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UNITED NATIONS

ECONOMIC COMMISSION  
FOR EUROPE

## Investing in Energy Security Risk Mitigation

### **CHAIRMAN'S SUMMARY**

On 28 November 2007, government representatives discussed how to assess and mitigate the energy security risks facing the UNECE region with regard to financing the global investments in energy infrastructure that will be required over the next three decades to meet growing energy demand. This intergovernmental expert dialogue was conducted with representatives of the energy industries, the financial sector and other international organizations under the auspices of the UNECE Committee on Sustainable Energy. Participants in the discussion concluded that:

1. Development and investment in energy sources to meet growing energy demand in a sustainable manner will remain a key global challenge over the coming years. The shifting focus from private sector to public sector ownership of hydrocarbon assets, as well as from established to emerging markets, will require new and innovative policies and measures in order to ensure the future security of energy supplies.
2. Global capital markets have the capacity to finance the large energy sector investments that will be required. However, capital will flow only to the companies, projects and countries where the risks and likely return on investments are predictable and acceptable. Countries with an attractive investment climate, where commercial agreements are enforceable, and with a stable political and social structure are more likely to attract capital than those where the rule of law is uncertain and political and social conditions are unstable.
3. To reap the most benefit from policies and investments in fuel diversification and energy efficiency, it is important to have transparent, competitive and well-functioning markets, at the regional and global level, supported by a robust regulatory framework.
4. The oil market is likely to continue to be tightly balanced with new investments in supply barely sufficient to meet the incremental increase in oil demand. There is a danger of under-investment in a number of key producing countries, which could lead to a further reduction in available spare oil production capacity and thus further tighten markets. With supply and demand finely balanced and little spare oil production capacity available, geopolitical and energy security concerns as well as political and social instability in some producing regions are likely to continue to add a premium to global oil prices.
5. The rapid growth in natural gas consumption is boosting the import dependence of many UNECE countries. While this may not be a problem in the short to medium term,

meeting demand over the longer term could become a challenge as new sources of supply become increasingly more remote and more costly to develop. There will also be a need for increased imports of liquefied natural gas (LNG), requiring investment in additional LNG gasification plants and export terminals, as well as new re-gasification infrastructure and infrastructure to transport the gas to consuming inland markets. Gas market developments could increasingly be impacted by the recent unprecedented upturn in the coal market.

6. With a large and growing population coming out of poverty, the energy resources to sustain this development need to be secured through ever increasing efficiency in energy production, conversion, transportation and use. In particular, an improved recovery of fossil energy needs to be sought through timely and balanced investments to avoid waste and to secure high recovery later. Stability and security are prerequisites for the adoption of the long-sighted energy policies that this requires.

7. Climate change continues to be of uppermost concern to UNECE countries, with energy at the centre of the debate on how climate protection can best be achieved. Considerable efforts are now being expended by governments and the private sector to develop and commercialize more advanced coal combustion and nuclear technologies, renewable energy technologies, transportation biofuels, hybrid systems, hydrogen-based processes, carbon capture and storage technologies, and energy efficient technologies and practices that could significantly reduce energy demand and energy-related greenhouse gas emissions in the future and that are more acceptable to societies than many of the technologies and processes currently in use. These efforts need to be sustained and strengthened over the longer term with clear policy goals and measures.

8. Without effective, market-based, mechanisms for carbon pricing, the incentives to deploy low carbon technologies will be inadequate. A global price for carbon would provide significant encouragement.

9. Energy production and consumption are intertwined. While energy consumers seek security of energy supplies, energy producers and transit providers seek security of energy demand to reduce the risks associated with their large long-term investments. Hence, there is a need for systematic exchange of information and dialogue on long-term energy strategies between countries along the entire supply chains. Investment cooperation could be greatly enhanced by both consumers and producers taking full advantage of and having open access to investment opportunities.

10. Large energy resources alone will not be enough to attract the investments required to meet future energy needs. Governments, energy industries and the finance community will need to ensure that private investors are able to properly assess and take on new energy development opportunities. They should be subject to fair and stable fiscal and regulatory environments. A variety of sources of finance should be possible.

Based on the discussion, the participants noted that:

11. Some energy security risks can be managed by governments, some can be managed by the energy industries themselves and others by the international financial sector. Yet, some energy security risks may also be reduced through multilateral intergovernmental cooperation frameworks, programmes and initiatives. A broadly shared intergovernmental expert dialogue on information sharing and transparency, infrastructure investment and financing, standards, policies and practices, research and development of new technologies and burden sharing in case of disruptions, building on bilateral and multilateral frameworks already in place could be helpful in mitigating some current concerns, notably regarding the security of energy supplies and the security of energy demand.

12. Energy security risks tend to be perceived differently by governments, the energy industries, the financial community, international organizations and associations and other partners of civil society. A better understanding of these perceptions of energy security risk could enhance international dialogue and cooperation on energy security.

13. The challenge of enhancing energy security while promoting sustainable energy development can best be achieved by addressing both in tandem. Policies for enhancing energy security should be closely correlated with measures to promote sustainable energy development, including ensuring the environmentally benign use of energy resources and their availability for future generations.

14. The expert dialogue on energy security at UNECE could be significantly enhanced by an assessment of the energy vulnerability of each member country based on consistent, objective and transparent statistical indicators.

In view of these conclusions participants noted that the following initiatives be undertaken:

15. The objectives, activities and results of intergovernmental programmes on energy security conducted by international and supranational organizations and associations<sup>1</sup> be presented to the next session of the UNECE expert dialogue on energy security to take place during the 17<sup>th</sup> session of the Committee on Sustainable Energy.

16. The secretariat, together with interested national and international experts, should undertake the following:

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<sup>1</sup> Such as the Energy Charter, European Business Congress, European Commission, International Energy Agency, International Energy Forum, Organization of the Petroleum Exporting Countries, United Nations, World Economic Forum and World Energy Council and others.

- (a) A study of how energy security risks are perceived by decision makers in governments, energy industries, the international financial sector and international and supranational organizations and associations;
- (b) An analysis of how policy measures to promote sustainable energy development can enhance energy security; and
- (c) An appraisal of the use of statistical indicators to measure the energy vulnerability of UNECE member States
- (d) An assessment of the complementarities between the energy security strategies of different UNECE sub-regions.

17. Progress achieved and the initial results of these studies should be reported to the 17<sup>th</sup> session of the Committee on Sustainable Energy.