effectively domestic measures.



The link between energy efficiency and climate change objectives is widely accepted

Finally, the report indicates the ongoing role that international bodies can play in transferring the necessary policy advice and know-how to transition economies to allow them to improve their performance on energy efficiency issues, in line with the Aarhus commitments. Although the Energy Charter has no role to play in terms of project financing or technology transfers, the report underlines the importance of PEEREA, and the series of in-depth reviews being carried out under its auspices, as a mechanism via which such policy debates on energy efficiency can take place between Eurasia's developed market economies and those countries with economies in transition. The role of PEEREA has, of course, to be seen in context, as one part of the overall efforts being undertaken by various international actors in the area of energy efficiency, and the report underlines the necessity of continuing to exploit complementarity between them, for the benefit of recipient states.

CHARTER NEWS

A newsletter from the Energy Charter

ENERGY CHARTER TRANSIT PROTOCOL — LATEST DEVELOPMENTS

The Energy Charter Transit Protocol, negotiations on which have been under way since 2000 among the Charter's 51 member states, aims to establish a new set of rules under international law governing cross-border flows of energy in transit in the Eurasian area, building on the existing transit-related provisions of the Energy Charter Treaty. At the Energy Charter Conference in December 2002, agreement was reached that the present draft text of the Transit Protocol would not be open for further multilateral negotiations, with the exception of three inter-related outstanding issues (the EU's proposal for a regional economic integration organization clause, the Russian proposal for a "right of first refusal" for incumbent shippers to renew expiring transit contracts, and the issue of transit tariffs), on which bilateral consultations would continue under the authority of the Conference Chairman, Henning Christophersen. In essence, the remaining differences to be resolved on these issues relate almost exclusively to the respective positions of the EU and Russia.

On 10-11 March a first round of EU-Russian bilateral talks on the outstanding issues was held in Brussels

under Mr Christophersen's chairmanship. Although some progress was made, it was concluded that further consultations would be needed in order to reach a final package agreement on the entire text of the Protocol.

In the meantime, Secretary General Ria Kemper visited Moscow on 2-4 April at the invitation of Aleksei Miller, Chairman of the Russian gas company Gazprom, in order to explore possible ways of resolving the remaining issues in the transit negotiations (in which Gazprom has directly participated from the beginning as part of the Russian delegation). During her visit, Dr Kemper also met with Deputy Economic Development and Trade Minister Andrei Sharonov to exchange views with the Russian government on a number of issues regarding Russia's involvement in the Energy Charter process. Additionally, a meeting was held with Vladimir Katrenko, Chairman of the Energy, Transport and Communications Committee of the Russian State Duma, at which prospects for progress towards ratification of the Energy Charter Treaty by the Russian parliament were reviewed.

UK MINISTER UNDERLINES IMPORTANCE OF THE ENERGY CHARTER PROCESS



"Multilateral solutions are the most effective means of ensuring security of supply. The trade liberalising work of international institutions such as the World Trade Organisation and the Energy Charter Treaty is vital... The UK also strongly supports the efforts of the European Commission and others to bring about agreement on a Transit Protocol to the Energy Charter Treaty, which would improve third party access to energy transit facilities between signatories in Europe and the Far East. We hope final agreement can be reached soon. Since many of the Energy Charter Treaty's provisions mirror those of the World Trade Organisation, agreement on the Transit Protocol will have the wider benefit of helping Charter signatories who are not WTO members liberalise their markets with a view to WTO accession. This will also help applicants achieve the clear legal framework sought by foreign investors, thereby increasing economic development and political stability."

*From speech to the Sanderstølen Energy Conference
(Norway, February 2003) by Brian Wilson,
UK Minister of State for Energy and Construction*

CHARTER NEWS

A newsletter from the Energy Charter

RUSSIAN DEPUTY PRIME MINISTER COMMENTS ON ENERGY CHARTER ISSUES

“Over the last few years Russia has strived to strengthen the security of transit within the framework of the Energy Charter Protocol on Transit that is under development. Nonetheless, there are a number of questions of principal importance that remain unresolved, the most acute of which are: the EU’s proposal for a Regional Economic Integration Organization (REIO) provision; the “right of first refusal”, on which Russia is insisting; and also the methodology for forming transit tariffs. We are deeply convinced that the question of ensuring Europe’s long-term security of energy supply, which to a large extent depends on the importation of natural gas, cannot be solved in a satisfactory way without achieving acceptable compromises in the area of gas transit. At the same time, we consider that such mutually acceptable compromises can be achieved, given good will.”



