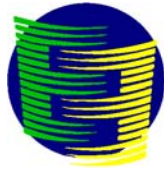


BUILDING ENERGY SECURITY FOR THE WIDER EUROPE



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Mr Chairman, Ladies and Gentlemen, it is a great pleasure to be here in Slovakia, on my first visit to your country in my capacity as Secretary General of the Energy Charter Secretariat. I am also delighted to have the opportunity to address today's important forum, continuing the excellent tradition of cooperation that exists between the Energy Charter and the World Energy Council in the central and east European region.

I shall aim to use my presentation today to focus on two issues that are of relevance for the agenda of policy-makers in the energy sector throughout Europe today. Firstly, the question of ensuring clear legal rules for the transit of oil and gas via fixed inter-state transmission systems. And, secondly, in line with one of the central themes of today's Conference, the promotion of energy efficiency policies and practices at national levels as an integral part of the overall move towards greater energy security for Europe. In both cases, I shall explain the contribution to resolving these issues that is being made by the Energy Charter, and inter-governmental process of energy cooperation uniting 51 European and Asian states.

Firstly, let us take energy transit issues. It is well known that the subject of ensuring clear legal rules for the transit of energy via pipelines and grids has commanded major political attention in recent years. And, indeed, it is particularly appropriate to discuss this question here in Slovakia, a country that for many years has played a

pivotal role as a transit country, ensuring the reliability of supplies of both oil and gas from Russia onwards to central and Western Europe.

What are the main issues on the agenda of policy-makers in Europe today with regard to energy transit? Primarily, these issues relate to the consequences of the break-up of the former Soviet Union in the early 1990s, when the previously unified Soviet pipeline infrastructure was divided up practically overnight among various national jurisdictions. This situation gave rise to uncertainties that still persist concerning the terms of access that are available for third parties to national pipeline networks, the criteria that are used when setting transit tariffs, and the procedures to be applied for the resolution of disputes over transit. And, last but not least, allegations of illegal taking of gas in transit have also been a contentious issue.

Given that transit is, by nature, a multilateral activity, these problems can best be addressed within a multilateral framework. Creating a clear set of rules under international law on transit flows is an important task from the point of view of all parties involved. Firstly, for the states of Western Europe, whose reliance on energy imports, particularly of natural gas, is set to increase substantially over the next two decades, an enhanced legal regime for transit is a key element in ensuring the security of their energy supply – a point that was underlined in the European Commission's Green Paper on security of energy supplies in 2000.

Secondly, producer states need to have a clear common understanding with states through whom their energy resources must pass on the way to markets over the terms of access to cross-border pipelines systems. Only if such a clear understanding exists will potential investors be ready to commit themselves to major long-term financing for energy projects involving cross-border exports. In recent years, this has been a particular concern for the newly-emerging oil and gas producer states in the Caspian and central Asian regions, whose substantial export potential can only be realized if reliable arrangements for transit via third countries are in place.

Finally, transit states themselves have an interest in ensuring that an international legal regime for transit is established, again in the context of stimulating investor

confidence in cross-border transportation projects that offer economic benefits for all countries involved along the “chain” of a transit route.

Based on the above considerations, a consensus was reached among our member states towards the end of the 1990s on the need to strengthen the present body of international law governing energy transit flows in the Eurasian region. As a result, a decision was taken to launch inter-governmental negotiations on an Energy Charter Protocol on Transit, a legally-binding instrument designed to create a clear set of rules governing the transportation of hydrocarbons and electricity via fixed systems across state borders.

Why was the Energy Charter chosen as the forum for this work? Firstly, because of the broad geographical coverage of our organization, whose membership covers the whole of Europe, Russia and the other CIS states, Japan, Mongolia and Australia. And secondly, because the main legal document on which the Charter is based, the 1994 Energy Charter Treaty, already offers a basis of binding rules covering transit issues, on which the Transit Protocol would seek to elaborate further.

Negotiations on the Transit Protocol have been under way since 2000, and is now moving into their final stages, with the aim being to complete them before the end of this year. The negotiation process has not been an easy one - which is perhaps inevitable. Although our member states have a common interest in establishing clear rules on transit flows, there have been wide divergences between their starting positions as to how these rules should be formulated in legal terms.

Nonetheless, the final contours of the text of the Protocol have now been well established. Subject, of course, to any further developments in the negotiation process, I can say as of today that its main contribution will be to clarify under international law such key issues as: the definition of “available capacity for transit” in national pipeline and grid systems; the criteria on which access to such available capacity is to be offered to interested third parties; the criteria that pipeline operators are to observe when setting transit tariffs; and the prohibition under international law of “illegal taking” of energy materials in transit.

