SOME ASPECTS OF DEVELOPMENT OF INTERNATIONAL LEGAL REGULATION OF THE ENERGY SPHERE

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ABSTRACT

This paper is dedicated to research of different aspects of international legal regulation of energy sector. The main multilateral international treaties regulating energy are also analyzed from historical perspective. The author paid particular attention to activities of different international intergovernmental organizations in the relevant sphere. The paper attempts to outline possible ways of future development of international legal regulation of the world energy market.

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1. INTRODUCTION

In recent years regulation of the energy sector gained rapid development. This is due to the enormous role that energy plays in the lives of the peoples of the world, in their welfare and future development. It should be noted that the energy sector in its composition is a very vast scope. It includes many aspects, including such as different types and features of power resources, energy efficiency and energy security, energy geopolitics, energy piping systems, environmental security in energy, international energy institutions, international treaties in the field of energy, etc.1 For example, as for oil, some scholars admit, that throughout most of the twentieth century, questions of oil supply, oil security, and environment were inseparable in international law and in national policy, and this close relationship will inevitably continue - and even intensify - during the twenty-first century. Legal issues of fundamental importance in these fields abound.2

Globalization of the international economy naturally deeply affected the energy sector. The state of the whole system of modern international economic relations largely depends on smooth functioning of international energy institutions. Different countries base not only economic prosperity, but also their political influence on energy resources.

Issues related to energy, are under active consideration of legislators, lawyers, scientists3, are regularly discussed at the summits of G8, in international universal organizations, including the International Energy Agency (IEA), the Gas Exporting Countries Forum (GECF), and others.

2. INTERNATIONAL LEGAL REGULATION OF ENERGY SECTOR FROM HISTORICAL PERSPECTIVE

Analysis of the current regulation of the energy sector requires historical retrospective.

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2 Richard F. Scott Oil Supply, Oil Security, and Environmental Objectives in International Law. URL: http://www.eolss.net/Sample-Chapters/C14/E1-36-02-01.pdf

International law was to regulate international relations in the field of energy in the 70s of the twentieth century. Until then, there was no international legal regulation of international relations in the energy sector. There were only national legal regulations of electricity, coal and nuclear industries. Oil was the only exception, as it had to be sent from distant producer-countries to the former metropolises, and the former relations between production, transportation and sale were broken as a result of the decolonization process.

The need for international legal regulation of the energy sector of the global economy emerged after the “Arab oil embargo” - first in the U.S., and then in Western Europe. In 1973, the Arab members of the OPEC decided to use oil as for political ends, placing an embargo on shipments of oil to the United States and the Netherlands and announcing further production cuts. Although the embargo had little effect on the overall supply of oil, the anticipated production cuts led to an immediate rise in the oil price5.

As noted, the importance of the Middle East (i.e. energy resources) to the US increased further when US domestic oil production began to decline by the 1970s. At about the same time, the high cost of its manipulations in the religious and political conflicts of the Gulf States became evident with OPEC’s 1973 international oil embargo of countries perceived to be biased, including the US.6 The consequent oil price shock of 1973 brought home the need for an integrated energy policy as a factor in economic development.7

It is noteworthy that more than half a century ago shattered postwar Europe was primarily concerned on providing energy for its development. As a result, there was created the European Coal and Steel Community - the ancestor of the European Economic Community and now the European Union. Relevance of this problem still has not diminished.

This “delayed” formation of the mechanism of the international legal regulation of the energy sector was due to the specifics of this particular sphere of

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economics, as well as to a number of fundamental reasons. These, above all, should include vital significance of energy to meet the needs of developing economies of all countries, uneven distribution of energy resources in accordance with the geography of deposits, large mismatch in areas of production and consumption that encourages importing countries to ensure a guaranteed supply, and the exporting countries - to access to foreign markets on acceptable terms, and, ultimately, to their interaction. There are also some factors to affect on the regulation mechanisms of the international energy market, such as: long-standing socio-economic differences between many supplying countries and consumer-countries, particularly colonies and metropolises, their antagonism, as well as political instability in energy producing regions.

So, the first wave of interest in energy law followed the “oil shocks” of the 1970s. The impact rippled throughout the economy, causing many users of oil and its derivatives to change their behavior. Some consumers switched to alternative sources of energy, thereby creating price pressure on those sources, and some found ways to reduce their energy consumption, forcing the realization that the demand for energy was more flexible than previously believed.8

In this period relevant branches of national laws are being formed that regulated a wide range of issues related to energy: issue of licenses for access to prospecting and development of deposits, environmental protection, development of alternative energy sources, the construction of pipelines, transportation, etc.

