

*Transatlantic Energy Security Dialogues*

***The Changing Rules of the Game: Global Energy Governance and the  
Transatlantic Agenda***

**Date:** 31 January -1 February 2008

**Location:** Hotel Cecilienhof, Potsdam

Conference Concept & Agenda

At present, oil and gas stand firmly at the front and center as sources of global energy. Oil will remain a critical component of our energy mix, supplying an estimated 33 percent of global energy as far into the future as 2030. Hence, it remains the single largest fuel in the primary fuel mix and total consumption is expected to increase by 70 percent. Gas, on the other hand, accounted for 21 percent of world marketed energy in 2004, rising to an estimated 23 percent by 2030.

Being crucial components of the economic and social health of a nation, experts have referred to oil and gas as a “hinge” upon which economic development is critically dependent. Not surprisingly, therefore, both oil and gas have always been politically charged commodities. Reliable access to oil and gas at a reasonable cost has been, and will continue to be, of prime strategic value. This applies not the least to the transatlantic alliance. Both the EU and the US are and will remain heavily dependent on fossil fuels to power their post-industrial economies.

It is thus not surprising that oil and gas markets do not operate in a political vacuum. Since the end of the Second World War, a set of formal and informal institutions have emerged that govern central aspects of financing, trading and hedging oil and gas ventures. These institutions regulate investment by setting rules on financial markets, through investment treaties and via bilateral, regional and global trade agreements; they structure oil and gas transport by transit and transportation arrangements; and finally, they address short-term supply risks on the consumers’ side and manage supply on the producers’ side.

The development of the underlying ‘rules of the game’ in these institutions very much reflected the realities of the Cold War era – an era characterized for the most part by significant increases in the discovery of supply stocks (and occasional supply shocks); intensifying conflicts between producer and consumer nations following decolonization and the formation of OPEC; and the geo-strategic competition for influence on major supplier

countries in the Middle East and in Africa as a direct consequence of the Great Power conflict.

Yet, a number of significant trends are currently transforming the framework conditions for global energy governance – and require us to rethink the suitability and effectiveness of current arrangements and potential transatlantic policy responses to tackle the resulting challenges.

1. The rise of new consumers;
2. Increasing scarcity and rising exploration and production costs especially of oil;
3. The increasing role of state players on oil and gas markets;
4. The elevation of climate protection and resource governance to “high energy politics”.

Together, these trends present significant challenges to the existing institutions that structure the global energy landscape. It is crucial to determine exactly what implications these trends will have for existing institutions and mechanisms of global energy governance, what the consequences specifically for the transatlantic partners are, and what they can do to effectively deal with the resulting challenges.

In collaboration with the New America Foundation, GPPi has recently launched a new research program that seeks to tackle some of these crucial issues.<sup>1</sup> This conference is designed to present the research framework and, in close collaboration with researchers, policymakers and industry experts, to further refine key research questions.

Starting with an opening speech outlining the issues of global energy governance in the 21<sup>st</sup> century, panel discussions will proceed to examine the main challenges for energy governance institutions that: 1) regulate investment by setting rules on financial markets, and 2) govern investment treaties and via bilateral, regional and global trade agreements; and finally, 3) address short-term supply risks on the consumers’ side and manage supply on the producers’ side. Two panel discussions are scheduled to address the first two issues followed by the formation of small working groups to discuss some of the specific challenges and questions facing global energy governance institutions based upon the trends outlined above. A third session of working groups will focus on the third issue followed by a keynote speech and additional panel discussion to solicit additional input on transatlantic policy options.

The Global Public Policy Institute’s (GPPi) “Transatlantic Energy Security Dialogues” program has emerged as an important, high-quality forum for transatlantic discussion regarding key energy security issues. These highly selective meetings, which encourage the participation of experts representing government, business, the research community and civil society, are work-oriented with high networking potential among different communities in the energy security debate. This session of the Transatlantic Energy Security Dialogues is being conducted in collaboration with the Dräger Foundation, who provided generous financial support in order to make this conference possible.

