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## **La Gouvernance mondiale de l'Energie**

*Résumé de la conférence qui a eu lieu à l'ifri le 26 mars 2009  
autour de Tatsuo Masuda, André Mernier et Richard H.*

*Jones*

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Ambassador William C. Ramsay introduced the debate by asking some of the major questions concerning global energy governance today. Those deal with the role of the different international organizations dealing with energy, the rules of the game between market and state players, the efforts to deal with climate change, and the integration of emerging countries in global energy governance. Concerning the roles of the different international organizations dealing with energy, will we see further fragmentation or more cooperation between them?

Tatsuo Masuda in his contribution discussed global energy governance from an oil perspective. He started by giving an overview over the historical evolution of oil market governance. Over the past, different international institutions have used their power to govern the international oil market. According to Mr. Masuda, there was only one era with almost perfect market governance: this was the period from 1945 to 1972, when the “Seven Sisters” (big International Oil Companies) dominated the market. After that, the Organization of the Petroleum Exporting Countries (OPEC) dominated the oil market in the 1970s, but there was no single institution powerful enough to govern the market alone at that time. OPEC dominance was short-lived, as a “counter-attack” by consumers took place in the 1980s. Oil demand declined and the oil price dropped.

In the 1990s, the myth of market mechanism dominated oil governance. It resulted in oil price volatility and the development of futures market. At the same time, interaction among institutions such as OPEC, the International Energy Agency (IEA) and the International Energy Forum (IEF) emerged, in what was a difficult process in the beginning. In the next decade, structural change happened in the oil market, consisting of a new wave of resource nationalism, high price volatility and the emergence of the “New Seven Sisters” (big National Oil Companies). Somehow surprisingly, when the producer-consumer dialogues made big progress and interaction among the institutions mentioned above became more active in the 2000s, the volatility of oil prices reached unprecedented levels. So we can argue that the international oil market has become beyond anyone’s governance. At the same time, environmental institutions (UNFCCC, Kyoto Protocol, IPCC) are now developing as a powerful framework to govern broader economic activities and energy in particular. The emergence of international institutions dealing with climate change shows that the question now gets more attention and that governments feel the need to improve governance in this context.

Finally, the delicate and uneasy relations between the IEA and OPEC are a good illustration of the fact that every institution has its own “founding rationale”, which often restricts its ability to effectively interact with other institutions (e.g. IEA’s perception of OPEC’s efforts to maintain spare oil production capacity). This complicates the current situation, where the size and complexity of the international oil market has made its

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governance increasingly challenging for any institution. Consequently, there are calls for the creation of a global institution encompassing all energy forms as well as the creation of new regional institutions. According to Mr. Masuda, both proposals are debatable. Mohammed al-Baradei, Director General of the International Atomic Energy Agency (IAEA), has proposed a global energy institution, but this proposal is far from being realistic according to Mr. Masuda. He also noted the proposals to form new regional energy institutions. An idea of forming an Asian IEA has been floated in Asia, where the IEA is often perceived as Euro-centric institution dominated by Europeans. Also the Shanghai Cooperation Organization, led by China and Russia, is strengthening its energy activities. But it is questionable if the emergence of these new institutions is the right way forward, as adding new institutions will increase the complexity of the market, because existing organizations will not disappear. Strengthening effective cooperation among existing institutions would be a better solution. However, the identification of “common and wider cause” will be the first and most important step in this context. This would allow them to make steps forward beyond the traditional boundaries, namely the founding rationale.

Ambassador André Mernier began his presentation by noting the particular nature of the Energy Charter, which, as it is founded upon an international treaty, is unlike other organizations in being legally binding. The legal basis of the organization means that agreements are especially powerful. However, this also constitutes a heavy burden, as an international treaty needs to be ratified by parliament – some signatories of the Energy Charter Treaty (ECT) have not yet ratified it and this can pose a challenge concerning its application. The ECT is not, or only provisionally, applied by some signatories, like Russia and Norway. Nonetheless, the first goal of the treaty, the protection of investments, has been realized, as the ECT has helped and continues to help countries to attract investments in the energy sector. On another issue, namely the security of energy transit, the ECT has been less successful: the issue was somewhat neglected in the 1990s, as it did not pose a problem at the time the treaty was negotiated. Subsequent negotiations on a transit protocol have yet to reach a fruitful conclusion.