At the international level it was a gradual extension of legal regulation to the sphere of international relations, not previously considered suitable for international regulation - to the energy sector. Development of international rules governing the energy sector, continued in 1970s and 1980s. However, the first wide multilateral intergovernmental agreement on the regulation of the global energy market is considered to be the European Energy Charter (Charter), signed in Hague on December 17, 1991.9

Dutch Prime Minister Ruud Lubbers started the process in June 1990 by suggesting a mechanism to help the former Socialist countries in their transition to market economies. Since it was initiated by the European Union, the overall strategy was formulated so as to combine ‘Western’ European concerns (security of energy supplies) with ‘Eastern’ assets (abundant oil and gas reserves) by facilitating Western (primarily European) investment in the East and the transit of Eastern energy to Europe. This would help the European Union in several ways, by providing greater diversification of energy flows to the Euro-

pean Union and new opportunities for oil and gas investment in the East for EU investors, but also Eastern economic development with the hoped-for consequence of making the eastwards expanding border of the European Union safer by having more prosperous and settled Eastern neighbors. That was expected to further increase interdependence between the East and West in terms of energy and investment flows, which it turn would help to diminish (if not totally eliminate) the residual political confrontation within the European continent, which still existed as a consequence of the Cold War period. And of course there was an aim to improve the competitive position of the European Union in its global competition with the United States.10

The conference was convened with the invitation of non-European countries. Therefore, participants in the development of the Charter were the United States, Canada, Japan, Australia, all Western European countries and the EU, as well as Russia and other states that were part of the former Soviet Union, the countries of Central and Eastern Europe.

Drafters of the Charter in the preamble expressed an ambitious desire to promote the creation of “a new model for energy co-operation in the long term in Europe and globally within the framework of a market economy” “recognizing State sovereignty and sovereign rights over energy resources”, “based on mutual assistance and the principle of non-discrimination”, and taking into account “the problems of reconstruction and restructuring in the countries of Central and Eastern Europe and in the USSR and that it is desirable for the signatories to participate in joint efforts aimed at facilitating and promoting market-oriented reforms and modernization of energy sectors in these countries”.11

The Charter, among others, provides main areas of cooperation at the intergovernmental and entrepreneurial levels:

1. Development of trade in energy consistent with major relevant multilateral agreements.

2. Co-ordination of energy policies and formulation of stable and transparent legal frameworks creating conditions for the development of energy resources.


The Charter is, however, a declaration, and its provisions are not legally binding. To address specific issues within the Charter Conference in 1994 there


were adopted the Energy Charter Treaty (ECT) and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects\textsuperscript{12}.

The ECT was based on the project of the European Union, which is based in turn on the principles and rules of the emerging single European energy market. The EU sought to be a spokesman for the views of all countries of Western Europe, but it did not succeed. For example, Norway occupied a special position, which was to defend its interests as an exporter and required protection for its oil and gas industries from external competition. The ECT was signed by more than 50 countries, including Russia; countries, which did not sign, were the United States and Canada, and countries did not further ratify were Russia, Belarus, Australia, Iceland, Japan and Norway, being disagreed with some of its

The ECT is a legally binding document, having been officially entered into force in 1998. It covers the most important aspects of the relationship between the parties: the conditions of access to natural resources and capital markets, transportation and transit, trade regime, transfer of technologies, assistance and protection of investments, environmental protection, dispute resolution and arbitration. It is understood that all participants receive equal opportunities and will act on the basis of harmonized rules. The most important provisions of the Treaty are considered as follows.

- The recognition of state sovereignty over energy resources. Article 18 provides that the Contracting Parties recognize state sovereignty and sovereign rights over energy resources; they reaffirm that these must be exercised in accordance with and subject to the rules of international law. Each state continues to hold in particular the rights to decide the geographical areas within its Area to be made available for exploration and development of its energy resources, the optimization of their recovery and the rate at which they may be depleted or otherwise exploited, to specify and enjoy any taxes, royalties or other financial payments payable by virtue of such exploration and exploitation, and to regulate the environmental and safety aspects of such exploration, development and reclamation within its Area, and to participate in such exploration and exploitation, inter alia, through direct participation by the government or through state enterprises.