I believe that the Transit Protocol, once it is finalized and enters into force, will offer an important legal tool that countries and investors involved in cross-border exports of energy can use in protecting their interests. By putting these rules in place at international level, governments will help to ensure that the commercial decisions taken by investors on whether or not to invest in energy projects involving exports across the territory of third countries can be made within a transparent and non-discriminatory framework - in particular with regard to the crucial issue of the terms of access to pipelines that third parties can rely on.

In itself, this will be a significant contribution to improving the long-term legal climate for investors in energy projects that involve transit out of the FSU region. In turn, this offers benefits for the security of Europe's energy supplies, and for the continuation of stable transit flows of oil and gas through central Europe. The interest in putting this legal framework in place is therefore a mutual one, and I hope that all countries involved in the Energy Charter process, including Slovakia and its central European neighbours, will now redouble their efforts to ensure that the negotiations are finalized during 2002.

Turning to the second topic of my presentation, Mr. Chairman, it is well known that excessive energy consumption and harmful environmental practices in the energy sector are issues that all governments need to address, in the context of promoting sustainable economic development. This is not only a question of introducing new energy efficient technologies – although, unquestionably, that is a vital element as well - but also of ensuring at national levels that the right policy framework for promoting energy efficiency is in place. In particular, this is an important priority for states in the process of accession to the European Union, such as Slovakia, in view of the requirements of EU membership in the area of energy efficiency policies.

What is the role of the Energy Charter here? Primarily, the Charter can help by serving as a channel for policy advice on the appropriate frameworks to be established at national levels for promoting sustainable development. Under our auspices a separate instrument has been developed, the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects, which requires its

participating states to formulate policy aims for improving energy efficiency and reducing the energy cycle's negative environmental impact.

In keeping the implementation of this requirement under regular review, the Charter has established an inter-governmental policy forum on energy efficiency in which leading OECD states and countries with economies in transition can share experiences and advice on best-practices: for example, regarding the most appropriate economic strategies and financing instruments to be used in domestic energy policies in order to reach the objectives of sustainable development – e.g., on matters of energy taxation, pricing policy and environmentally-related subsidies.

I would like to highlight in this context the series of in-depth “peer reviews” of individual countries’ national energy efficiency programmes and policies that the Energy Charter has started. Six of these reviews have so far been completed, whilst two are currently under way. The aim of the reviews is to develop, in cooperation in each case with the host government, recommendations regarding possible improvements to its energy efficiency strategy, which are then discussed and endorsed by our governing body, the Energy Charter Conference, comprised of high-level representatives of our 51 member states.

I am pleased to note that the very first country to host such an in-depth review of its energy efficiency policies under the Energy Charter’s auspices back in 1999 was Slovakia. This review resulted in a series of recommendations from the Energy Charter Conference to the Slovak government concerning its approach to promoting energy efficiency. Among these recommendations, I would like to mention in particular the need to introduce measurable targets and independent monitoring of the government’s energy efficiency policies; the need for further efforts to reduce subsidies for end-user energy prices; the advisability of developing a programme for increased energy efficiency in public sector buildings: and the longer-term importance of developing a strategy for combined heat and power generation.

The Slovak government reported back to the Energy Charter’s Working Group on energy efficiency in November 2001 concerning steps taken towards implementing the recommendations made by the 1999 in-depth review. In particular, it was

underlined that the Energy Policy of the Slovak Republic adopted in 2000, and also the National Energy Efficiency Study of Slovakia currently being undertaken together with the World Bank and partner organizations from Austria, have incorporated many of the policy objectives highlighted in the Energy Charter's recommendations.

I am therefore pleased to conclude that, as the Slovak government has itself recognized, the Energy Charter has made an important contribution to the development of a new policy framework for energy efficiency in this country. In my view, this provides a good illustration of the role that multilateral organizations can play in assisting the transition process in the energy sectors of central and east European countries, not only in terms of providing financial support and technical assistance, but also in the key area of policy advice.

The Energy Charter's contribution in this area constitutes an important addition to the role of other actors, such as the World Bank, the EBRD, the IEA, the United Nations Economic Commission for Europe, and also, of course, the World Energy Council. Ensuring close interaction between these bodies is essential in order to maximize the assistance that the international community can provide in promoting energy efficiency and sustainable development in Central and Eastern Europe. That is why the Energy Charter is committed to ensuring that our energy efficiency work dovetails as closely as possible with the complementary activities of other bodies in this area, to the mutual benefit of all parties concerned.

Thank you for your attention, Mr. Chairman, and allow me to wish you and the other participants every success for the continuation of the Conference.