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<sup>1</sup> [www.globalenergygovernance.net](http://www.globalenergygovernance.net)

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DAY 1

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**12:00pm** Arrival and Registration (hotel reception area)

**12:30pm** Lunch (Schlossrestaurant)

**02:00pm** Welcome (Marschallsaal)

- *Prof. Dr. Dieter Feddersen, Chairman of the Supervisory Board of Drägerwerk AG and Member of the Board, Dräger Foundation*
- *Jan Martin Witte, Associate Director, Global Public Policy Institute*

**02:15pm** OPENING SPEECH

**Transatlantic energy security dialogue: The role of Germany**

*Viktor Elbling, Commissioner for International Energy Policy, Globalization and Sustainable Development, German Federal Foreign Office*

**03:00pm** Coffee break (Lobby)

**03:30pm** OPENING PRESENTATION & PANEL DISCUSSION

***Global energy governance in the 21<sup>st</sup> century: The changing rules of the game***

The opening presentation will set the scene of the conference by offering an overview of, and the current challenges facing, global energy governance institutions in the 21<sup>st</sup> century. A number of different trends are challenging the existing “rules of the game” in regards to global energy governance. What is the effect of the rise of the “new consumers” on energy governance institutions? To what extent do “peak oil” and the increasing role of state players challenge existing institutional mechanisms? How do the climate change and good governance agendas change the game?

Panelists:

- *Andreas Goldthau, Transatlantic Fellow, RAND Corporation and Fellow, Global Public Policy Institute*
- *Julia Nanay, Senior Director, PFC Energy*
- *Joachim Pfeiffer, Member of the German Parliament, CDU-CSU*

Moderated by: *Achim von Heynitz, Senior Advisor, FAO/IFAD*

**05:00pm** WORKING GROUP SESSION (I)

**Financing exploration and production: The changing global energy landscape**

Being a capital intensive industry, all oil and gas businesses heavily rely on financial markets to facilitate exploration and production (E&P) projects. Unlike other investment projects, however, the energy sector often also entails considerable political risks. It thus depends on the ability of financial markets to mitigate or hedge these risks, i.e. its underlying “rules of the game”

determine which oil and gas investment projects attract financing – and which do not. The workings groups in this session provide an impetus to discuss some of the main challenges of financing the future of energy exploration and production in a politically and environmentally sustainable manner.

- WORKING GROUP A

***State-backed financing in E&P***

Room: Englisches Zimmer

Today, the bulk of known global oil and gas reserves are controlled by state-owned companies and this share is set to increase significantly over the coming years. Hence, state-owned companies (including the national oil companies, or NOCs) play a pivotal role in exploration projects and drilling consortia. In addition, some governments (specifically the Chinese and others) are increasingly providing preferential financing deals and other support to give their NOCs an edge in the international “race for acquisitions”. Does the trend towards increasing nationalization of oil and gas companies have an effect on re-channeling investments? Do financial markets affect international oil companies (IOCs) and national oil companies (NOCs) differently? How significant is the current trend to state-backed financing for E&P projects?

Introduction: *Heinrich Kreft, Senior Foreign Policy Advisor, CDU/CSU Parliamentary Group, German Bundestag*

- WORKING GROUP B

***Climate change and policy uncertainty: What is the impact on energy sector investment?***

Room: Salon Hubertus

Climate change has emerged as a top item on the international policy agenda. Almost all developed countries are now experimenting with policy tools – including carbon taxes or cap-and-trade approaches – to respond to the climate change challenge. Internationally, governments are set to negotiate the further development of the Kyoto Protocol after 2012. As such, energy companies are currently operating in an environment characterized by extreme policy uncertainty. How does that uncertainty impact investment decisions? What can governments do to respond to the challenges (e.g. through improved policy design)?

Introduction: *William Blyth, Associate Fellow, Chatham House*

- WORKING GROUP C

***Financing the future: Financial markets and investments in good governance***

Room: Salon Ferdinand

There exists a negative correlation between resource richness and democratic development. Fighting this “resource curse” is however not only a norm-driven desire but may also be of interest to investors as accountable and transparent regimes are susceptible to provide investors with a higher planning security. Hence, to what extent do financial markets appreciate the existence of democratic regimes, compared to “stable” but authoritarian ones? Does good governance in producing countries make a difference in the terms and conditions of financing E&P projects?