Establishment of open and competitive markets of resources and products - natural gas, oil and oil products, coal, electricity and nuclear fuel cycle products, relevant equipment and capital (Art. 3). This confirms some scientists\textsuperscript{12}.


56
thoughts that in the energy sector it can be observed the objective interaction at all levels of legal regulation: public international law, private international law and national law. Providing guarantees for foreign investors against the regime and investment protection to meet modern international standards (Art. 10). Free transfer of payments related to investing activities (Art. 14). Creation conditions for normal competition in the energy sector (Art. 6).

Conclusion of the ECT, in our opinion, was a milestone in the development of international legal regulation of the use of energy resources. It formed foundations for creation of a global energy space and universal principles for all participants of international trade, norms and rules for cooperation in the energy sphere. The ECT is a legally binding multilateral international agreement, the only treaty which regulates issues of interstate cooperation in the energy field.

Moreover, today the ECT is one of the major multilateral treaties, which regulates the protection of investments. It is an important international agreement that provides investment protection and promotes trade and transit in the community of producer-countries and consumer-countries, which number is constantly increasing. The ECT also establishes the basis for domestic reform of the energy sector and ensuring of cross-border investment and trade in the member-states. However, its drafters’ inadequate accounting of interests of some major importing and energy-exporting countries, including the U.S. and Russia, limits the sphere of influence of this fundamental document and makes the prospect of dissemination of its provisions to a wider range of countries indefinite.

So, due to the fact that currently there is no a universally binding international treaty governing the cooperation of states in the sphere of energy or oil and gas sector, on this background, for States bilateral international agreements regulating cooperation in the energy sector or individual energy sectors acquire particular importance. Let us consider bilateral treaties of the Russian Federation.

Bilateral treaties of the Russian Federation on cooperation in energy and fuel sectors (see for example: signed with Kazakhstan in 1992 and 1993, with USA 1992, with Turkmenistan in 1994 and 2009, with Georgia in 1994, with France in 1996, with Sweden in 1997, with Turkey in 1997, with China in 2000, with the Republic of Korea in 2000, with Greece in 2001, with Venezuela in 2008, with Vietnam in 2010) are often framework in their sense. These agreements usually fix broad directions and scope of cooperation (including oil and gas, coal mining, power generation, renewable energy, power engineering, etc.),

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13 See for example: Red`kin, I. Legal Regulation of Energetics in Russia in Conditions of Globalization. URL: http://www.hse.ru/data/685/777/1235/Редкин%20ИВ%20глобализа.doc
as well as forms of cooperation (such as exploration, development, refining, marketing and transportation of energy resources, information exchange, professional training, seminars, symposiums and exhibitions, protection of intellectual property rights). As a rule, these treaties are not aimed at ensuring the implementation of specific energy projects. In most cases, they likely serve as the basis for the conclusion of other international agreements aimed at the implementation of individual projects or contracts between private organizations of States-Contracting Parties.\textsuperscript{14}

3. REGULATION OF ENERGY SECTOR BY INTERNATIONAL ACTORS

3.1. INTERNATIONAL ENERGY AGENCY

International intergovernmental organizations allow taking collective actions to protect divergent national energy interests, mainly aimed at ensuring of energy security. We will discuss main of them.

In 1974 there was created\textsuperscript{15} International Energy Agency (IEA).\textsuperscript{16} The basic aims of the IEA are:

i) co-operation among IEA participating countries to reduce excessive dependence on oil through energy conservation, development of alternative energy sources and energy research and development;

ii) an information system on the international oil market as well as consultation with oil companies;

iii) co-operation with oil producing and other oil consuming countries with a view to developing a stable international energy trade as well as the rational management and use of world energy resources in the interest of all countries;

iv) a plan to prepare participating countries against the risk of a major disruption of oil supplies and to share available oil in the event of an emergency\textsuperscript{17}.

\textsuperscript{14} Glikman, O.V. \textit{International Treaties of Russia, regulating cooperation in oil and gas sector} // Gas Business, 2012, No 10, p. 2.


\textsuperscript{16} URL: http://www.iea.org

IEA is a part of the Organization for Economic Cooperation and Development (OECD)\(^8\), but it operates independently. The Agency brings together 29 countries in Europe, North America and Southeast Asia, and primarily represents the interests of industrialized countries importing energy.