In its origins and in its current shape, the ECT is mainly a Euro-Asian undertaking. But the member states are now looking to enlarge the area of the Treaty and to integrate countries from the Middle-East and Asia. Moreover, cooperation with the IEA is very important for the Energy Charter.

Mr. Mernier acknowledged that the dynamic of the ECT has been put into question recently, especially by Russia. One can often hear that the principles of the ECT are still adequate, but that the treaty is not complete. It therefore must adapt to the new reality, as energy has become more political and strategic. This is illustrated by the fact that it was mainly representatives from Economy ministries whom attended Charter meetings in the past, whereas Foreign Affairs officials now increasingly attend. Russia has indicated that it would like a completely new treaty. Mr. Mernier highlighted that many of the Russia’s proposals could be developed on the basis of the existing ECT. It would be better to make the ECT work more efficiently and develop new interpretations and add additional protocols where necessary, e.g. concerning the issue of transit. On this point, one should note that there is a long-standing debate between Russia and the EU if energy transport inside the EU should be considered as transit or not: it is obvious that both sides need to compromise on this if they are interested in a solution.

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**Commenting on the January gas crisis, Mr. Mernier underlined that the ECT has no mechanism to deal with urgent crises. The treaty foresees arbitration, but this always comes after the end of a dispute. It is conceivable that an emergencies mechanism could be developed within the ECT, but it would need a clear mandate for this from the parties to the treaty. The Secretary General of the ECT in this context suggested that confidence-building mechanisms might be attached to the ECT, as the organization certainly has the means and the right constituency to work on this issue. More precisely on the conclusions from the January crisis, Mr. Mernier underlined that a “monopoly of transit” can often be a source of difficulties. Therefore, new transit routes are necessary in order to diminish the likelihood of a new crisis. The crisis has shown that there is a lot of exasperation in Russia, but also that energy governance in Russia and Ukraine could be significantly improved. In the final analysis, the crisis gave a boost to pipeline projects that will open new transit routes.**

**Ambassador Richard H. Jones started his presentation by underlining that last summer’s volatility in oil markets, the ensuing financial and economic crisis, the major disruption in gas supplies to European markets this winter and the upcoming climate change negotiations have led to increasing calls for a stronger global dialogue on energy issues. This dialogue should deal with prices and investment, energy security and climate change. Some prominent international figures, like Robert Zoellick and Mohammed al-Baradei, have even suggested that we need new institutional structures to address such issues.**

**Before talking about the creation of new institutions, however, it is wise to discuss about those already existing, like the IEA. It is well known that its initial role was to co-ordinate measures in times of oil supply emergencies. Its mandate has then evolved over the past 35 years to incorporate the “Three E’s” of balanced energy policy making: energy security, economic development and environmental protection.**

**But we must realize that the energy landscape has shifted and that the cast of players is different today. The member countries of the IEA no longer dominate world energy markets: they do not represent the bulk of global energy consumption any more. Moreover, their share of world primary energy demand will continue to diminish. As markets evolve, the notion of “energy security” is broadening. In the past, we may have focused only on responses to oil supply disruptions. But we must also now consider gas security, as well as the potential contributions that energy efficiency and renewable energy sources can make to the stability of energy markets. Such developments all require enhanced transnational cooperation, especially with countries that are not members of the IEA. This is particularly true when we deal with emissions of green house gases. There is thus a pressing need for enhanced dialogue with major consumers outside the IEA.**

**Last summer’s volatility in oil markets underscored that there also is a need for enhanced dialogue between producing and consuming countries. The IEA has pursued dialogue with OPEC and its member states for several years; a formal step in this direction was also taken with the creation of the IEF, which is a useful dialogue forum, but not necessarily a place where actual decisions are taken. For Mr. Jones, the IEF Secretariat’s main success to date is the internationally recognized Joint Oil Data Initiative (JODI), which is perhaps the best example of cooperation between the IEA and OPEC.**

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**Of course, numerous other forums and mechanisms also exist. But many observers feel that we can and must go a lot further than anything that exists today. However, the same observers do not make clear proposals as to what we should do. For example, do we want a truly global organization that lumps all stakeholders in energy markets together? If so, how would that differ from holding a debate on energy policy in the UN General Assembly? Moreover, is the world ready to fund the creation of what would be a very large, complex organization?**