Introduction: *Nicholas Shaxson, Associate Fellow, Chatham House*

- 06:15pm** Break
- 07:00pm** Dinner (Schlossrestaurant)
- 09:00pm** Night Cap: The next decade of Caspian Oil and Gas: Evolving Euro Atlantic and Asian Pacific perspectives
- Room: Salon Danneburg
- Christof van Agt, Advisor, Caspian Affairs, International Energy Agency*

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## DAY 2

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**09:00am** PANEL DISCUSSION II

***Trade and investment agreements and the challenge to multilateral institutions***

The primary objective of the multilateral trading system as established by the WTO is to provide mutual market access without barriers. Hence, trade in energy goods is – in principle – covered by WTO rules. However, the impact of these rules on energy trade is considered to be rather limited, and regional and bilateral trade and investment agreements are taking place independently from efforts to strengthen multilateral institutions in order to govern oil and gas trade and energy related investments. How are multilateral arrangements challenged by these recent trends? Where may they complement each other? How do China's and India's increased efforts to cover growing demand by engaging in bilateral treaties with resource rich states put into question future arrangements on a multilateral basis?

Room: Marschallsaal

Panelists:

- *Thomas Waelde, Professor of International Economic, Natural Resources and Energy Law, University of Dundee*
- *Ralf Dickel, Director for Trade, Transit and Relations with Non-signatories States, Energy Charter Secretariat*

Moderated by: *Dagmar Graczyk, Manager for South Asia, Office of Non-Member Countries, International Energy Agency*

## **Q&A**

**10:00am** Coffee Break (Lobby)

**10:15am** **WORKING GROUP SESSION (II)**

### **BITs, RITs and the WTO: Challenges and trends of trade and investment**

There is no internationally agreed set of rules for trade of energy resources and related investment flows. Multilateral institutions such as the WTO and regional arrangements such as the North American Free Trade Agreement (NAFTA), the Energy Charter Treaty (ECT) or APEC, accompanied by bi-regional fora such as the EU-GCC or the EU-Russian Dialogue provide mutual market access without barriers. Today, oil and gas is basically freely traded (though this is not based on international agreements), whereas related investment is mainly subject to national legal provisions. This set of working groups will examine the current “rules of the game” regarding global energy trade and investment agreements and the resulting challenges for the future.

- **WORKING GROUP A**

*The WTO and regulation: The entry effect of major oil and gas states*

Room: Salon Ferdinand

The WTO entails a traditional bias towards market access (mostly for products of high added value) and is currently not suited to address the issue of export restrictions and investment protection. Further, major producing countries such as Russia and Saudi Arabia have reached exemptions for their energy sectors and related export and taxation regulations. Is the existing arrangement of multilateral trade and investment agreements (GATT/WTO) able to provide a) a reliable framework for increasingly strained oil and gas markets and b) an investment regime in oil and gas that suit the interests of both producers and consumers? If not, will it be adaptable?

Introduction: *Sanam S. Haghighi, ECONGAS*

- **WORKING GROUP B**

*The Energy Charter Treaty and Russia*

Room: Salon Hubertus

Signed in 1991, the Energy Charter Treaty (ECT) is an international agreement designed to integrate energy sectors of the former Soviet Union and Eastern Europe Cold War into the broader European and world markets. As an internationally binding instrument specifically focused on trade and investment in energy, it is the only one of its kind. So far, however, Russia has failed to ratify the ECT, pointing primarily to concerns over provisions that would require third-party-access to Russia’s

pipeline network. In response, some in the EU have threatened to withdraw support for Russia's application to enter the WTO. What is the current status of negotiations between the EU and Russia? To what extent does the ECT provide a model for other regions seeking to enhance energy sector integration?

Introduction: *Andrei Belyi, Associate Professor, State University Higher School of Economics, Moscow and Vice-Chair of the Cathedra on Political Issues of International Energy*

- **WORKING GROUP C**

***Trade and investment in non-conventional resources and technologies***

Room: Englisches Zimmer

Existing WTO regulations and rules established by regional and bilateral trade and investment treaties are partially at odds with objectives of environmental protection. On the one hand, the removal of barriers to trade in renewable energy equipment and technology has the potential to reduce the cost and increase the feasibility of meeting global environmental obligations. At the same time, existing trade rules (e.g. under the WTO regime) may pose a barrier to the provision of fiscal and other support to nascent renewable energy industries. To what extent do existing multilateral, regional and bilateral arrangements favor or discriminate the trade/investment of/into non-conventional resources, biomass and climate-oriented technologies versus fossil fuels? How must the existing set of rules be revised in order to foster a global governance agenda that promotes Biomass to Liquid (BTL) and other alternatives to fossil resources?