From the beginning, the Agency’s activities were aimed at the coordination of energy policy. One of the first steps (in 1974) was the conclusion of the Agreement on an International Energy Program.\(^9\) It provided provisions on emergency self-sufficiency for the member-states.

Article 2 of the Agreement envisaged that the Participating Countries shall establish a common emergency self-sufficiency in oil supplies. To this end, each Participating Country shall maintain emergency reserves sufficient to sustain consumption for at least 60 days with no net oil imports. Both consumption and net oil imports shall be reckoned at the average daily level of the previous calendar year. The term “emergency reserve commitment” means the emergency reserves equivalent to 60 days of net oil imports.

Complex of recommendation measures contained increase the use of local energy resources and prevention of unexpected large purchases abroad. Later, the long-term program of actions aimed at reducing of dependence of the IEA member-states on import by increasing energy efficiency, by changing of the structure of consumption in favor of alternative sources, by expansion of international cooperation. Considering the growing importance of new technologies, the IEA intensively promoted innovation in the energy sector.

In recent years, IEA experts have stepped analysis and forecasting of the global natural gas market, paying great attention to the increasing international LNG trade, affecting prices of other energy sources. Thus, the IEA activities directly and indirectly affect the global energy market, not only through the price mechanism, but also through control of the entire economic chain, including trade. To the relatively greater stability of this market in the XXI century compared with the last quarter of the XX century there is a positive contribution of the IEA.\(^{20}\)

\(^{18}\) URL: http://www.oecd.org/
\(^{19}\) URL:  http://www.iea.org/media/aboutus/history/complete3languageiep_withborder_updatedwithEstonia_revised.pdf
\(^{20}\) On activities of IEA visit: http://www.iea.org/publications/
3.2. G8

The highest international forum - regular meetings of heads of states and governments of the leading countries of the world G8 - joined the energy sector regulation in the context of development of a comprehensive system of measures to ensure economic security. This indicates raise of attention to ensuring the sustainability of functioning of the global energy market under the influence of volatility and unpredictability of OPEC. Indeed, energy stands out as a policy area where the G8’s effective performance has been most pronounced. Energy served as a central subject for the first cycle of Summits from 1975 to 1981. It generated the achievements that earned unusually high grades for the Summits from 1977 to 1982.\(^{21}\) From 1975 to 1989 energy was the policy area where the highest compliance by G7 members with their summit commitments came.\(^{22}\)

Energy has also been an area where the G8 has done much to develop the institutions of global governance, especially by generating G8-centered energy institutions of its own. At the leaders’ levels, energy, in the form of nuclear safety, served as the subject of the G8’s only full scale inter-sessional Summit - the Moscow Nuclear Safety Summit hosted by Russia in 1996. At the ministerial, official, and multi-stakeholder levels, the G8 has been particularly active in creating energy-oriented bodies, especially in the years from 1977 to 1980, and again from 2000 to 2003.\(^{23}\)

The modern phase of the G8 activities in the energy security sphere started to be formed in 2000 which was to a great extent determined by dramatic change in price conjuncture on a world oil market and got its further development on the subsequent forums (Genoa, Kananaskis, Sea-Island, Gleneagles). These activities were accompanied by intensive contacts between the G8 countries on a bilateral basis.\(^{24}\)


Heads of state at the 2000 G8 Summit established the G8 Renewable Energy Task Force (RETF) in Okinawa. The Task Force was asked to identify actions that could be taken to promote a step change in the supply, distribution and use of renewable energy in developing countries.25

The Task Force encouraged G8 governments to give a high priority to triggering a “step change,” meaning a significant expansion, in the development of renewable energy markets for the benefit of the 2 billion people currently without access to reliable energy services. In consultations between members of the RETF and G8 governments during 2000 and 2001, the ambitious scope of the Task Force took some G8 governments by surprise. Two governments in particular, the U.S. and Canada were not receptive to the wide scope and ambitious goal set by the task force. Given their co-chairmanship, the governments of Italy and the United Kingdom were more receptive to the task forces ambitious goals and scope. Despite these tensions, the task force maintained its ambitious agenda and worked toward a final report by July 2001.26

The G8 summit in St. Petersburg in July 2006 deserves special attention, not only because Russia was a host country, but mostly because at the meeting among two final documents on foreign trade issues one of the most important was a multi-page document “Global Energy Security”.27 The document was adopted at the initiative of Russia, with its active participation in its development, and contains a detailed action plan. In order to strengthen cooperation in the energy market member-states made recommendations to both energy exporting and importing countries. The Russian delegation managed to convince partners to establish a balanced approach to commitments.