**Another possibility might be to create an expanded consumer organization that embraces such important new emerging markets as India and China. If so, how would such an organization relate to the IEA? Would it supplement it, or replace it? The answer will probably depend on the new countries' commitment to collective energy security, which has not yet manifested itself. There also is a real question of how big an organization committed to specific principles can grow while remaining true to those principles, not to mention effective. This leads us to yet another alternative, which might be to create a smaller group comprising a subset of existing IEA member countries and several major emerging consumers, perhaps something along the lines of the G8+G5 countries, which have met several times now in the context of recent G8 summits – although not always in exactly the same configuration. Such a group would comprise a bigger share of world consumption than the IEA does today with a smaller number of members. However, whether such a group would be sufficiently cohesive is debatable. Also, some smaller IEA member countries might understandably not welcome such a development.**

**Nonetheless, such a group has already met several times in order to create an International Partnership for Energy Efficiency Cooperation (IPEEC). Although no final agreement has been reached yet, the group (which includes the G8 plus China, Brazil, India, South Korea and Mexico) appears to be moving in the direction of endorsing a loose partnership whose activities would be supported by a small, dedicated secretariat hosted by the IEA. One could imagine using similar arrangements to create a forum for major consumers (and even producer/consumers such as Russia and selected OPEC countries) to discuss energy issues beyond efficiency. In fact, IEA's founding agreement, explicitly envisaged and allowed for such additional cooperative activities between subsets of IEA members and countries outside IEA. This "flexible geometry" has been used already for many years to underpin the highly successful network of technology implementing agreements, many of which include IEA non-Member countries. Such ideas are currently under active debate within the IEA and its Member countries. It's still too early to say how the debates will turn out.**

**In the following question and answer session, questions were asked about the link between the IEA and the OECD. It emerged that an extraction of IEA from OECD could facilitate the enlargement of IEA's constituency, especially concerning China and India. This would mean a break with the current situation that is still marked by the context of IEA's foundation, when the main consumer countries at that time wanted to quickly set up an organization that defends their interests. Today, there are good reasons to separate, also because IEA is indeed different from OECD due to its operational functions. The official definition of an "autonomous agency within the OECD framework" is indeed unclear. One must acknowledge that there is real tension between OECD and IEA on the question, and no easy solution has yet emerged. Moreover, IEA members disagree about the right approach to the question – this is indeed a problem, as**

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**it is up to them to find a solution. Therefore, enhancing and institutionalizing cooperation without formal enlargement seems the most feasible option. One panelist warned about possible Russian reactions if the IEA decided to invite China and India to join, but not Russia: Russia could feel excluded, as it has been a candidate for OECD and WTO for a long time, without being accepted yet. Still, Russia is now in a fast-track procedure for joining OECD, but has not asked to join IEA.**

**Concerning the adoption of a new treaty on energy transit, there was a proposition to find agreement rather outside the stalled ECT negotiations than inside. This could however complicate the matter further and take longer, according to one of the panelists. Concerning ECT's international cooperation and flexible approaches to other organizations, one should bear in mind that natural gas is the most important issue for ECT. This in turn limits scope for cooperation with other organizations.**

**Finally, there was some doubt aired concerning the outcome of the UNFCCC approach towards limiting the effects of climate change. According to some speakers, UNFCCC is not the right forum to deal with the question. Therefore, some speakers expressed low expectations about the outcome of the Copenhagen Conference. An agreement between major emitting economies could be a better solution. But in any case, developed countries need to act first, reduce emissions, improve energy efficiency and then spread technology to developing countries.**

**Another question concerned the International Renewable Energy Agency (IRENA). Its statute has been signed in January 2009, but there is concern about the role of this new international organization. Will it double IEA's role and function? Or is there room for a new organization that could tackle some issues that IEA does not deal with, like training and knowledge transfer in the field of renewable energies? It would probably be wrong if IRENA dealt with policy analysis, as this would mean an unnecessary duplication of IEA's work. In the end, the question of funds allocated by national governments to IRENA and/or IEA will be crucial: does the creation of IRENA mean that IEA members that support IRENA will give less money to IEA in the future?**

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