From article by Viktor Khristenko, Deputy Prime Minister of the Russian Federation, in “World Energy Policy” (Moscow), No. 1/2003

GAZPROM CHAIRMAN ASSESSES TRANSIT PROTOCOL NEGOTIATIONS



“The issue of transit guarantees was not satisfactorily resolved within the framework of the already-signed Energy Charter Treaty, and a decision was taken to prepare for signature an additional Transit Protocol. But lengthy negotiations have not brought the desired result – as before, disagreement remains over a number of fundamental issues. The situation has become significantly more complicated following receipt of the European Commission’s official position that the Transit Protocol applies to a Regional Economic Integration Organization as a single entity. In practice, this means that transportation of gas through individual EU countries is regarded not as transit, but as internal

transportation, falling under the internal jurisdiction of the EU without the application of the Transit Protocol’s provisions...

Transit guarantees on a long-term basis, and on economically attractive terms, are highly important both for Gazprom, in order to have the possibility to make new investments in gas production, and for ensuring the security of gas supplies for European consumers. Unfortunately, the absence of agreement on the terms of the Transit Protocol does not facilitate the creation of a reliable basis for expanding gas exports, and will, unquestionably, complicate the adoption of the necessary investment decisions.”

Extract from speech by Aleksei Miller, Chairman of the Board of Gazprom, to the European Parliament’s “Energy Choices for Europe” Conference, Brussels, 5 March 2003



CHARTER NEWS

A newsletter from the Energy Charter

NEWS IN BRIEF

Seminar in Brussels held for non-member states

On 17 March the Energy Charter Secretariat hosted a Seminar in Brussels on "The Energy Charter process – Major Objectives and Recent Developments" for representatives of non-member states. The aim of the event, which was attended by diplomatic representatives of Algeria, the People's Republic of China, the Islamic Republic of Iran, Morocco, Saudi Arabia and South Korea, was to develop the Secretariat's dialogue in particular with those states that are currently Observers within the Energy Charter process, with a view to establishing their intentions regarding possible full accession to the Energy Charter Treaty (ECT). In this context, the Seminar focused on the benefits that the ECT offers in terms of improving a country's investment climate in the perception of investors, on the legal regime that it provides in the areas of energy trade and transit, and on the procedures to be followed in order to accede to the Treaty.

Annual Report 2002 Available

For those who have not yet received a copy, the Energy Charter Secretariat's Annual Report 2002 can be ordered from the Secretariat by those interested. The report provides an overview of the Secretariat's activities during the course of last year in relation to the four key "pillars" of cooperation covered in the Energy Charter Treaty (energy efficiency, investment, trade and transit), as well as the development of the Charter's relations with non-member states. The report can also be read in electronic form on the Secretariat's web-site (<http://www.encharter.org>).



Secretary General meets with Secretary General of ECO



On 17 March, Secretary General Dr Ria Kemper met in Brussels with Ambassador Seyed Mojtaba Arastou, Secretary General of the Tehran-based Secretariat of the Economic Cooperation Organization (ECO), an inter-governmental body involving ten member-states (*Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, Turkey and Uzbekistan*). The meeting focused on prospects for deepening cooperation between the Energy Charter and ECO in the light of the broad overlap between the two organizations' constituencies (seven ECO member states are full Contracting Parties to the Charter Treaty, and one other – Iran – has observer status within the Charter process). In particular, it was agreed that the two Secretariats would cooperate in arranging a

Workshop on the ECT for ECO member-states in Tehran later this year, following up on a similar event organised jointly by ECO, the Energy Charter Secretariat and the Turkish government in Ankara in 2001.

Mongolian Delegation visits the Secretariat

On 25 March Secretary General Ria Kemper met with a visiting delegation from Mongolia, led by Mr C. Gungaadorj, member of parliament and former Prime Minister, and Mr O. Davaasambuu, head of the Mongolian Petroleum Authority, to discuss Mongolia's plans to develop a new Petroleum Law, its potential as an energy transit country, and the role of the Energy Charter in promoting its involvement in international energy cooperation. Mongolia is a full member of the Energy Charter process, having acceded to the Energy Charter Treaty in 1999. During the meeting plans were discussed for a forthcoming Energy Charter report on the investment climate and market structure in Mongolia's energy sector, and views were exchanged on prospects for developing the role of the Energy Charter process as an instrument for inter-governmental cooperation over energy pipeline routes in North-East Asia.