At the beginning of the document it is indicated, that “energy is essential to improving the quality of life and opportunities in developed and developing nations. Therefore, ensuring sufficient, reliable and environmentally responsible supplies of energy at prices reflecting market fundamentals is a challenge for our countries and for mankind as a whole”. Due to the global nature of the problems it refers to the development of partner relations between all countries concerned, and as a way to achieve this goal is offered “development of transparent, efficient and competitive global energy markets” as “the best way to achieve our objectives on this score”.


26 Ibid.

This refers to focus actions on strengthening and expanding “efforts to advance transparency; to deepen and spread the rule of law; to establish and strengthen predictable, efficient fiscal and regulatory regimes; and to encourage sound energy supply and demand policies all play significant roles in maintaining global energy security”. There must be “transparent, predictable national energy policies and regulatory environments” for “development of efficient energy markets”.

The document focuses on the need for major investments in the energy sector to ensure adequate worldwide growing demands for energy services. G8 countries expressed intentions to create and maintain favorable conditions for raising funds in the energy sector and to take effective measures to implement the contractual obligations. There are also provided provisions for actions at the national and international levels to promote wider use of renewable and alternative energy sources, to increase the efficiency of oil and gas production, and develop resources on the continental shelf, etc.

3.3. GAS EXPORTING COUNTRIES FORUM

Under discussion of establishment, composition of the participants and objectives there is a union of natural gas exporting countries, which is without fear called by media, politicians and scholars “gas OPEC”. This union is called Gas Exporting Countries Forum (GECF).

GECF is an international intergovernmental organization which was established in 2001 in Tehran, and turned into a fully-fledged organization in 2008 with its permanent secretariat based in Doha, Qatar. With the current number of Members the GECF has a strong position on the world gas market and among international energy organizations. GECF currently comprises of 13 Member Countries as follows: Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Oman, Qatar, Russia, Trinidad and Tobago, United Arab Emirates, and Venezuela. Kazakhstan, Iraq, the Netherlands and Norway are Observer Members in the Forum.

Its potential rests on the enormous natural gas reserves of the Member Countries all together accumulating 67% of the world proved natural gas reserves, 65% of LNG trade and 40% of pipeline trade of natural gas.

Within the Forum the world's leading gas producers are united in one international organization. GECF provides a framework for exchange of experience, 

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29 URL:http://www.gecf.org/
views, information and data, as well as coordination in the gas related developments among member countries. All decisions of the Forum are not binding for its member-states and have recommendatory character.

The Forum is considered as a global platform for studies, discussion and debates on global gas market trends. It is engaged in conducting gas market studies and long term outlook; data exchange mechanism, monitoring gas market developments, as well as the development of relationships with all stakeholders of the global gas market.

Additionally, the Forum seeks to develop a mechanism for a more meaningful dialogue between gas producers and gas consumers for the sake of stability and security of supply and demand in global natural gas markets. GECF aims through above-mentioned functions, to support and contribute to the development of natural gas resources of member countries for sustainable, efficient and environmentally conscious management.

4. CONCLUSION

In general, international legal measures provide a more efficient use of energy, aimed at streamlining of the global energy market and are subject to multifaceted global challenges to ensure reliable and long-term international energy security and sustainable development. Finally, as for security of supply, assuring continuity in the supply of energy would enhance the reliability and stability of energy relations between countries.

Thus, the most important tasks for the global energy market regulation at the international level in the foreseeable future are:

1. prevention of violations of supplies and purchases, including timely exploration and development of new deposits;
2. minimization of risks of production and transportation of energy, since over 50% of oil transported by sea;
3. to maintain stability of the global market in the long term, which is, in principle, in the interests of both exporters and importers of energy resources;
4. consumption of energy resources in the light of needs of future generations and environmental requirements.

Decisions of these tasks will require of improvement of existing mechanisms or creation new ones. Discussed above international legal instruments and institutions still cannot be considered as standards reconciling the interests of all actors of the global energy market. In our opinion, the development and adop-
tion of new legal mechanisms in this sphere will largely depend on regional factors, the development of relevant sectors of energy and new technologies, as well as the fragmentation of international law.

LITERATURE:


64