Introduction: *Miranda Schreurs, Director, Environmental Policy Research Centre, Free University of Berlin*

**11:30am** Lunch (Schlossrestaurant)

(Meeting of the Steering Committee of the Global Energy Governance research program – Restaurant Frederic)

**01:30pm** **WORKING GROUP SESSION (III)**

**Short-term Supply Management**

In recent years the heightened global tensions emanating from the Middle East, as well as the oft commented on rise of India and China, have brought short-term risk management of global oil back to the forefront of global energy security. When added to the fear of “peak oil” it is clear to see why mitigation mechanisms available to the consumers must be dusted off and reassessed. The three working groups in this session will focus on the role of supply and demand governance (the IEA and OPEC) and the dialogue between these institutions.

- **WORKING GROUP A**

***The IEA and the rise of the new consumers***

Room: Salon Hubertus

Chinese and Indian oil consumption represent a fundamental movement away from the traditional consumer base, complicated by the reality that these new consumers are not part of the institutional framework that encompasses short-term supply management mechanisms, namely the International Energy Agency (IEA). How and where do the new consumers limit the scope and power of IEA risk management mechanisms? What bargaining chips can transatlantic actors utilize in order to integrate non-OECD consumers better into the rules of short-term risk management?

Introduction: *Enno Harks, Political Adviser, Deutsche BP AG*

- **WORKING GROUP B**

***Producer-consumer dialogue: The role of the IEF***

Room: Salon Ferdinand

The International Energy Forum (IEF) is the only place where producers and consumers have engaged in an institutionalized exchange on energy market developments and related policies. It may become central in providing the notoriously speculative oil market with more information, given increasingly tight supply situations. Further, the IEF's Joint Oil Data Initiative (JODI) provides an important instrument to render the oil market more transparent. To what extent have these mechanisms promoted effective producer-consumer exchange? What role can the IEF and JODI play in reducing market uncertainty?

Introduction: *Randy Gossen, President, World Petroleum Council*

- **WORKING GROUP C**

***LNG and short-term supply management in the emerging global gas market***

Room: Englisches Zimmer

Given the emerging importance of Liquefied Natural Gas (LNG), the gas market will soon reflect similar characteristics as the oil market. Positive effects of this trend towards a global gas market include the establishment of a pricing mechanisms based on market developments the breaking up of the prevalent bilateral contract arrangements. Recently, the gas producing countries have established the Forum of Gas Exporting Countries (GECF), still a rather loose gas club that might potentially become the gas equivalent to OPEC. Hence, mechanisms of supply risk management will become imperative for consumers. What are the underlying market logics of the emerging LNG market, and what future mechanisms of supply risk management to they necessitate?

Introduction: *Thierry Bros, Equity Analyst, Societe Generale*

**02:45pm** Coffee Break (Lobby)

**03:00pm** **CONCLUDING KEYNOTE SPEECH & PANEL DISCUSSION**

***Global energy governance: The transatlantic agenda***

Room: Marschallsaal

The time has come to develop a more comprehensive strategy towards energy governance and security. The 21<sup>st</sup> century holds very serious challenges regarding energy supply scarcity, climate change and environmental degradation, however, global energy governance mechanisms are failing to address these issues in a cohesive manner. The role of the transatlantic relationship in this respect is crucial: How can the EU and the US work on common ground and not in parallel in regards to energy security and environmental sustainability? What should be the role of the transatlantic relationship with respect to the “new consumers”?

Keynote Speaker: *Peter Eigen, Chairman, Extractive Industries Transparency Initiative (EITI)*

Panelists:

- *Alan Hegburg, Deputy Assistant Secretary for International Energy Policy, US Department of Energy*
- *Graeme W. Preston, Principal Administrator, Directorate-General for Energy and Transport, European Commission*
- *Rolf Hempelmann, Member of German Parliament (SPD), Spokesman for Energy Affairs (invited)*

Moderated by: *Dr. Jörg Himmelreich, Senior Transatlantic Fellow, German Marshall Fund of the United States*

**Q&A**

**04:45pm** Farewell